

INDEPENDENT BANK CORP /MI/
Form S-1/A
September 13, 2010

As filed with the Securities and Exchange Commission on September 13, 2010

Registration No. 333-168032

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

**AMENDMENT NO. 2 to
FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933**

Independent Bank Corporation
(Exact name of registrant as specified in its charter)

Michigan
(State or other jurisdiction of
incorporation or organization)

6021
(Primary Standard Industrial
Classification Code Number)

38-2032782
(I.R.S. Employer
Identification Number)

**230 West Main Street
Ionia, Michigan 48846
(616) 527-5820**

(Address, including zip code, and telephone number, including area code,
of registrant's principal executive offices)

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Approximate date of commencement of proposed sale of the securities to the public: As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>
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The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not complete this offer and sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

**SUBJECT TO COMPLETION, DATED SEPTEMBER 13, 2010
PRELIMINARY PROSPECTUS**

**[] Shares
Common Stock**

We are offering [] shares of our common stock. Our common stock is listed on the Nasdaq Global Select Market under the symbol IBCPD . As of September 10, 2010, the closing sale price for our common stock on the Nasdaq Global Select Market was \$1.87 per share. However, there is a risk our common stock could be delisted from the Nasdaq Global Select Market in the near future. Please see Market Price and Dividend Information on page 46 for more information.

Investing in our common stock involves risks. We encourage you to read and carefully consider this prospectus in its entirety, in particular the risk factors beginning on page 26, for a discussion of factors that you should consider with respect to this offering.

	Per Share	Total
Public offering price	\$	\$ 110,000,000
Underwriting discounts and commissions	\$	\$
Proceeds to us (before expenses)	\$	\$

This is a firm commitment underwriting. The underwriters have the option to purchase up to an additional 15% of the offered amount, or [] shares of our common stock at the public offering price, less underwriting discounts and commissions, within 30 days of the date of this prospectus solely to cover over-allotments, if any.

The underwriters expect to deliver the common stock in book-entry form only, through the facilities of The Depository Trust Company, against payment on or about [], 2010.

The shares of common stock offered are not savings accounts, deposits, or other obligations of any of our bank or non-bank subsidiaries and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.

Neither the Securities and Exchange Commission, any state securities commission, the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, nor any other regulatory body has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Joint Lead Managing Underwriters and Joint Book-Running Managers

**Stifel Nicolaus
Weisel**

FBR Capital Markets & Co.

The date of this prospectus is [], 2010.

TABLE OF CONTENTS

	Page
<u>Where You Can Find More Information</u>	1
<u>Forward-Looking Statements</u>	1
<u>Summary</u>	3
<u>Selected Financial Data</u>	24
<u>Risk Factors</u>	26
<u>Non-GAAP Financial Measures</u>	38
<u>Use of Proceeds</u>	40
<u>Capitalization</u>	40
<u>Capital Plan and This Offering</u>	41
<u>Dividend Policy</u>	45
<u>Market Price and Dividend Information</u>	46
<u>Description of Our Capital Stock</u>	47
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	51
<u>Business</u>	89
<u>Management</u>	114
<u>Security Ownership of Certain Beneficial Owners and Management</u>	126
<u>Certain Management Relationships and Benefits</u>	127
<u>Underwriting</u>	128
<u>Legal Matters</u>	130
<u>Experts</u>	130
<u>Index to Consolidated Financial Statements</u>	F-1

You should rely only on the information contained in this prospectus and any free writing prospectus we authorize to be delivered to you. We have not, and the underwriters have not, authorized anyone to provide you with additional information or information different from that contained in this prospectus and any such free writing prospectus. If anyone provides you with different or inconsistent information, you should not rely

on it. We are offering to sell, and seeking offers to buy, our common stock only in jurisdictions where those offers and sales are permitted. The information contained in this prospectus and any such free writing prospectus is accurate only as of their respective dates. Our business, financial condition, results of operations and prospects may have changed since those dates.

This prospectus describes the specific details regarding this offering and the terms and conditions of the common stock being offered and the risks of investing in our common stock. You should read this prospectus and the additional information about us described in the section entitled "Where You Can Find More Information" before making your investment decision.

As used in this prospectus, the terms "we," "our," "us," and "IBC" refer to Independent Bank Corporation and its consolidated subsidiaries, unless the context indicates otherwise. When we refer to "our bank" or "Independent Bank" in this prospectus, we are referring to Independent Bank, a Michigan banking corporation and wholly-owned subsidiary of Independent Bank Corporation.

WHERE YOU CAN FIND MORE INFORMATION

This prospectus, which forms a part of a registration statement filed with the SEC, does not contain all of the information set forth in the registration statement. For further information with respect to us and the securities offered, reference is made to the registration statement.

We file annual, quarterly, and current reports, proxy statements, and other information with the SEC. You may read and copy any document we file at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. You can also request copies of the documents, upon payment of a duplicating fee, by writing the Public Reference Section of the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. These SEC filings are also available to the public from the SEC's web site at <http://www.sec.gov>.

FORWARD-LOOKING STATEMENTS

Discussions and statements in this prospectus that are not statements of historical fact, including, without limitation, statements that include terms such as will, may, should, believe, expect, forecast, anticipate, project, intend, likely, optimistic and plan, and statements about future or projected financial and operating results, plans, projections, objectives, expectations, and intentions and other statements that are not historical facts, are forward-looking statements. Forward-looking statements include, but are not limited to, descriptions of plans and objectives for future operations, products or services, and projections of our future revenue, earnings or other measures of economic performance (including our projected pre-provision earnings, projected capital, projected provision for loan losses, and projected Mepco counterparty expenses set forth under Summary Our Projections), forecasts of credit losses and other asset quality trends, predictions as to our bank's ability to maintain certain regulatory capital standards, our expectation that we will have sufficient cash on hand to meet expected obligations during 2010, our expectations regarding a decrease in payment plan receivables held by Mepco and the resulting effect on our net interest margin, and our expectation of declines in certain categories of non-interest income and expense. These forward-looking statements express our current expectations, forecasts of future events, or long-term goals and, by their nature, are subject to assumptions, risks, and uncertainties. Although we believe that the expectations, forecasts, and goals reflected in these forward-looking statements are reasonable, actual results could differ materially for a variety of reasons, including the risks and uncertainties detailed under Risk Factors set forth in this prospectus and the following:

- our ability to successfully raise new equity capital in this offering, effect a conversion of our outstanding preferred stock held by the U.S. Treasury into our common stock, and otherwise implement our Capital Plan;

- the failure of assumptions underlying the establishment of and provisions made to our allowance for loan losses;

- the timing and pace of an economic recovery in Michigan and the United States in general, including regional and local real estate markets;

- the ability of our bank to remain well-capitalized;

- increased competition for deposits and loans which could affect portfolio compositions, rates, and terms;

- changes in the levels of prepayments received on loans and investment securities that adversely affect the yield and value of our earning assets;

- the failure of assumptions underlying our estimate of probable incurred losses from vehicle service contract payment plan counterparty contingencies, including our assumptions regarding future cancellations of vehicle service contracts, the value to us of collateral that may be available to recover funds due from our counterparties, and our ability to enforce the contractual obligations of our counterparties to pay amounts owing to us;

further adverse developments in the vehicle service contract industry, whose current turmoil has increased the credit risk and reputation risk for our subsidiary, Mepeco;

potential limitations on our ability to access and rely on wholesale funding sources;

the continued services of our management team, particularly as we work through our asset quality issues and the implementation of our Capital Plan;

implementation of the recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act or other new legislation, which may have significant effects on us and the financial services industry, the exact nature and extent of which cannot be determined at this time;

the impact of compensation and other restrictions imposed under the TARP until the Treasury ceases to own any of our debt or equity securities acquired pursuant to the Exchange Agreement or the amended and restated Warrant;

changes in the scope and cost of FDIC insurance, increases in regulatory capital requirements, and changes in the TARP's CPP;

the impact of legislative and regulatory changes, including laws, regulations and policies concerning taxes, banking, securities and insurance, and the application of such laws, regulations, and policies by regulators;

the potential loss of core deposits if the challenging banking environment persists or the economy significantly deteriorates;

changes in accounting principles, policies, and guidelines applicable to bank holding companies and the financial services industry;

the risk that sales of our capital stock in this offering and/or other transfers of our capital stock could trigger a reduction in the amount of net operating loss carryforwards that we may be able to utilize for income tax purposes;

the risk that our common stock may be delisted from the Nasdaq Global Select Market;

the ability to manage the risks involved in the foregoing; and

other factors and risks described under "Risk Factors" in this prospectus, which we urge you to read carefully.

In addition, other factors not currently anticipated may also materially and adversely affect our results of operations, cash flows, financial position, and prospects. We cannot assure you that our future results will meet expectations. While we believe the forward-looking statements in this prospectus are reasonable, you should not place undue reliance on any forward-looking statement. In addition, these statements speak only as of the date made. We do not undertake, and expressly disclaim, any obligation to update or alter any statements, whether as a result of new information, future events, or otherwise, except as required by applicable law.

SUMMARY

This summary does not contain all of the information that may be important to you or that you should consider before investing in our common stock. You should read this entire prospectus, including the Risk Factors section. Unless otherwise expressly stated or the context otherwise requires, all information in this prospectus assumes that the underwriters do not exercise their option to purchase additional shares of our common stock to cover over-allotments, if any.

Investment Highlights

This Summary section contains an overview of our company and the investment opportunity described in this prospectus. Key highlights of the investment opportunity are as follows:

We are a regional bank holding company with total assets of approximately \$2.7 billion. Our subsidiary bank, Independent Bank, is one of the oldest banks in Michigan and operates 105 banking offices across the lower peninsula of Michigan. We are founded on a community banking philosophy and emphasize service and convenience as a principal means of competing in the delivery of financial services.

This offering is a critical component of a capital plan we recently adopted. The primary objective of our capital plan is to raise sufficient capital so that our bank will continue to remain well-capitalized and be in a position to take advantage of opportunities within Michigan as market conditions stabilize and improve.

We believe there have been some early, positive trends in the Michigan economy, including signs that may show a stabilization of unemployment rates and housing values. While we continue to exercise prudence in monitoring our loan portfolios, we are optimistic that our asset quality trends reflect both our disciplined approach to the credit problems we face as well as improving market conditions within Michigan.

On a short term basis, the capital raised in this offering will have an immediate and favorable impact on our net interest margin by allowing us to restructure our balance sheet to pay down higher-cost funding sources we have accessed recently to enhance our liquidity position. On a longer term basis, we believe the capital will allow us to opportunistically take advantage of FDIC-assisted and traditional acquisitions within Michigan that strategically make sense for our core banking franchise.

We believe our competitive strengths include our historically strong core earnings, our core deposit base, our experienced management team, our successful acquisition and integration history, and our position as a local community bank within our multiple banking markets.

We have deleveraged our loan portfolios and intend to employ our enhanced credit policies to focus our loan origination efforts on high quality, profitable commercial loan segments and residential mortgage loans eligible for sale in the secondary market.

Our nonperforming loans are down 34.5% in the second quarter of 2010 from their peak in the first quarter of 2009. Nonperforming commercial loans have declined for the past six quarters, and nonperforming retail loans have shown four quarters of improvement. Nonperforming loans amounted to \$84.5 million at June 30, 2010, compared to \$125.3 million at June 30, 2009. Loans not included in nonperforming loans that have been classified as troubled debt restructurings (due to loans being extended and/or rate concessions being granted) amounted to \$106.4 million at June 30, 2010, compared to \$20.6 million at June 30, 2009.

We engaged independent third parties to perform a review (stress test) on our commercial and retail loan portfolios to confirm that the similar analyses we performed were reasonable and do not materially understate our projected loan losses. Based on the conclusions of these reviews, we determined that we did not need to modify our projections used for purposes of our capital plan.

Mepco Finance Corporation (Mepco) is a wholly owned subsidiary of our bank that operates a vehicle service contract payment plan business throughout the United States. Mepco has recently experienced significant losses as a result of the failure of one of its counterparties and other adverse changes in its market. However, we believe the current amount of reserves we have established for Mepco s business are appropriate given our estimate of probable incurred losses. In addition, we have begun to significantly reduce the size of Mepco s business. Although such reduction is likely to have a material adverse impact on our earnings, we believe the reduction is desirable in order for us to reduce the risk associated with this business and return to our core banking competencies. As of June 30, 2010, the net payment plan receivables held by Mepco represented approximately 10.4% of our consolidated assets (down from 13.7% at December 31, 2009 and as high as 15.0% at July 31, 2009).

We reported second quarter 2010 net income applicable to our common stock of \$6.8 million, or \$0.44 per diluted share, compared to a net loss applicable to our common stock of \$6.2 million, or \$2.60 per share, in the second quarter of 2009. The net income earned in the second quarter is primarily due to a significant gain on the extinguishment of debt and a decrease in the provision for loan losses that were partially offset by decreases in net interest income and mortgage loan servicing income. During the six months ended June 30, 2010, we incurred a net loss applicable to our common stock of \$8.1 million, or \$3.10 per share, compared to a net loss applicable to our common stock of \$25.9 million, or \$10.93 per share, during the six months ended June 30, 2009.

Near the end of this Summary section is information regarding our projected earnings and capital level at December 31, 2011. We caution investors not to place undue reliance on these forward-looking statements given the inherently uncertain nature of projections, particularly in such an uncertain economic environment and in light of recent legislative efforts by the federal government. See Business Regulatory Developments below for additional information regarding these efforts.

Reverse Stock Split

On August 31, 2010, we effected a reverse stock split of our issued and outstanding common stock. Pursuant to this reverse stock split, each ten shares of our common stock issued and outstanding immediately prior to the reverse stock split was converted into one share of our common stock. All share or per share information included in this prospectus, including our consolidated financial statements and related notes beginning on page F-2, has been retroactively restated to reflect the effects of the reverse stock split.

About Independent Bank Corporation

Independent Bank Corporation, headquartered in Ionia, Michigan, is a regional bank holding company providing commercial banking services to individuals, small to medium-sized businesses, community organizations, and public entities. Our wholly-owned banking subsidiary, Independent Bank, was founded in 1864 and operates 105 banking offices that are primarily located in mid-sized Michigan communities such as Grand Rapids, Battle Creek, Lansing, Troy, Bay City, and Saginaw, as well as more rural and suburban communities throughout the lower peninsula of Michigan.

Our bank provides a comprehensive array of products and services to individuals and businesses in the markets we serve. These products and services include checking and savings accounts, commercial loans, direct and indirect consumer financing, mortgage lending, and commercial and municipal treasury management services. Our bank's mortgage lending activities are primarily conducted through a separate mortgage bank subsidiary. In addition, Mepco acquires and services payment plans used by consumers to purchase vehicle service contracts and similar products provided and administered by third parties. We also offer title insurance services through a separate subsidiary of our bank and investment and insurance services through a third party agreement with PrimeVest Financial Services.

Background to the Offering

Our bank began to experience rising levels of non-performing loans and higher provisions for loan losses in 2006 as the Michigan economy experienced economic stress ahead of national trends. Although our bank remained profitable through the second quarter of 2008, it incurred seven consecutive quarterly losses since the third quarter of 2008, which have pressured its capital ratios. While our bank still remains well-capitalized under federal regulatory guidelines, we project that due to our elevated levels of non-performing assets, as well as anticipated losses in the future, an increase in equity capital is necessary in order for our bank to remain well-capitalized and take advantage of opportunities outlined in our business strategy below.

In 2009, we retained financial and legal advisors to assist us in reviewing our capital alternatives. We have since discontinued cash dividends on our common stock and exercised our right to defer all quarterly distributions on our outstanding trust preferred securities, as well as on all shares of preferred stock issued to the U.S. Department of the Treasury (the Treasury) pursuant to the Troubled Asset Relief Program (TARP). In December 2009, the board of directors of our bank adopted resolutions designed to enhance and strengthen our operations, performance, and financial condition. Importantly, alongside other resolutions aimed at improving asset quality, earnings, liquidity, and risk management, the resolutions require our bank to achieve and maintain a minimum Tier 1 leverage ratio of 8% and

a minimum total risk-based capital ratio of 11% by September 30, 2010. As of June 30, 2010, these ratios were 6.37% and 10.55%, respectively.

In January 2010, our board of directors adopted a capital restoration plan (the Capital Plan) that documents our objectives and plans for meeting these target ratios. The three primary initiatives of our Capital Plan are the conversion of our shares of Series A Preferred Stock which we issued to the Treasury under the Capital Purchase Program (CPP) of TARP into shares of our common stock;

an offer to exchange shares of our common stock for our outstanding trust preferred securities; and

a public offering of our common stock, as described in this prospectus, in which we seek to raise approximately \$110 million of new equity capital.

The exchange of our trust preferred securities has not resulted, and the conversion of the preferred stock held by the Treasury into shares of common stock will not result, in any cash proceeds to us. However, both initiatives will give us additional tangible common equity and allow us to reduce our future interest expense and eliminate preferred dividend payments to the Treasury. The public offering of our common stock described in this prospectus will result in cash proceeds and a corresponding increase in our tangible common equity. We anticipate contributing all or substantially all of the net proceeds from this offering to our bank in order to strengthen its capital ratios in accordance with the objectives of our Capital Plan and better position us to pursue our core business strategy and take advantage of opportunities in Michigan.

To date, we have made progress on a number of initiatives to advance the Capital Plan:

On January 29, 2010, we held a special shareholder meeting at which our shareholders approved an increase in the number of shares of common stock we are authorized to issue from 60 million to 500 million. Our shareholders also gave the required shareholder approval for the conversion of preferred stock held by the Treasury into shares of our common stock and the issuance of shares of our common stock in exchange for our outstanding trust preferred securities.

On April 16, 2010, we closed an Exchange Agreement with the Treasury pursuant to which the Treasury exchanged \$72 million in aggregate liquidation value of our Series A Preferred Stock issued to the Treasury under TARP, plus approximately \$2.4 million in accrued but unpaid dividends on such shares, into mandatory convertible preferred stock (new Series B Convertible Preferred Stock). As part of this exchange, we also amended and restated the terms of the Warrant issued to the Treasury in December 2008 to purchase 346,154 shares of our common stock in order to adjust the initial exercise price of the Warrant to be equal to the conversion price applicable to the Series B Convertible Preferred Stock.

The shares of Series B Convertible Preferred Stock are convertible into shares of our common stock. Subject to the receipt of applicable approvals, the Treasury has the right to convert the Series B Convertible Preferred Stock into our common stock at any time. We have the right to compel a conversion of the Series B Convertible Preferred Stock into our common stock at any time provided the following conditions are met:

- (1) we receive appropriate approvals from the Federal Reserve;
- (2) at least \$40 million aggregate liquidation amount of our trust preferred securities are exchanged for shares of our common stock;
- (3) we complete a new cash equity raise of not less than \$100 million on terms acceptable to the Treasury in its sole discretion (other than with respect to the price offered per share); and
- (4) we make any required anti-dilution adjustments to the rate at which the Series B Convertible Preferred Stock is converted into our common stock, to the extent required. (See Description of Our Capital Stock below.)

Once we meet the conditions described above, which we expect will occur if we are successful in raising capital in this offering, we intend to immediately convert the Series B Convertible Preferred Stock into shares of our common stock. For each share of Series B Convertible Preferred Stock with a \$1,000 liquidation value, we will issue a number of shares of common stock equal to \$750 divided by a conversion price of \$7.233, subject to any necessary anti-dilution adjustments. At the time any shares of Series B Convertible Preferred Stock are converted into our common stock, we will be required to pay all accrued and unpaid dividends on the Series B Convertible Preferred Stock being converted in cash or, at our option, in shares of our common stock, in which case the number of shares to be issued will be equal to the amount of accrued and unpaid dividends to be paid in common stock divided by the market price of our common stock at the time of conversion (as such market price is determined pursuant to the terms of the Series B Convertible Preferred Stock). Accrued and

unpaid dividends on the Series B Convertible Preferred Stock totaled approximately \$0.8 million at June 30, 2010. Unless earlier converted, the Series B Convertible Preferred Stock will convert into shares of our common stock on a mandatory basis on April 16, 2017, subject to the prior receipt of any required regulatory and shareholder approvals. In that case, the shares of preferred stock will convert based on the full \$1,000 liquidation value per share (i.e., there will be no 25% discount to the liquidation value, as there will be for an early conversion by us or the Treasury).

On June 23, 2010, we completed the exchange of an aggregate of 5,109,125 newly issued shares of our common stock for \$41.4 million in aggregate liquidation amount of our outstanding trust preferred securities. As a result, we have satisfied the condition to our ability to compel a conversion of the Series B Convertible Preferred Stock held by the Treasury that at least \$40 million aggregate liquidation amount of our trust preferred securities are exchanged for shares of our common stock.

The offering described in this prospectus is a critical step to our ability to achieve the target capital ratios set forth in our Capital Plan. While we are not currently subject to a regulatory agreement or enforcement action and while our bank remains well capitalized under federal regulatory standards, we believe our bank is likely to fall below the standards necessary to remain well-capitalized during the third or fourth quarter of 2010 if we are unable to raise additional capital in this offering. We expect this would have a number of material and adverse consequences, as discussed in our Risk Factors section below. In addition to our goal of remaining well-capitalized, we believe an injection of capital from this offering will allow us to pursue the strategies described below and optimize our community bank franchise to take advantage of opportunities within Michigan as market conditions stabilize.

Our Markets

We have a relationship-based, community bank model, with a 105-branch network that provides a full offering of banking products and services to retail and business customers in the Michigan markets we cover.

The table below presents the composition of our branch footprint and core deposit base as of June 30, 2010 by the regions of Michigan in which we operate:

(\$ in millions)

Region	Representative Cities	Branches	Core	% of Core
			Deposits ⁽¹⁾	Deposits
East / Thumb	Bay City / Saginaw Ionia / Grand	37	\$ 621	32.5%
West	Rapids Lansing / Battle	26	492	25.7%
Central	Creek Gaylord / Alpena /	21	363	19.0%
Northeast	Tawas	14	279	14.6%
Southeast	Troy	7	156	8.2%
Total		105	\$ 1,911	100%

(1) Includes core deposits only. At June 30, 2010, core deposits accounted for approximately 80% of our total deposits of \$2.4 billion.

These regions have distinct demographic and economic characteristics, as summarized below:

East / Thumb Region: We have a substantial branch footprint in the eastern part of the state, which is primarily comprised of rural communities that provide strong core deposits and pricing leverage. Saginaw, Midland, and Bay counties are included in this region. The counties of Saginaw and Bay are well-known for their agricultural communities and manufacturing and health services sectors and are also home to a growing alternative energy sector, including solar, wind and battery technology. This region is home for Dow Chemical Company and Saginaw Valley State University.

West Region: The west region includes our headquarters in Ionia and the Grand Rapids metropolitan statistical area. Grand Rapids is in Kent County, which has generally experienced lower levels of unemployment as compared to the Michigan state level. As of July 2010, Kent County had an unseasonally adjusted unemployment rate of 11.7%, compared to 14.0% for the state of Michigan as a whole. Kent County is the home to several major employers, including Meijer, Steelcase, Spectrum Heath, Spartan Stores, Wolverine World Wide, and the world headquarters for Alticor Inc., the parent company of Amway.

Central Region: Our operations throughout the central part of Michigan are primarily located in Lansing and Battle Creek. Lansing, in Ingham County, is the state capital and home to Michigan State University, which provides the core of a stable employment base. Calhoun County, home to Battle Creek, includes the corporate headquarters for The Kellogg Company and maintains an unemployment rate below the state average.

Northeast Region: With branch locations throughout the northeast portion of the lower peninsula, we maintain a strong base of core deposits in our northeast region. Longer distances between communities and a loyal customer base create distinct pricing advantages in these markets. Seasonal and tourism-related employment is significant in this region, which contains a large portion of the Great Lakes shoreline. The local economy also includes a small industrial base, including cement manufacturers and limestone and gypsum mining, and a small agricultural base of potato, dry bean, and grape farmers.

Southeast Region: A smaller portion of our franchise is in southeastern Michigan, primarily in Oakland County, which has attractive demographics. With a population of 1.2 million people, Oakland County has a strong median household income of almost \$78,000, which is the second highest in the state. While the southeast region currently only accounts for approximately 8% of our deposit base, we believe Oakland County presents a good opportunity for future deposit growth and lending opportunities.

Michigan Economic Update

While the Michigan economy has been under stress for the past several years, we believe our markets are beginning to stabilize. Below is a summary of certain economic trends of our markets:

Unemployment: While Michigan has the second highest unemployment rate in the United States (as of July 2010), both the unemployment rate and nonfarm payrolls have showed positive trends for the past several quarters. On a seasonally-adjusted basis, the July unemployment rate of 13.1% for Michigan was the lowest monthly rate since March 2009. A number of our key counties have unemployment rates below the rate for the entire state, including Kent, Bay, Saginaw, Calhoun, Oakland and Ingham counties. After losing approximately 200,000 jobs in each of 2008 and 2009, the loss rate stabilized in the second half of 2009 and into the first part of 2010. In addition, University of Michigan economists expect positive private sector job growth in 2011, which would be the first year of positive private sector employment growth in a decade.

Housing Market: The Michigan housing market is beginning to see signs of stabilization. Based on U.S. Census data, Michigan housing permits year to date 2010 are up 36% from year to date 2009, pointing to early signs of a recovery in the Michigan housing market.

Reduced Dependence on Automotive Sector: Over the past 10 years, the Michigan economy has significantly reduced its reliance on the automotive and other manufacturing sectors and shifted to service-based industries. According to the U.S. Bureau of Labor Statistics, the motor vehicle industry comprised 6.8% of nonfarm payrolls as of July 2000 as compared to 3.2% as of July 2010. Over the same time period, total manufacturing jobs decreased substantially, from 19.3% to 12.4%. Meanwhile, jobs in education and health services have increased by 23% over the 10-year period and now represent 16% of Michigan's jobs as compared to approximately 11% in 2000. Trade, transportation, utilities and government now provide the largest contribution to the Michigan economy in terms of number of jobs. In addition, since our franchise is primarily located in the western and northern portions of Michigan, our markets are not as dependent on the U.S. auto industry as other parts of Michigan, such as Detroit and southeast Michigan.

Other Economic Indicators: The Michigan Economic Activity Index equally weighs nine, seasonally adjusted coincident indicators of real economic activity that reflect activity in the construction, manufacturing and service sectors as well as job growth and consumer outlays. The index is measured on a scale of 110. The index rose three points in July from May 2010 to 87 points, representing a 23% increase from July 2009 and marks the largest year-on-year index increase since December 2004. Prior to the recession, the index ranged between approximately 93 and 105 between January 2000 and mid-2007.

Our asset quality trends are consistent with these recent positive economic trends for the state of Michigan. We believe we have made additional progress in improving asset quality, as reflected in a reduction of our nonperforming loans, classified assets, early stage delinquencies and provisions for loan losses. As of June 30, 2010, our levels of non-performing loans have now declined for six consecutive quarters, and our loans 30-89 days past due have consistently improved over the last four quarters. These indicators support our belief that our emphasis on managing asset quality and the beginning stabilization of the Michigan economy is resulting in improving asset quality metrics.

Our Business Strategy

In response to difficult market conditions and the losses we have incurred since 2008, we have taken steps and initiated actions designed to increase our capital, improve our operations, and further augment our liquidity. The successful completion of our Capital Plan should enable us to withstand the current economic cycle, return to profitability, and better position our community bank franchise to take advantage of the improving market conditions in Michigan. With the successful implementation of our Capital Plan, our primary strategies are as follows:

Restructure Balance Sheet to Improve Profitability and Net Interest Margin: Over the past four quarters, we have taken steps to enhance our liquidity position in the face of current economic conditions by investing in shorter-term money market assets supported by higher-cost funding. This has negatively impacted our net interest margin during these periods. With the capital raised in this offering, we intend to take immediate steps

to restructure our balance sheet in order to pay down higher-cost funding sources. This should have a relatively immediate, favorable impact on our net interest margin. In addition, the successful completion of other components of our Capital Plan should significantly decrease our interest expense and dividend costs.

Opportunistically Take Advantage of Market Disruption and FDIC-Assisted and Other Growth Opportunities: As many of our largest competitors have exited, pulled back, or reduced their marketing efforts in Michigan, we believe opportunities exist to increase our lending and core deposit market share through organic growth. In addition, with additional capital, we intend to opportunistically take advantage of FDIC-assisted and traditional merger transactions within Michigan that strategically make sense for our core banking franchise. Our seasoned management team and our established infrastructure and statewide branch network provide us a solid platform from which to pursue these opportunities. We have a demonstrated history of successful and profitable bank and branch acquisitions.

Renew Efforts to Strategically Grow Our Loan Portfolio: Following the completion of this offering, we believe we will be well-positioned to take advantage of new opportunities in our markets to serve commercial clients, including by providing Small Business Administration (SBA) loans and other business loans through our well-developed branch network. In the near term, we expect our primary commercial lending opportunities to be in the form of commercial and industrial (C&I) loans, as opposed to commercial real estate loans. We have highly experienced teams of credit professionals and senior lenders to execute prudently our loan strategy, and we continue to invest in our credit and lending teams, through both hiring experienced commercial lenders and additional underwriting and credit monitoring training of our employees. In addition, we plan to continue our efforts in retail loan origination, with a focus on originating mortgage loans for sale, rather than portfolio lending.

Continued Development of New Offerings, Particularly Technology-Based Products and Services to Grow Deposit Market Share: We intend to continue our investment in and improve our online banking and other technology-based services. Recently, we introduced and launched online account creation, a competitive health savings account (HSA) product, and certain social media channels, such as Facebook, Twitter and a customer blog area on our website to offer support to current customers and to attract new deposit relationships. We also are developing a new mobile banking product that will provide our customers with a portable, secure, and increasingly popular channel with which to manage their finances. Our continued focus on technology, particularly in the context of our established, service-oriented, community banking model, should further strengthen our ability to maintain and grow the core deposit base within our markets.

Focus on Credit Monitoring and Improvement of Asset Quality: One of our top priorities is to continue to maintain a careful focus on our existing problem assets in order to minimize further credit losses and continue to reduce the level of our nonperforming assets. Beginning in 2007, we implemented initiatives to strengthen our credit oversight function, including the consolidation of our 4 bank subsidiaries into a single bank charter and the hiring of a new Chief Lending Officer who previously served as a Senior Vice President of a bank with over \$50 billion in assets. We also created a centralized special asset group to enable us to more effectively deal with problem credits. We developed and implemented best credit practices, including, among other credit initiatives, a comprehensive quarterly watch process, deal-by-deal real estate portfolio review, and independent risk ratings provided by experienced credit officers. Further, we engaged third parties to perform extensive independent loan reviews to identify potential problem areas, ensure the effectiveness of our quality controls, and stress test our loan portfolio. In addition, we regularly monitor the secondary market for potential sale of our non-performing loans; however, we have used this strategy on only a limited basis over the past 18 months as we are currently achieving much higher realization rates by managing the workouts internally. As market conditions improve, an increased capital base may allow us to consider bulk sales of non-performing assets. We believe we have a very disciplined and proactive approach in managing and pursuing workouts and other resolutions of non-performing loans, and we intend to continue to pursue these activities.

Capitalize on Our Customer Service-Focused, Community Banking Model: We believe our relationship-based, know your customer business model and our customer service culture, known within our organization as the

Eagle Experience, are appealing to customers in our market, particularly customers who value local bankers who understand their needs and have local decision-making authority. For example, in a recent J.D. Power and Associates 2010 Retail Banking Satisfaction Study (based on a survey of 48,000 consumers in January and February 2010 that measured customer satisfaction among 19 banks in Michigan and 4 nearby states), Independent Bank was one of two banks that received a perfect five Power Circle Rating for customer service. We believe our recognized brand, core franchise, and loyal customer base, as well as our cross-selling sales culture, help to differentiate us from many of our competitors, including larger banks that have reduced their presence or marketing efforts in Michigan, and should position us to further increase our lending and our strong core deposit market share within the communities we serve.

Our Competitive Strengths

We believe we are well positioned to take advantage of opportunities in Michigan. Our key competitive strengths include:

Strong Core Earnings: We have historically had strong pre-tax, pre-provision earnings, which we believe is largely attributable to our community bank business model. Our loyal customer base has allowed us to price deposits competitively, contributing to a net interest margin that compares favorably to our peers even after removing the significant positive impact Mepco has had on our net interest margin. In addition, our non-interest income has historically been a significant element of our financial performance, and we are attempting to grow non-interest income in order to diversify our revenues within the financial services industry. Finally, we are focused on reducing non-interest expenses, such as moving towards a paperless operating environment, which allows for a more efficient business unit workflow, and working with our vendors to improve the pricings for the services and products they provide.

Substantial Core Deposit Base: We have a large, stable base of core deposits that provides cost-effective funding for our lending operations. We believe our full product suite of electronic banking and remote deposit capture is attractive to our customer base and allows us to efficiently attract new deposit relationships. At June 30, 2010, core deposits accounted for approximately 80% of our total deposits.

Experienced Management Team: Our management team includes executives with extensive experience in the banking industry, both at larger financial institutions and in the Michigan market. Michael M. Magee, our President and Chief Executive Officer, has over 32 years of banking experience and has been with us for 23 years. Four of the other five members of our executive management each have over 23 years of banking experience, a majority of which have been in our core Michigan markets. Our recently-hired General Counsel has over 25 years experience specializing in commercial law and creditors rights and was hired as part of our comprehensive efforts to improve and make more cost-efficient our management of problem loans and other assets. Key roles within our management team are held by executives with extensive bank backgrounds:

Name	Title	Years in Banking	Years at the Bank
Michael M. Magee	President & CEO	32	23
Robert N. Shuster	EVP CFO	27	11
W. Brad Kessel	EVP COO	23 ⁽¹⁾	16
David C. Reglin	EVP Retail Banking	28	28
Stefanie M. Kimball	EVP Chief Lending Officer	28	3
Mark Collins	EVP General Counsel	25 ⁽²⁾	1

(1) Experience includes positions within the financial services group at a large accounting firm.

(2) Experience includes specialization in commercial law and creditors rights at a large, Grand Rapids-based law firm.

Successful Acquisition and Integration History: Over the past 20 years, we have made 12 acquisitions of depository institutions and branches. Our management team has a history of successfully integrating these acquisitions and delivering strong operating results. In 2007, following our most recent acquisition of 10 branches, we consolidated our 4 charters under Independent Bank to improve operational efficiency, credit and risk management processes, and reduce expenses. We believe our management team possesses the capabilities and experience to successfully pursue strategic opportunities in the future.

Well-Positioned for Growth: We have operated in the Michigan market for over 100 years and are one of the largest banks solely focused on the state of Michigan. We are positioned in the marketplace as a local community bank that is large enough to provide a wide range of banking services, yet small enough to deliver personalized service to our customer base. We have strong commercial lending capabilities, including an experienced credit administration team and group of senior lenders. We believe the completion of this offering will provide us the capital to pursue local, high quality commercial lending relationships.

Proactive Approach to Credit: We believe the improvements we made to our credit administration and risk management programs and processes since the second quarter of 2007 in response to deteriorating economic conditions allow us to better identify problem areas and respond quickly, decisively, and aggressively. We implemented industry best practices throughout the life cycle of a loan to include the loan origination, monitoring, and servicing as well as, if necessary, workout stages. Our philosophy of working with our clients as long as they are working with us has resulted in numerous successful restructured loans. As an example of our approach to the recent credit environment, we began curtailing new originations of commercial loans in the second quarter of 2007 and have reduced the construction, land, and land development segments of our commercial loan portfolio from approximately \$228 million at December 31, 2007 to \$76 million at June 30, 2010.

Our Credit Strategy

We believe we employ a prudent credit culture that includes sound underwriting, centralized credit and risk management functions, comprehensive loan review processes, and diligent asset workout and collection efforts. Highlights of our credit strategy are set forth below.

Our Relationship Banking Approach

Our credit strategy reflects the main principles of our community banking model which emphasize development of a full customer relationship. We emphasize a know your customer approach and seek to provide credit together with primary depository and cash management services. This strategy enables our bankers to listen closely to our clients in order to improve their understanding of our customers needs and facilitate their ability to offer tailored banking solutions. We believe our recent, excellent J. D. Power ratings reflect our customers appreciation and high satisfaction with the services we provide.

Improvements to Our Credit Policy and Processes

As Michigan began to experience economic stress and our asset quality deteriorated, we completed comprehensive reviews of our credit policy and processes and revised them as we believed appropriate for the current credit cycle, including:

We strengthened our credit team through key appointments and experienced hires from larger commercial banks, including a Chief Lending Officer, to oversee the implementation of best credit practices. We made key additions to our already experienced commercial lending team, including Senior Vice Presidents of Credit Processes, Special Assets, and Credit Administration, and a new Loan Review Manager. In our retail department, we made key appointments and realigned the critical collection function of two Senior Vice Presidents and two Vice Presidents. We also hired an in-house general counsel to specifically focus on workouts, provide legal guidance to our workout team, and improve our management of legal costs in the workout and other disposition processes.

We enhanced our training to provide comprehensive and ongoing in-house credit, underwriting, and risk management training programs that leverage our systems and infrastructure. Further, we implemented a process to provide ongoing coaching of our lenders in negotiations, customer communication, problem credit resolution, and development of specific action plans.

We implemented a range of credit initiatives designed to strengthen our credit oversight and risk management function, minimize losses from our legacy portfolio and reduce the level of our non-performing assets. In addition to the consolidation of our 4 bank charters, we implemented a new process to increase the coordination between our retail and commercial operations as they relate to underwriting, loan review and oversight, and problem credit resolution. We also expanded our quality control function that monitors new retail loan originations.

Realignment of Credit Portfolios

For the past two years, we have pursued a conservative credit strategy of net deleveraging in order to meet the challenges of this credit cycle. In response to the changing economic circumstances and opportunities in Michigan, we shifted our strategic direction in portfolio lending towards high quality loan segments and sustainable organic growth in the markets we serve. Since 2007, we have significantly reduced our exposure to commercial real estate (CRE). Our CRE portfolio (excluding owner occupied) was \$418.4 million at June 30, 2010, down from \$607.2 million in the fourth quarter of 2007. We have also de-emphasized other high risk segments, such as land, land development, and construction loans, which currently represent less than 4% of our total loan portfolio. As a result of these efforts and the curtailment of originations in recent years, our income producing portfolio is more seasoned and diversified. We continue to focus our loan origination efforts on high quality, profitable commercial loan segments such as small business and middle market loans generated through our branch and referral networks. We utilize government guarantee programs, such as the SBA program, where appropriate. We also intend to continue our focus on building relationships with C&I clients as an attractive target customer segment. We believe we underwrite consumer loans for boats, autos, and home improvements on a conservative basis. We have focused our retail mortgage loan efforts on

originating loans for sale, which are attractive for their associated gains on sales. Our strategy is to sell the majority of our first mortgage loans into the secondary market and selectively retain in our portfolio adjustable rate mortgage (ARM) products with strong underwriting metrics. In addition, as described in more detail below, we have implemented a strategy to significantly reduce the payment plan receivables generated by Mepco in light of losses Mepco has recently incurred, increased risks in the vehicle service contract industry, and our desire to return our focus to our core banking competencies.

Our Proactive Management of Troubled Loans

We proactively manage troubled loans and have focused on early loss recognition throughout the current credit cycle. In response to challenges in this credit cycle, we have implemented a comprehensive foundation of credit best practices. Highlights include:

Formation of a special assets team of experienced lenders and collection personnel to ensure effective management of the substandard and nonaccrual loans;

Comprehensive review and enhancement of our portfolio analytics, specifically as they relate to segment reporting, migration analysis, and stress testing;

Implementation of independent risk ratings designed to ensure consistent risk measurement;

Adherence to a disciplined quarterly watch process to manage high-risk loans;

Strengthening of our collateral monitoring process for CRE, construction loans, and C&I lending, with centralized monitoring and reporting functions;

Regular analysis of portfolio migration to establish the appropriate level of general reserves for each loan grade;

Establishment of key vendor relationships with realtors, property managers, and other real estate management service providers to obtain up-to-date market feedback and for assistance in the workout and disposition process;

Regular acquisition and review of new credit bureau scores on our retail portfolios to aid collection efforts and guide retail loss forecasts;

Implementation of retail collection initiatives and loss mitigation programs to increase home retention, avoid unnecessary foreclosures, and minimize associated costs; and

Regular monitoring of the secondary market for potential sale of our non-performing loans, which we will consider as market conditions warrant.

Our approach is to work with our clients as long as they are working with us. We believe this customized approach to our clients' lending needs has produced, and should continue to produce, better results for us than if we used the less personalized approaches of some of our competitors. One indicator of the success of our approach is, for example, that approximately 78% of our retail restructured loans remained performing six months after modification as of June 30, 2010.

Loan Quality Update and Trends

We believe our asset quality metrics and credit trends have started to show signs of improvement over the last several quarters. Our non-performing loans (NPLs) decreased 34.5% in the second quarter of 2010 from their peak in the first quarter of 2009 and declined 23.1% from the fourth quarter of 2009. A breakdown of NPLs (excluding loans classified as troubled debt restructurings (TDRs) that are still performing) by loan type is as follows:

Loan Type	June 30, 2010	Dec. 31, 2009	June 30, 2009
	(\$ in millions)		
Commercial	\$ 37.6	\$ 50.4	\$ 63.0
Consumer/installment	5.9	8.4	7.8
Mortgage	38.6	48.0	51.4
Payment plan receivables ⁽¹⁾	2.4	3.1	3.1
Total	\$ 84.5	\$ 109.9	\$ 125.3
Ratio of non-performing loans to total portfolio loans	4.16%	4.78%	5.13%

Ratio of non-performing assets to total assets	4.61	4.77	5.21
Ratio of the allowance for loan losses to non-performing loans	89.46	74.35	52.10
Ratio of 30-89 days past due loans to total portfolio loans	2.59	2.81	3.14

(1) Represents payment plans for which no payments have been received for 90 days or more and for which Mepco has not yet completed the process to charge the applicable counterparty for the balance due to Mepco.

The decrease in NPLs since year-end 2009 is due principally to declines in non-performing commercial loans and residential mortgage loans. These declines primarily reflect net charge-offs of loans, negotiated transactions, and the migration of loans into other real estate (ORE).

Non-performing commercial loans largely relate to delinquencies caused by cash flow difficulties encountered by real estate investors. Non-performing commercial loans have declined for the past six quarters. The elevated level of non-performing residential mortgage loans is primarily due to delinquencies reflecting both weak economic conditions and soft residential real estate values in many parts of Michigan. However, retail NPLs have shown four quarters of improvement and are now at their lowest level since the first quarter of 2009.

Loans classified as troubled debt restructurings (TDRs) are loans for which we have modified the terms. A TDR loan that continues to perform after being modified is not included in our NPLs, except with respect to certain retail loans, as noted in footnote (2) to the table below. However, NPLs do include TDRs that are no longer performing, including TDRs that are on non-accrual or are 90 days or more past due. A breakdown of our TDRs as of June 30, 2010, is as follows (in 000 s):

	Commercial	Retail	Total
Performing TDRs	\$ 20,480	\$ 85,913	\$ 106,393
Non-performing TDRs ⁽¹⁾	7,544	17,970 ⁽²⁾	25,514
Total	\$ 28,024	\$ 103,883	\$ 131,907

(1) Included in NPL table above.

(2) Also includes loans on non-accrual at the time of modification until six payments are received on a timely basis.

The majority of our TDRs are accruing as they have a demonstrated ability to pay. Our approach to residential mortgage TDRs is to re-underwrite the loan with relatively conservative credit criteria. Almost 80% of these modified mortgage loans continue to pay six or more months after the modifications. On the commercial side, we perform a detailed analysis to determine TDR status. We restructure commercial TDR loans to right-size the debt to a level that can be supported by the cash flow and meet other more conservative credit criteria. We re-evaluate performance on a quarterly basis and update TDR status as warranted.

Non-performing assets (NPAs) declined 18.6% in the first half of 2010 from their peak in the first quarter of 2009 and decreased 10.7% from the fourth quarter of 2009. Our commercial NPAs have declined in each of the past six quarters.

Our 30-89 day past due loans are down 31.3% at June 30, 2010 from their peak in the second quarter of 2009, exhibiting four consecutive quarters of improvement. Commercial 30-89 day past due loans have remained relatively stable at 1.82% of the commercial loan portfolio as of June 30, 2010. Our level of watch credits has been relatively stable over the past five quarters. Classified assets as of June 30, 2010 are also showing three quarters of improvement and are down 14% from their peak in the third quarter of 2009.

We believe we have a focused and disciplined approach to managing ORE that leverages our networks and knowledge of the communities we serve. While we have explored bulk sale transactions from time to time, we have found that our approach of dealing with each property on an individual basis is more likely to result in a higher recovery. ORE and repossessed assets totaled \$41.8 million at June 30, 2010, compared to \$31.5 million at December 31, 2009, and \$29.8 million at June 30, 2009. As we expected, our commercial ORE increased slightly in the first six months of 2010 as new inflows exceeded sales. Retail ORE transfers also outpaced ORE sales in the first

six months of 2010; however, our average holding period for retail ORE remains at approximately six months. We have a focused disposition process, which targets core interested investors and local realtors followed by sales through the auction channel. We expect ORE to continue to rise throughout 2010 as workout loans move through the cycle. Recent sales activity shows a realization equal to approximately 85% to 95% of our adjusted book value.

Our provision for loan losses decreased by \$13.0 million, or 50.6%, in the second quarter of 2010 compared to the year-ago level, primarily reflecting reduced levels of non-performing loans, lower total loan balances and a decline in loan net charge-offs. The provision for loan losses was \$12.7 million and \$25.7 million in the second quarters of 2010 and 2009, respectively. The level of the provision for loan losses in each period reflects our overall assessment of the allowance for loan losses, taking into consideration factors such as loan mix, levels of non-performing and classified loans and loan net charge-offs. Loan net charge-offs were \$35.8 million (3.33% annualized of average loans) in the first half of 2010, compared to \$48.4 million (3.98% annualized of average loans) in the first half of 2009. The decline in first half 2010 loan net charge-offs compared to year ago levels is primarily due to a decrease of \$12.7 million for commercial loans. The reduced level of commercial loan net charge-offs principally reflects a decline in the level of non-performing commercial loans. At June 30, 2010, the allowance for loan losses totaled \$75.6 million, or 3.72% of portfolio loans, compared to \$81.7 million, or 3.55% of portfolio loans, at December 31, 2009. Our portfolio of commercial loans on nonaccrual status have been written down, or reserved for, approximately 61% from the original loan balance.

We are optimistic that our team's continued efforts in managing our commercial and retail loan portfolios will yield further improvements in asset quality.

Recent Credit Reviews in Advance of This Offering

In advance of this offering, we conducted a series of loan portfolio analyses, both internally and externally through third parties, to assist in our projections for potential future provisions for loan losses.

Third Party, External Loan Reviews and Stress Testing

In connection with the preparation of our Capital Plan, we engaged a third party to perform a review (a stress test) on our commercial loan portfolio and a separate third party to perform a similar review of our retail loan portfolio. Approximately 80% of our commercial and retail loan portfolios was subjected to a detailed loan review, with extrapolation for the remainder of the portfolios plus random testing of loan files from the minority segments. The loan reviews were conducted at the loan level for the commercial portfolio and at the pool level for our retail portfolio. These external stress tests were concluded in January 2010. The analyses of the loan portfolio conducted by these independent parties included different scenarios based on a set of expectations of future economic conditions.

The external review of our commercial loan portfolio included a detailed review of 69% of the total portfolio outstanding (1,056 individual loan files), supplemented by an extrapolation for the remaining 31% of the portfolio. The review included key credit processes and a comparison of the external firm's loss forecasts to those conducted internally by management. The external firm's methodology resulted in a loan-by-loan loss forecast over an estimated 30-month time period ending April 30, 2012.

The external review of our retail loan portfolio covered the entire real estate portion of our portfolio and examined three retail loan pools of (1) owned residential mortgages, (2) real estate secured installment loans, and (3) home equity lines of credit. The external firm's methodology modeled, under various economic stress environments, risk-adjusted prepayment curves, default curves, and loss severity curves for each loan based on its borrower, recent FICO score, product type, property, and other risk characteristics and developed a loan loss forecast over a 60-month period ending December 31, 2014.

We engaged these external reviews in order to ensure that the similar analyses we performed internally in 2009, on which we based our projections in our Capital Plan for future potential loan losses, were reasonable and did not materially understate such projections. Based on the conclusions of these third party reviews, we determined that we did not need to modify our projections used for purposes of our Capital Plan.

The analyses conducted by the independent third parties were limited to our commercial and retail loan portfolios and did not include any analysis of potential losses associated with Mepeco's payment plan business or any other asset category.

SCAP Stress Testing

In May 2009, the Federal Reserve announced the results of the Supervisory Capital Assessment Program, or SCAP, of the near-term capital needs of the 19 largest U.S. bank holding companies. The SCAP process involves the projections of losses on loans, assets held in investment portfolios, and trading related exposure over a two year time period (2009 and 2010). Although we were not subject to the Federal Reserve's review under the SCAP, we conducted, with assistance from our financial advisors, our own internal cumulative loss analysis or stress test of our loan portfolio and resulting capital position at March 31, 2010, using the same methodologies as the SCAP. Our analysis used a baseline scenario and a more adverse scenario as provided in the SCAP methodology. The SCAP baseline scenario was developed to reflect consensus expectations of economic forecasters in early 2009 on the depth and duration of the economic recession. The more adverse scenario was designed to characterize a recession that is longer and more severe than consensus expectations.

We performed our analysis by applying the SCAP guidelines under both the baseline and more adverse economic scenarios to our year-end 2008 loan balances. As of March 31, 2010, we compared the losses that would have been projected by the SCAP methodology in our loan portfolio over 2009 and 2010 to our actual loan losses over 2009 and the first quarter of 2010. Based on this methodology, our cumulative losses for 2009 and 2010 predicted by the SCAP analysis would have been \$132 million under the midpoint of the baseline case and \$206 million under the midpoint of the more adverse case. In comparison, based on our actual net charge-offs during 2009 and first half of 2010 (\$35.8 million) as well as our internal projections of remaining net charge-offs for 2010 (\$27.4 million), our losses over that comparable two year period would have been approximately \$142.7 million. See *Our Projections Projected Provision for Loan Losses* below.

The results of this SCAP analysis are hypothetical and are not indicative of losses we expect to incur, but rather show potential losses in our loan portfolio during a specific period of time based on the U.S. Treasury SCAP framework.

Based on the results of the SCAP analysis, we believe our projections for our provision for loan losses through the end of 2011, set forth under Our Projections Our Projected Provision for Loan Losses below, are reasonable.

Mepco Finance Corporation

Mepco is a wholly-owned subsidiary of our bank. At the time we acquired Mepco in April of 2003, Mepco was engaged in its current vehicle service contract payment plan business (described below) and more traditional insurance premium financing. Mepco sold its insurance premium financing business in January 2007. As a result, Mepco's sole business activity is its vehicle service contract payment plan business.

Description of Payment Plan Business

Vehicle service contracts are contracts purchased by consumers to cover the cost of certain vehicle repairs. They have historically been known as after-market extended automobile warranties and are sometimes still referred to as such. The service contracts are written and provided by parties commonly referred to in the industry as administrators. The administrators are generally not affiliated with any automobile manufacturer. In most states, the administrator is required to purchase a contractual liability insurance policy (CLIP) from an insurance company or a risk retention group that guarantees performance of the service contract to the consumer in the event the administrator fails to perform the service contract. The administrators sell the service contracts through a network of third party marketing companies and/or through automobile dealers.

Vehicle service contracts typically cost between \$1,000 and \$2,500. Of this purchase price, a portion is paid to the insurer for providing the CLIP, a portion is paid to the administrator for administering the service contract and maintaining required reserves for potential claims, and a portion is paid to the seller of the service contract as a sales commission and for providing customer service. While the full purchase price of the service contract is sometimes paid by the consumer at the time of purchase, the administrators and sellers of the service contracts (which we refer to as Mepco's counterparties) generally also allow the consumer to pay the cost of the coverage on a monthly basis, through a payment plan.

Mepco acquires the payment plans from its counterparties at a discount from the face amount of the payment plan. Each payment plan permits a consumer to purchase a service contract by making monthly payments, generally for a term of 12 to 24 months. Mepco thereafter collects the payments from consumers. In acquiring the payment plan, Mepco generally funds a portion of the cost to the seller of the service contract and a portion of the cost to the administrator of the service contract. The administrator, in turn, pays the necessary CLIP premium to the insurer or risk retention group.

Consumers are allowed to voluntarily cancel the service contract at any time and are generally entitled to receive a refund from the administrator of the unearned portion of the service contract at the time of cancellation. As a result, while Mepco does not owe any refund to the consumer, it also does not have any recourse against the consumer for nonpayment of a payment plan and therefore does not evaluate the creditworthiness of the individual consumer. If a consumer stops making payments on a payment plan or exercises the right to voluntarily cancel the service contract, the service contract seller and administrator are each obligated to refund to Mepco the amount necessary to make Mepco whole as a result of its funding of the service contract. As described below, the insurer or risk retention group that issued the CLIP for the service contract often guarantees all or a portion of the refund to Mepco.

If a service contract is cancelled, Mepco typically recovers a portion of the unearned cost of the service contract from the seller and a portion of the unearned cost from the administrator (who, in turn, receives unearned premium from the insurer involved). However, the administrator is generally obligated to refund to Mepco the entire unearned cost of the service contract, including the portion Mepco typically collects from the seller. In addition, as of June 30, 2010, approximately 70% of the aggregate amount of Mepco's outstanding payment plan receivables relate to programs in which a third party insurer or risk retention group is obligated to pay Mepco the full refund owing upon cancellation of the related service contract (including with respect to both the portion funded to the service contract seller and the portion funded to the administrator). Another approximately 14% of Mepco's outstanding payment plan receivables as of June 30, 2010, relate to programs in which a third party insurer or risk retention group is obligated to Mepco to pay the refund owing upon cancellation only with respect to the unearned portion previously funded by Mepco to the administrator (i.e., but not to the service contract seller). The balance of Mepco's outstanding payment plan receivables relate to programs in which there is no insurer guarantee of any portion of the refund amount.

In some cases, Mepco requires collateral or guaranties by the principals of the counterparties to secure these refund obligations; however, this is generally only the case when no rated insurance company is involved to guarantee the

repayment obligation of the seller and administrator counterparties. In most cases, there is no collateral to secure the counterparties' refund obligations to Mepco, but Mepco has the contractual right to offset unpaid refund obligations against amounts Mepco would otherwise be obligated to fund to the counterparties. In addition, even when other collateral is involved, the refund obligations of these counterparties are not fully secured. Mepco incurs losses when it is unable to fully recover funds owing to it by counterparties upon cancellation of the underlying service contracts.

Mepco presently does business with approximately 200 different sellers (direct marketers and automobile dealerships). However, as of June 30, 2010, Mepco's top 15 current seller counterparties (which do not include the seller counterparty described below that declared bankruptcy in March 2010) represent approximately 90% of the total monthly payment plan volume, with the largest single seller counterparty generally representing approximately 10% to 15% of such volume. Each seller generally sells vehicle service contracts issued by a number of

different administrators and insurance companies. See footnote 20 to our audited financial statements on page F-81 for more information about the concentrations in Mepco's business.

Mepco's new payment plan volume for the six months ended June 30, 2010 was approximately 65% lower than the same period in 2009. This decline reflects our intention to reduce payment plan receivables as a percentage of total assets as well as general industry conditions (which include a decline in the volume of sales of vehicle service contracts). In addition to reducing the size of this business, given recent losses incurred by Mepco, we have begun implementing changes to the funding policies followed by Mepco (i.e., the amounts and timing of funds advanced by Mepco to the sellers of the service contracts) as a way of further reducing the risk associated with this business segment by decreasing the amount Mepco will need to recover from its counterparties upon cancellation of a vehicle service contract.

Presentation in Consolidated Financial Statements

The aggregate net amount of outstanding payment plans held by Mepco is recorded on our consolidated statements of financial condition as payment plan receivables (formerly referred to as finance receivables). Net payment plan receivables totaled \$285.7 million, or 10.4% of total assets at June 30, 2010 compared to \$406.3 million, or 13.7% of total assets at December 31, 2009. The \$120.6 million decline in net payment plan receivables during the first half of 2010 represents an annualized decline of 59.4% and is consistent with our goal, noted above, of reducing payment plan receivables as a percentage of total assets.

The aggregate amount of obligations owing to Mepco by counterparties (triggered by the cancellation of the related service contracts), net of write-downs made through the recognition of vehicle service contract counterparty contingency expense, is recorded on our consolidated statements of financial condition in vehicle service contract counterparty receivables, net. At June 30, 2010, this amount totaled \$25.4 million (which includes a net balance of \$17.5 million from the single counterparty described below), compared to \$5.4 million at December 31, 2009. As a result, upon the cancellation of a service contract and the completion of the billing process to the counterparties for amounts due to Mepco, there is a decrease in the amount of payment plan receivables and an increase in the amount of accrued income and other assets until such time as the amount due from the counterparty is collected. These amounts represent funds actually due to Mepco from its counterparties for cancelled service contracts, as opposed to estimated incurred losses associated with payment plan receivables that are still outstanding (which estimated incurred losses are recorded as vehicle service contract counterparty contingencies expense, described below).

Mepco purchases the payment plans (which are non-interest bearing) at a discount. This discount is initially recorded as unearned revenue and is netted against payment plan receivables in our consolidated statements of financial condition. At June 30, 2010, this unearned discount totaled \$19.0 million (compared to \$34.6 million at June 30, 2009). This discount or unearned revenue is then accreted into earnings using a level yield method over the life of the payment plan. This discount accretion is recorded as interest and fees on loans in our consolidated statements of operations.

We record estimated incurred losses associated with Mepco's vehicle service contract payment plans in our provision for loan losses and establish a related allowance for loan losses. We record estimated incurred losses associated with defaults by Mepco's counterparties as vehicle service contract counterparty contingencies expense, which is included in non-interest expenses in our consolidated statements of operations. These expenses are described in more detail below.

Calculation of the Allowance for Losses

Mepco's allowance for losses is determined in a similar manner to that of Independent Bank and primarily takes into account historical loss experience and other subjective factors deemed relevant to Mepco's payment plan business. Estimated incurred losses associated with Mepco's vehicle service contract payment plans are included in the provision for losses. Mepco recorded a credit of \$0.2 million for its provision for losses in the first half of 2010 due primarily to a significant decline (\$120.6 million) in the balance of payment plan receivables. This compares to a provision for losses of \$0.3 million in the first half of 2009. Mepco's allowance for losses totaled \$0.5 million and \$0.8 million at June 30, 2010, and December 31, 2009, respectively. Mepco has established procedures for vehicle service contract payment plan servicing, administration and collections, including the timely cancellation of the vehicle service contract, in order to protect our setoff position in the event of payment default or voluntary cancellation by the

customer. Mepco has also established procedures to attempt to prevent and detect fraud since the payment plan origination activities and initial customer contact is done entirely through unrelated third parties (vehicle service contract administrators and sellers or automobile dealerships). However, 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.

Calculation of Vehicle Service Contract Counterparty Contingencies Expense

Our estimate of vehicle service contract counterparty contingencies expense (probable incurred losses for estimated defaults by Mepco's counterparties) requires a significant amount of judgment because a number of factors can influence the amount of loss Mepco may ultimately incur. These factors include our estimate of future cancellations of vehicle service contracts, our evaluation of collateral that may be available to recover funds due from our counterparties, and our assessment of the amount that may ultimately be collected from counterparties in connection with their contractual obligations to us. We apply a rigorous process, based upon observable contract activity and past experience,

to estimate probable incurred losses and quantify the necessary reserves for our vehicle service contract counterparty contingencies, but there can be no assurance that our modeling process will successfully identify all such losses. As a result, actual future losses associated with in these receivables may exceed the charges we have taken.

In 2009, we recorded a total of \$31.2 million in vehicle service contract counterparty contingencies expense. For the first half of 2010, we recorded \$8.3 million in vehicle service contract counterparty contingencies expense.

Risk Inherent in Calculation of Estimated Probable Incurred Losses

The vehicle service contract counterparty contingencies expense represents our estimate of the probable incurred losses of Mepco as a result of its inability to fully recover on the contractual rights it has against its counterparties and any guarantors upon cancellation of service contracts. One of the most significant risks we face is the possibility we have underestimated these probable incurred losses. As noted above, our estimate of these probable incurred losses requires a significant amount of judgment because there are a number of factors that can influence the amount of the loss. In addition, it is only since mid- to late-2009 that events have occurred that have led to a significant increase in vehicle service contract counterparty contingencies expense. The aggregate amount of vehicle service contract counterparty contingencies expense recorded in past years has grown from \$0 in 2007, to \$1.0 million in 2008, to \$31.2 million in 2009 (and was \$8.3 million during the first half of 2010). As a result, Mepco does not have much historical data to draw from in making the assumptions necessary to predict probable incurred losses (such as the ability to successfully recover from service contract administrators amounts funded by Mepco to the service contract seller). Finally, the difficulty of estimating such losses is exacerbated by the potential magnitude of the losses, which may threaten the viability of counterparties owing obligations to Mepco.

Of the aggregate \$39.5 million of vehicle service contract counterparty contingencies charges recorded since January 1, 2009, \$20.5 million relates to a single counterparty that declared bankruptcy on March 1, 2010. The amount of payment plans purchased from this counterparty and outstanding at June 30, 2010 totaled approximately \$93.2 million (compared to \$147.4 million and \$206.1 million at March 31, 2010 and December 31, 2009, respectively). In addition, as of June 30, 2010, this counterparty owed Mepco \$38.0 million for previously purchased payment plans associated with cancelled service contracts. During the first six months of 2010, the original \$19.0 million reserve for losses related to this counterparty was increased by \$1.5 million, to \$20.5 million as of June 30, 2010. The amount of this reserve was calculated making assumptions about a number of factors. The primary assumptions made are as follows:

Cancellation Rates. We have assumed the cancellation rate for outstanding payment plans for the book of business with this counterparty will be similar to cancellation rates historically experienced with this counterparty. We believe this is a reasonable assumption because the failure of this counterparty does not affect the validity of the related service contract, which continues to be administered by a third party administrator and backed by a third party insurer. Higher cancellation rates increase the amount of funds Mepco needs to recover from its counterparties to be made whole. To date, actual cancellation rates for this program have generally been in line with our assumptions. We have no reason to believe cancellation rates will materially increase; however, there are events that could occur that could cause cancellation rates to increase. For example, weaker economic conditions generally cause an increase in cancellation rates as consumers seek to reduce their monthly expenses and choose to voluntarily cancel their service contracts or simply cannot continue to make payments. In addition, it is possible that a court or regulatory authority could attempt to force a mass cancellation of all outstanding payment plans originated by this counterparty (e.g., if it alleged the service contracts had been marketed or sold in a fraudulent matter or if it had reason to believe the continued performance of the service contract by the administrator was in question). If cancellation rates are higher than assumed, the aggregate exposure faced by Mepco increases, and actual losses may exceed the charges taken for probable incurred losses as of June 30, 2010. In the first half of 2010, \$1.5 million of additional reserves were added due primarily to slightly higher actual cancellation rates than what had been previously projected.

Recoveries from Collateral. While Mepco generally does not maintain collateral for its counterparties' refund obligations, Mepco does have certain collateral for this counterparty's obligations as a result of the amount of business conducted with this counterparty and actions taken when the financial viability of this counterparty

came into question. The estimated amount of probable incurred losses for this counterparty includes assumptions regarding our ability to realize upon and liquidate certain collateral securing the obligations of this counterparty. In making these assumptions, we applied liquidation and other discounts to the value of this collateral and also deducted holding and sales costs. However, we may be unable to liquidate the collateral at the levels we have assumed or our costs in doing so may be higher than expected. It is also possible that Mepco's claims as a secured and unsecured creditor in this counterparty's bankruptcy proceeding may result in additional recoveries. We have currently assumed no recovery from the bankruptcy estate as a result of these claims, but we currently believe there may be substantial assets available for recovery by Mepco. It will be some period of time before we are able to assess the magnitude and likelihood of any such recovery.

Recoveries from Counterparties. As noted above, the administrator of a service contract is generally obligated to refund to Mepco not only the unearned portion of the amount previously advanced by Mepco to the administrator, but also the unearned portion of the amount previously advanced by Mepco to the seller of the service contract. Historically, Mepco has not had to collect the entire unearned cost from the administrator as it has been successful in collecting refunds from the seller of the service contract. Given the failure of this seller counterparty, Mepco intends to pursue collection of the amount it previously funded to this service contract seller from the administrators and third party insurance companies involved. Mepco currently expects it may need to file lawsuits against one or more of these administrators and insurers in order to recover amounts owing to Mepco and, in fact, has already filed lawsuits against two counterparties to date. There are more than 25 administrators and more than 10 insurers that have refund obligations owing to Mepco as a result of the failure of this counterparty. We estimate that over 70% of the aggregate amount to be collected as a result of this counterparty's failure will be owed by only six different administrators and, of this amount, approximately 70% is guaranteed by insurers. In addition to challenges and delays associated with pursuing collection through litigation, the amounts owing with respect to the failure of this large counterparty could be catastrophic to one or more of these administrators or insurance companies. Mepco intends to vigorously pursue collection of the full amount owing from each obligor of amounts owed by this counterparty. However, in making assumptions regarding recovery from these counterparties, we applied discounts from the full amount owed to take into account the factors described above and potential litigation expenses and the possibility that payment of the full amount owed to Mepco, together with other obligations owing by these parties as a result of the failure of this counterparty, could threaten the continued financial viability of one or more of these parties.

The balance of the vehicle service contract counterparty contingencies expense incurred since January 1, 2009 (approximately \$19 million) relates to estimated probable incurred losses associated with Mepco's relationships with its counterparties other than the large counterparty described above. In calculating our estimate of incurred probable losses if counterparties fail to fulfill their contractual repayment obligations to Mepco, we have made a number of assumptions similar to those described above, namely:

The amount of collateral held by Mepco to secure such obligations and the likelihood of realizing upon and liquidating such collateral;

The ability of Mepco to fully recover on its contractual rights against other counterparties (i.e., administrators and insurance companies) involved; and

Cancellation rates of the underlying payment plans.

We believe our assumptions regarding these factors are reasonable, and we based them on our good faith judgments using data currently available. As a result, we believe the current amount of reserves we have established and the vehicle service contract counterparty contingencies expense that we have recorded are appropriate given our estimate of probable incurred losses at the applicable balance sheet date. However, because of the uncertainty surrounding the numerous and complex assumptions made, actual losses could exceed the charges we have taken to date. See *Risk Factors* below.

Earnings Overview for First Six Months of 2010

We reported second quarter 2010 net income applicable to our common stock of \$6.8 million, or \$0.44 per diluted share, compared to a net loss applicable to our common stock of \$6.2 million, or \$2.60 per share, in the second quarter of 2009. The improvement in 2010 is primarily due to a significant gain on the extinguishment of debt and a decrease in the provision for loan losses that were partially offset by decreases in net interest income and mortgage loan servicing income. During the six months ended June 30, 2010, we incurred a net loss applicable to our common stock of \$8.1 million, or \$3.10 per share, compared to a net loss applicable to our common stock of \$25.9 million, or \$10.93 per share, during the six months ended June 30, 2009. The reasons for the changes in the year-to-date comparative periods are generally commensurate with the reasons for the changes in the quarterly comparative periods.

Our net interest income decreased by 19.6% to \$28.6 million and by 16.1% to \$58.6 million, respectively, during the three- and six-month periods in 2010 compared to 2009. Our annualized net interest income as a percent of our

average interest-earning assets (our net interest margin) was 4.41% during the first half of 2010 compared to 5.10% in the year ago period, and 4.78% in the fourth quarter of 2009. The decrease in our net interest margin primarily reflects a decrease in the yield on interest earning assets principally due to a change in the mix of interest-earning assets with a declining level of higher yielding loans and an increasing level of lower yielding short-term investments. This change in asset mix principally reflects our current strategy of maintaining significantly higher balances of overnight investments to enhance liquidity and our reduction in payment plan receivables attributable to our Mepco business. Average interest-earning assets declined to \$2.67 billion in the first half of 2010, compared to \$2.75 billion in the year ago period and \$2.78 billion in the fourth quarter of 2009.

Pre-tax, pre-provision core operating earnings, as defined by management, represents our income (loss) excluding: income tax expense (benefit), provision for loan losses, credit costs related to unfunded commitments, securities gains or losses, vehicle service contract counterparty contingencies, and any impairment charges (including loan servicing rights, goodwill, losses on ORE or repossessed assets, and

certain fair-value adjustments) and elevated loan and collection costs incurred in the current economic cycle. The decline in our pre-tax, pre-provision core operating earnings in 2010 as compared to 2009 is principally due to a decrease in our net interest income as described above.

Pre-Tax, Pre-Provision Core Operating Earnings⁽¹⁾

	6/30/10	Quarter Ended 3/31/10 (in thousands)	6/30/09
Net income (loss)	\$ 7,884	\$ (13,837)	\$ (5,161)
Income tax expense (benefit)	156	(264)	(959)
Provision for loan losses	12,680	17,014	25,659
Credit costs related to unfunded lending commitments	280	56	(66)
Securities (gains) losses	(1,363)	(147)	(4,230)
Vehicle service contract counterparty contingencies	4,861	3,418	2,215
Impairment (recovery) charge on capitalized loan servicing	2,460	(145)	(2,965)
Gain on extinguishment of debt	(18,086)		
Losses on ORE and repossessed assets	1,554	2,029	1,939
Elevated loan and collection costs ⁽²⁾	1,535	3,536	1,977
Pre-Tax, Pre-Provision Core Operating Earnings	\$ 11,961	\$ 11,660	\$ 18,409

(1) This table reconciles consolidated net income (loss) presented in accordance with U.S. generally accepted accounting principles (GAAP) to pre-tax, pre-provision core operating earnings. Pre-tax, pre-provision core operating earnings is not a measurement of our financial performance under GAAP and should not be considered as

an alternative to net income (loss) under GAAP. Pre-tax, pre-provision core operating earnings has limitations as an analytical tool and should not be considered in isolation or as a substitute for an analysis of our results as reported under GAAP. However, we believe presenting pre-tax, pre-provision core operating earnings provides investors with the ability to gain a further understanding of our underlying operating trends separate from the direct effects of any impairment charges, credit issues, certain fair value adjustments, securities gains or losses, and challenges inherent in the real estate downturn and other economic cycle issues, and displays our core operating earnings trend

before the impact of these challenges.

- (2) Represents the excess amount over a normalized level (experienced prior to 2008) of \$1.25 million quarterly.

Our Projections

Set forth below is our projection of our tangible common equity and related capital measures as of December 31, 2011. These projections are based on our projected pre-provision earnings for the period from July 1, 2010 to December 31, 2011, our projected provisions for loan losses during that period, and our projected contingency expenses at Mepco during that period. Those projections, in turn, are based on a number of assumptions, including the key assumptions described below.

We caution investors that projections are inherently uncertain. Our actual capital adequacy, results of operations, and performance may differ significantly from our current estimates due to the inaccuracy or non-realization of the assumptions upon which our projections are based, as well as other uncertainties and risks related to our business, including those described under *Risk Factors* beginning on page 26 and elsewhere in this prospectus. Our projections constitute forward-looking statements as described under *Forward-Looking Statements* on page 1 of this prospectus and are not a guarantee by us of our future capital adequacy, results of operations, or performance. Key assumptions upon which various of our projections are based are summarized under " *Our Projected Earnings*, *Our Projected Provision for Loan Losses*, and *Our Projected Mepco Counterparty Expenses* below. We do not intend to issue any update to our projections at any time in the future.

Our Projected Capital

As of June 30, 2010, our tangible common equity was \$49.6 million, or \$6.60 per share. Taking into account various factors and current assumptions that we believe are reasonable, we currently project, as set forth in the table below, that our tangible book value per share will be approximately \$5.78 as of December 31, 2011. This does not take into account any proceeds from this offering, although (as noted below) it does take into account the conversion of our Series B Convertible Preferred Stock immediately following the completion of this offering, which is contingent on our completion of a new cash equity raise of not less than \$100 million on terms acceptable to the Treasury in its sole discretion (other than with respect to the price offered per share).

Our projection of our tangible book value per share of \$5.78 at December 31, 2011:

Is based on various assumptions we have made, including those described under Our Projected Earnings, Our Projected Provision for Loan Losses, and Our Projected Mepco Counterparty Expenses below, as well as the accuracy of our projected pre-provision earnings or loss, provision expenses, and Mepco counterparty contingency expenses for the period from July 1, 2010 to December 31, 2011, as described in greater detail below;

Includes the issuance of 5.1 million shares of our common stock in exchange for \$41.4 million in aggregate liquidation amount of our trust preferred securities, which was completed on June 23, 2010, and the issuance of 8.4 million shares of our common stock upon conversion of all of our Series B Convertible Preferred Stock held by the Treasury, which we expect to occur immediately after this offering;

Reflects the benefit of a reduction in our future interest expense and dividend payments and the addition of equity capital (resulting from the issuance of new shares) on the two transactions described in the preceding bullet point; and

Does not include the net cash proceeds to us as a result of this offering, which will further significantly strengthen our capital position; however, we did assume use of such proceeds in projecting our pre-provision earnings through the end of 2011. The last column in the following table reflects the addition of the net proceeds to our pro forma tangible common equity and resulting capital ratios.

(Dollars in millions, except per share amounts)

Projected Pro Forma as of December 31, 2011

	As Reported June 30, 2010	Conversion of Preferred Stock ⁽¹⁾	Conversion of Preferred Stock ⁽¹⁾ , plus Projected Earnings and Credit Costs	Conversion of Preferred Stock ⁽¹⁾ , plus Projected Earnings and Credit Costs, plus Capital Raise
Tangible Common Equity ⁽²⁾	\$ 49.6	\$ 49.6	\$ 49.6	\$ 49.6
Pre-Provision Projected GAAP Earnings ⁽³⁾			41.3	41.3
Amortization of Intangible Assets included in Pre-Provision Projected GAAP Earnings ⁽³⁾			2.0	2.0
Projected Provision Expenses ⁽⁴⁾			(60.6)	(60.6)
Projected Mepco Counterparty Contingency Expense			(10.7)	(10.7)
Adjusted Tangible Common Equity	49.6	49.6	21.6	21.6
Common Equity Created Through Conversion		70.5	70.5	70.5
Common Equity From this Offering ⁽⁵⁾				103.0

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Pro Forma Tangible Common Equity	\$ 49.6	\$ 120.1	\$ 92.1	\$ 195.1
Shares Outstanding (mm)	7.513	15.933	15.933	[(d)
Tangible Book Value/Share	\$ 6.60	\$ 7.54	\$ 5.78	[(d)
Tangible Common Equity/Tangible Assets	1.82%	4.40%	3.87%	8.20%
Tier 1 Common Ratio	2.20	4.70	4.35	8.70
Tier 1 Leverage Ratio	6.41	6.41	5.94	10.75
Tier 1 Risk Based Capital Ratio	9.34	9.34	7.64	13.83
Total Risk Based Capital Ratio	10.65	10.65	9.52	15.11

(1) Reflects the conversion on October 1, 2010 of all of our Series B Convertible Preferred Stock at 75% of par, plus approximately \$1.7 million in accrued and unpaid dividends as of September 30, 2010 without a discount to par, at a conversion price of \$7.233 per share for the Series B Convertible Preferred Stock and a conversion price of \$2.43 per share for accrued and unpaid dividends, which conversion is subject to certain conditions described above, resulting in the issuance of 8.4 million shares of our

common stock to the Treasury.

- (2) Includes a net deferred tax asset of \$1.4 million.
- (3) Assumes cumulative pre-provision earnings from July 1, 2010 through December 31, 2011 based on our internal projections and assuming we have access to the expected proceeds of this offering.
- (4) Assumes cumulative provisions from July 1, 2010 through December 31, 2011 based upon our internal projections of losses and ending ALLL / Total Loans ratio of 3.25% at December 31, 2011.
- (5) Assumes \$110 million gross proceeds from this offering.
- (6) To calculate this number, take the result of dividing the gross proceeds of this

offering
(\$110 million)
by the per share
price of the
offering and add
this to
15.933 million
shares.

- (7) To calculate this
number, divide
Pro Forma
Tangible
Common Equity
(\$195.1 million)
by the total
number of shares
computed in
footnote
(6) above.

Our Projected Earnings

Taking into account various factors and current assumptions that we believe are reasonable, including those set forth below, we currently project our pre-provision earnings to be approximately \$41.3 million for the period from July 1, 2010, to December 31, 2011. As set forth in the preceding table, we expect these projected pre-provision earnings will offset a significant portion of our projected future loan losses and Mepco counterparty expenses during the same period.

Our projections are based upon numerous complex assumptions, estimates, and judgments, which may or may not be realized, including the following:

Net Interest Margin: In 2008 and 2009, our net interest margin was 4.48% and 5.00%, respectively. During the first half of 2010, our net interest margin declined to 4.41% due to our increased reliance on higher-cost wholesale funding sources as a means of building reserve liquidity and our reduction in payment plan receivables attributable to our Mepco business. Following the completion of this offering, we intend to repay some of our higher-cost wholesale funds and continue to build our core deposits. We believe doing so will have a relatively immediate and favorable impact on our net interest margin, which we project will continue to improve over 2010 and 2011. In addition, we intend to opportunistically increase our investments in fixed-rate agency mortgage backed securities. Further, the conversion of \$41.4 million in aggregate liquidation amount of trust preferred securities into our common stock in June 2010 will reduce future interest expense by \$3.5 million annually.

Deposits: We expect our core deposit base to grow 2% to 3% per year reflecting our view of the opportunities in the markets we serve and the overall macroeconomic environment in Michigan in 2010 and 2011.

Managed Loan Growth: We intend to continue to grow certain high quality segments of our commercial portfolio. We expect we will be able to grow our commercial portfolio at a rate of approximately 5% in 2011 as the environment for commercial credit underwriting improves and we redeploy personnel to loan origination in select loan segments. We expect to continue to make select consumer loans as market opportunities warrant. We expect to see some further decline in consumer loans over 2010 with stabilization and an eventual turnaround point in mid-2011. We expect our portfolio mortgage lending volume to continue to be modest due to our focus on originating only mortgage loans eligible for sale in the secondary market, which are attractive for their associated gains on sale.

Smaller Mepco Business: We expect to continue to see payment plan receivables run off as management continues reducing the size of this portfolio and strategically focuses on reducing our risk exposure at our Mepco subsidiary. We have projected outstanding payment plan receivables to be approximately \$247 million at both December 31, 2010, and December 31, 2011, respectively.

Non-Interest Income: Excluding securities gains or losses, impairment charges or recoveries and gain or loss on the extinguishment of debt, non-interest income is projected to decline by \$5.2 million, or 10%, in 2010 and decline by an additional \$3.3 million, or 6%, in 2011 from 2009 actual levels. These declines are concentrated in three areas: service charges on deposit accounts, VISA check card interchange income and net gains on mortgage loan sales. The projected decrease in net gains on mortgage loans sales is due to an expected decline in mortgage loan refinance volumes because of somewhat higher forecasted interest rates. The projected decreases in service charges on deposit accounts and VISA check card interchange income is due to various legislative or regulatory changes that are expected to reduce NSF fee income and debit card interchange income in the near term. By 2012, we expect non-interest income to begin to grow again primarily because of growth in core deposits. See *Business Regulatory Developments* below for additional information regarding these matters.

Cost Reduction Initiatives: We anticipate realizing cost savings of \$25.4 million in 2011, thus reducing our expenses by approximately 17% over 2010. We continue to review the efficiency of our operations and explore ways to lower our costs through a variety of initiatives. We believe our focus to date on problem credit workouts and our continued work on managing dispositions on a cost-effective basis will translate into significantly lower credit related costs in the future. We expect our credit related costs such as loan and collection costs, losses on sale of ORE, and vehicle service contract counterparty contingency costs to decline by approximately \$22.2 million in 2011 from \$39.2 million in 2010. We also expect our FDIC insurance expense to decline modestly due to the projected expiration of the FDIC Transaction Account Guarantee Program, or TAGP, on December 31, 2010 (although the Dodd-Frank Wall Street Reform and Consumer Protection Act extended protection similar to that provided under the TAGP through December 31, 2012 for only non-interest bearing transaction accounts). We believe other potential areas of cost savings are a reduction in occupancy and equipment costs, data processing costs, and some reduction in salaries and benefits. However, to motivate our personnel, we plan to partially reinstate several benefit programs in 2011, including the reinstatement of a 401(k) match of 2%, an ESOP contribution of 3%, threshold incentive payments, and merit pay increases of 2%. On an aggregate basis, we expect the reinstatement of these benefits to lead to approximately a \$5.4 million increase in salaries and benefits in 2011 over 2010.

No Tax Effect: Our projections do not include any significant provision for federal income tax expense or benefit. We currently have a valuation allowance against the majority of our deferred tax assets, including net operating loss carryforwards. Reversal of the valuation allowance will occur at such time that we determine these deferred tax assets could be realized, but we do not expect any such reversal prior to December 31, 2011. Our current capital raising efforts may result in an ownership change for tax purposes, which could materially limit our ability to realize some of the deferred tax assets.

No Extraordinary Transactions. Our projections assume we will not engage in any acquisitions, divestitures, or other transactions outside the ordinary course of business.

Our Projected Provision for Loan Losses

We have projected approximately \$60.6 million of provision expenses between July 1, 2010 and December 31, 2011. Taking into account various factors and current assumptions that we believe are reasonable, including those set forth below and also described above under *Our Projected Earnings*, the table below presents our current projections for provision expenses, net charge offs, and our allowance for loan losses for fiscal years 2010 and 2011, as compared to our actual results for the years ended December 31, 2007, 2008, and 2009.

	2007	2008	2009 (\$ in millions)	2010P	2011P
Provision expense	\$43.1	\$71.1	\$103.3	\$55.9	\$34.4
% of Average Loans	1.70%	2.77%	4.18%	2.70%	1.80%
Net Charge Offs	\$24.7	\$58.5	\$79.5	\$63.2	\$46.9
% Loss Rate	0.98%	2.30%	3.28%	3.05%	2.46%
Allowance	\$45.3	\$57.9	\$81.7	\$74.4	\$61.8
% of Loans	1.80%	2.35%	3.55%	3.87%	3.25%

Our provision projections take into consideration the extensive internal and external analyses performed on our loan portfolio and are established based on what we believe to be reasonable assumptions of little to no improvement in the Michigan economy in 2010 with stabilization in 2011.

Our net charge-offs in 2007, 2008, and 2009 were \$24.7 million (0.98% loss rate), \$58.5 million (2.30% loss rate), and \$79.5 million (3.28% loss rate), respectively. We project net charge-offs to be approximately \$63.2 million (3.05% loss rate) in 2010 and \$46.9 million (2.46% loss rate) in 2011.

In developing our net charge-off projections for 2010 and 2011, we followed a methodology that predicates commercial loss projections on a probability of default (PD) and loss given default (LGD) based on our actual historical experience during the last 12 months applied against March 31, 2010 loan balances. Another component of our commercial loan loss forecast methodology is the inclusion of an adjustment factor that assumes further declines in the Michigan commercial real estate market. We assume stabilization of commercial real estate values and default rates in Michigan in 2011.

Our retail loan loss forecast for 2010 and 2011 was developed based on a segmentation analysis of the portfolio by product type and updated FICO scores reflecting retail loan balances as of March 31, 2010. We developed our retail loss forecast over the next 36 months utilizing both default tables for FICO scores and our actual recent historical loss rates.

At the end of 2009, our allowance for loan and lease losses amounted to \$81.7 million (3.55% of total loans), compared to \$57.9 million (2.35% of total loans) for 2008 and \$45.3 million (1.80% of total loans) in 2007. Our forecasts anticipate our allowance for loan and lease losses to be approximately \$74.4 million (3.87% of total loans) at end of 2010 and \$61.8 million (3.25% of total loans) at the end of 2011. We expect our allowance, compared to total loans, to decrease in percentage terms in 2011 reflecting our expectations of a more normalized credit environment in Michigan in 2011, with stabilization in real estate values, no further increase in default levels, and a seasoning of our legacy portfolios.

Our Projected Mepco Counterparty Expenses

In addition to expected provision expenses for loan losses, we expect to incur additional expenses at Mepco related to our counterparty exposure. We incurred \$39.5 million of aggregate counterparty expenses in 2009 and the first half of 2010. Taking into account various factors, including those described above under Mepco Finance Corporation, and current assumptions that we believe are reasonable, including those described above under Our Projected Earnings, we currently project to incur additional expenses of \$10.7 million from July 1, 2010 through December 31, 2011.

Corporate Information

Our principal executive offices are located at 230 West Main Street, Ionia, Michigan 48846, and our telephone number at that address is (616) 527-5820.

Our common stock trades on The NASDAQ Global Select Market under the ticker symbol IBCPD.

The Offering

Common stock offered [] shares ([] shares if the underwriters exercise their over-allotment option in full).

Common stock outstanding after the offering^{(1), (2)} [] shares ([] shares if the underwriters exercise their over-allotment option in full).

Net proceeds Our estimated net proceeds from this offering are approximately \$103 million, or approximately \$118.5 million if the underwriters exercise their over-allotment option in full, after deducting the underwriting discounts and commissions and other estimated expenses of this offering.

Use of proceeds We intend to contribute all or substantially all of the net proceeds from this offering to our bank to strengthen its regulatory capital ratios. We expect to use any remaining net proceeds for general working capital purposes.

No dividends on common stock We are not currently paying any cash dividends on our common stock and our ability to pay cash dividends in the near term is significantly restricted by the factors described below. See Dividend Policy below for more information.

Market trading Our common stock is currently traded on the Nasdaq Global Select Market under the symbol IBCPD. The last reported closing price of our common stock on September 10, 2010, the last trading day prior to the date of this prospectus, was \$1.87 per share.

As noted above, our common stock is currently listed on the Nasdaq Global Select Market. However, on June 23, 2010, we received a letter from The Nasdaq Stock Market notifying us that we no longer meet Nasdaq's continued listing requirements under Listing Rule 5450(a)(1) because the bid price for our common stock had closed below \$1.00 per share for 30 consecutive business days. We have until December 20, 2010 to demonstrate compliance with this bid price rule by maintaining a minimum closing bid price of at least \$1.00 for a minimum of 10 consecutive business days. If we are unable to establish compliance with the bid price rule within such time period, our common stock will be subject to delisting from the Nasdaq Global Select Market. However, in that event, we may be eligible for an additional grace period by transferring our common stock listing from the Nasdaq Global Select Market to the Nasdaq Capital Market. This would require us to meet the initial listing criteria of the Nasdaq Capital Market, other than with respect to the minimum closing bid price requirement. If we are then permitted to transfer our listing to the Nasdaq Capital Market, we expect we would be granted an additional 180 calendar day period in which to demonstrate compliance with the minimum bid price rule. On April 27, 2010, our shareholders approved a reverse stock split. We effected this reverse stock split on August 31, 2010, pursuant to which each ten shares of our common stock issued and outstanding immediately prior to the reverse stock split was converted into one share of our common stock. As a result, we anticipate that we will regain compliance with the bid price rule discussed above; however, there is no assurance the price will be maintained at a level necessary for us to meet this bid price rule. Please see Risk Factors below.

Risk factors

See Risk Factors beginning on page 26 and other information included in this prospectus for a discussion of factors you should consider before investing in our common stock.

- (1) The number of our shares outstanding immediately after the closing of this offering is based on 7,513,348 shares of our common stock outstanding as of September 1, 2010.

- (2) Unless otherwise indicated, the number of shares of common stock stated to be outstanding in this prospectus excludes (a) [] shares issuable upon exercise of the underwriters over-allotment option, (b) 56,233 shares of common stock issuable upon exercise of outstanding stock options as of September 1, 2010 (with a weighted average exercise price of \$42.75 per share), (c) 92,836 shares issuable pursuant to potential future awards under

our equity
compensation
plans,
(d) 346,154
shares issuable
upon exercise of
the amended
and restated
Warrant (as
such number
may be adjusted
pursuant to the
terms of the
amended and
restated
Warrant) held
by the Treasury,
and (e) all
shares issuable
upon conversion
of our Series B
Convertible
Preferred Stock
held by the
Treasury.

SELECTED FINANCIAL DATA

The following tables set forth selected consolidated financial data for us at and for each of the years in the five-year period ended December 31, 2009 and at and for the six-month periods ended June 30, 2010 and 2009, as adjusted for the 1-for-10 reverse stock split which occurred on August 31, 2010.

The selected financial data as of and for the years ended December 31, 2009, 2008 and 2007, has been derived from our audited financial statements included in this prospectus beginning on page F-42. The selected financial data as of and for the years ended December 31, 2006 and 2005 has been derived from our audited financial statements included in our annual report on Form 10-K for the year ended December 31, 2006.

The selected financial data as of and for the six months ended June 30, 2010 and 2009 has been derived from our unaudited interim financial statements included in this prospectus beginning on page F-2. In the opinion of our management, these financial statements reflect all necessary adjustments (consisting only of normal recurring adjustments) for a fair presentation of the data for those periods. Historical results are not necessarily indicative of future results and the results for the six months ended June 30, 2010 are not necessarily indicative of our expected results for the full year ending December 31, 2010 or any other period.

You should read this information in conjunction with our consolidated financial statements and related notes beginning on page F-2 below, from which this information is derived.

	6-Months Ended		2009	Year Ended December 31,			2005
	June 30,	2009		2008	2007	2006	
(\$ in 000 s, except per share amounts)	(Unaudited)			(Audited)			
SUMMARY OF OPERATIONS							
Interest income	\$ 79,736	\$ 95,709	\$ 189,056	\$ 203,736	\$ 223,254	\$ 216,895	\$ 193,035
Interest expense	21,134	25,843	50,533	73,587	102,663	93,698	63,099
Net interest income	58,602	69,866	138,523	130,149	120,591	123,197	129,936
Provision for loan losses	29,694	55,783	103,318	71,113	43,105	16,283	7,832
Net gains (losses) on securities	1,628	3,666	3,744	(14,961)	(705)	171	1,484
Other non-interest income	39,703	28,923	54,915	44,682	47,850	44,679	41,342
Non-interest expenses	76,300	71,096	187,301	177,358	115,779	106,277	101,759
Income (loss) from continuing operations before income tax	(6,061)	(24,424)	(93,437)	(88,601)	8,852	45,487	63,171
Income tax expense (benefit)	(108)	(666)	(3,210)	3,063	(1,103)	11,662	17,466
Income (loss) from continuing operations	(5,953)	(23,758)	(90,227)	(91,664)	9,955	33,825	45,705
Discontinued operations, net of tax					402	(622)	1,207
Net income (loss)	(5,953)	(23,758)	(90,227)	(91,664)	10,357	33,203	46,912
Preferred dividends and discount accretion	2,190	2,150	4,301	215			
Net income (loss) applicable to common stock	\$ (8,143)	\$ (25,908)	\$ (94,528)	\$ (91,879)	\$ 10,357	\$ 33,203	\$ 46,912

PER COMMON SHARE DATA(1)

Income (loss) per common share from continuing operations								
Basic	\$ (3.10)	\$ (10.93)	\$ (39.60)	\$ (39.98)	\$ 4.39	\$ 14.77	\$ 19.58	
Diluted	(3.10)	(10.93)	(39.60)	(39.98)	4.35	14.53	19.21	
Net income (loss) per common share								
Basic	\$ (3.10)	\$ (10.93)	\$ (39.60)	\$ (39.98)	\$ 4.57	\$ 14.50	\$ 20.10	
Diluted	(3.10)	(10.93)	(39.60)	(39.98)	4.53	14.27	19.71	
Cash dividends declared	0.00	0.20	0.30	1.40	8.40	7.81	7.07	
Book value	7.88	44.29	16.94	54.93	106.19	112.91	107.52	

24

	6-Months Ended June 30,		Year Ended December 31,				2005
	2010 (Unaudited)	2009 (Unaudited)	2009	2008	2007 (Audited)	2006	
SELECTED BALANCES							
Assets	\$ 2,737,161	\$ 2,976,629	\$ 2,965,364	\$ 2,956,245	\$ 3,247,516	\$ 3,406,390	\$ 3,348,7
Liabilities	2,032,973	2,441,967	2,299,372	2,459,529	2,518,330	2,459,887	2,365,1
Provision for loan losses	75,606	65,271	81,717	57,900	45,294	26,879	22,4
Deposits	2,377,151	2,368,924	2,565,768	2,066,479	2,505,127	2,602,791	2,474,2
Shareholders' equity	129,672	175,236	109,861	194,877	240,502	258,167	248,2
Short-term debt FHLB advances	98,275	210,616	94,382	314,214	261,509	63,272	81,5
Subordinated debentures	50,175	92,888	92,888	92,888	92,888	64,197	64,1
SELECTED RATIOS							
Interest income to average interest earning assets	4.41%	5.10%	5.00%	4.48%	4.26%	4.41%	4.
Income (loss) from continuing operations to(2)							
to average common equity	(57.53)	(44.24)	(90.72)	(39.01)	3.96	13.06	18.
to average assets	(0.57)	(1.75)	(3.17)	(2.88)	0.31	0.99	1.
Income (loss) to(2)							
to average common equity	(57.53)	(44.24)	(90.72)	(39.01)	4.12	12.82	19.
to average assets	(0.57)	(1.75)	(3.17)	(2.88)	0.32	0.97	1.
Book value of shareholders' equity to average assets	3.40	6.26	5.80	7.50	7.72	7.60	7.
Book value of common stock to average assets	6.41	7.72	5.27	8.61	7.44	7.62	7.
Book value of performing loans to portfolio loans	4.16	4.43	4.78	5.09	3.07	1.59	0.

(1) Per share data has been adjusted for 5% stock dividends in 2006 and 2005 and for the 1-for-10 reverse stock split which occurred on August 31, 2010.

(2) These amounts are calculated using income (loss) from continuing operations applicable to common stock and net income

(loss) applicable
to common
stock.

RISK FACTORS

An investment in our common stock involves risks. You should carefully consider all of the information contained in this prospectus, including the risks described below, before investing in our common stock. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment. The risk factors described in this section, as well as any cautionary language in this prospectus, provide examples of risks, uncertainties, and events that could have a material adverse effect on our business, including our operating results and financial condition. This prospectus also contains forward-looking statements that involve risks and uncertainties. These risks could cause our actual results to differ materially from the expectations that we describe in our forward-looking statements. See Forward-Looking Statements.

RISKS RELATED TO OUR BUSINESS

Our results of operations, financial condition, and business may be materially and adversely affected if we are unable to successfully implement our Capital Plan.

Our Capital Plan, which is described in more detail under Capital Plan and This Offering below, contemplates three primary initiatives that have been undertaken in order to increase our common equity capital, decrease our expenses, and enable us to better withstand and respond to current market conditions and the potential for worsening market conditions. Those three initiatives are the offer to exchange our common stock for our outstanding trust preferred securities, a conversion of the preferred stock held by the Treasury into shares of our common stock, and a public offering of our common stock for cash as described in this prospectus. We cannot be sure we will be able to successfully execute on the public offering of our common stock in a timely manner or at all. The successful implementation of our Capital Plan is, in many respects, largely out of our control as it primarily depends on our success in this offering, which depends on factors such as the stability of the financial markets, other macro economic conditions, and investors' perception of the ability of the Michigan economy to continue to recover from the current recession.

If we are unable to achieve the minimum capital ratios set forth in our Capital Plan in the near future, it would likely materially and adversely affect our business, financial condition, and the value of our securities. An inability to improve our capital position would make it very difficult for us to withstand continued losses as a result of continued economic difficulties in Michigan and other factors, as described elsewhere in this Risk Factors section.

In addition, we believe that if we are unable to achieve the minimum capital ratios set forth in our Capital Plan as a result of our inability to raise sufficient capital in this offering and if our financial condition and performance otherwise fail to improve significantly, it is likely our bank's capital will fall below the levels necessary to remain well-capitalized under federal regulatory standards during 2010. In that case, our primary bank regulators may impose regulatory restrictions and requirements on us through a regulatory enforcement action. If our bank fails to remain well-capitalized under federal regulatory standards, it will be prohibited from accepting or renewing brokered deposits without the prior consent of the FDIC, which would likely have a material adverse impact on our business and financial condition. If our regulators take enforcement action against us, it would likely increase our expenses and could limit our business operations, as described under Capital Plan and This Offering below. There could be other expenses associated with a continued deterioration of our capital, such as increased deposit insurance premiums payable to the FDIC.

Because of our financial condition at March 31, 2010, we received a letter from Fannie Mae in May 2010 advising us that we were in breach of our selling and servicing contract with Fannie Mae. The letter states that if this breach is not remedied as evidenced by our call report as of June 30, 2010, Fannie Mae will suspend our servicing contract. The suspension of our contract with Fannie Mae could have a material adverse impact on our financial condition and results of operations. While our bank remains well-capitalized as of June 30, 2010, the financial condition underlying the May 2010 letter has not been remedied and we have not received further correspondence from Fannie Mae. Thus, this matter remains unresolved and the risk exists that Fannie Mae may require us to very quickly sell or transfer mortgage servicing rights to a third party or unilaterally strip us of such servicing rights if we cannot complete an approved transfer. Depending on the terms of any such transaction, this forced sale or transfer of such mortgage loan servicing rights could have a material adverse impact on our financial condition and future earnings prospects.

Although we have not received any notice from Freddie Mac similar to the notice we received from Fannie Mae, a

similar type of action could be taken by Freddie Mac.

Additional restrictions would make it increasingly difficult for us to withstand the current economic conditions, any continued deterioration in our loan portfolio, or any additional charges related to estimated potential losses for Mepco from vehicle service contract counterparty contingencies. We could then be required to engage in a sale or other transaction with a third party or our bank could be placed into receivership by bank regulators. Any such event could be expected to result in a loss of the entire value of our outstanding shares of common stock, including any common stock issued in this offering, and it could also result in a loss of the entire value of our outstanding trust preferred securities and preferred stock.

We may not achieve results similar to the financial projections contained in this prospectus.

This prospectus contains various projections and related assumptions regarding our future financial performance and condition. These projections and assumptions were based on information about circumstances and conditions existing as of the date of this prospectus. The projections and estimated financial results are based on estimates and assumptions that are inherently uncertain and, though considered reasonable by us, are subject to significant business, economic, and competitive uncertainties and contingencies, all of which are difficult to predict and many of which are beyond our control. Accordingly, there can be no assurance that the projected results will be realized or that actual results will not be significantly different than projected. We do not intend to update the projections. Neither we nor any other person or entity assumes any responsibility for the accuracy or validity of the projections, as the projections are not, and should not be taken as, a guarantee of our future financial performance or condition.

We have credit risk inherent in our asset portfolios, and our allowance for loan losses may not be sufficient to cover actual loan losses, despite analyses that have been conducted (both internally and externally by independent third parties) to assess the adequacy of our allowance.

Our loan customers may not repay their loans according to their respective terms, and the collateral securing the payment of these loans may be insufficient to cover any losses we may incur. We have experienced and may continue to experience significant credit losses which could have a material adverse effect on our operating results. We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. Non-performing loans amounted to \$109.9 million, \$98.3 million, and \$84.5 million at December 31, 2009, March 31, 2010, and June 30, 2010, respectively. Our allowance coverage ratio was 74.35%, 77.48%, and 89.46% at December 31, 2009, March 31, 2010, and June 30, 2010, respectively. In determining the size of the allowance for loan losses, we rely on our experience and our evaluation of current economic conditions. If our assumptions or judgments prove to be incorrect, our current allowance for loan losses may not be sufficient to cover certain loan losses inherent in our loan portfolio, and adjustments may be necessary to account for different economic conditions or adverse developments in our loan portfolio. Material additions to our allowance would adversely impact our operating results. In addition, federal and state regulators periodically review our allowance for loan losses and may require us to increase our provision for loan losses or recognize additional loan charge-offs. Any increase in our allowance for loan losses or loan charge-offs required by these regulatory agencies would have a material adverse effect on our results of operations and financial condition.

We have performed internal stress testing of our loan portfolio and resulting capital position at March 31, 2010, using the same methodologies as used by the Federal Reserve in the Supervisory Capital Assessment Program (SCAP). We performed the SCAP test based on our December 2008 loan portfolio and took into account actual losses/charge-offs during 2009 and first quarter 2010. We also engaged independent third parties to perform a stress test on each of our commercial and retail loan portfolios. See the discussions of these analyses under Summary Recent Credit Reviews in Advance of this Offering above for more details.

Although we have performed internal and external testing of our loan portfolio to help ensure the adequacy of our allowance for loan losses, if the assumptions or judgments used in these analyses prove to be incorrect, our current allowance for loan losses may not be sufficient to cover loan losses inherent in our loan portfolio. Material additions to our allowance would adversely impact our operating results. In addition, federal and state regulators periodically review our allowance for loan losses and may require us to increase our provision for loan losses or recognize additional loan charge-offs, notwithstanding any internal or external analysis that has been performed.

Our business has been and may continue to be adversely affected by current conditions in the financial markets and economic conditions generally, and particularly by economic conditions in Michigan.

Our success depends to a great extent upon the general economic conditions in Michigan's lower peninsula. We have in general experienced a slowing economy in Michigan since 2001. Unlike larger banks that are more geographically diversified, we provide banking services to customers primarily in Michigan's lower peninsula. Our loan portfolio, the ability of the borrowers to repay these loans, and the value of the collateral securing these loans will be impacted by local economic conditions. The economic difficulties faced in Michigan have had and may continue to have many adverse consequences, including the following:

Loan delinquencies may increase;

Problem assets and foreclosures may increase;

Demand for our products and services may decline; and

Collateral for our loans may decline in value, in turn reducing customers' borrowing power and reducing the value of assets and collateral associated with existing loans.

Additionally, the overall capital and credit markets have experienced unprecedented levels of volatility and disruption since the start of the U.S. recession. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers' underlying financial strength. As a consequence of the U.S. recession, business activity across a wide range of industries

faces serious difficulties due to the lack of consumer spending and the extreme lack of liquidity in the global credit markets. Unemployment has also increased significantly and may continue to increase. In particular, according to data published by the federal Bureau of Labor Statistics, Michigan's unemployment rate of 13.1% as of July 2010, on a seasonally-adjusted basis, is the second highest among all states.

While we believe we have started to see some positive trends in the Michigan economy (as described under Summary above), the general business environment has continued to have an overall adverse effect on our business during the past year. If conditions do not show some meaningful and sustainable improvement, our business, financial condition, and results of operations will likely continue to be adversely affected by economic conditions.

Current market developments, particularly in real estate markets, may adversely affect our industry, business and results of operations.

Dramatic declines in the housing market in recent years, with falling home prices and increasing foreclosures and unemployment, have resulted in, and may continue to result in, significant write-downs of asset values by us and other financial institutions. These write-downs have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions and, in some cases, to fail. As a result of these conditions, many lenders and institutional investors have reduced, and in some cases ceased to provide, funding to borrowers including financial institutions.

Although we believe the Michigan economy has shown signs of stabilization recently (as described under Summary above), it is possible conditions will not stabilize or recover at or even close to the pace expected.

This market turmoil and tightening of credit have led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility, and widespread reduction of business activity generally. The resulting lack of available credit, lack of confidence in the financial sector, increased volatility in the financial markets, and reduced business activity could materially and adversely affect our business, financial condition and results of operations.

Further negative market developments may continue to negatively affect consumer confidence levels and may continue to contribute to increases in delinquencies and default rates, which may impact our charge-offs and provisions for credit losses. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and others in the financial services industry.

Events in the vehicle service contract industry over the past year have increased our credit risk and reputation risk and could expose us to further significant losses.

One of our subsidiaries, Mepco, is engaged in the business of acquiring and servicing payment plans for consumers who purchase vehicle service contracts and similar products. The receivables generated in this business involve a different, and generally higher, level of risk of delinquency or collection than generally associated with the loan portfolios of our bank. Upon cancellation of the payment plans acquired by Mepco (whether due to voluntary cancellation by the consumer or non-payment), the third party entities that provide the service contracts or other products to consumers become obligated to refund Mepco the unearned portion of the sales price previously funded by Mepco. The refund obligations of these counterparties are not fully secured.

In addition, several of these providers, including the counterparty described in the next risk factor below and other companies from which Mepco has purchased payment plans, have been sued or are under investigation for alleged violations of telemarketing laws and other consumer protection laws. The actions have been brought primarily by state attorneys general and the Federal Trade Commission (FTC) but there have also been class action and other private lawsuits filed. In some cases, the companies have been placed into receivership, filed bankruptcy, or discontinued their business. In addition, the allegations, particularly those relating to blatantly abusive telemarketing practices by a relatively small number of marketers, have resulted in a significant amount of negative publicity that has adversely affected and may in the future continue to adversely affect sales and customer cancellations of purchased products throughout the industry, which have already been negatively impacted by the economic recession. It is possible these events could also cause federal or state lawmakers to enact legislation to further regulate the industry.

These events have had and may continue to have an adverse impact on Mepco in several ways. First, we face increased risk with respect to certain counterparties defaulting in their contractual obligations to Mepco which could result in additional charges for losses if these counterparties go out of business. In 2009 and in the first half of 2010,

we recorded \$31.2 million and \$8.3 million of charges, respectively, related to estimated potential losses for vehicle service contract counterparty contingencies. We may incur similar charges in the future. In addition to these potential losses, the recent events within the vehicle service contract industry have negatively affected sales and customer cancellations, which has had and is expected to continue to have a negative impact on the profitability of Mepco's business. Largely as a result of these events, at the end of 2009, we wrote down all of the \$16.7 million of goodwill associated with Mepco that was being carried on our balance sheet. In addition, if any federal or state investigation is expanded to include finance companies such as Mepco, Mepco will face additional legal and other expenses in connection with any such investigation. An increased level of private actions in which Mepco is named as a defendant will also cause Mepco to incur additional legal expenses as well as potential liability. Finally, Mepco has incurred and will likely

continue to incur additional legal and other expenses, in general, in dealing with these industry problems, including efforts to collect amounts owed to Mepco by its counterparties.

Mepco has significant exposure to a single counterparty that recently filed bankruptcy. The charges we have taken for expected losses related to the failure of this counterparty have had a material adverse effect on our financial condition and results of operations. If actual losses exceed the charges we have taken, we may incur additional losses that could be material.

Approximately 33% of Mepco's current outstanding payment plans as of June 30, 2010 were purchased from a single counterparty. Beginning in the second half of 2009, this counterparty experienced decreased sales (and ceased all new sales in December 2009) and significantly increased levels of customer cancellations. Customer cancellations trigger an obligation of this counterparty to repay us the unearned portion of the sales price for the payment plan previously advanced by us to this counterparty. In addition, this counterparty is subject to a multi-state attorney general investigation regarding certain of its business practices and multiple civil lawsuits. These events have increased costs for this counterparty, putting further pressure on its cash flow and profitability. This counterparty filed for bankruptcy on March 1, 2010.

Mepco is actively working to reduce its credit exposure to this counterparty. The amount of payment plan receivables (formerly referred to as finance receivables) purchased from this counterparty and outstanding at June 30, 2010 totaled approximately \$93.2 million (compared to approximately \$147.4 million at March 31, 2010, and \$206.1 million at December 31, 2009). In addition, as of June 30, 2010, this counterparty owed Mepco \$38.0 million for previously cancelled payment plans. The bankruptcy filing by this counterparty is likely to lead to substantial potential losses as this entity will not be in a position to honor its obligations to Mepco for previously cancelled payment plans and outstanding payment plans that cancel prior to payment in full. Mepco will seek to recover amounts owed by this counterparty from various co-obligors and guarantors and through the liquidation of certain collateral held by Mepco. However, we are not certain as to the amount of any such recoveries. In 2009, Mepco recorded an aggregate \$19.0 million expense (as part of vehicle service contract counterparty contingencies expense that is included in non-interest expense) to establish a reserve for losses related to this counterparty. In 2010, this reserve was increased by approximately \$1.5 million to \$20.5 million as of June 30, 2010 due primarily to actual payment plan cancellation rates being slightly higher than what was originally projected. In calculating the amount of the reserve in 2009, we took into account the significant likelihood that this counterparty would file for bankruptcy protection. As a result, we currently do not expect to materially increase the amount of our reserve solely as a result of the bankruptcy filing. However, Mepco has committed to provide financing to this counterparty while it is in bankruptcy of up to an aggregate of approximately \$4 million. This was done as part of Mepco's overall efforts to minimize the loss associated with this counterparty. At June 30, 2010, approximately \$2.8 million of the \$4 million commitment had been advanced. We believe the orderly wind-down of this counterparty's business is critical as it allows this counterparty to continue providing customer service to consumers to whom it sold vehicle service contracts. As described in the following risk factor, there is a risk that the reserves we have established related to the failure of this counterparty will not be sufficient to absorb the actual losses we may incur.

The assumptions we make in calculating estimated potential losses for Mepco may be inaccurate, which could lead to losses that are materially greater than the charges we have taken to date.

We make a number of key assumptions in calculating the estimated potential losses for Mepco, including the likelihood that a counterparty could discontinue its business operations, the cancellation rates for outstanding payment plans, the value of and our ability to collect any collateral securing the amounts owed to Mepco upon cancellation of outstanding payment plans, and our ability to collect such amounts from other counterparties obligated to Mepco. It is only within the approximately past 12 to 18 months that events have occurred that have led to a significant increase in vehicle service contract counterparty contingencies expense. The aggregate amount of vehicle service contract counterparty contingencies expense recorded in past years has grown from \$0 in 2007, to \$1.0 million in 2008, to \$31.2 million in 2009 (and was \$8.3 million during the first half of 2010). As a result, Mepco does not have much historical data to draw from in making the assumptions necessary to predict probable incurred losses (such as the ability to successfully recover from service contract administrators amounts funded by Mepco to the service contract seller). If actual cancellation rates are higher than we estimated or if actual counterparty repayments are less than we

estimated, the amount of our reserves may be insufficient to cover our actual losses, and the additional losses we incur could be significant. Moreover, we expect we will be forced to bring suit against several counterparties in order to collect amounts owed to Mepco (and, in fact, have brought lawsuits against two counterparties to date), which adds further uncertainty to our assumptions. These assumptions are very difficult to make, and actual events could be materially different from any one or more of our assumptions. In that case, we may incur additional, and possibly material, losses in excess of the charges we have taken.

Mepco has historically contributed a meaningful amount of profit to our consolidated results of operations, but we expect the size of its business to shrink significantly in 2010 and beyond.

For 2008 and 2007, Mepco had net income of \$10.7 million and \$5.5 million, respectively. With the counterparty losses experienced by Mepco late in 2009 (including those related to the counterparty described above) and a \$16.7 million goodwill impairment charge, Mepco incurred an \$11.7 million loss in 2009. For the first half of 2010, Mepco reported net income of \$1.1 million.

As of June 30, 2010, the net payment plan receivables held by Mepco represented approximately 10.4% of our consolidated assets (down from 13.7% at December 31, 2009 and as high as 15.0% at July 31, 2009). As a result of the loss of business with the counterparty described above

as well as our desire to reduce payment plan receivables as a percentage of total assets, we expect Mepco's total earning assets to decrease by approximately 40% in 2010 over the 2009 year-end level. As a result, the reduction in the size of Mepco's business will adversely affect our financial results as compared to our historical results and make it more difficult for us to be profitable on a consolidated basis in the near future. Historically, Mepco has had a significant positive impact on our net interest margin. Without Mepco, our net interest margin would have been lower by approximately 0.65%, 1.40%, and 1.21% in 2008, 2009, and the first half of 2010, respectively. As the size of Mepco's business shrinks, it will have a negative impact on our net interest margin. We are considering strategic options for Mepco, which could include a sale or wind-down of this business.

Mepco's business is highly specialized and presents unique operational and internal control challenges.

Mepco faces unique operational and internal control challenges due to the relatively rapid turnover of its portfolio and high volume of new payment plans. Mepco's business is highly specialized, and its success depends largely on the continued services of its executives and other key employees familiar with its business. In addition, because financing in this market is conducted primarily through relationships with unaffiliated automobile service contract direct marketers and administrators and because the customers are located nationwide, risk management and general supervisory oversight is generally more difficult than in our bank. The risk of third party fraud is also higher as a result of these factors. Acts of fraud are difficult to detect and deter, and we cannot assure investors that the risk management procedures and controls will prevent losses from fraudulent activity. Although we have an internal control system at Mepco, we may be exposed to the risk of material loss in this business.

Our operations may be adversely affected if we are unable to secure adequate funding. Our use of wholesale funding sources exposes us to liquidity risk and potential earnings volatility.

We rely on wholesale funding, including Federal Home Loan Bank borrowings, brokered deposits, and Federal Reserve Bank borrowings, to augment our core deposits to fund our business. As of June 30, 2010, our use of such wholesale funding sources amounted to approximately \$556.2 million or 21.7% of total funding. Because wholesale funding sources are affected by general market conditions, the availability of funding from wholesale lenders may be dependent on the confidence these investors have in our commercial and consumer banking operations. The continued availability to us of these funding sources is uncertain, and brokered deposits may be difficult for us to retain or replace at attractive rates as they mature. Our liquidity will be constrained if we are unable to renew our wholesale funding sources or if adequate financing is not available in the future at acceptable rates of interest or at all. We may not have sufficient liquidity to continue to fund new loans, and we may need to liquidate loans or other assets unexpectedly, in order to repay obligations as they mature.

The constraint on our liquidity would be exacerbated if we were to experience a reduction in our core deposits, and we cannot be sure we will be able to maintain our current level of core deposits. In particular, those deposits that are currently uninsured or those deposits in the TAGP, which is set to expire on December 31, 2010 for participating institutions that have not opted out, may be particularly susceptible to outflow (although the Dodd-Frank Wall Street Reform and Consumer Protection Act extended protection similar to that provided under the TAGP through December 31, 2012 for only non-interest bearing transaction accounts). At June 30, 2010, \$1.417 billion of our deposits (compared to \$1.394 billion at December 31, 2009), were in account types from which the customer could withdraw the funds on demand.

As a result of these liquidity risks, we have increased our level of overnight cash balances in interest-bearing accounts to \$303.3 million at June 30, 2010 from \$223.5 million at December 31, 2009 and \$19.2 million at June 30, 2009. We have also issued longer-term (two to five year) callable brokered CDs and reduced certain secured borrowings (such as from the Federal Reserve) to increase available funding sources. We believe these actions will assist us in meeting our liquidity needs during 2010. However, these actions have had (in the first half of 2010) and are expected to continue to have an adverse impact on our 2010 net interest income and net interest margin. Net interest income totaled \$58.6 million during the first half of 2010, which represents a \$11.3 million or 16.1% decrease from the comparable period in 2009. The decrease in net interest income in 2010 compared to 2009 reflects a 69 basis point decline in our net interest margin as well as a \$84.1 million decrease in average interest-earning assets.

In addition, if we fail to remain well-capitalized under federal regulatory standards, which is likely if we are unable to successfully implement our Capital Plan (as discussed under Capital Plan and This Offering below), we will be

prohibited from accepting or renewing brokered deposits without the prior consent of the FDIC. As of June 30, 2010, we had brokered deposits of approximately \$422.7 million. Approximately \$62.1 million of these brokered deposits mature by June 30, 2011. As a result, any such restrictions on our ability to access brokered deposits is likely to have a material adverse impact on our business and financial condition.

Moreover, we cannot be sure we will be able to maintain our current level of core deposits. Our deposit customers could move their deposits in reaction to media reports about bank failures in general or, particularly, if we are unable to successfully complete our Capital Plan. A reduction in core deposits would increase our need to rely on wholesale funding sources, at a time when our ability to do so may be more restricted, as described above.

Our financial performance will be materially and adversely affected if we are unable to maintain our access to funding or if we are required to rely more heavily on more expensive funding sources. In such case, our net interest income and results of operations would be adversely affected.

Dividends being deferred on our outstanding trust preferred securities and our outstanding preferred stock are accumulating and are expected to continue to increase as we have no current plans to resume such dividend payments at any time in the near future.

We are currently deferring payment of quarterly dividends on our preferred stock held by the Treasury, which pays cumulative dividends quarterly at a rate of 5% per annum through February 14, 2014, and 9% per annum thereafter. In addition, we have exercised our right to defer all quarterly interest payments on the subordinated debentures we issued to our trust subsidiaries. As a result, all quarterly dividends on the related trust preferred securities are also being deferred. We may defer such interest payments for a total of 20 consecutive calendar quarters without causing an event of default under the documents governing these securities. After such period, we must pay all deferred interest and resume quarterly interest payments or we will be in default.

We do not have any current plans to resume dividend payments on our outstanding trust preferred securities or our outstanding preferred stock. If and when either of such payments resume, however, the accrued amounts must be paid and made current. As of June 30, 2010, the amount of these accrued but unpaid dividends on our outstanding trust preferred securities and our outstanding Series B Convertible Preferred Stock was \$2.0 million.

We face uncertainty with respect to legislative efforts by the federal government to help stabilize the U.S. financial system, address problems that caused the recent crisis in the U.S. financial markets, or otherwise regulate the financial services industry.

Beginning in the fourth quarter of 2008, the federal government enacted new laws intended to strengthen and restore confidence in the U.S. financial system. See Business Regulatory Developments below for additional information regarding these developments. There can be no assurance, however, as to the actual impact that such programs will have on the financial markets, including the extreme levels of volatility and limited credit availability currently being experienced. The failure of these and other programs to stabilize the financial markets and a continuation or worsening of depressed financial market conditions could materially and adversely affect our business, financial condition, results of operations, access to credit, or the trading price of our common stock.

In addition, additional legislation or regulations may be adopted in the future that could adversely impact us. For example, on July 21, 2010, the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act, which includes the creation of a new Consumer Financial Protection Bureau with power to promulgate and, with respect to financial institutions with more than \$10 billion in assets, enforce consumer protection laws, the creation of a Financial Stability Oversight Council chaired by the Secretary of the Treasury with authority to identify institutions and practices that might pose a systemic risk, provisions affecting corporate governance and executive compensation of all companies whose securities are registered with the Securities and Exchange Commission, a provision that will broaden the base for FDIC insurance assessments and permanently increase FDIC deposit insurance to \$250,000, a provision under which interchange fees for debit cards of issuers with at least \$10 billion in assets will be set by the Federal Reserve under a restrictive reasonable and proportional cost per transaction standard, a provision that will require bank regulators to set minimum capital levels for bank holding companies that are as strong as those required for their insured depository subsidiaries, subject to a grandfather clause for financial institutions with less than \$15 billion in assets as of December 31, 2009, and new restrictions on how mortgage brokers and loan originators may be compensated. When implemented, these provisions may impact our business operations and may negatively affect our earnings and financial condition by affecting our ability to offer certain products or earn certain fees and by exposing us to increased compliance and other costs. Many aspects of the new law require federal regulatory authorities to issue regulations that have not yet been issued, so the full impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act is not yet known. This legislation as well as other similar federal initiatives could have a material adverse impact on our business.

We have credit risk inherent in our securities portfolio.

We maintain diversified securities portfolios, which include obligations of the Treasury and government-sponsored agencies as well as securities issued by states and political subdivisions, mortgage-backed securities, and asset-backed

securities. We also invest in capital securities, which include preferred stocks and trust preferred securities. We seek to limit credit losses in our securities portfolios by generally purchasing only highly rated securities (rated AA or higher by a major debt rating agency) or by conducting significant due diligence on the issuer for unrated securities.

However, gross unrealized losses on securities available for sale in our portfolio totaled approximately \$6.2 million as of June 30, 2010 (compared to approximately \$10 million as of December 31, 2009). We believe these unrealized losses are temporary in nature and are expected to be recovered within a reasonable time period as we believe we have the ability to hold the securities to maturity or until such time as the unrealized losses reverse. However, we evaluate securities available for sale for other than temporary impairment (OTTI) at least quarterly and more frequently when economic or market concerns warrant such evaluation. Those evaluations may result in OTTI charges to our earnings. In addition to these impairment charges, we may, in the future, experience additional losses in our securities portfolio which may result in charges that could materially adversely affect our results of operations.

Our mortgage-banking revenues are susceptible to substantial variations dependent largely upon factors that we do not control, such as market interest rates.

A portion of our revenues are derived from gains on the sale of real estate mortgage loans. For the first half of 2010 and the year 2009, these gains represented over 3% and over 4% of our total revenues, respectively. These net gains primarily depend on the volume of loans we sell, which in turn depends on our ability to originate real estate mortgage loans and the demand for fixed-rate obligations and other loans that are outside of our established interest-rate risk parameters. 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. Consequently, they can often be a volatile part of our overall revenues.

Fluctuations in interest rates could reduce our profitability.

We realize income primarily from the difference between interest earned on loans and investments and the interest paid on deposits and borrowings. Our interest income and interest expense are affected by general economic conditions and by the policies of regulatory authorities. While we have taken measures intended to manage the risks of operating in a changing interest rate environment, there can be no assurance that these measures will be effective in avoiding undue interest rate risk. We expect that we will periodically experience gaps in the interest rate sensitivities of our assets and liabilities, meaning that either our interest-bearing liabilities will be more sensitive to changes in market interest rates than our interest-earning assets, or vice versa. In either event, if market interest rates should move contrary to our position, this gap will work against us, and our earnings may be negatively affected.

We are unable to predict fluctuations of market interest rates, which are affected by, among other factors, changes in the following:

inflation or deflation rates;

levels of business activity;

recession;

unemployment levels;

money supply;

domestic or foreign events; and

instability in domestic and foreign financial markets.

Changes in accounting standards could impact our reported earnings.

Financial accounting and reporting standards are periodically changed by the Financial Accounting Standards Board (FASB), the SEC, and other regulatory authorities. Such changes affect how we are required to prepare and report our consolidated financial statements. These changes are often hard to predict and may materially impact our reported financial condition and results of operations. In some cases, we may be required to apply a new or revised standard retroactively, resulting in the restatement of prior period financial statements.

In particular, in May 2010, the FASB issued an exposure draft of a proposed accounting standards update that would materially affect the accounting for financial instruments. The proposed accounting changes would force us to use market prices to value almost all of our financial instruments (mark-to-market), including our loan portfolio, and record any changes on our balance sheet. Our loans (other than certain mortgage loans intended for sale into the secondary market) are recorded on our balance sheet at their amortized or historical cost. If these proposed accounting changes are implemented, it would likely have a material adverse effect on our business.

We rely heavily on our management team, and the unexpected loss of key managers may adversely affect our operations and the ability to implement our Capital Plan and business strategies.

The continuity of our operations is influenced strongly by our ability to attract and to retain senior management experienced in banking and financial services. Our ability to retain executive officers and the current management

teams of each of our lines of business will continue to be important to successful implementation of our Capital Plan and our strategies. We do not have employment or non-compete agreements with any of our executives or other key employees. In addition, we face restrictions on our ability to compensate our executives as a result of our participation in the CPP under TARP. Many of our competitors do not face these same restrictions. The unexpected loss of services of any key management personnel, or the inability to recruit and retain qualified personnel in the future, could have a material adverse effect on our business and financial results.

Competition with other financial institutions could adversely affect our profitability.

We face vigorous competition from banks and other financial institutions, including savings banks, finance companies, and credit unions. A number of these banks and other financial institutions have substantially greater resources and lending limits, larger branch systems, and a wider array of banking services. To a limited extent, we also compete with other providers of financial services, such as money market mutual funds, brokerage firms, consumer finance companies, and insurance companies, which are not subject to the same degree of regulation as that

imposed on bank holding companies. As a result, these non-bank competitors may have an advantage over us in providing certain services, and this competition may reduce or limit our margins on banking services, reduce our market share, and adversely affect our results of operations and financial condition.

Even if we are successful in raising capital in this offering, we will face challenges in our ability to achieve future growth in the near term.

Our current capital position has prevented us from pursuing any meaningful growth initiatives, and we have taken actions to shrink our balance sheet. If we are successful in raising at least \$100 million of net proceeds in this offering and otherwise restoring our capital levels in accordance with the targets established in our Capital Plan, we believe we will be well-positioned to take advantage of growth opportunities that strategically make sense for our core banking franchise, particularly opportunities created as a result of competitive entities exiting or reducing their resources in the Michigan market. However, we cannot be sure that these opportunities will exist or that we will have sufficient capital or other resources to effectively pursue them. In addition, other competitors may have the same strategy, which may prevent us from realizing these opportunities or may increase our costs of pursuing these opportunities. These factors and others may impede our ability to effectively deploy capital raised in this offering and achieve growth in the near term.

We operate in a highly regulated environment and may be adversely affected by changes in federal and local laws and regulations.

We are generally subject to extensive regulation, supervision, and examination by federal and state banking authorities. The burden of regulatory compliance has increased under current legislation and banking regulations and is likely to continue to have a significant impact on the financial services industry. Recent legislative and regulatory changes as well as changes in regulatory enforcement policies and capital adequacy guidelines are likely to increase our cost of doing business. In addition, future legislative or regulatory changes could have a substantial impact on us. Additional legislation and regulations may be enacted or adopted in the future that could significantly affect our powers, authority, and operations; increase our costs of doing business; and, as a result, give an advantage to our competitors who may not be subject to similar legislative and regulatory requirements. Further, regulators have significant discretion and power to prevent or remedy unsafe or unsound practices or violations of laws by banks and bank holding companies in the performance of their supervisory and enforcement duties. The exercise of regulatory power may have a negative impact on our results of operations and financial condition.

There have been numerous media reports about bank failures, which we expect will continue as additional banks fail. These reports have created concerns among certain of our customers, particularly those with deposit balances in excess of deposit insurance limits.

We have proactively sought to provide appropriate information to our deposit customers about our organization in order to retain our business and deposit relationships. To date, we have not experienced a meaningful loss of core deposits, nor have we had to offer above market interest rates in order to retain our core deposits. However, we cannot be sure we will continue to be successful in maintaining the majority of our core deposit base. The outflow of significant amounts of deposits could have a material adverse impact on our liquidity and results of operations.

Increases in FDIC insurance premiums may have a material adverse effect on our earnings.

As an FDIC-insured institution, we are required to pay deposit insurance premium assessments to the FDIC. Due to higher levels of bank failures beginning in 2008, the FDIC has taken numerous steps to restore reserve ratios of the deposit insurance fund. Our deposit insurance expense increased substantially in 2009 compared to prior periods, reflecting higher rates and a special assessment of \$1.4 million in the second quarter of 2009. This industry-wide special assessment was equal to 5 basis points on our total assets less our Tier 1 capital. In addition, our balance of total deposits increased during 2009. During 2007, we fully utilized the assessment credits that reduced our expense during that year.

Under the FDIC's risk-based assessment system for deposit insurance premiums, all insured depository institutions are placed into one of four categories and assessed insurance premiums based primarily on their level of capital and supervisory evaluations. Insurance assessments ranged from 0.12% to 0.50% of total deposits for the first quarter 2009 assessment. Effective April 1, 2009, insurance assessments ranged from 0.07% to 0.78%, depending on an institution's risk classification and other factors. As a result, our deposit insurance expense will increase if our financial condition

worsens and our Tier 1 capital continues to deteriorate. The amount of deposit insurance that we are required to pay is also subject to factors outside of our control, including bank failures and regulatory initiatives. Such increases may adversely affect our results of operations.

RISKS RELATED TO OUR EFFORTS TO RAISE CAPITAL

If successful, the initiatives set forth in our Capital Plan will be highly dilutive to our existing common shareholders.

Our Capital Plan contemplates capital raising initiatives that involve the issuance of a significant number of shares of our common stock. You should read Capitalization and Capital Plan and This Offering below for more information. The completion of any of these capital raising

transactions will be highly dilutive to our existing common shareholders and their voting power. The market price of our common stock could decline as a result of the dilutive effect of the capital raising transactions we may enter into or the perception that such transactions could occur.

The capital raising initiatives we are pursuing would result in the Treasury or one or more private investors owning a significant percentage of our stock and having the ability to exert significant influence over our management and operations.

One of the primary capital raising initiatives set forth in our Capital Plan consists of the conversion of the preferred stock held by the Treasury into shares of our common stock. As described under Capital Plan and This Offering below, the Series B Convertible Preferred Stock currently held by the Treasury is convertible into shares of our common stock. Any such conversion is likely to result in the Treasury owning a significant percentage of our outstanding common stock, perhaps over 50%.

Except with respect to certain Designated Matters, Treasury has agreed in the Exchange Agreement to vote all shares of our common stock acquired upon conversion of the Series B Convertible Preferred Stock or upon exercise of the amended and restated Warrant that are beneficially owned by it and its controlled affiliates in the same proportion (for, against or abstain) as all other shares of our common stock are voted. Designated Matters means (i) the election and removal of our directors, (ii) the approval of any merger, consolidation or similar transaction that requires the approval of our shareholders, (iii) the approval of a sale of all or substantially all of our assets or property, (iv) the approval of our dissolution, (v) the approval of any issuance of any of our securities on which our shareholders are entitled to vote, (vi) the approval of any amendment to our organizational documents on which our shareholders are entitled to vote, and (vii) the approval of any other matters reasonably incidental to the foregoing as determined by the Treasury.

It is also possible that one or more investors, other than the Treasury, could end up as the owner of a significant portion of our common stock. This could occur, for example, if the Treasury transfers shares of the Series B Convertible Preferred Stock it holds or, upon conversion of such stock, transfers to a third party the common stock issued upon conversion. It also could occur if one or more large investors makes a significant investment in our common stock in this offering.

Subject to the voting limitations applicable to the Treasury and its controlled affiliates described above, any such significant shareholder could exercise significant influence on matters submitted to our shareholders for approval, including the election of directors. In addition, having a significant shareholder could make future transactions more difficult or even impossible to complete without the support of such shareholder, whose interests may not coincide with interests of smaller shareholders. These possibilities could have an adverse effect on the market price of our common stock.

In addition to the foregoing, the Series B Convertible Preferred Stock we issued to the Treasury contains a provision that automatically increases the size of our board of directors by two persons and allows the Treasury to fill the two new director positions at such time, if any, as dividends payable on the Series B Convertible Preferred Stock have not been paid for an aggregate of six quarterly dividend periods or more, whether or not consecutive. We are currently deferring quarterly dividends on the Series B Convertible Preferred Stock. If we continue to defer dividends each quarter, the Treasury would have the right to appoint these two directors beginning in approximately August 2011. Assuming we are successful in raising capital in this offering, we intend to exercise our right to convert the Series B Convertible Preferred Stock held by the Treasury into shares of our common stock immediately after this offering. However, if we are unable to do so for any reason, this risk of the Treasury having the right to appoint two directors to our board will continue.

We expect that the sale of our common stock in this offering will trigger an ownership change under federal tax law that will negatively affect our ability to utilize net operating loss carryforwards and other deferred tax assets in the future.

As of June 30, 2010, we had a federal net operating loss carryforward of approximately \$38.9 million. Under federal tax law, our ability to utilize this carryforward and other deferred tax assets is limited if we are deemed to experience a change of ownership pursuant to Section 382 of the Internal Revenue Code. This would result in our loss of the benefit of these deferred tax assets. Please see the more detailed discussion of these tax rules under Results of

Operations - Income Tax Expense (Benefit) below.

We will retain broad discretion in using the net proceeds from this offering.

We intend to contribute all or substantially all of the net proceeds from this offering to our bank to strengthen its regulatory capital ratios. We expect to use any remaining net proceeds for general working capital purposes, which may include repaying certain of our funding obligations, and business acquisitions and combinations. Accordingly, our management will retain broad discretion to allocate the net proceeds of this offering. Our management may use the proceeds for corporate purposes that may not increase our market value or make us more profitable. In addition, it may take us some time to effectively deploy the proceeds from this offering. Until the proceeds are effectively deployed, our return on equity and earnings per share may be adversely impacted. Management's failure to use the net proceeds of this offering effectively could have a material adverse effect on our business, financial condition, and results of operations.

RISKS RELATED TO THE MARKET PRICE AND VALUE OF THE COMMON STOCK OFFERED

You may not receive dividends on the shares of common stock you purchase in this offering at any time in the near future.

Holders of our common stock are only entitled to receive such dividends as our board of directors may declare out of funds legally available for such payments. We are currently prohibited from paying any cash dividends on our common stock. Even when such prohibitions end (which we do not expect to occur in the near term, even upon completion of the offering described in this prospectus), there are restrictions on our ability to pay cash dividends that will likely continue to materially limit our ability to pay cash dividends. We cannot provide any assurances of when we may pay cash dividends in the future. Furthermore, our common shareholders are subject to the prior dividend rights of any holders of our preferred stock. See [Dividend Policy](#) below for more information.

The trading price of our common stock may be subject to continued significant fluctuations and volatility.

The market price of our common stock could be subject to significant fluctuations due to, among other things:

actual or anticipated quarterly fluctuations in our operating and financial results, particularly if such results vary from the expectations of management, securities analysts, and investors, including with respect to further loan losses or vehicle service contract counterparty contingencies expenses we may incur;

announcements regarding significant transactions in which we may engage, including this offering and the other initiatives that are part of our Capital Plan;

market assessments regarding such transactions, including the timing, terms, and likelihood of success of this offering;

developments relating to litigation or other proceedings that involve us;

changes or perceived changes in our operations or business prospects;

legislative or regulatory changes affecting our industry generally or our businesses and operations;

the failure of general market and economic conditions to stabilize and recover, particularly with respect to economic conditions in Michigan, and the pace of any such stabilization and recovery;

the possible delisting of our common stock from Nasdaq or perceptions regarding the likelihood of such delisting;

the operating and share price performance of companies that investors consider to be comparable to us;

future offerings by us of debt, preferred stock, or trust preferred securities, each of which would be senior to our common stock upon liquidation and for purposes of dividend distributions;

actions of our current shareholders, including future sales of common stock by existing shareholders and our directors and executive officers; and

other changes in U.S. or global financial markets, economies, and market conditions, such as interest or foreign exchange rates, stock, commodity, credit or asset valuations or volatility.

Stock markets in general, and our common stock in particular, have experienced significant volatility since October 2007 and continue to experience significant price and volume volatility. As a result, the market price of our common stock, which has ranged from \$1.70 per share to \$141.20 per share during this period, as adjusted for the 1-for-10 reverse stock split described below, may continue to be subject to similar market fluctuations that may or may not be related to our operating performance or prospects. Increased volatility could result in a decline in the

market price of our common stock.

In addition, on April 27, 2010, our shareholders approved a reverse stock split. We effected this reverse stock split on August 31, 2010, pursuant to which each ten shares of our common stock issued and outstanding immediately prior to the reverse stock split was converted into one share of our common stock. Such reverse stock split could have a significant effect on the market price of our common stock. The primary objective of the reverse stock split is to raise the per share trading price of the Company's common stock sufficiently above the \$1.00 minimum bid price requirement imposed by Nasdaq listing standards so that our common stock can continue to be listed on the Nasdaq Global Select Market. As a result of the reverse stock split, we anticipate that we will regain compliance with the Nasdaq minimum bid price rule; however, there is no assurance the price will be maintained at a level necessary for us to comply in the long term.

We urge you to obtain current market quotations for our common stock when you consider this offering.

Our common stock trading volumes may not provide adequate liquidity for investors.

Shares of our common stock are listed on the Nasdaq Global Select Market; however, the average daily trading volume in our common stock is less than that of many larger financial services companies. A public trading market having the desired characteristics of depth, liquidity, and orderliness depends on the presence in the marketplace of a sufficient number of willing buyers and sellers of the common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. This capital offering is likely to positively impact the liquidity in our common stock; however, we cannot be sure this expectation will materialize. Given the current daily average trading volume of our common stock, if there is no change in liquidity as a result of this offering, significant sales of our common stock in a brief period of time, or the expectation of these sales, could cause a decline in the price of the stock.

Our common stock could be delisted from Nasdaq.

Our common stock is currently listed on the Nasdaq Global Select Market. However, on June 23, 2010, we received a letter from The Nasdaq Stock Market notifying us that we no longer meet Nasdaq's continued listing requirements under Listing Rule 5450(a)(1) because the bid price for our common stock had closed below \$1.00 per share for 30 consecutive business days. We have until December 20, 2010 to demonstrate compliance with this bid price rule by maintaining a minimum closing bid price of at least \$1.00 for a minimum of 10 consecutive business days. If we are unable to establish compliance with the bid price rule within such time period, our common stock will be subject to delisting from the Nasdaq Global Select Market. However, in that event, we may be eligible for an additional grace period by transferring our common stock listing from the Nasdaq Global Select Market to the Nasdaq Capital Market. This would require us to meet the initial listing criteria of the Nasdaq Capital Market, other than with respect to the minimum closing bid price requirement. If we are then permitted to transfer our listing to the Nasdaq Capital Market, we expect we would be granted an additional 180 calendar day period in which to demonstrate compliance with the minimum bid price rule.

The delisting of our common stock from Nasdaq, whether in connection with the foregoing or as a result of our future inability to meet any listing standards, would have an adverse effect on the liquidity of our common stock and, as a result, the market price of our common stock might become more volatile. Even the perception that our common stock may be delisted could affect its liquidity and market price. Delisting could also make it more difficult to raise additional capital.

If our common stock is delisted from the Nasdaq, it is likely that quotes for our common stock would continue to be available on the OTC Bulletin Board or on the Pink Sheets. However, these alternatives are generally considered to be less efficient markets and it is likely that the liquidity of our common stock as well as our stock price would be adversely impacted as a result.

On April 27, 2010, our shareholders approved a reverse stock split. We effected this reverse stock split on August 31, 2010, pursuant to which each ten shares of our common stock issued and outstanding immediately prior to the reverse stock split was converted into one share of our common stock. Such reverse stock split could have a significant effect on the market price of our common stock. The primary objective of the reverse stock split is to raise the per share trading price of the Company's common stock sufficiently above the \$1.00 minimum bid price requirement imposed by Nasdaq listing standards so that our common stock can continue to be listed on the Nasdaq Global Select Market.

As a result of the reverse stock split, we anticipate that we will regain compliance with the Nasdaq minimum bid price rule; however, there is no assurance the price will be maintained at a level necessary for us to comply in the long term.

Any future offerings of debt, preferred stock, or trust preferred securities, each of which would be senior to our common stock upon liquidation and for purposes of dividend distributions, and any future equity offerings may adversely affect the market price of our common stock.

We may attempt to increase our capital resources, or we or our bank could be forced by federal and state bank regulators to raise additional capital, by making additional offerings of debt or preferred equity securities, including medium-term notes, trust preferred securities, senior or subordinated notes and preferred stock. Upon liquidation, holders of our debt securities and shares of preferred stock and lenders with respect to other borrowings will receive distributions of our available assets prior to the holders of our outstanding shares of common stock. Additional equity

offerings may dilute the holdings of our existing shareholders or reduce the market price of our common stock, or both. Holders of our common stock are not entitled to preemptive rights or other protections against dilution. Our board of directors is authorized to issue one or more classes or series of preferred stock from time to time without any action on the part of our shareholders. Our board of directors also has the power, without shareholder approval, to set the terms of any such classes or series of preferred stock that may be issued, including voting rights, dividend rights, and preferences over our common stock with respect to dividends or upon our dissolution, winding-up and liquidation and other terms. Therefore, if we issue preferred stock in the future that has a preference over our common stock with respect to the payment of dividends or upon our liquidation, dissolution, or winding up, or if we issue preferred stock with voting rights that dilute the voting power of our common stock, the rights of holders of our common stock or the market price of our common stock could be adversely affected.

Our Articles of Incorporation as well as certain banking laws may have an anti-takeover effect.

Provisions of our Articles of Incorporation and certain federal banking laws, including regulatory approval requirements, could make it more difficult for a third party to acquire us, even if doing so would be perceived to be beneficial to our shareholders. The combination of these provisions may inhibit a non-negotiated merger or other business combination, which, in turn, could adversely affect the market price of our common stock.

Investors could become subject to regulatory restrictions upon ownership of our common stock.

Under the federal Change in Bank Control Act, a person may be required to obtain prior approval from the Federal Reserve before acquiring the power to direct or indirectly control our management, operations, or policy or before acquiring 10% or more of our common stock. As a result, potential investors who seek to participate in this offering should evaluate whether they could become subject to the approval and other requirements of this federal statute.

NON-GAAP FINANCIAL MEASURES

The following table presents computations of certain financial measures related to tangible common equity and Tier 1 common equity. The tangible common equity ratio has become a focus of some investors, and we believe this ratio may assist investors in analyzing our capital position absent the effects of intangible assets and preferred stock. Traditionally, the Federal Reserve and other banking regulators have assessed a bank's capital adequacy based on Tier 1 capital, the calculation of which is codified in federal banking regulations. More recently, the banking regulators have also supplemented their assessment of the capital adequacy of a bank based on a variation of Tier 1 capital, known as Tier 1 common equity. Because tangible common equity and Tier 1 common equity are not formally defined by generally accepted accounting principles (GAAP) or codified in the federal banking regulations, these measures are considered to be non-GAAP financial measures. Because analysts and banking regulators may assess our capital adequacy using tangible common equity and Tier 1 common equity, we believe it is useful to provide investors the ability to assess our capital adequacy on these same bases.

Tier 1 common equity is often expressed as a percentage of net risk-weighted assets. Under the risk-based capital framework, a bank's balance sheet assets and credit equivalent amounts of off-balance sheet items are assigned to one of four broad risk categories. The aggregated dollar amount in each category is then multiplied by the risk weight assigned to that category. The resulting weighted values from each of the four categories are added together and this sum is the risk-weighted assets total that, as adjusted, comprises the denominator of certain risk-based capital ratios. Tier 1 capital is then divided by this denominator (net risk-weighted assets) to determine the Tier 1 capital ratio. Adjustments are made to Tier 1 capital to arrive at Tier 1 common equity. Tier 1 common equity is also divided by net risk-weighted assets to determine the Tier 1 common equity ratio. The amounts disclosed as net risk-weighted assets are calculated consistent with banking regulatory requirements.

Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied, and are not audited. To mitigate these limitations, we have procedures in place to ensure that these measures are calculated using the appropriate GAAP or regulatory components and to ensure that our capital performance is properly reflected to facilitate period-to-period comparisons. Although these non-GAAP financial measures are frequently used by investors in the evaluation of a company, they have limitations as analytical tools, and should not be considered in isolation, or as a substitute for analyses of results as reported under GAAP.

The following table provides reconciliations of the following:

Total assets (GAAP) to tangible assets (non-GAAP)

Total shareholders' equity (GAAP) to tangible common equity (non-GAAP)

Total shareholders' equity (GAAP) to Tier 1 common equity (non-GAAP)

These computations are based on our actual results without giving effect to the potential conversion of our Series B Convertible Preferred Stock into common stock or the offering contemplated by this prospectus.

(\$ in 000 s)	June 30, 2010	2009	2008	December 31, 2007	2006	2005
			(Unaudited)			
TANGIBLE COMMON EQUITY TO TANGIBLE ASSETS						
Total assets (GAAP)	\$ 2,737,161	\$ 2,965,364	\$ 2,956,245	\$ 3,247,516	\$ 3,406,390	\$ 3,348,707
Deduct: Goodwill			16,734	66,754	52,842	55,946
Deduct: Core deposit intangible assets (all other intangibles)	9,615	10,260	12,190	15,262	8,157	10,729
Deduct: Deferred taxes	1,379	691	6,892	18,572	10,597	7,509
Tangible assets (non-GAAP)	\$ 2,726,167	\$ 2,954,413	\$ 2,920,429	\$ 3,146,928	\$ 3,334,794	\$ 3,274,523
Total shareholders equity (GAAP)						
Total shareholders equity (GAAP)	\$ 129,672	\$ 109,861	\$ 194,877	\$ 240,502	\$ 258,167	\$ 248,259
Deduct: Goodwill			16,734	66,754	52,842	55,946
Deduct: Core deposit intangible assets (all other intangibles)	9,615	10,260	12,190	15,262	8,157	10,729
Deduct: Deferred taxes	1,379	691	6,892	18,572	10,597	7,509
Deduct: Preferred stock	70,458	69,157	68,456			
Tangible common equity (non-GAAP)	\$ 48,220	\$ 29,753	\$ 90,605	\$ 139,914	\$ 186,571	\$ 174,075
Tangible common equity to tangible assets ratio (non-GAAP)	1.77%	1.01%	3.10%	4.45%	5.59%	5.32%
TIER 1 COMMON EQUITY						

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Total shareholders equity (GAAP)	\$ 129,672	\$ 109,861	\$ 194,877	\$ 240,502	\$ 258,167	\$ 248,259
Add: Qualifying capital securities	48,001	41,880	72,751	80,309	62,350	62,350
Deduct: Goodwill			16,734	66,754	52,842	55,946
(Add) deduct: Accumulated other comprehensive (loss) income	(14,281)	(15,679)	(23,318)	(339)	3,370	4,297
Deduct: Intangible assets	9,615	10,260	12,190	15,262	8,157	10,729
Deduct: Disallowed servicing assets	1,160	559	1,018			
Deduct: Disallowed deferred tax assets	794					
Deduct: Net unrealized losses on equity securities				3,155		
(Add) deduct: Other	(50)	(101)	(59)	(86)	(139)	(294)
Tier 1 capital (regulatory)	180,435	156,702	261,063	236,065	256,287	239,931
Deduct: Qualifying capital securities	48,001	41,880	72,751	80,309	62,350	62,350
Deduct: Preferred stock	70,458	69,157	68,456			
Tier 1 common equity (non-GAAP)	\$ 61,976	\$ 45,665	\$ 119,856	\$ 155,756	\$ 193,937	\$ 177,581
Net risk-weighted assets (regulatory)	\$ 1,932,655	\$ 2,204,157	\$ 2,365,082	\$ 2,525,594	\$ 2,664,931	\$ 2,578,081
Tier 1 common equity ratio (non-GAAP)	3.21%	2.07%	5.07%	6.17%	7.28%	6.89%

USE OF PROCEEDS

Our estimated net proceeds from this offering are approximately \$103 million, or approximately \$118.5 million if the underwriters exercise their over-allotment option in full, after deducting the underwriting discounts and commissions and other estimated expenses of this offering. We intend to contribute all or substantially all of the net proceeds from this offering to our bank to strengthen its regulatory capital ratios. We expect to use any remaining net proceeds for general working capital purposes.

We do not intend to use any proceeds from this offering to resume quarterly dividend payments on our outstanding trust preferred securities or our outstanding Series B Convertible Preferred Stock. We have no current intention of resuming such payments at any time in the near future.

CAPITALIZATION

The following table sets forth our capitalization and selected capital ratios, as of June 30, 2010, (a) on an actual basis and (b) on a pro forma basis to give effect to (i) the issuance and sale of [] shares of common stock in this offering, assuming that the underwriters' over-allotment is not exercised, at an assumed price per share of \$[], net of underwriting discounts and commissions and estimated offering expenses, and (ii) an assumed issuance of 8.4 million shares of our common stock to the Treasury upon conversion on October 1, 2010 of our Series B Convertible Preferred Stock at 75% of par (\$74.4 million), plus approximately \$1.7 million in accrued and unpaid dividends as of September 30, 2010 without a discount to par (\$0.94 million of this amount is to be accrued in the third quarter of 2010), which is contingent on our completion of a new cash equity raise of not less than \$100 million on terms acceptable to the Treasury in its sole discretion (other than with respect to the price offered per share). This table should be read in conjunction with the historical financial data included within this prospectus, including the consolidated financial statements (and notes thereto) beginning on page F-2.

	June 30, 2010	
	Actual	As adjusted
	(in thousands)	
	(unaudited)	
Certain Long-Term Debt:		
Subordinated debentures	\$ 50,175	\$ 50,175
Amount not qualifying as regulatory capital	(1,507)	(1,507)
Amount qualifying as regulatory capital ⁽¹⁾	48,668	48,668
Shareholders' Equity:		
Preferred stock, Series B	70,458	
Common stock	250,737	425,135
Accumulated deficit	(177,242)	(178,182)
Accumulated other comprehensive loss	(14,281)	(14,281)
Total shareholders' equity	129,672	232,672
Total capitalization	\$ 178,340	\$ 281,340
Capital Ratios for Independent Bank Corporation:		
Total Risk-Based Capital Ratio	10.65%	15.98%

Tier 1 Capital Leverage Ratio	6.41%	9.74%
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(1) \$48.0 million qualifies as Tier 1 capital and the balance qualifies as total risk-based capital. As adjusted, all \$48.7 million qualifies as Tier 1 capital.

CAPITAL PLAN AND THIS OFFERING

We are conducting the offering described in this prospectus as part of the more comprehensive Capital Plan adopted by our board of directors and described below. The primary objective of our Capital Plan is to enable our bank to achieve and thereafter maintain the minimum capital ratios established by its board pursuant to resolutions adopted in December 2009.

Adoption of Board Resolutions

In December 2009, the board of directors of our bank, adopted resolutions designed to enhance and strengthen our operations. Importantly, alongside other resolutions regarding the improvement of asset quality, liquidity, and cash management, the resolutions require our bank to improve its capital position. Our bank began to experience rising levels of non-performing loans and higher provisions for loan losses in 2006. Although our bank remained profitable through the second quarter of 2008, it has incurred seven consecutive quarterly losses since then (and anticipates future losses), which have pressured its capital ratios. In response to these losses, economic stress in Michigan, and elevated levels of non-performing assets, and in conjunction with discussions with the Board of Governors of the Federal Reserve System (the Federal Reserve), as our bank's primary federal regulator, and the Michigan Office of Financial and Insurance Regulation (the Michigan OFIR), as our bank's state regulator, the board of directors of our bank adopted resolutions that require the following:

The adoption by our bank of a capital restoration plan designed to achieve a minimum Tier 1 capital leverage ratio of 8% and a minimum total risk based capital ratio of 11%, and a regular periodic review and evaluation of such capital plan by the board of directors of our bank thereafter;

The enhancement of our bank's documentation of the rationale for discounts applied to collateral valuations on impaired loans and improved support for the identification, tracking, and reporting of loans classified as troubled debt restructurings;

The adoption of certain changes and enhancements to our liquidity monitoring and contingency planning and our interest rate risk management practices;

Additional reporting to our board regarding initiatives and plans pursued by management to improve our bank's risk management practices;

Prior approval of the Federal Reserve and the Michigan OFIR for any dividends or distributions to be paid to us by our bank; and

Notice to the Federal Reserve and the Michigan OFIR of any rescission of or material modification to any of these resolutions.

In addition to these resolutions adopted for our bank, our board of directors (which is comprised of the same members as our bank's board) adopted resolutions in December of 2009 that impose the following restrictions:

We will not pay dividends on our outstanding common stock or the outstanding preferred stock held by the Treasury, and we will not pay distributions on our outstanding trust preferred securities without, in each case, the prior written approval of the Federal Reserve and the Michigan OFIR;

We will not incur or guarantee any additional indebtedness without the prior approval of the Federal Reserve;

We will not repurchase or redeem any of our common stock without the prior approval of the Federal Reserve; and

We will not rescind or materially modify any of these limitations without notice to the Federal Reserve and the Michigan OFIR.

The substance of all of the resolutions described above was developed in conjunction with discussions held with the Federal Reserve and the Michigan OFIR in response to the Federal Reserve's examination report of our bank completed in October 2009. Based on those discussions, we acted proactively to adopt the resolutions described above to address those areas of our bank's condition and operations that were highlighted in the exam report and that we believe most require our focus at this time. It is very possible that if we had not adopted these resolutions, the Federal Reserve and the Michigan OFIR may have imposed similar requirements on us through a memorandum of understanding or similar undertaking. We are not currently subject to any such regulatory agreement or enforcement action. However, we believe that if we are unable to substantially comply with the resolutions set forth above and if our financial condition and performance do not otherwise materially improve, it is likely our primary bank regulators will impose additional regulatory restrictions and requirements on us through a regulatory enforcement action.

Subsequent to the adoption of the resolutions described above, we adopted the capital restoration plan (the Capital Plan), required by the resolutions. Other than fully implementing our Capital Plan and achieving the minimum capital ratios set forth in the resolutions, we believe we have already taken appropriate actions to fully comply with these board resolutions.

Capital Plan

In January 2010, we adopted our Capital Plan, as required by the board resolutions adopted in December 2009 described above, and submitted our Capital Plan to the Federal Reserve and the Michigan OFIR. The offering described in this prospectus, the offer to exchange our common stock for our outstanding trust preferred securities, and the early conversion of the preferred stock held by the Treasury are the cornerstones of our Capital Plan.

The primary objective of our Capital Plan is to enable our bank to achieve and thereafter maintain the minimum capital ratios required by the board resolutions adopted in December 2009. As of June 30, 2010, our bank continued to meet the requirements to be considered well-capitalized under federal regulatory standards. However, as a matter of prudence and commitment to restoring capital strength, the minimum capital ratios established by our bank's board are higher than the ratios required in order to be considered well-capitalized under federal standards. Our board imposed these higher ratios in order to ensure we have sufficient capital to withstand potential continuing losses based on our elevated level of non-performing assets and given the other risks and uncertainties we face, as described in this prospectus. Set forth below are the actual capital ratios of our bank as of June 30, 2010, the minimum capital ratios imposed by the board resolutions, and the minimum ratios necessary to be considered well-capitalized under federal regulatory standards:

	Independent Bank	Minimum Ratios Established	Required to be
	Actual as of June 30, 2010	by Bank's Board	Well-Capitalized
Total Risk-Based Capital Ratio	10.55%	11.0%	10.0%
Tier 1 Capital Leverage Ratio	6.37%	8.0%	5.0%

Our Capital Plan sets forth an objective of achieving these minimum capital ratios as soon as practicable and maintaining such capital ratios though at least the end of 2012. Although our board initially set a deadline of April 30, 2010 to achieve these minimum capital ratios, it subsequently approved extensions to September 30, 2010, and we notified the Federal Reserve and the Michigan OFIR of these extensions.

Our Capital Plan includes projections we prepared that reflect forecasted financial data through 2012. These projections anticipate a need of a minimum of approximately \$50 million of new capital in order for our bank to achieve and maintain the minimum ratios established by our board. These projections take into account the various risks and uncertainties we face, as described in this prospectus. However, because projections are inherently uncertain and based on assumptions that may not prove to be accurate, our Capital Plan contains a target of \$100 million to \$125 million of new capital to be raised by us.

In anticipation of the capital raising initiatives described in our Capital Plan, we engaged an independent third party to perform a review (a stress test) on our commercial loan portfolio and a separate independent third party to perform a similar review of our retail loan portfolio. These independent stress tests were concluded in January 2010. Each analysis included different scenarios based on expectations of future economic conditions. We engaged these independent reviews in order to ensure that the similar analyses we had performed internally in 2009, on which we based our projections for future expected loan losses and our need for additional capital, were reasonable and did not materially understate our projected loan losses. Based on the conclusions of these third party reviews, we determined that we did not need to modify our projections used for purposes of our Capital Plan. Even though we have had independent third party reviews of these loan portfolios, we cannot be sure that our allowance for loan losses and the additional provisions we anticipate taking in the future to increase such allowance will be sufficient to absorb all loan losses.

Our Capital Plan sets forth certain initiatives in order to raise new capital and meet the objectives of our Capital Plan. In addition to contemplating the offering described in this prospectus, our Capital Plan contemplates two other primary initiatives: (1) an offer to exchange shares of our common stock for any or all of our outstanding trust preferred securities, and (2) the conversion of the shares of preferred stock held by the Treasury into shares of our common stock. Completion of these two initiatives will reduce required annual interest and dividend payments by reducing the aggregate principal amount of outstanding trust preferred securities and outstanding shares of preferred stock. The conversion of \$41.4 million in aggregate liquidation amount of trust preferred securities into our common stock in June 2010 will reduce future interest expense by \$3.5 million annually. In addition, they will improve our holding company's ratio of tangible common equity (TCE) to tangible assets. See Our Projections above. We believe both of these initiatives will improve our ability to successfully raise additional capital through the offering described in this prospectus. We recently completed the issuance of shares of our common stock in exchange for tendered shares of our outstanding trust preferred securities, as described below. Our ability to convert the shares of preferred stock held by the Treasury into shares of our common stock likely depends on our success in raising capital in this offering, as described below.

Our Capital Plan also outlines various contingency plans in case we do not succeed in raising all additional capital needed. These contingency plans include a possible further reduction in our assets (such as through a sale of branches, loans, and/or other operating divisions or subsidiaries), more significant expense reductions than those that have already been implemented and those that are currently being considered, and a sale of our bank. The contingency plans were considered and included within our Capital Plan in recognition of the possibility that market conditions for these transactions may improve and that such transactions may be necessary or required by our regulators if we are unable to raise sufficient equity capital through the capital raising initiatives described above.

Our Capital Plan concludes with a recognition that our strategy and focus for the near term will be to improve our asset quality and pursue the initiatives described above in order to strengthen our capital position.

Suspension of Quarterly Dividends and Distributions

We have recently taken several actions to improve our regulatory capital ratios and preserve capital and liquidity. Beginning in the fourth quarter of 2009, we eliminated the \$0.10 per share quarterly cash dividend on our common stock. In addition, we suspended payment of quarterly dividends on our preferred stock held by the Treasury. We also have exercised our right to defer all quarterly interest payments on the subordinated debentures we issued to our trust subsidiaries. As a result, all quarterly dividends on the related trust preferred securities were also deferred. Based on current dividend rates and after taking into account the trust preferred securities accepted for exchange in our recently completed exchange offer (described below), the cash dividends on all outstanding trust preferred securities amount to approximately \$2.1 million per year. These actions will preserve cash for us as we do not expect our bank to be able to pay any cash dividends in the near term. Dividends from our bank are restricted by federal and state law and are further restricted by the board resolutions adopted in December of 2009 and described above. For additional information on restrictions on the ability of our bank and Independent Bank Corporation to pay dividends and similar distributions, please see *Dividend Policy* and *Description of Our Capital Stock* below.

We do not have any current plans to resume dividend payments on our outstanding trust preferred securities or the outstanding shares of our preferred stock. We do not know if or when any such payments will resume.

Exchange with the U.S. Treasury

In December 2009, we made a proposal to the Treasury to exchange all of the shares of the Series A Fixed Rate Cumulative Perpetual Preferred Stock purchased by the Treasury in December 2008 under the TARP's CPP for shares of our common stock with a value (based on market prices at the time of the exchange) equal to 75% of the aggregate liquidation value of the Series A Preferred Stock surrendered in the exchange. The aggregate liquidation value of the Series A Preferred stock was \$72 million.

As a result of our discussions with the Treasury, on April 2, 2010 we entered into an Exchange Agreement with the Treasury. We subsequently closed the Exchange Agreement on April 16, 2010. Under the Exchange Agreement, the Treasury accepted our newly issued shares of Series B Fixed Rate Cumulative Mandatorily Convertible Preferred Stock in exchange for the entire \$72 million in aggregate liquidation value of the shares of Series A Preferred Stock, plus the value of all accrued and unpaid dividends on such shares of Series A Preferred Stock (approximately \$2.4 million). The shares of Series B Convertible Preferred Stock have an aggregate liquidation amount equal to \$74,426,000.

With the exception of being convertible into shares of our common stock, the terms of the Series B Convertible Preferred Stock are substantially similar to the terms of the Series A Preferred Stock that were exchanged. The Series B Convertible Preferred Stock qualifies as Tier 1 regulatory capital, subject to limitations, and is entitled to cumulative dividends quarterly at a rate of 5% per annum through February 14, 2014, and 9% per annum thereafter. A detailed description of the terms of the Series B Convertible Preferred Stock is set forth under *Description of Our Capital Stock* below.

The Treasury (and any subsequent holder of the shares) has the right to convert the Series B Convertible Preferred Stock into our common stock at any time, subject to the receipt of any applicable approvals. We have the right to compel a conversion of the Series B Convertible Preferred Stock into our common stock if the following conditions are met:

- (i) we receive appropriate approvals from the Federal Reserve;

- (ii) at least \$40 million aggregate liquidation amount of trust preferred securities have been exchanged for our common stock;
- (iii) we complete a new cash equity raise of not less than \$100 million on terms acceptable to the Treasury in its sole discretion (other than with respect to the price offered per share); and
- (iv) we make any required anti-dilution adjustments to the rate at which the Series B Convertible Preferred Stock is converted into our common stock, to the extent required.

If converted by the Treasury (or any subsequent holder) or by us pursuant to either of the above-described conversion rights, each share of Series B Convertible Preferred Stock (liquidation amount of \$1,000 per share) will convert into a number of shares of our common stock equal to a fraction, the numerator of which is \$750 and the denominator of which is \$7.233, referred to as the conversion rate, provided that such conversion rate will be subject to certain anti-dilution adjustments. As an example only, at the time they were issued, the shares of Series B Convertible Preferred Stock were convertible into approximately 7.7 million shares of our common stock. This conversion rate will be subject to certain anti-dilution adjustments that may result in a greater number of shares being issued to the holder of the Series B Convertible Preferred Stock.

Unless earlier converted by the Treasury (or any subsequent holder) or by us as described above, the Series B Convertible Preferred Stock will convert into shares of our common stock on a mandatory basis on the seventh anniversary of the date of issuance. In any such mandatory conversion, each share of Series B Convertible Preferred Stock (liquidation amount of \$1,000 per share) will convert into a number of shares of our common stock equal to a fraction, the numerator of which is \$1,000 and the denominator of which is the market price of our common stock at the time of such mandatory conversion (as such market price is determined pursuant to the terms of the Series B Convertible Preferred Stock).

At the time any shares of Series B Convertible Preferred Stock are converted into our common stock, we will be required to pay all accrued and unpaid dividends on the Series B Convertible Preferred Stock being converted in cash or, at our option, in shares of our common stock, in which case the number of shares to be issued will be equal to the amount of accrued and unpaid dividends to be paid in common stock divided by the market price of our common stock at the time of conversion (as such market price is determined pursuant to the terms of the Series B Convertible Preferred Stock). Accrued and unpaid dividends on the Series B Convertible Preferred Stock totaled approximately \$0.8 million at June 30, 2010.

The maximum number of shares of our common stock that may be issued upon conversion of all Series B Convertible Preferred Stock (including any accrued dividends) is 14.4 million, unless we receive shareholder approval to issue a greater number of shares.

As part of the terms of the Exchange Agreement, we also amended and restated the terms of the Warrant, dated December 12, 2008, issued to the Treasury to purchase 346,154 shares of our common stock. The amended and restated Warrant issued upon the closing of the Exchange Agreement adjusted the initial exercise price of the Warrant to be equal to the initial conversion price applicable to the Series B Convertible Preferred Stock described above.

Exchange Offer for Trust Preferred Securities

On June 23, 2010, we completed the exchange of an aggregate of 5,109,125 newly issued shares of our common stock for \$41.4 million in aggregate liquidation amount of our outstanding trust preferred securities. One of the conditions to our right to compel a conversion of the Series B Convertible Preferred Stock held by the Treasury into our common stock is our exchange of shares of our common stock for at least \$40 million in aggregate liquidation amount of trust preferred securities in the pending exchange offer. The results of our exchange offer satisfied this condition to our ability to compel a conversion of the Series B Convertible Preferred Stock.

DIVIDEND POLICY

We are not currently paying any cash dividends on our common stock and our ability to pay cash dividends in the near term is significantly restricted by the factors described below.

Current Prohibitions on Our Payment of Dividends

Pursuant to resolutions adopted by our board in December 2009, we are currently prohibited from paying any dividends on our common stock without the prior written approval of the Federal Reserve and the Michigan OFIR. We may not rescind or materially modify these resolutions without notice to the Federal Reserve and the Michigan OFIR. Moreover, our primary source for dividends are dividends payable to us by our bank. The board of directors of our bank adopted similar resolutions in December 2009 that prohibit our bank from paying any dividends to us without the prior written approval of the Federal Reserve and the Michigan OFIR. For more information about these board resolutions, please see *Capital Plan* and this *Offering* above.

In addition, as a result of our election to defer regularly scheduled quarterly payments on our outstanding trust preferred securities and our outstanding shares of Series B Convertible Preferred Stock, we are currently prohibited from paying any cash dividends on shares of our common stock. We may not pay any cash dividends on our common stock until all accrued but unpaid dividends and distributions on such senior securities have been paid in full. We do not have any current plans to begin making quarterly payments on our trust preferred securities or our Series B Convertible Preferred Stock.

Moreover, even if we were to re-commence regularly scheduled quarterly payments on our outstanding trust preferred securities and Series B Convertible Preferred Stock, there are still significant restrictions on our ability to pay dividends on our common stock. Our agreements with Treasury, including the Exchange Agreement discussed above, prevent us from paying quarterly cash dividends on our common stock in excess of \$.10 per share and (with certain exceptions) repurchasing shares of common stock. These restrictions will remain in effect until the earlier of December 12, 2011 or such time as Treasury ceases to own any of our debt or equity securities acquired pursuant to the Exchange Agreement or the amended and restated Warrant.

Other Restrictions

Aside from the specific restrictions set forth above that result from our current financial condition, there are other restrictions that apply under federal and state law to restrict our ability to pay dividends to our shareholders and the ability of our bank to pay dividends to us. For example, the Federal Reserve requires bank holding companies like us to act as a source of financial strength to their subsidiary banks. Accordingly, we are required to inform and consult with the Federal Reserve before paying dividends that could raise safety and soundness concerns. See

Business Supervision and Regulation for more information.

MARKET PRICE AND DIVIDEND INFORMATION

Our common stock is currently listed on the Nasdaq Global Select Market under the symbol IBCPD. As of September 1, 2010, we had 7,513,348 shares of our common stock outstanding, which were held by approximately 2,156 shareholders. The following table sets forth, for the periods indicated and as adjusted for the 1-for-10 reverse stock split which occurred on August 31, 2010, the high and low sales prices per share and the cash dividends declared per share of our common stock.

	Sales Price		Cash Dividends Declared per Share
	Per Share		
	Low	High	
2010			
Third Quarter through September 10, 2010	\$ 1.70	\$ 4.20	None
Second Quarter ended June 30, 2010	3.40	20.80	None
First Quarter ended March 31, 2010	6.43	12.00	None
2009			
Fourth Quarter ended December 31, 2009	\$ 5.90	\$ 18.91	None
Third Quarter ended September 30, 2009	10.90	21.60	\$ 0.10
Second Quarter ended June 30, 2009	11.10	29.00	0.10
First Quarter ended March 31, 2009	9.00	30.00	0.10
2008			
Fourth Quarter ended December 31, 2008	\$14.80	\$ 69.50	\$ 0.10
Third Quarter ended September 30, 2008	25.20	84.00	0.10
Second Quarter ended June 30, 2008	36.62	109.80	0.10
First Quarter ended March 31, 2008	75.00	141.20	1.10

On September 10, 2010, the closing sales price of our common stock on the Nasdaq Global Select Market was \$1.87 per share.

On June 23, 2010, we received a letter from The Nasdaq Stock Market notifying us that we no longer meet Nasdaq's continued listing requirements under Listing Rule 5450(a)(1) because the bid price for our common stock had closed below \$1.00 per share for 30 consecutive business days. We have until December 20, 2010 to demonstrate compliance with this bid price rule by maintaining a minimum closing bid price of at least \$1.00 for a minimum of 10 consecutive business days. If we are unable to establish compliance with the bid price rule within such time period, our common stock will be subject to delisting from the Nasdaq Global Select Market. However, in that event, we may be eligible for an additional grace period by transferring our common stock listing from the Nasdaq Global Select Market to the Nasdaq Capital Market. This would require us to meet the initial listing criteria of the Nasdaq Capital Market, other than with respect to the minimum closing bid price requirement. If we are then permitted to transfer our listing to the Nasdaq Capital Market, we expect we would be granted an additional 180 calendar day period in which to demonstrate compliance with the minimum bid price rule.

On April 27, 2010, our shareholders approved a reverse stock split. We effected this reverse stock split on August 31, 2010, pursuant to which each ten shares of our common stock issued and outstanding immediately prior to the reverse stock split was converted into one share of our common stock. Such reverse stock split could have a significant effect on the market price of our common stock. The primary objective of the reverse stock split is to raise the per share trading price of the Company's common stock sufficiently above the \$1.00 minimum bid price requirement imposed by Nasdaq listing standards so that our common stock can continue to be listed on the Nasdaq

Global Select Market. As a result of the reverse stock split, we anticipate that we will regain compliance with the Nasdaq minimum bid price rule; however, there is no assurance the price will be maintained at a level necessary for us to comply in the long term.

There are restrictions that currently materially limit our ability to pay dividends on our common stock and that may continue to materially limit future payment of dividends on our common stock. Please see [Dividend Policy](#) above.

DESCRIPTION OF OUR CAPITAL STOCK

The following section is a summary and does not describe every aspect of our capital stock. In particular, we urge you to read our articles of incorporation and bylaws because they describe the rights of holders of our common stock. Our articles of incorporation and bylaws are exhibits to the registration statement filed with the SEC of which this prospectus is a part.

Common Stock

General

Our authorized capital stock consists of 500,000,000 shares of common stock and 200,000 shares of preferred stock (described below). As of September 1, 2010, there were 7,513,348 shares of common stock and 74,426 shares of preferred stock outstanding. Effective as of April 9, 2010, we amended our articles of incorporation to delete any reference to par value with respect to our common stock, which previously had a par value of \$1.00 per share. The amendment was approved by our board on April 6, 2010, pursuant to the authority granted it under Sections 301a and 611(2) of the Michigan Business Corporation Act. Effective as of August 31, 2010, we implemented a reverse stock split, pursuant to which each ten shares of our common stock issued and outstanding immediately prior to the reverse stock split was converted into one share of our common stock.

All of the outstanding shares of our common stock are fully paid and nonassessable. Subject to the prior rights of the holders of shares of preferred stock that may be issued and outstanding, the holders of common stock are entitled to receive:

dividends when, as, and if declared by our board out of funds legally available for the payment of dividends;
and

in the event of our dissolution, to share ratably in all assets remaining after payment of liabilities and satisfaction of the liquidation preferences, if any, of then outstanding shares of our preferred stock, as provided in our articles of incorporation.

We do not currently pay any cash dividends on our common stock and are currently prohibited from doing so. See Dividend Policy above for information regarding these prohibitions and other restrictions that materially limit our ability to pay dividends on our common stock.

Under our agreements with the Treasury, including the Exchange Agreement discussed above, we are only permitted to repurchase shares of our common stock under limited circumstances, including the following:

in connection with the administration of any employee benefit plan in the ordinary course of business and consistent with past practice;

the redemption or repurchase of rights pursuant to any shareholders' rights plan;

our acquisition of record ownership of common stock or other securities that are junior to or on a parity with the Series B Convertible Preferred Stock for the beneficial ownership of any other persons, including trustees or custodians; and

the exchange or conversion of our common stock for or into other securities that are junior to or on a parity with the Series B Convertible Preferred Stock or trust preferred securities for or into common stock or other securities that are junior to or on a parity with the Series B Convertible Preferred Stock, in each case solely to the extent required pursuant to binding contractual agreements entered into prior to December 12, 2008 or any subsequent agreement for the accelerated exercise, settlement or exchange thereof for common stock.

Except with respect to certain Designated Matters, Treasury has agreed in the Exchange Agreement to vote all shares of our common stock acquired upon conversion of the Series B Convertible Preferred Stock or upon exercise of the amended and restated Warrant that are beneficially owned by it and its controlled affiliates in the same proportion (for, against or abstain) as all other shares of our common stock are voted. Designated Matters means (i) the election and removal of our directors, (ii) the approval of any merger, consolidation or similar transaction that requires the

approval of our shareholders, (iii) the approval of a sale of all or substantially all of our assets or property, (iv) the approval of our dissolution, (v) the approval of any issuance of any of our securities on which our shareholders are entitled to vote, (vi) the approval of any amendment to our organizational documents on which our shareholders are entitled to vote, and (vii) the approval of any other matters reasonably incidental to the foregoing as determined by the Treasury.

In addition, as a bank holding company, our ability to pay dividends on our common stock is affected by the ability of our bank to pay dividends to us under applicable laws, rules and regulations. The ability of our bank, as well as us, to pay dividends in the future currently is, and could be further, influenced by bank regulatory requirements and capital guidelines. See [Dividend Policy](#) above for more information.

Each holder of our common stock is entitled to one vote for each share held of record on all matters presented to a vote at a shareholders meeting, including the election of directors. Holders of our common stock have no cumulative voting rights or preemptive rights to purchase or subscribe for any additional shares of our common stock or other securities, and there are no conversion rights or redemption or sinking fund provisions with respect to our common stock. Our common stock is currently listed on the Nasdaq Global Select Market under the symbol IBCPD. However, as described under Market Price of and Dividends on Our Common Stock above, our common stock may be delisted from Nasdaq in the near future.

Certain Restrictions under Federal Banking Laws

As a bank holding company, the acquisition of large interests in our common stock is subject to certain limitations described below. These limitations may have an anti-takeover effect and could prevent or delay mergers, business combination transactions, and other large investments in our common stock that may otherwise be in our best interests and the best interests of our shareholders.

The federal Bank Holding Company Act generally would prohibit any company that is not engaged in banking activities and activities that are permissible for a bank holding company or a financial holding company from acquiring control of us. Control is generally defined as ownership of 25% or more of the voting stock or other exercise of a controlling influence. In addition, any existing bank holding company would require the prior approval of the Federal Reserve before acquiring 5% or more of our voting stock. In addition, the federal Change in Bank Control Act prohibits a person or group of persons from acquiring control of a bank holding company unless the Federal Reserve has been notified and has not objected to the transaction. Under a rebuttable presumption established by the Federal Reserve, the acquisition of 10% or more of a class of voting stock of a bank holding company with a class of securities registered under Section 12 of the Exchange Act, such as us, would, under the circumstances set forth in the presumption, constitute acquisition of control of the bank holding company. See Business Supervision and Regulation for more information.

Certain Other Limitations

In addition to the foregoing limitations, our articles of incorporation and bylaws contain provisions that could also have an anti-takeover effect. Some of the provisions also may make it difficult for our shareholders to replace incumbent directors with new directors who may be willing to entertain changes that our shareholders may believe will lead to improvements in our business.

Preferred Stock

Our authorized capital stock includes 200,000 shares of preferred stock, no par value per share. Our board of directors is authorized to issue preferred stock in one or more series, to fix the number of shares in each series, and to determine the designations and preferences, limitations, and relative rights of each series, including dividend rates, terms of redemption, liquidation amounts, sinking fund requirements, and conversion rights, all without any vote or other action on the part of our shareholders. This power is limited by applicable laws or regulations and may be delegated to a committee of our board of directors.

Series B Convertible Preferred Stock

On April 16, 2010, we issued 74,426 shares of Series B Fixed Rate Cumulative Mandatorily Convertible Preferred Stock (the Series B Convertible Preferred Stock) to the Treasury pursuant to the terms of the Exchange Agreement. Under the Exchange Agreement, the Treasury accepted the shares of Series B Convertible Preferred Stock in exchange for the entire \$72 million in aggregate liquidation value of the shares of Series A Preferred Stock we issued to the Treasury under its Capital Purchase Program, plus the value of all accrued and unpaid dividends on such shares of Series A Preferred Stock (approximately \$2.4 million). The shares of Series B Convertible Preferred Stock have an aggregate liquidation amount equal to \$74,426,000.

With the exception of being convertible into shares of our common stock, the terms of the Series B Convertible Preferred Stock are substantially similar to the terms of the Series A Preferred Stock that were exchanged. The Series B Convertible Preferred Stock qualifies as Tier 1 regulatory capital, subject to limitations, and pays cumulative dividends quarterly at a rate of 5% per annum through February 14, 2014, and 9% per annum thereafter. The Series B Convertible Preferred Stock is non-voting, other than class voting rights on certain matters that could adversely affect such shares. If dividends on the Series B Convertible Preferred Stock have not been paid for an aggregate of six

quarterly dividend periods or more, whether consecutive or not, our authorized number of directors will be automatically increased by two and the holders of the Series B Convertible Preferred Stock, voting together with holders of any then outstanding voting parity stock, will have the right to elect those directors at our next annual meeting of shareholders or at a special meeting of shareholders called for that purpose. These directors would be elected annually and serve until all accrued and unpaid dividends on the Series B Convertible Preferred Stock have been paid.

The Series B Convertible Preferred Stock is callable at par plus accrued and unpaid dividends at any time (however, if a redemption occurs on or after the first dividend payment date falling on or after the second anniversary of the issuance of the Series B Convertible

Preferred Stock, the redemption price is the greater of (i) par plus accrued and unpaid dividends, and (ii) the product of the conversion rate (as described below) and the average of the market prices per share of our common stock over the 20 consecutive trading day period after the notice of redemption is given, plus all accrued and unpaid dividends).

The terms of the Exchange Agreement carry over the restrictions on dividends and repurchases from the original transaction with the Treasury in all material respects. Specifically, the terms of the transaction with the Treasury include prohibitions on our ability to pay dividends and repurchase our common stock. Until the Treasury no longer holds any Series B Convertible Preferred Stock, we will not be able to declare or pay any dividends, nor will we be permitted to repurchase any of our common stock unless all accrued and unpaid dividends on all outstanding shares of Series B Convertible Preferred Stock have been paid in full, subject to the availability of certain limited exceptions (e.g., for purchases in connection with benefit plans).

The Treasury (and any subsequent holder of the shares) has the right to convert the Series B Convertible Preferred Stock into our common stock at any time, subject to the receipt of any applicable approvals. We have the right to compel a conversion of the Series B Convertible Preferred Stock into our common stock if the following conditions are met:

- (i) we receive appropriate approvals from the Federal Reserve;
- (ii) at least \$40 million aggregate liquidation amount of our trust preferred securities are exchanged for shares of our common stock;
- (iii) we complete a new cash equity raise of not less than \$100 million on terms acceptable to the Treasury in its sole discretion (other than with respect to the price offered per share); and
- (iv) we make any required anti-dilution adjustments to the rate at which the Series B Convertible Preferred Stock is converted into our common stock, to the extent required.

On June 23, 2010, we completed the exchange of an aggregate of 5,109,125 newly issued shares of our common stock for \$41.4 million in aggregate liquidation amount of our outstanding trust preferred securities. As a result, we have satisfied the condition to our ability to compel a conversion of the Series B Convertible Preferred Stock that at least \$40 million aggregate liquidation amount of our trust preferred securities are exchanged for shares of our common stock.

If converted by the Treasury (or any subsequent holder) or by us pursuant to either of the above-described conversion rights, each share of Series B Convertible Preferred Stock (liquidation amount of \$1,000 per share) will convert into a number of shares of our common stock equal to a fraction, the numerator of which is \$750 and the denominator of which is \$7.233, referred to as the conversion rate, provided that such conversion rate will be subject to certain anti-dilution adjustments. As an example only, at the time they were issued, the shares of Series B Convertible Preferred Stock were convertible into approximately 7.7 million shares of our common stock.

The conversion rate is subject to anti-dilution adjustments that may result in a greater number of shares being issued to the holder of the Series B Convertible Preferred Stock. Specifically, the conversion rate is subject to adjustment in the event of any of the following:

Cash Offering. If we issue shares of our common stock (or rights or warrants or other securities exercisable or convertible into or exchangeable for such shares) to one or more investors other than the Treasury pursuant to an offering providing a minimum aggregate amount of \$100 million in cash proceeds to us, including pursuant to the offering described in this prospectus, at a consideration per share (or having a conversion price per share) that is less than 90% of the market price of our common stock on the trading day immediately preceding the pricing of such offering (as such market price is determined pursuant to the terms of the Series B Convertible Preferred Stock), then the conversion rate is subject to adjustment.

Other Issuances of Common Stock. If we otherwise issue shares of our common stock or convertible securities, other than pursuant to certain permitted transactions (including issuances to fund acquisitions or in connection with employee benefit plans and compensation arrangements or a public or broadly marketed registered offering for cash), at a consideration per share (or having a conversion price per share) that is less than the conversion rate in effect immediately prior to such issuance, then the conversion rate is subject to adjustment.

Stock Splits, Subdivisions, Reclassifications or Combinations. If we (i) pay a dividend or make a distribution on our common stock in shares of our common stock, (ii) subdivide or reclassify the outstanding shares of our common stock into a greater number of such shares, or (iii) combine or reclassify the outstanding shares of our common stock into a smaller number of such shares, then the conversion rate is subject to adjustment.

Other Events. The conversion rate is also subject to adjustment in connection with certain distributions to our shareholders (excluding permitted cash dividends and certain other distributions) and in connection with a pro rata repurchase of our common stock. In addition, if any event occurs as to which the other anti-dilution adjustments are not strictly applicable or, if strictly applicable, would not fairly and adequately protect the conversion rights of the Treasury in accordance with their intent, then we must make such adjustments in the application thereof as necessary to protect such conversion rights.

Unless earlier converted by the Treasury (or any subsequent holder) or by us as described above, the Series B Convertible Preferred Stock will convert into shares of our common stock on a mandatory basis on the seventh anniversary of the date of issuance. In any such mandatory conversion, each share of Series B Convertible Preferred Stock (liquidation amount of \$1,000 per share) will convert into a number of shares of our common stock equal to a fraction, the numerator of which is \$1,000 and the denominator of which is the market price of the Company's common stock at the time of such mandatory conversion (as such market price is determined pursuant to the terms of the Series B Convertible Preferred Stock).

At the time any shares of Series B Convertible Preferred Stock are converted into our common stock, we will be required to pay all accrued and unpaid dividends on the Series B Convertible Preferred Stock being converted in cash or, at our option, in shares of our common stock, in which case the number of shares to be issued will be equal to the amount of accrued and unpaid dividends to be paid in common stock divided by the market price of our common stock at the time of conversion (as such market price is determined pursuant to the terms of the Series B Convertible Preferred Stock). Accrued and unpaid dividends on the Series B Convertible Preferred Stock totaled approximately \$0.8 million at June 30, 2010.

The maximum number of shares of our common stock that may be issued upon conversion of all Series B Convertible Preferred Stock (including any accrued dividends) is 14.4 million, unless we receive shareholder approval to issue a greater number of shares.

As part of the terms of the Exchange Agreement, we also amended and restated the terms of the Warrant, dated December 12, 2008, issued to the Treasury to purchase 346,154 shares of our common stock. The amended and restated Warrant issued upon the closing of the Exchange Agreement adjusted the exercise price of the Warrant to be the same as the conversion rate applicable to the Series B Convertible Preferred Stock described above.

As a result of the transactions contemplated by the Exchange Agreement, all outstanding shares of Series A Preferred Stock were surrendered in exchange for the Series B Convertible Preferred Stock. As a result, our only series of preferred stock issued and outstanding is our Series B Convertible Preferred Stock.

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

The following discussion and analysis is intended as a review of significant factors affecting our financial condition and results of operations for the periods indicated. The discussion should be read in conjunction with the historical financial data included within this prospectus, including the selected financial data beginning on page 24 above and the consolidated financial statements (and notes thereto) beginning on page F-2 below and all other information set forth in this prospectus. In addition to historical information, the following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results could differ significantly from those anticipated in these forward-looking statements as a result of certain factors discussed in this prospectus, including the factors described under

Forward-Looking Statements beginning on page 1 and Risk Factors beginning on page 26.

Introduction

Our bank began to experience rising levels of non-performing loans and higher provisions for loan losses in 2006 as the Michigan economy experienced economic stress ahead of national trends. Although our bank remained profitable through the second quarter of 2008, our bank incurred seven consecutive quarterly losses since the third quarter of 2008, which have pressured its capital ratios. Although our bank still remains well-capitalized under federal regulatory guidelines, we project that due to economic stress in Michigan, our elevated levels of non-performing assets, and anticipated losses in the future, an increase in equity capital is necessary in order for our bank to remain well-capitalized and take advantage of opportunities outlined in our business strategy described in the Summary section above.

Our projected need for capital, our strategies for strengthening and increasing our capital, and related matters are set forth in our Capital Plan we adopted in January 2010. The primary objective of our Capital Plan is the achievement by our bank of a minimum Tier 1 capital leverage ratio of 8% and a minimum total risk based capital ratio of 11%. As of June 30, 2010, these ratios were 6.37% and 10.55%, respectively. The offering described in this prospectus is one of several actions we have taken to pursue the objective of achieving those target ratios. See Capital Plan and This Offering above for more detailed information.

If the capital raised in this offering and contributed to our bank is not sufficient for us to achieve these target capital ratios, we believe it is likely our bank will not be able to remain well-capitalized through the remainder of 2010, as we work through our asset quality issues and seek to return to profitability. As described in more detail under Risk Factors above, we believe failing to remain well-capitalized would have a material adverse effect on our business and financial condition as it would, among other consequences, likely lead to a regulatory enforcement action, a loss of our mortgage servicing rights with Fannie Mae (which are already at risk, as described above in Risk Factors) and/or Freddie Mac, and limits on our access to certain wholesale funding sources. In addition, an inability to improve our capital position would make it very difficult for us to withstand continued losses that we may incur and that may be increased or made more likely as a result of continued economic difficulties and other factors. See Risk Factors above for a description of these risks.

It is against this backdrop that we discuss our results of operations and financial condition in 2009 and in the second quarter and first six months of 2010 as compared to earlier periods.

RESULTS OF OPERATIONS

Summary

We incurred a loss from continuing operations of \$90.2 million in 2009 compared to a loss of \$91.7 million in 2008 and compared to income from continuing operations of \$10.0 million in 2007. The net loss in 2009 and 2008 also totaled \$90.2 million and \$91.7 million, respectively, compared to net income of \$10.4 million in 2007. The net loss applicable to common stock was \$94.5 million and \$91.9 million in 2009 and 2008, respectively. The significant change in 2009 and 2008 compared to 2007 is due primarily to an increase in the provision for loan losses, impairment charges on goodwill, increases in vehicle service contract counterparty contingencies expense, loan and collection costs, losses on other real estate and repossessed assets, and a charge to income tax expense for a valuation allowance on most of our net deferred tax assets. These adverse changes were partially offset by an increase in net interest income.

We recorded net income of \$7.9 million and net income applicable to common stock of \$6.8 million during the three months ended June 30, 2010 compared to a net loss of \$5.2 million and a net loss applicable to common stock of \$6.2 million during the comparable period in 2009. The improvement in 2010 is primarily due to a significant gain on the extinguishment of debt and a decrease in the provision for loan losses that were partially offset by decreases in net interest income and mortgage loan servicing income. We incurred a net loss of \$6.0 million and \$23.8 million and a net loss applicable to common stock of \$8.1 million and \$25.9 million during the six months ended June 30, 2010 and 2009, respectively. The reasons for the changes in the year-to-date comparative periods are generally commensurate with the quarterly comparative periods.

On December 12, 2008, we issued to the Treasury 72,000 shares of Series A Preferred Stock and a warrant to purchase 346,154 shares our common stock (at a strike price of \$31.20 per share) in return for \$72.0 million under the TARP CPP. (See Liquidity and Capital Resources.) On April 16, 2010, we exchanged with the Treasury such Series A Preferred Stock for our Series B Convertible Preferred Stock and reduced the strike price on the warrants to \$7.234 per share. During periods in which this preferred stock remains outstanding, we will also be reporting our net income (loss) applicable to common stock.

On January 15, 2007, Mepco sold substantially all of the assets related to its insurance premium finance business to Premium Financing Specialists, Inc. Mepco continues to own and operate its vehicle service contract payment plan business. The assets, liabilities and operations of Mepco's insurance premium finance business are reported as discontinued operations for 2007.

We completed the acquisition of 10 branches with total deposits of approximately \$241.4 million from TCF National Bank on March 23, 2007. These branches are located in or near Battle Creek, Bay City, and Saginaw, Michigan. As a result of this transaction, we received \$210.1 million of cash. We used the proceeds from this transaction primarily to repay higher cost short term borrowings and Brokered CDs. The acquisition of these branches resulted in an increase in non-interest income, particularly service charges on deposit accounts and VISA check card interchange income, during the last nine months of 2007 and in 2008 and 2009. However, non-interest expenses also increased due to compensation and benefits for the employees at these branches as well as occupancy, furniture and equipment, data processing, communications, supplies, and advertising expenses. As is customary in branch acquisitions, the purchase price (\$28.1 million) was based on acquired deposit balances. We also reimbursed the seller \$0.2 million for certain transaction related costs. Approximately \$10.8 million of the premium paid was recorded as deposit customer relationship value, including core deposit value, and will be amortized over 15 years. The remainder of the premium paid was recorded as goodwill. We also incurred other transaction costs (primarily investment banking fees, legal fees, severance costs, and data processing conversion fees) of approximately \$0.8 million, of which \$0.5 million was capitalized as part of the acquisition price and \$0.3 million was expensed. In addition, the transaction included \$3.7 million for the personal property and real estate associated with these branches. In the last quarter of 2008 we determined that all of the goodwill at our bank reporting unit, including the goodwill recorded as a part of this branch acquisition, was impaired, and we recorded a \$50.0 million goodwill impairment charge. (See Non-Interest Expenses.)

In September 2007, we completed the consolidation of our four bank charters into one. The primary reasons for this bank consolidation were:

To better streamline our operations and corporate governance structure;

To enhance our risk management processes, particularly credit risk management through more centralized credit management functions;

To allow for more rapid development and deployment of new products and services; and

To improve productivity and resource utilization leading to lower non-interest expenses.

During the last half of 2007, we incurred approximately \$0.8 million of one-time expenses (primarily related to the data processing conversion and severance costs for employee positions that were eliminated) associated with this consolidation. To date, the benefit of the reductions in non-interest expenses due to the bank consolidation have been more than offset by higher loan and collection costs and increased staffing associated with the management of significantly higher levels of watch credits, non-performing loans, and other real estate owned. (See Portfolio Loans and Asset Quality.)

Key Performance Ratios (Full Fiscal Years) ^(a)

	Year Ended December 31,		
	2009	2008	2007
Income (loss) from continuing operations to			
Average common equity	(90.72)%	(39.01)%	3.96%
Average assets	(3.17)	(2.88)	0.31
Net income (loss) to			
Average common equity	(90.72)%	(39.01)%	4.12%
Average assets	(3.17)	(2.88)	0.32
Income (loss) per common share from continuing operations			
Basic	\$(39.60)	\$(39.98)	\$4.39
Diluted	(39.60)	(39.98)	4.35
Net income (loss) per share			
Basic	\$(39.60)	\$(39.98)	\$4.57
Diluted	(39.60)	(39.98)	4.53

Key Performance Ratios (Interim Periods)^(a)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Net income (loss) (annualized) to				
Average assets	0.96%	(0.83)%	(0.57)%	(1.75)%
Average equity	111.56	(22.98)	(57.53)	(44.24)
Net income (loss) per common share				
Basic	\$ 2.37	\$ (2.60)	\$ (3.10)	\$(10.93)
Diluted	0.44	(2.60)	(3.10)	(10.93)

(a) These amounts are calculated using net income applicable to common stock.

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 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, management of credit risk and interest rate risk plays an important role in our level of net interest income.

Net interest income totaled \$138.5 million during 2009, compared to \$130.1 million and \$120.6 million during 2008 and 2007, respectively. The increase in net interest income in 2009 compared to 2008 reflects a 52 basis point rise in our net interest margin that was partially offset by a \$138.2 million decrease in average interest-earning assets. The increase in net interest income in 2008 compared to 2007 reflects a 42 basis point rise in our net interest margin that was partially offset by a \$65.7 million decrease in average interest-earning assets. The decline in average

interest-earning assets during 2009 and 2008 generally reflects our desire to reduce total assets in order to try to preserve our regulatory capital ratios in light of our recent losses.

Net interest income decreased by 19.6% to \$28.6 million and by 16.1% to \$58.6 million, respectively, during the three- and six-month periods in 2010 compared to 2009. These decreases reflect declines in our net interest income as a percent of average interest-earning assets (the net interest margin) as well as in our average interest-earning assets. The decline in the net interest margin primarily reflects a decrease in the yield on interest earning assets principally due to a change in the mix of interest-earning assets with a declining level of higher yielding loans and an increasing level of lower yielding short-term investments, as described in more detail below. The change in asset mix reflects our strategy to preserve our regulatory capital levels by reducing loan balances that have higher risk weightings for regulatory capital purposes.

From September 2007 to December 2008, the Federal Reserve reduced the target federal funds rate from 5.25% to 0.25%, where it has since remained. In addition, the yield curve has steepened considerably. The current interest rate environment (lower short-term interest rates and steeper yield curve) has had a favorable impact on our net interest margin during 2008 and 2009 which more than offset the adverse impact of a declining level of average interest earnings assets, as described above. Our balance sheet during 2008 and much of 2009 was generally structured to benefit from lower short-term interest rates. For example, most of our brokered CDs were callable which allowed us to call (retire) them and replace them at much lower interest rates. However, some of the benefits of the current interest rate environment are being partially offset by our increased level of non-accrual loans that create a drag on our net interest margin and net interest income. Average non-accrual loans totaled \$120.2 million, \$104.7 million and \$53.1 million in 2009, 2008 and 2007, respectively. In the second quarter and first six months of 2010 non-accrual loans averaged \$91.6 million and \$97.5 million, respectively compared to \$121.5 million and \$124.5 million, respectively for the same periods in 2009. In addition, in the first six months of 2010 and 2009 we reversed a net of \$0.2 million and \$1.7 million, respectively, of accrued and unpaid interest on loans placed on non-accrual during each period. In the second quarter of 2010 we recorded a net recovery of \$0.2 million in interest income as interest recovered on non-accrual loans exceeded interest reversed during the quarter on loans placed on non-accrual. We reversed a net of \$0.8 million of interest income during the same period in 2009.

Beginning in the last half of 2009 and continuing into the first half of 2010, we increased our level of lower-yielding interest bearing cash balances to augment our liquidity in response to our deteriorating financial condition (see *Liquidity and Capital Resources* below). In addition, due to the challenges facing Mepco (see *Noninterest Expense* below), we expect the balance of payment plan receivables to decline by approximately 40% in 2010 from their year-end 2009 levels. These payment plan receivables declined by \$120.6 million, or 29.7%, during the first half of 2010, which represents a 59.4% annualized rate. These payment plan receivables are the highest yielding segment of our loan portfolio, with an average yield of approximately 13% to 14%. The combination of an increase in the level of lower-yielding interest bearing cash balances and a decrease in the level of higher-yielding payment plan receivables has had (in the second quarter and first six months of 2010) and is expected to continue to have an adverse impact on our 2010 net interest income and net interest margin. The current interest rate environment (lower short-term interest rates and a steeper yield curve) has exacerbated the adverse earnings impact of maintaining a high level of liquidity.

Average Balances and Rates (Full Fiscal Years)

	2009			2008			2007		
	Average Balance	Interest	Rate	Average Balance (Dollars in thousands)	Interest	Rate	Average Balance	Interest	Rate
ASSETS (1)									
Taxable loans	\$ 2,461,896	\$ 177,557	7.21%	\$ 2,558,621	\$ 186,259	7.28%	\$ 2,531,737	\$ 201,924	7.98%
Tax-exempt loans (2)	8,672	391	4.51	10,747	488	4.54	9,568	437	4.57
Taxable securities	111,558	6,333	5.68	144,265	8,467	5.87	179,878	9,635	5.36
Tax-exempt securities (2)	85,954	3,669	4.27	162,144	7,238	4.46	225,676	9,920	4.40
Cash interest bearing	72,606	174	0.24						
Other investments	28,304	932	3.29	31,425	1,284	4.09	26,017	1,338	5.14
Interest earning assets continuing operations	2,768,990	189,056	6.83	2,907,202	203,736	7.01	2,972,876	223,254	7.51
Cash and due from banks	55,451			53,873			57,174		
Taxable loans discontinued operations							8,542		
Other assets, net	157,762			227,969			218,553		
Total assets	\$ 2,982,203			\$ 3,189,044			\$ 3,257,145		
LIABILITIES									
Savings and NOW	\$ 992,529	5,751	0.58	\$ 968,180	10,262	1.06	\$ 971,807	18,768	1.93
Time deposits	1,019,624	29,654	2.91	917,403	36,435	3.97	1,439,177	70,292	4.88
Long-term debt				247	12	4.86	2,240	104	4.64
Other borrowings	394,975	15,128	3.83	682,884	26,878	3.94	205,811	13,499	6.56

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Interest bearing liabilities continuing operations	2,407,128	50,533	2.10	2,568,714	73,587	2.86	2,619,035	102,663	3.92
Demand deposits	321,802			301,117			300,886		
Time deposits discontinued operations							6,166		
Other liabilities	80,281			79,929			79,750		
Shareholders equity	172,992			239,284			251,308		
Total liabilities and shareholders equity	\$ 2,982,203			\$ 3,189,044			\$ 3,257,145		
Net interest income		\$ 138,523			\$ 130,149			\$ 120,591	
Net interest income as a percent of average interest earning assets			5.00%			4.48%			4.06%

(1) All domestic, except for \$5.1 million of payment plan receivables in 2009 included in taxable loans from customers domiciled in Canada.

(2) Interest on tax-exempt loans and securities is not

presented on a
fully tax
equivalent basis
due to the
current net
operating loss
carryforward
position and the
deferred tax
asset valuation
allowance.

*Average Balances and Rates (Interim Periods)***Three Months Ended
June 30,**

	2010		2009			
	Average Balance	Interest	Rate	Average Balance	Interest	Rate
	(dollars in thousands)					
Assets ⁽¹⁾						
Taxable loans	\$ 2,115,837	\$ 36,569	6.93%	\$ 2,513,367	\$ 45,157	7.20%
Tax-exempt loans ⁽²⁾	9,866	106	4.31	7,069	67	3.80
Taxable securities	87,554	902	4.13	118,116	1,705	5.79
Tax-exempt securities ⁽²⁾	49,012	526	4.30	88,601	976	4.42
Cash interest bearing	324,592	192	0.24			
Other investments	27,001	197	2.93	28,011	239	3.42
Interest Earning Assets	2,613,862	38,492	5.90	2,755,164	48,144	7.01
Cash and due from banks	48,751			74,659		
Other assets, net	160,291			165,715		
Total Assets	\$ 2,822,904			\$ 2,995,538		
Liabilities						
Savings and NOW	\$ 1,088,526	670	0.25	\$ 974,994	1,493	0.61
Time deposits	1,019,882	6,838	2.69	979,506	7,318	3.00
Other borrowings	227,979	2,413	4.25	448,714	3,814	3.41
Interest Bearing Liabilities	2,336,387	9,921	1.70	2,403,214	12,625	2.11
Demand deposits	340,558			320,920		
Other liabilities	52,051			93,861		
Shareholders equity	93,908			177,543		
Total liabilities and shareholders equity	\$ 2,822,904			\$ 2,995,538		
Net Interest Income		\$ 28,571			\$ 35,519	
Net Interest Income as a Percent of Earning Assets			4.38%			5.17%

(1) All domestic,
except for
\$0.4 million and

\$8.8 million for the three months ended June 30, 2010 and 2009, respectively, of average payment plan receivables included in taxable loans for customers domiciled in Canada.

- (2) Interest on tax-exempt loans and securities is not presented on a fully tax equivalent basis due to the current net operating loss carryforward position and the deferred tax asset valuation allowance.

Average Balances and Rates (Interim Periods)

	Average Balance	Six Months Ended June 30,			Average Balance	Interest	Rate
		2010 Interest	Rate (dollars in thousands)	2009 Interest			
Assets ⁽¹⁾							
Taxable loans	\$ 2,184,046	\$ 75,491	6.95%	\$ 2,504,582	\$ 89,457	7.19%	
Tax-exempt loans ⁽²⁾	9,997	211	4.26	8,490	168	3.99	
Taxable securities	91,859	2,062	4.53	116,478	3,438	5.95	
Tax-exempt securities ⁽²⁾	56,671	1,211	4.31	95,795	2,083	4.38	
Cash interest bearing	299,910	349	0.23				
Other investments	27,426	412	3.03	28,641	563	3.96	
Interest Earning Assets	2,669,909	79,736	6.01	2,753,986	95,709	6.99	
Cash and due from banks	53,855			67,935			
Other assets, net	154,408			162,086			
Total Assets	\$ 2,878,172			\$ 2,984,007			
Liabilities							
Savings and NOW	\$ 1,086,524	1,533	0.28	\$ 960,032	3,074	0.65	
Time deposits	1,073,452	14,194	2.67	917,609	14,285	3.14	
Other borrowings	227,801	5,407	4.79	523,630	8,484	3.27	
Interest Bearing Liabilities	2,387,777	21,134	1.78	2,401,271	25,843	2.17	
Demand deposits	334,100			314,762			
Other liabilities	58,359			81,267			
Shareholders equity	97,936			186,707			
Total liabilities and shareholders equity	\$ 2,878,172			\$ 2,984,007			
Net Interest Income		\$ 58,602			\$ 69,866		
Net Interest Income as a Percent of Earning Assets			4.41%			5.10%	

(1) All domestic,
except for
\$0.7 million and

\$7.4 million for the six months ended June 30, 2010 and 2009, respectively, of average payment plan receivables included in taxable loans for customers domiciled in Canada.

- (2) Interest on tax-exempt loans and securities is not presented on a fully tax equivalent basis due to the current net operating loss carryforward position and the deferred tax asset valuation allowance.

Change in Net Interest Income

	2009 Compared to 2008			2008 Compared to 2007		
	Volume	Rate	Net	Volume	Rate	Net
	(Dollars in thousands)					
Increase (decrease) in interest income ⁽¹⁾⁽²⁾						
Taxable loans	\$ (6,989)	\$ (1,713)	\$ (8,702)	\$ 2,124	\$ (17,789)	\$ (15,665)
Tax-exempt loans ⁽³⁾	(94)	(3)	(97)	54	(3)	51
Taxable securities	(1,865)	(269)	(2,134)	(2,031)	863	(1,168)
Tax-exempt securities ⁽³⁾	(3,265)	(304)	(3,569)	(2,834)	152	(2,682)
Cash interest bearing	174	0	174			
Other investments	(119)	(233)	(352)	249	(303)	(54)
Total interest income	(12,158)	(2,522)	(14,680)	(2,438)	(17,080)	(19,518)
Increase (decrease) in interest expense ⁽¹⁾						
Savings and NOW	252	(4,763)	(4,511)	(70)	(8,436)	(8,506)
Time deposits	3,740	(10,521)	(6,781)	(22,342)	(11,515)	(33,857)
Long-term debt	(12)	0	(12)	(97)	5	(92)
Other borrowings	(11,046)	(704)	(11,750)	20,619	(7,240)	13,379
Total interest expense	(7,066)	(15,988)	(23,054)	(1,890)	(27,186)	(29,076)
Net interest income	\$ (5,092)	\$ 13,466	\$ 8,374	\$ (548)	\$ 10,106	\$ 9,558

(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, except for \$0.5 million of interest income in 2009 on payment plan receivables included in taxable loans from customers domiciled in Canada.

(3) Interest on tax-exempt loans and securities is not presented on a fully tax equivalent basis due to the current net operating loss carryforward position and the deferred tax asset valuation allowance.

Composition of Average Interest Earning Assets and Interest Bearing Liabilities

	Year Ended December 31,		
	2009	2008	2007
As a percent of average interest earning assets			
Loans ⁽¹⁾	89.2%	88.4%	85.5%
Other interest earning assets	10.8	11.6	14.5
Average interest earning assets	100.0%	100.0%	100.0%
Savings and NOW	35.8%	33.3%	32.7%
Time deposits	14.1	23.9	21.9
Brokered CDs	22.7	7.7	26.5
Other borrowings and long-term debt	14.3	23.5	7.0
Average interest bearing liabilities	86.9%	88.4%	88.1%

Earning asset ratio ⁽²⁾	92.9%	91.2%	91.3%
Free-funds ratio ⁽³⁾	13.1	11.6	11.9

(1) All domestic, except for 0.2% of payment plan receivables in 2009 from customers domiciled in Canada.

(2) Average interest earning assets divided by average assets.

(3) Average interest bearing assets minus average interest bearing liabilities, divided by average interest bearing assets.

Provision for Loan Losses

The provision for loan losses was \$103.3 million during 2009 compared to \$71.1 million and \$43.1 million during 2008 and 2007, respectively. The provision for loan losses was \$12.7 million and \$25.7 million during the three months ended June 30, 2010 and 2009, respectively. During the six-month periods ended June 30, 2010 and 2009, the provision was \$29.7 million and \$55.8 million, respectively. Changes in the provision for loan losses reflect our assessment of the allowance for loan losses taking into consideration factors such as loan mix, levels of non-performing and classified loans, and net charge-offs. 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. The significant increases in the provision for loan losses over the last three years principally reflect a rise in the level of net loan charge-offs and an elevated level of non-performing loans. The decrease in the provision for loan losses in the second quarter and first half of 2010 primarily reflects reduced levels of non-performing loans, lower total loan balances and a decline in loan net charge-offs. See *Portfolio Loans and Asset Quality* for a discussion of the various components of the allowance for loan losses and their impact on the provision for loan losses during these periods.

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

Non-interest income totaled \$58.7 million during 2009 compared to \$29.7 million and \$47.1 million during 2008 and 2007, respectively. Excluding net gains and losses on mortgage loans and securities, non-interest income grew by 11.5% to \$44.1 million during 2009 and declined by 9.3% to \$39.5 million during 2008. These variances are primarily due to changes in the valuation allowance related to capitalized mortgage loan servicing rights.

Non-interest income totaled \$29.3 million during the three months ended June 30, 2010, an \$8.3 million increase from the comparable period in 2009. This increase was primarily due to a significant gain from the extinguishment of debt that was partially offset by decreases in service charges on deposit accounts, mortgage loan servicing income, title insurance fees and other non-interest income as well as a decline in gains on mortgage loans and securities. For the first six months of 2010 non-interest income totaled \$41.3 million, an \$8.7 million increase from the comparable period in 2009. The year to date changes are generally commensurate with the quarterly changes.

Non-Interest Income (Full Fiscal Years)

	Year Ended December 31,		
	2009	2008	2007
	(Dollars in thousands)		
Service charges on deposit accounts	\$ 24,370	\$ 24,223	\$ 24,251
Net gains (losses) on assets			
Mortgage loans	10,860	5,181	4,317
Securities	3,826	(14,795)	295
Other than temporary loss on securities available for sale			
Total impairment loss	(4,073)	(166)	(1,000)
Loss recognized in other comprehensive loss	3,991		
Net impairment loss recognized in earnings	(82)	(166)	(1,000)
VISA check card interchange income	5,922	5,728	4,905
Mortgage loan servicing	2,252	(2,071)	2,236

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Mutual fund and annuity commissions	2,017	2,207	2,072
Bank owned life insurance	1,615	1,960	1,830
Title insurance fees	2,272	1,388	1,551
Other	5,607	6,066	6,688
Total non-interest income	\$ 58,659	\$ 29,721	\$ 47,145

Non-Interest Income (Interim Periods)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2010	2009	2010	2009
	(in thousands)			
Service charges on deposit accounts	\$ 5,833	\$ 6,321	\$ 11,108	\$ 11,828
Net gains (losses) on assets:				
Mortgage loans	2,372	3,262	4,215	6,543
Securities	1,363	4,230	1,628	3,666
Other than temporary loss on securities available for sale:				
Total impairment loss			(118)	(17)
Recognized in other comprehensive loss				
Net impairment loss in earnings			(118)	(17)
VISA check card interchange income	1,655	1,500	3,227	2,915
Mortgage loan servicing	(2,043)	2,349	(1,611)	1,507
Mutual fund and annuity commissions	409	539	798	992
Bank owned life insurance	483	355	951	756
Title insurance fees	366	732	860	1,341
Gain on extinguishment of debt	18,086		18,086	
Other	790	1,723	2,187	3,058
Total non-interest income	\$ 29,314	\$ 21,011	\$ 41,331	\$ 32,589

Service charges on deposit accounts totaled \$24.4 million during 2009, compared to \$24.2 million and \$24.3 million during 2008 and 2007, respectively. The overall level of service charges on deposits has remained relatively consistent for the past three years. In late 2009, the Federal Reserve adopted rules that will require a written opt-in from customers before a bank can assess overdraft fees on ATM or debit card transactions. These rules are effective July 1, 2010. We believe that such legislation will have a material adverse impact on our present level of service charges on deposits accounts.

Service charges on deposit accounts declined during the three- and six-month periods ended June 30, 2010, respectively, from the comparable periods in 2009. The decrease in such service charges principally relates to a decline in non-sufficient funds (NSF) occurrences and related NSF fees. We believe the decline in NSF occurrences is due to our customers managing their finances more closely in order to reduce NSF activity and avoid the associated fees because of the current challenging economic conditions. In late 2009, the Federal Reserve adopted rules that will require a written opt-in from customers before a bank can assess overdraft fees on ATM or debit card transactions. These rules are effective for new customers on July 1, 2010 and for existing customers on August 15, 2010. We believe that such legislation will have an adverse impact on our present level of service charges on deposits accounts. At the present time, based on projected customer opt-in levels, we are anticipating an approximate 10% decline in service charges on deposits on an annualized basis as a result of this legislation.

We realized net gains of \$10.9 million on the sale of mortgage loans during 2009, compared to \$5.2 million and \$4.3 million during 2008 and 2007, respectively. Effective January 1, 2008, we implemented fair value accounting for mortgage loans held for sale and on commitments to originate mortgage loans.

The volume of loans sold is dependent upon our ability to originate 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 mortgage loans are also dependent upon economic and competitive factors as well as our ability to effectively manage exposure to changes in interest rates and thus can often be a volatile part of our overall revenues. In 2009, mortgage loan origination and sales volumes increased from 2008

and 2007 reflecting generally lower interest rates that led to a significant increase in refinance volumes. Additionally, new tax credits for first-time home buyers during 2009 also spurred home sales and hence mortgage loan origination volume. These positive factors were partially offset by weak economic conditions, lower home values, and more stringent underwriting criteria required by the secondary mortgage market, which reduced the number of applicants being approved for mortgage loans.

Net gains on the sale of mortgage loans decreased on both a quarterly and a year to date basis during the second quarter 2010. The decrease in gains relates primarily to a decline in mortgage loan origination volume, loan sales and commitments to originate mortgage loans that are held for sale. The first half of 2009 reflected a significant amount of refinancing activity resulting from generally lower mortgage loan interest rates during that time period. Although mortgage loan interest rates were quite low during the second quarter of 2010, refinance activity has been moderate as many borrowers had already refinanced in 2009 (and the interest rate differential between where they refinanced

in 2009 and current interest rates was not that significant). Also, many borrowers are unable to refinance because of negative equity in their homes or credit related impediments.

Mortgage Loan Activity (Full Fiscal Years)

	Year Ended December 31,		
	2009	2008	2007
	(Dollars in thousands)		
Mortgage loans originated	\$576,018	\$368,517	\$507,211
Mortgage loans sold	540,713	267,216	288,826
Mortgage loans sold with servicing rights released	55,495	51,875	47,783
Net gains on the sale of mortgage loans	10,860	5,181	4,317
Net gains as a percent of mortgage loans sold (loan sale margin)	2.01%	1.94%	1.49%
Fair value adjustments included in the Loan Sales Margin	0.07	0.36	(0.06)

Mortgage Loan Activity (Interim Periods)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2010	2009	2010	2009
	(Dollars in thousands)			
Mortgage loans originated	\$93,900	\$196,927	\$183,907	\$351,535
Mortgage loans sold	87,583	158,173	175,291	300,809
Mortgage loans sold with servicing rights released	20,747	9,174	32,611	14,603
Net gains on the sale of mortgage loans	2,372	3,262	4,215	6,543
Net gains as a percent of mortgage loans sold (Loan Sale Margin)	2.71%	2.06%	2.40%	2.18%
Fair value adjustments included in the Loan Sale Margin	0.43	0.04	0.18	0.33

Net gains as a percentage of mortgage loans sold, which we refer to as 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). Our decision to sell or retain real estate mortgage loan servicing rights is primarily influenced by an evaluation of the price being paid for mortgage loan servicing by outside third parties compared to our calculation of the economic value of retaining such servicing. The sale of mortgage loan servicing rights may result in declines in mortgage loan servicing income in future periods. Gains on the sale of mortgage loans were also impacted by recording fair value accounting adjustments. Excluding the aforementioned accounting adjustments, the loan sales margin would have been 1.94% in 2009, 1.58% in 2008, and 1.55% in 2007. The improved loan sales margin in 2009 was generally due to more favorable competitive conditions in 2009 as many mortgage brokers left the market during 2008.

We generated securities net gains of \$3.7 million in 2009. The 2009 securities net gains were primarily due to increases in the fair value and gains on the sale of our Bank of America preferred stock as well as gains on the sale of municipal securities. We sold all of our Bank of America preferred stock in June 2009. The 2009 gains were partially offset by \$0.1 million of other than temporary impairment recognized on one private label mortgage-backed security and one trust preferred security.

We incurred securities net losses of \$15.0 million in 2008. These net losses were comprised of \$7.7 million of losses from the sale of securities, \$2.8 million of unrealized losses related to declines in the fair value of trading securities that were still being held at year-end, \$0.2 million of other than temporary impairment charges, and a \$6.2 million charge related to the dissolution of a security as described below. These losses were partially offset by \$1.9 million of gains on sales of securities (primarily municipal securities sales). 2008 was an unusual year as we historically have not incurred any significant net losses on securities. We elected, effective January 1, 2008, to

measure the majority of our preferred stock investments at fair value. As a result of this election, we recorded an after tax cumulative reduction of \$1.5 million to retained earnings associated with the initial adoption of fair value accounting for these preferred stocks. This preferred stock portfolio included issues of Fannie Mae, Freddie Mac, Merrill Lynch, and Goldman Sachs. During 2008, we recorded unrealized net losses on securities of \$2.8 million related to the decline in fair value of the preferred stocks that were still being held at year-end. We also recorded realized net losses of \$7.6 million on the sale of several of these preferred stocks. The 2008 securities net losses also include a write down of \$6.2 million (from a par value of \$10.0 million to a fair value of \$3.8 million) related to the dissolution of a money-market auction rate security and the distribution of the underlying Bank of America preferred stock. The conservatorship of Fannie Mae and Freddie Mac in September 2008

resulted in the market values of the preferred stocks issued by these entities plummeting to low single digit prices per share. Prices on other preferred stocks that we owned also declined sharply as the market for these securities came under considerable stress. These were the primary factors leading to the large securities losses that we incurred during 2008.

The \$0.7 million of securities net losses in 2007 include \$1.0 million of other than temporary impairment charges. These charges related to Fannie Mae and Freddie Mac preferred stocks. We also recorded securities gains of approximately \$0.3 million in 2007 primarily related to the sale of municipal securities.

Net securities gains totaled \$1.4 million during the three months ended June 30, 2010, compared to \$4.2 million for the comparable period in 2009. The second quarter 2010 net securities gains were primarily due to the sale of agency mortgage backed securities. The second quarter 2009 net securities gains were primarily due to increases in the fair value and gains on the sale of a Bank of America preferred stock. We sold all of this preferred stock in June 2009. The sale of securities generally reflects our process of selectively deleveraging the balance sheet over the past two years in order to preserve regulatory capital ratios and augment liquidity.

Net securities gains totaled \$1.5 million during the first half of 2010, compared to \$3.6 million for the comparable period in 2009. We generated net securities gains of \$0.1 million in the first quarter of 2010, due primarily to a \$0.3 million net gain on the sale of municipal, bank trust preferred and private-label residential mortgage-backed investment securities. The gains were offset by \$0.1 million of other than temporary impairment charges. We incurred securities losses of \$0.6 million in the first quarter of 2009 due to declines in the fair value of trading securities of \$0.8 million that were partially offset by \$0.2 million of securities gains due principally to the sale of municipal securities. (See Securities.)

Gains and Losses on Securities

	Proceeds	Year Ended December 31,		Net
		Gains	Losses ⁽¹⁾	
2009	\$43,525	\$3,957	\$ 213	\$ 3,744
2008	80,348	1,903	16,864	(14,961)
2007	61,520	327	1,032	(705)

(1) Losses in 2009 include \$0.08 million of other than temporary impairment charges. Losses in 2008 include a \$6.2 million write-down related to the dissolution of a money-market auction rate security and the distribution of the underlying preferred stock, \$0.2 million of other than

temporary
impairment
charges, and
\$2.8 million of
losses
recognized on
trading
securities still
held at
December 31,
2008. Losses in
2007 include
\$1.0 million of
other than
temporary
impairment
charges.

VISA check card interchange income increased to \$5.9 million in 2009 compared to \$5.7 million in 2008 and \$4.9 million in 2007. The significant increase in 2009 and 2008 compared to 2007 is primarily due to the branch acquisition described above (which occurred in March 2007). In addition, these results are also due to increases in the size of our card base due to growth in checking accounts as well as increases in the frequency of use of our VISA check card product by our customer base. VISA check card interchange income increased by 10.7% in the first half of 2010 compared to the year ago period. As described earlier, the Dodd-Frank Wall Street Reform and Consumer Protection Act includes a provision under which interchange fees for debit cards would be set by the Federal Reserve under a restrictive reasonable and proportional cost per transaction standard. Debit card issuers with less than \$10 billion in assets are exempt from this provision. As a result, the impact on our future levels of VISA check card interchange income is not presently known.

Mortgage loan servicing generated revenue of \$2.3 million and \$2.2 million in 2009 and 2007, respectively, and an expense of \$2.1 million in 2008. These yearly comparative variances are primarily due to changes in the valuation allowance on capitalized mortgage loan servicing rights and the level of amortization of this asset. The period end valuation allowance is based on the valuation of the mortgage loan servicing portfolio, and the amortization is primarily impacted by prepayment activity. In particular, mortgage loan interest rates declined significantly in December 2008 resulting in higher estimated future prepayment rates and a significant increase in the valuation allowance at the end of that year. Mortgage loan servicing generated a loss of \$2.0 million and \$1.6 million in the second quarter and first six months of 2010, respectively, compared to income of \$2.3 million and \$1.5 million in the corresponding periods of 2009, respectively. These variances are primarily due to changes in the impairment reserve on, and the amortization of, capitalized mortgage loan servicing rights. The period end impairment reserve is based on a valuation of our mortgage loan servicing portfolio and the amortization is primarily impacted by prepayment activity. The 2010 impairment charge primarily reflects lower mortgage loan interest rates resulting in higher estimated future prepayment rates being used in the valuation at June 30, 2010.

Capitalized Mortgage Loan Servicing Rights (Full Fiscal Years)

	2009	2008	2007
	(In thousands)		
Balance at January 1,	\$ 11,966	\$ 15,780	\$ 14,782
Originated servicing rights capitalized	5,213	2,405	2,873
Amortization	(4,255)	(1,887)	(1,624)
(Increase)/decrease in valuation allowance	2,349	(4,332)	(251)
Balance at December 31,	\$ 15,273	\$ 11,966	\$ 15,780
Valuation allowance at December 31,	\$ 2,302	\$ 4,651	\$ 319

At December 31, 2009, we were servicing approximately \$1.73 billion in mortgage loans for others on which servicing rights have been capitalized. This servicing portfolio had a weighted average coupon rate of 5.73% and a weighted average service fee of approximately 26 basis points. Remaining capitalized mortgage loan servicing rights at December 31, 2009 totaled \$15.3 million, representing approximately 89 basis points on the related amount of mortgage loans serviced for others. The capitalized mortgage loan servicing had an estimated fair market value of \$16.3 million at December 31, 2009.

Capitalized Mortgage Loan Servicing Rights (Interim Periods)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2010	2009	2010	2009
	(In thousands)			
Balance at beginning of period	\$ 15,435	\$ 11,589	\$ 15,273	\$ 11,966
Originated servicing rights capitalized	680	1,624	1,455	3,123
Amortization	(633)	(1,640)	(1,391)	(2,819)
(Increase)/decrease in impairment reserve	(2,460)	2,965	(2,315)	2,268
Balance at end of period	\$ 13,022	\$ 14,538	\$ 13,022	\$ 14,538
Impairment reserve at end of period	\$ 4,617	\$ 2,383	\$ 4,617	\$ 2,383

At June 30, 2010 we were servicing approximately \$1.74 billion in mortgage loans for others on which servicing rights have been capitalized. This servicing portfolio had a weighted average coupon rate of approximately 5.64% and a weighted average service fee of 25.6 basis points. Remaining capitalized mortgage loan servicing rights at June 30, 2010 totaled \$13.0 million and had an estimated fair market value of \$13.2 million. Nearly all of our mortgage loans serviced for others at June 30, 2010 are for either Fannie Mae or Freddie Mac. Because of our current financial condition, if our bank were to fall below well capitalized (as defined by banking regulations) it is possible that Fannie Mae and Freddie Mac could require us to very quickly sell or transfer such servicing rights to a third party or unilaterally strip us of such servicing rights if we cannot complete an approved transfer. Depending on the terms of any such transaction, this forced sale or transfer of such mortgage loan servicing rights could have a material adverse impact on our financial condition and results of operations.

Mutual fund and annuity commissions totaled \$2.0 million, \$2.2 million and \$2.1 million in 2009, 2008 and 2007, respectively. The decline in 2009 generally reflects difficult market conditions and reduced commission payouts on

certain annuity products. The increase in 2008 is due to higher sales of these products as a result of growth in the number of our licensed sales representatives. Mutual fund and annuity commissions decreased on both a comparative quarterly and year-to-date basis in 2010 compared to 2009 reflecting lower sales of these products. These lower sales are primarily due to customer uncertainty about the economy and concerns about the volatility of the equities market as well as the elimination of certain personnel within the wealth management portion of our investment and insurance sales force in early 2010.

In August 2002 we acquired \$35.0 million in separate account bank owned life insurance on which we earned \$1.6 million, \$2.0 million and \$1.8 million in 2009, 2008 and 2007, respectively, principally as a result of increases in cash surrender value. Our separate account is primarily invested in agency mortgage-backed securities. The reduced crediting rate in 2009 generally reflects lower interest rates on mortgage-backed securities. The total cash surrender value of our bank owned life insurance was \$46.5 million and \$44.9 million at December 31, 2009 and 2008, respectively. Income from bank owned life insurance increased on both a comparative quarterly and year-to-date basis in 2010 compared to 2009 primarily reflecting a higher average crediting rate on our cash surrender value due to generally improved total returns on the underlying separate account assets.

Title insurance fees totaled \$2.3 million in 2009, \$1.4 million in 2008 and \$1.6 million in 2007. The fluctuation in title insurance fees is primarily a function of the level of mortgage loans that we originated. The growth in 2009 reflects a significant increase in mortgage loan refinance volume. Title insurance fees decreased on both a comparative quarterly and year-to-date basis in 2010 compared to 2009 primarily as a result of the aforementioned decline in mortgage lending origination volume.

Other non-interest income totaled \$5.6 million, \$6.1 million and \$6.7 million in 2009, 2008 and 2007, respectively. Our 2009 other non-interest income includes \$1.0 million related to foreign currency transaction gains associated with Canadian dollar denominated payment plan receivables. The Canadian dollar appreciated significantly compared to the U.S. dollar during 2009. Total Canadian dollar denominated payment plan receivables had declined to \$0.3 million and \$1.7 million at June 30, 2010 and December 31, 2009, respectively. As a result, we would expect future foreign currency transaction gains or losses to be relatively minor. These foreign currency transaction gains were substantially offset by the change in the results of our private mortgage reinsurance captive in 2009. Our private mortgage reinsurance captive incurred a loss of \$0.6 million in 2009 compared to income of \$0.4 million and \$0.3 million in 2008 and 2007, respectively. The 2009 loss reflects increased mortgage loan defaults and lower real estate values which lead to higher private mortgage insurance claims. 2008 other non-interest income included revenue of \$0.4 million from the redemption of 8,551 shares of Visa, Inc. Class B Common Stock as part of the Visa initial public offering. Other non-interest income also includes zero, \$0.1 million and \$0.5 million in 2009, 2008 and 2007, respectively, of fee income from our MoneyGram official checks program. This fee income is determined largely by the level of short-term interest rates. The very low short term interest rates have currently eliminated this source of revenue. Finally, 2007 also included \$0.3 million of income from interest rate swap or interest rate cap termination fees.

Other non-interest income decreased on both a comparative quarterly and year-to-date basis in 2010 compared to 2009. The declines in 2010 are due primarily to an increase in losses of \$0.5 million and \$0.4 million for the second quarter and first six months of 2010, respectively, incurred in our private mortgage reinsurance captive. The 2010 losses reflect increased mortgage loan defaults and lower real estate values which lead to higher private mortgage insurance claims. Other non-interest income in the second quarter and first six months of 2009 also included \$0.5 million related to foreign currency transaction gains associated with Canadian dollar denominated payment receivables.

Non-Interest Expense

Non-interest expense is an important component of our results of operations. Historically, we primarily focused on revenue growth, and while we strive to efficiently manage our cost structure, our non-interest expenses generally increased from year to year because we expanded our operations through acquisitions and by opening new branches and loan production offices. Because of the current challenging economic environment that we are confronting, our expansion through acquisitions or by opening new branches is unlikely in the near term absent new capital, which we are pursuing in the offering described in this prospectus. Further, management is focused on a number of initiatives to reduce and contain non-interest expenses.

Non-interest expense totaled \$187.6 million during 2009, compared to \$177.2 million and \$115.7 million during 2008 and 2007, respectively. 2009 non-interest expense includes \$31.2 million for vehicle service contract counterparty contingencies and a \$16.7 million goodwill impairment charge. 2008 non-interest expense includes a \$50.0 million goodwill impairment charge. 2007 non-interest expense includes \$1.7 million of severance and other (primarily data processing and legal and professional fees) expenses associated with the bank consolidation described above and staff reductions and \$0.3 million of goodwill impairment charges. In addition, the branch acquisition described above resulted in increases in several categories of non-interest expenses in 2009 and 2008 compared to 2007. Loan and collection costs and losses on other real estate (ORE) and repossessed assets have also increased reflecting higher levels of non-performing loans and ORE.

Non-interest expense increased by \$0.2 million to \$37.2 million and by \$5.2 million to \$76.3 million during the three- and six-month periods ended June 30, 2010, respectively, compared to the like periods in 2009. The comparative quarterly increase is primarily due to a rise in vehicle service counterparty contingencies expense and credit costs related to unfunded lending commitments that were largely offset by declines in loan and collection

expenses, loss on ORE and repossessed assets, FDIC deposit insurance and advertising expenses. The year-to-date comparative increase was primarily due to a rise in compensation and employee benefits expense, vehicle service contract counterparty contingencies expense, loan and collection expenses, and loss on ORE and repossessed assets.

Non-Interest Expense (Full Fiscal Years)

	Year Ended December 31,		
	2009	2008	2007
	(In thousands)		
Compensation	\$ 40,053	\$ 40,181	\$ 40,373
Performance-based compensation and benefits	2,889	4,861	4,979
Other benefits	10,061	10,137	10,459
Compensation and benefits	53,003	55,179	55,811
Vehicle service contract counterparty contingencies	31,234	966	
Loan and collection	14,727	9,431	4,949
Occupancy, net	11,092	11,852	10,624
Loss on other real estate and repossessed assets	8,554	4,349	276
Data processing	8,386	7,148	6,957
Deposit Insurance	7,328	1,988	628
Furniture, fixtures and equipment	7,159	7,074	7,633
Credit card and bank service fees	6,608	4,818	3,913
Advertising	5,696	5,534	5,514
Communications	4,424	4,018	3,809
Legal and professional	3,222	2,032	1,978
Amortization of intangible assets	1,930	3,072	3,373
Supplies	1,835	2,030	2,411
Credit costs related to unfunded lending commitments	(286)	208	55
Goodwill impairment	16,734	50,020	343
Other	5,655	7,639	7,505
Total non-interest expense	\$ 187,301	\$ 177,358	\$ 115,779

The decline in total compensation and benefits is primarily due to a reduction in performance based compensation. In addition, the deferral (as direct loan origination costs) of compensation and benefits has increased in 2009 as a result of the rise in mortgage loan origination activity. These compensation cost reductions were partially offset by additional staff added during 2009 to manage non-performing assets and loan collections. The reduction in performance based compensation reflects our near-term financial performance. In 2009, no employee stock ownership contribution was made, and no bonuses were paid. In addition, executive and senior officer salaries were frozen at 2008 levels for 2009. In 2008, no executive officer bonuses were paid. Salaries in 2007 also include \$1.1 million of severance costs from staff reductions associated with the consolidation of our bank charters as well as downsizing initiatives.

We maintain performance-based compensation plans which, in addition to commissions and cash incentive awards, include an employee stock ownership plan and a long-term equity based incentive plan. The amount of expense recognized in 2009, 2008 and 2007 for share-based awards under our long-term equity based incentive plan was \$0.8 million, \$0.6 million and \$0.3 million, respectively.

We recorded an expense of \$31.2 million and \$1.0 million for vehicle service contract counterparty contingencies in 2009 and 2008, respectively. No such expense was recorded in 2007. These vehicle service contract counterparty contingencies expenses relate to estimated potential losses based on our expectation that Mepco will be unable to fully collect amounts owed to it from its counterparties upon cancellation of outstanding payment plan receivables (formerly referred to as finance receivables) held by Mepco prior to payment in full of those payment plans. (See

Summary Mepco Finance Corporation above for a more complete description of Mepco's business.) The \$31.2 million charge taken in 2009 includes a \$19.0 million charge related to the business failure of Mepco's largest single counterparty, which filed bankruptcy on March 1, 2010. The amount of payment plans purchased from this counterparty and outstanding at December 31, 2009 totaled approximately \$206.1 million. In addition, as of December 31, 2009, this counterparty owed Mepco \$16.2 million for previously cancelled payment plans. In addition to the \$19.0 million charge taken in 2009 related to this counterparty, Mepco recorded an additional \$12.2 million of expense in 2009 for the default by other counterparties in their recourse obligations to Mepco. Please see Risk Factors above for a description of the significant risks and challenges currently associated with Mepco's business.

Loan and collection expenses primarily reflect collection costs related to non-performing or delinquent loans. The sharp rise in these expenses in 2009 and 2008 reflects our elevated level of non-performing loans and ORE.

Occupancy expenses, net, totaled \$11.1 million, \$11.9 million and \$10.6 million in 2009, 2008 and 2007, respectively. A portion of the increase in 2009 and 2008 is due to the branch acquisition that occurred in March 2007. In addition, we closed several loan production offices in 2008, and occupancy expenses in that year include \$0.2 million of costs associated with such office closings.

Loss on ORE and repossessed assets primarily represents the loss on the sale or additional write downs on these assets subsequent to the transfer of the asset from our loan portfolio. This transfer occurs at the time we acquire the collateral that secured the loan. At the time of acquisition, the real estate or other repossessed asset is valued at fair value, less estimated costs to sell, which becomes the new basis for the asset. Any write-downs at the time of acquisition are charged to the allowance for loan losses. The significant increase in loss on ORE and repossessed assets in 2009 and 2008 compared to earlier years (\$8.6 million in 2009, compared to \$4.3 million in 2008, compared to \$0.3 million in 2007) is primarily due to declines in the value of these assets subsequent to the acquisition date. These declines in value have been accentuated by the high inventory of foreclosed homes for sale in many of our markets as well as Michigan's relatively weak economic conditions.

Data processing and communications expenses all generally increased over the periods presented as a result of the growth of the organization and from the 2007 branch acquisition. In addition, 2009 data processing expense includes \$0.6 million related to a revenue enhancement project performed by our core data processing company.

Deposit insurance expense increased substantially in 2009, compared to the prior periods, reflecting higher rates and an industry-wide special assessment of \$1.4 million in the second quarter of 2009. This special assessment was equal to 5 basis points on our total assets less our Tier 1 capital. In addition, our balance of total deposits increased during 2009. During 2007, we fully utilized the assessment credits that reduced our expense during that year.

As an FDIC insured institution, we are required to pay deposit insurance premium assessments to the FDIC. Under the FDIC's risk-based assessment system for deposit insurance premiums, all insured depository institutions are placed into one of four categories and assessed insurance premiums based primarily on their level of capital and supervisory evaluations. Insurance assessments ranged from 0.12% to 0.50% of total deposits for the first quarter 2009 assessment. Effective April 1, 2009, insurance assessments ranged from 0.07% to 0.78%, depending on an institution's risk classification and other factors.

Furniture, fixtures and equipment expense has generally declined since 2007, due in part to cost reduction initiatives. In addition, certain fixed assets became fully depreciated in 2008 and were not replaced. The decline in supplies expense since 2007, was due in part to somewhat lower business volumes relative to 2007 and the aforementioned cost reduction initiatives.

Advertising expense was relatively comparable across all years and primarily represents direct mail costs for our high performance checking program, costs associated with our VISA debit card rewards program and media advertising.

Credit card and bank service fees increased in each year presented primarily due to growth in the number of vehicle service contract payment plans being administered by Mepco. As described above, we expect payment plans at Mepco to decline in 2010, and would therefore expect these expenses to eventually decline as well.

Legal and professional fees increased substantially in 2009, over 2008 and 2007 levels due primarily to increased legal expenses associated with the issues described above related to Mepco and due to various regulatory matters and increased third-party costs principally associated with external reviews of our loan portfolio.

The amortization of intangible assets primarily relates to the branch acquisition and the amortization of the deposit customer relationship value, including core deposit value, that was acquired in this transaction.

During 2009, we recorded a \$16.7 million goodwill impairment charge at our Mepco segment. In the fourth quarter of 2009, we updated our goodwill impairment testing (interim tests had also been performed in each of the first three quarters of 2009). The results of the year end goodwill impairment testing showed that the estimated fair value of our Mepco reporting unit was now less than the carrying value of equity. The fair value of Mepco is principally based on estimated future earnings utilizing a discounted cash flow methodology. As described above and in Business Segments below, Mepco recorded a substantial loss in the fourth quarter of 2009. Mepco had been profitable during the first nine months of 2009. Further, Mepco's largest business counterparty, who accounted for approximately 33% of Mepco's payment plan business as of June 30, 2010, defaulted in its obligations to Mepco and this counterparty filed bankruptcy on March 1, 2010. These factors adversely impacted the level of Mepco's expected future earnings and hence its fair value. A step 2 analysis and valuation was performed. Based on the step 2 analysis (which involved determining the fair value of Mepco's assets, liabilities and identifiable intangibles), we concluded that goodwill was impaired, resulting in this \$16.7 million charge.

During 2008, we recorded a \$50.0 million goodwill impairment charge. In the fourth quarter of 2008, we updated our goodwill impairment testing (interim tests had also been performed in the second and third quarters of 2008). Our common stock price dropped even further in the fourth quarter of 2008 resulting in a wider difference between our market capitalization and book value. The results of the year-end goodwill impairment testing showed that the estimated fair value of our bank reporting unit was less than the carrying value of equity. This necessitated a step 2 analysis and valuation. Based on the step 2 analysis (which involved determining the fair value of our bank's assets, liabilities and identifiable intangibles) we concluded that goodwill was impaired, resulting in this \$50.0 million charge. The remaining goodwill at December 31, 2008 of \$16.7 million was at our Mepco reporting unit and the testing performed at that time indicated that this goodwill was not impaired. Mepco had net income from continuing operations of \$10.7 million and \$5.1 million in 2008 and 2007, respectively. Based primarily

on Mepco's estimated future earnings, the fair value of this reporting unit (utilizing a discounted cash flow method) was determined to be in excess of its carrying value at the end of 2008. A portion of the \$50.0 million goodwill impairment charge was tax deductible and a \$6.3 million tax benefit was recorded related to this charge.

During 2007, we recorded a \$0.3 million goodwill impairment charge. This charge related to writing off the remaining goodwill associated with our mobile home lending subsidiary, First Home Financial, which was dissolved in June 2007.

Other non-interest expense decreased to \$5.7 million in 2009, compared to \$7.6 million in 2008, and \$7.5 million in 2007. The decrease in 2009 compared to 2008 was primarily due to a decrease in costs associated with a deferred compensation plan, travel and entertainment expenses and bank courier costs, while the decrease from 2007 was primarily attributed to decreases in branch conversion costs, travel and entertainment expenses and bank courier costs.

In July 2007, the State of Michigan replaced its Single Business Tax, or SBT, with a new Michigan Business Tax, or MBT which became effective in 2008. Financial institutions are subject to an industry-specific tax which is based on net capital. Both the MBT and the SBT are recorded in other non-interest expenses in the consolidated statements of operations. Our MBT expense was \$0.1 million and \$0.2 million in 2009 and 2008, respectively. Our SBT expense was zero in 2007.

Non-Interest Expense (Interim Periods)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2010	2009	2010	2009
	(in thousands)			
Salaries	\$ 10,242	\$ 9,815	\$ 20,418	\$ 19,484
Performance-based compensation and benefits	655	747	1,299	1,076
Other benefits	2,533	2,766	4,926	5,345
Compensation and employee benefits	13,430	13,328	26,643	25,905
Vehicle service contract counterparty contingencies	4,861	2,215	8,279	3,015
Loan and collection	2,785	3,227	7,571	7,265
Occupancy, net	2,595	2,560	5,504	5,608
Data processing	2,039	2,010	4,144	4,106
Loss on other real estate and repossessed assets	1,554	1,939	3,583	3,200
FDIC deposit insurance	1,763	2,755	3,565	3,941
Furniture, fixtures and equipment	1,648	1,848	3,367	3,697
Credit card and bank service fees	1,500	1,668	3,175	3,132
Communications	1,015	1,107	2,088	2,152
Legal and professional	894	705	2,030	1,346
Advertising	674	1,421	1,453	2,863
Supplies	415	457	808	926
Amortization of intangible assets	323	474	645	975
Credit costs related to unfunded lending commitments	280	(66)	336	(152)
Other	1,389	1,343	3,109	3,117
Total non-interest expense	\$ 37,165	\$ 36,991	\$ 76,300	\$ 71,096

Compensation and employee benefits expenses increased by \$0.1 million to \$13.4 million and by \$0.7 million to \$26.6 million during the three- and six-month periods ended June 30, 2010, respectively, compared to 2009, primarily because the deferral (as direct loan origination costs) of such expenses has decreased in 2010 as a result of the decline in loan origination activity. The amount of compensation and employee benefits expenses that were deferred as direct loan origination costs declined by \$1.3 million and \$2.4 million in second quarter and first six month of 2010,

respectively, compared to the like periods in 2009. For 2010, we froze salaries at 2009 levels, eliminated bonuses, eliminated our 401(k) match, and eliminated any employee stock ownership plan contribution. Further, the number of full time equivalent employees has declined slightly in 2010 compared to year ago levels.

We record estimated incurred losses associated with Mepco's vehicle service contract payment plans in our provision for loan losses and establish a related allowance for loan losses. (See Portfolio Loans and Asset Quality.) We record estimated incurred losses associated with

defaults by Mepco's counterparties as vehicle service contract counterparty contingencies expense, which is included in non-interest expenses in our consolidated statements of operations.

We recorded an expense of \$4.9 million and \$8.3 million for vehicle service contract payment plan counterparty contingencies in the second quarter and first six months of 2010, respectively, compared to \$2.2 million and \$3.0 million, respectively, for the comparable periods in 2009. Our estimate of probable incurred losses from vehicle service contract payment plan counterparty contingencies requires a significant amount of judgment because a number of factors can influence the amount of loss that we may ultimately incur. These factors include our estimate of future cancellations of vehicle service contracts, our evaluation of collateral that may be available to recover funds due from our counterparties, and our assessment of the amount that may ultimately be collected from counterparties in connection with their contractual obligations. We apply a rigorous process, based upon observable contract activity and past experience, to estimate probable incurred losses and quantify the necessary reserves for our vehicle service contract counterparty contingencies, but there can be no assurance that our modeling process will successfully identify all such losses. As a result, we could record future losses associated with vehicle service contract counterparty contingencies that may be materially different than the levels that we recorded in 2010 and 2009.

In particular, Mepco had purchased a significant amount of payment plans from a single counterparty that declared bankruptcy on March 1, 2010. Mepco is actively working to reduce its credit exposure to this counterparty. The amount of payment plan receivables purchased from this counterparty and outstanding at June 30, 2010 totaled approximately \$93.2 million (compared to \$206.1 million at December 31, 2009). In addition, as of June 30, 2010, this counterparty owed Mepco \$38.0 million for previously cancelled payment plans. The bankruptcy and wind down of operations by this counterparty is likely to lead to substantial potential losses as this entity will not be in a position to honor all of its obligations on payment plans that Mepco has purchased which are cancelled prior to payment in full. Mepco will seek to recover amounts owed by the counterparty from various co-obligors and guarantors, through the liquidation of certain collateral held by Mepco, and through claims against this counterparty's bankruptcy estate. In the second half of 2009, Mepco established a \$19.0 million reserve for losses related to this counterparty. During the first six months of 2010 this reserve was increased by \$1.5 million, to \$20.5 million as of June 30, 2010. We currently believe this reserve is adequate given a review of all relevant factors.

The aggregate amount of obligations owing to Mepco by counterparties (triggered by the cancellation of the related service contracts), net of write-downs and reserves made through the recognition of vehicle service contract counterparty contingency expense, is recorded on our consolidated statements of financial condition as vehicle service contract counterparty receivables. At June 30, 2010, this amount totaled \$25.4 million (which includes a net balance of \$17.5 million from the single counterparty described above). This compares to a balance of \$5.4 million at December 31, 2009. As a result, upon the cancellation of a service contract and the completion of the billing process to the counterparties for amounts due to Mepco, there is a decrease in the amount of payment plan receivables and an increase in the amount of vehicle service contract counterparty receivables until such time as the amount due from the counterparty is collected. These amounts represent funds actually due to Mepco from its counterparties for cancelled service contracts.

We believe our assumptions regarding the collection of vehicle service contract counterparty receivables are reasonable, and we based them on our good faith judgments using data currently available. We also believe the current amount of reserves we have established and the vehicle service contract counterparty contingencies expense that we have recorded are appropriate given our estimate of probable incurred losses at the applicable balance sheet date. However, because of the uncertainty surrounding the numerous and complex assumptions made, actual losses could exceed the charges we have taken to date.

In addition, several of these vehicle service contract marketers, including the counterparty described above and other companies, from which Mepco has purchased payment plans, have been sued or are under investigation for alleged violations of telemarketing laws and other consumer protection laws. The actions have been brought primarily by state attorneys general and the Federal Trade Commission but there have also been class action and other private lawsuits filed. In some cases, the companies have been placed into receivership or have discontinued business. In addition, the allegations, particularly those relating to blatantly abusive telemarketing practices by a relatively small number of marketers, have resulted in a significant amount of negative publicity that has adversely affected and may

in the future continue to adversely affect sales and customer cancellations of purchased products throughout the industry, which have already been negatively impacted by the economic recession. It is possible these events could also cause federal or state lawmakers to enact legislation to further regulate the industry.

The above described events have had and may continue to have an adverse impact on Mepco in several ways. First, we face increased risk with respect to certain counterparties defaulting in their contractual obligations to Mepco which could result in additional charges for losses if these counterparties go out of business. Second, these events have negatively affected sales and customer cancellations in the industry, which has had and is expected to continue to have a negative impact on the profitability of Mepco's business. In addition, if any federal or state investigation is expanded to include finance companies such as Mepco, Mepco will face additional legal and other expenses in connection with any such investigation. An increased level of private actions in which Mepco is named as a defendant will also cause Mepco to incur additional legal expenses as well as potential liability. Finally, Mepco has incurred and will likely continue to incur additional legal and other expenses, in general, in dealing with these industry problems. Net payment plan receivables totaled \$285.7 million (or approximately 10.4% of total assets) and \$406.3 million (or approximately 13.7% of total assets) at June 30, 2010 and December 31, 2009, respectively. We expect that the amount of total payment plan receivables will continue to decline during the remainder of 2010, due to our desire to reduce payment plan receivables as

a percentage of total assets. This decline in payment plan receivables is expected to adversely impact our net interest income and net interest margin.

Loan and collection expenses decreased by \$0.4 million to \$2.8 million and increased by \$0.3 million to \$7.6 million during the three- and six-month periods ended June 30, 2010, respectively, compared to 2009. The decrease in loan and collection expenses in the second quarter of 2010 is primarily due to a \$0.9 million reversal of a reserve established in the first quarter of 2010 at Mepco related to debtor in possession financing that is being provided to a counterparty that filed for bankruptcy in March 2010. In late May 2010, the U.S. Bankruptcy Court handling the case issued a final order authorizing Mepco's post petition financing on a super priority basis. In addition, subsequent to the issuance of this final order, the chief restructuring officer for the bankrupt counterparty identified sufficient assets which are likely to be recovered to fully repay Mepco's post petition financing. At June 30, 2010, Mepco had recorded a receivable of \$3.0 million related to this financing and associated professional fees (including the \$0.9 million that had been advanced in the first quarter of 2010). This receivable is included in Accrued income and other assets at June 30, 2010 in our Statement of Financial Condition. The increase in loan and collection expenses on a year to date basis primarily reflects a \$0.3 million increase in collection related costs at Mepco associated with the acquisition and management of collateral securing receivables from vehicle service contract counterparties.

The current year levels of occupancy, net, data processing, furniture, fixtures and equipment, communications, supplies, and other non-interest expenses were generally comparable to or slightly lower than the prior year. Collectively, these expense categories declined by \$0.2 million, or 2.4%, and by \$0.6 million, or 3.0%, during the second quarter and first six months of 2010, respectively, compared to the year ago periods due primarily to our cost reduction efforts.

Although losses on ORE and repossessed assets declined on a comparative quarterly basis, they were higher on a year-to-date comparative basis and remain at elevated levels. These losses principally reflect continuing weak prices for real estate. (See Portfolio Loans and Asset Quality.)

FDIC deposit insurance expense declined on both a comparative quarterly and year-to-date basis. The second quarter of 2009 included a one-time industry-wide special assessment of \$1.4 million. This special assessment was equal to 5 basis points on total assets less Tier 1 capital. Absent this 2009 special assessment, FDIC deposit insurance expense would have increased in 2010, reflecting higher assessment rates and a rise in the average balance of total deposits.

Credit card and bank service fees decreased on a comparative quarterly basis primarily due to a decrease in the number of payment plans being serviced by Mepco in the second quarter of 2010 compared to the second quarter of 2009. The level of such fees were similar on a year-to-date comparative basis. We expect the level of such fees to decrease during the last half of 2010 as payment plan receivables decline.

Legal and professional fees increased on both a comparative quarterly and year-to-date basis. This increase is primarily due to expenses associated with the issues described above related to Mepco and due to various regulatory matters.

Total advertising expense was substantially lower on both a quarterly and year-to-date comparative basis in 2010 compared to 2009 due primarily to a reduction in outdoor advertising (billboards) and the elimination of our VISA check card rewards program.

Income Tax Expense (Benefit)

We assess the need for a valuation allowance against our deferred tax assets periodically. The realization of deferred tax assets (net of the recorded valuation allowance) is largely dependent upon future taxable income, future reversals of existing taxable temporary differences, and the ability to carry-back losses to available tax years. In assessing the need for a valuation allowance, we consider all positive and negative evidence, including anticipated operating results, taxable income in carry-back years, scheduled reversals of deferred tax liabilities, and tax planning strategies.

In 2008, our conclusion that we needed a valuation allowance was based on a number of factors, including our declining operating performance since 2005, our net operating loss in 2008, overall negative trends in the banking industry, and our expectation that our operating results would continue to be negatively affected by the overall

economic environment. As a result, we recorded a valuation allowance in 2008 of \$36.2 million on our deferred tax assets, which consisted of \$27.6 million recognized as income tax expense and \$8.6 million recognized through the accumulated other comprehensive loss component of shareholders' equity. The valuation allowance against our deferred tax assets at December 31, 2008 of \$36.2 million represented our entire net deferred tax asset except for that amount which could be carried back to 2007 and recovered in cash as well as for certain deferred tax assets at Mepco that relate to state income taxes and that can be recovered based on Mepco's individual earnings.

During 2009, we concluded that we needed to continue to carry a valuation allowance based on similar factors. As a result, we recorded an additional net valuation allowance of \$24.0 million recognized as income tax expense (which is net of a \$4.1 million allocation of deferred taxes on the accumulated other comprehensive loss component of shareholders' equity). The valuation allowance against our deferred tax assets

totaled \$60.2 million at December 31, 2009. This valuation allowance represents our entire net deferred tax asset except for certain deferred tax assets at Mepco that relate to state income taxes and that can be recovered based on Mepco's individual earnings.

Despite the valuation allowance, these deferred tax assets remain available to offset future taxable income. Our deferred tax assets will be analyzed quarterly for changes affecting the valuation allowance, which may be adjusted in future periods accordingly. In making such judgments, significant weight will be given to evidence that can be objectively verified. We will analyze changes in near-term market conditions and consider both positive and negative evidence as well as other factors that may impact future operating results in making any decision to adjust this valuation allowance.

Companies are subject to a change of ownership test under Section 382 of the Internal Revenue Code of 1986, as amended (the Code), that, if met, would limit the annual utilization of tax losses and credits carrying forward from pre-change of ownership periods, as well as the ability to deduct certain unrealized built-in losses that are subsequently realized. We currently expect that the sale of our common stock in this offering will trigger an ownership change that will negatively affect our ability to utilize our net operating loss carryforwards and other deferred tax assets in the future. As a result, we may suffer higher-than-anticipated tax expense and, consequently, lower net income and cash flow in future years. As of June 30, 2010, we had a federal net operating loss carryforward of approximately \$38.9 million. Generally, under Section 382, the yearly limitation on our ability to utilize such losses will be equal to the product of the applicable long-term tax exempt rate (presently 4.01%) and the sum of the values of all of our outstanding common and preferred shares immediately before the ownership change. In addition to limits on the use of our net operating loss carryforward, our ability to utilize deductions related to bad debts and other losses for up to a five-year period following such an ownership change would also be limited under Section 382, to the extent that such deductions reflect a net loss that was built-in to our assets immediately prior to the ownership change.

Because we currently have a valuation allowance intended to fully offset our net operating loss carryforward and the majority of other net deferred tax assets, we do not expect these tax rules to cause a material impact to our net income or loss in the near term.

Income tax expense (benefit) was \$(3.2) million, \$3.1 million, and \$(1.1) million in 2009, 2008 and 2007, respectively. A valuation allowance of \$24.0 million and \$27.6 million in 2009 and 2008, respectively, on deferred tax assets largely offset the effect of pre-tax losses. The 2009 valuation allowance is net of a \$4.1 million allocation of deferred taxes on accumulated other comprehensive income. The income tax (benefit) of \$(1.1) million in 2007 and relative effective tax rate is principally attributed to tax exempt income representing a much higher percentage of pre-tax income from continuing operations in that year.

We recorded an income tax expense of \$0.2 million and an income tax (benefit) of \$(0.1) million in the second quarter and first six months of 2010, respectively. This compares to income tax (benefits) of \$(1.0) million and of \$(0.7) million in the second quarter and first six months of 2009, respectively. Income tax benefits recognized have been primarily the result of current period adjustments to other comprehensive income (OCI), net of state income tax expense and adjustments to the deferred tax asset valuation allowance. Generally, the calculation for income tax expense (benefit) does not consider the tax effects of changes in other comprehensive income or loss, which is a component of shareholders' equity on the balance sheet. However, an exception is provided in certain circumstances, such as when there is a pre-tax loss from continuing operations. In such case, pre-tax income from other categories (such as changes in OCI) is included in the calculation of tax expense for the current year. For the second quarter and first six months of 2010, this resulted in an income tax expense (benefit) of \$0.1 million and \$(0.1) million, respectively. For the second quarter and first six months of 2009, this resulted in an income tax (benefit) of \$(1.6) million and \$(1.6) million, respectively.

Our actual federal income tax expense (benefit) is different than the amount computed by applying our statutory federal income tax rate to our pre-tax income from continuing operations primarily due to tax-exempt interest income and tax-exempt income from the increase in the cash surrender value on life insurance.

Income tax expense in the consolidated statements of operations also includes income taxes in a variety of other states due primarily to Mepco's operations. The amounts of such state income taxes were \$0.1 million and \$0.1 million in the second quarter and first six months of 2010, respectively. This compares to \$0.4 million and \$0.6 million in the

second quarter and first six months of 2009, respectively. The decline in such state income taxes is due to a decline in Mepco's pre-tax income. (See Business Segments below.)

Discontinued Operations, Net of Tax

On January 15, 2007, we sold substantially all of the assets of Mepco's insurance premium finance business to Premium Financing Specialists, Inc., or PFS. We received \$176.0 million of cash, which was utilized to repay brokered CDs and short-term borrowings at our bank level. Under the terms of the sale, PFS also assumed approximately \$11.7 million in liabilities. We allocated \$4.1 million of goodwill and \$0.3 million of other intangible assets to this business. Revenues and expenses associated with Mepco's insurance premium finance business have been presented as discontinued operations in the consolidated statements of operations. Likewise, the assets and liabilities associated with this business have been reclassified to discontinued operations in the consolidated statements of financial condition. In 2007, the \$0.4 million of income from discontinued operations relates primarily to operations during the first 15 days of January 2007 and the recovery of certain previously charged-off insurance premium finance receivables.

We have elected to not make any reclassifications in the consolidated statements of cash flows for discontinued operations. Prior to the sale to PFS, which was announced in December of 2006, our insurance premium finance business was included in the Mepco segment.

Business Segments

Our reportable segments are based upon legal entities. We currently have two reportable segments: Independent Bank and Mepco. These business segments are also differentiated based on the products and services provided. We evaluate performance based principally on net income (loss) of the respective reportable segments.

The following table presents net income (loss) by business segment for the full fiscal years referenced in the table.

Business Segments (Full Fiscal Years)

	Year Ended December 31,		
	2009	2008	2007 ⁽¹⁾
	(In thousands)		
Independent Bank	\$ (71,095)	\$ (92,551)	\$ 9,729
Mepco	(11,689)	10,729	5,070
Other ⁽²⁾	(7,636)	(9,780)	(5,439)
Elimination	193	(62)	595
Net income (loss)	\$ (90,227)	\$ (91,664)	\$ 9,955

(1) 2007 represents income (loss) from continuing operations after income taxes and excludes \$0.4 million of income from discontinued operations, net of income taxes.

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

The losses recorded by our bank in 2009 and 2008 are primarily due to higher provisions for loan losses, loan and collection costs and losses on ORE. The higher credit related costs reflect elevated levels of non-performing loans and loan net charge-offs. (See Portfolio Loans and Asset Quality.) 2008 bank results also included a \$50.0 million goodwill impairment charge. (See Non-Interest Expense.) In addition, our bank results included \$24.0 million and \$27.6 million in 2009 and 2008, respectively, of income tax expense for a valuation allowance against deferred tax assets. (See Income Tax Expense (Benefit).)

Mepco's net income had generally been increasing due to growth in payment plan receivables and lower short-term interest rates. However, in 2009, Mepco recorded \$31.2 million of vehicle service contract counterparty contingencies expense and a goodwill impairment charge of \$16.7 million, both as described above. (See Non-Interest Expense.) All of Mepco's funding is provided by Independent Bank and is priced principally based on brokered CD rates. It is unlikely that Mepco could obtain such favorable funding costs on its own in the open market.

The following table presents net income (loss) by business segment for the interim periods referenced in the table.

Business Segments (Interim Periods)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2010	2009	2010	2009
	(in thousands)			
Independent Bank	\$ (9,076)	\$ (8,422)	\$ (21,118)	\$ (29,567)
Mepco	477	4,995	1,146	9,580
Other ⁽¹⁾	16,506	(1,998)	14,066	(4,011)
Elimination	(23)	264	(47)	240
Net income (loss)	\$ 7,884	\$ (5,161)	\$ (5,953)	\$ (23,758)

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

The decrease in the year-to-date net loss recorded by Independent Bank in 2010 compared to 2009 is primarily due to a lower provision for loan losses that was partially offset by a decline in net interest income. (See Provision for Loan Losses, Portfolio Loans and Asset Quality, and Net Interest Income.)

Mepco's net income declined in 2010 compared to 2009 due primarily to a decrease in net interest income and increases in vehicle service contract payment plan counterparty contingencies expense (see Non-Interest Expense). All of Mepco's funding is provided by Independent Bank through an intercompany loan (that is eliminated in consolidation). The rate on this intercompany loan was increased to the Prime Rate (currently 3.25%) effective January 1, 2010. Prior to 2010, this intercompany loan was priced principally based on brokered CD rates.

The significant change in Other in the Business Segments table above is due primarily to the \$18.1 million gain on the extinguishment of debt that was recorded at the parent company in the second quarter of 2010.

FINANCIAL CONDITION

Summary

Our total assets rose slightly to \$2.97 billion at December 31, 2009 compared to \$2.96 billion at December 31, 2008. The increase in total assets primarily reflects increases in cash and cash equivalents and in prepaid FDIC deposit insurance assessments that were substantially offset by decreases in securities available for sale, loans and goodwill. Loans, excluding loans held for sale, referred to as portfolio loans, decreased \$160.2 million in 2009 as every category of loans declined except for payment plan receivables. Total deposits increased by \$499.3 million in 2009 principally as a result of an increase in checking and savings accounts and in brokered CDs. Other borrowings decreased by \$410.8 million in 2009 as maturing borrowings from the Federal Reserve or Federal Home Loan Bank, referred to as FHLB, were replaced with brokered CDs.

Our total assets decreased by \$228.2 million during the first six months of 2010. Loans, excluding loans held for sale (Portfolio Loans), totaled \$2.033 billion at June 30, 2010, down 11.6% from \$2.299 billion at December 31, 2009. (See Portfolio Loans and Asset Quality.) Deposits totaled \$2.377 billion at June 30, 2010, compared to \$2.566 billion at December 31, 2009. The \$188.6 million decline in total deposits during this period is primarily due to a decrease in brokered CDs that was partially offset by an increase in savings and checking accounts. Other borrowings totaled \$133.4 million at June 30, 2010, which is largely unchanged from December 31, 2009. Subordinated debentures totaled \$50.2 million at June 30, 2010, compared to \$92.9 million at December 31, 2009. This \$42.7 million decline relates to the exchange of our common stock for certain trust preferred securities completed in June 2010 and the corresponding cancellation of the related subordinated debentures.

Securities

We maintain diversified securities portfolios, which include obligations of U.S. government-sponsored agencies, 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. Except as discussed below, we believe that the unrealized losses on securities available for sale are temporary in nature and are expected to be recovered within a reasonable time period. We believe that we have the ability to hold securities with unrealized losses to maturity or until such time as the unrealized losses reverse. (See Asset/Liability Management.)

Securities (Fiscal Year Ends)

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(In thousands)			
Securities available for sale				
December 31, 2009	\$171,049	\$3,149	\$10,047	164,151
December 31, 2008	231,746	3,707	20,041	215,412
December 31, 2007	363,237	6,013	5,056	364,194

Securities available for sale declined during 2009 and 2008 because maturities and principal payments in the portfolio were not replaced with new purchases. We also sold municipal securities during 2009 and 2008 primarily because our current tax situation (net operating loss carryforward) negates the benefit of holding tax exempt securities.

As discussed earlier, we elected, effective January 1, 2008, to measure the majority of our preferred stock investments at fair value. These investments are classified as trading securities in our consolidated statements of financial condition. During 2009, we recorded unrealized net gains on trading securities of \$0.04 million related to an increase in fair value of preferred stocks and recorded realized net gains of

\$0.9 million on the sale of preferred stocks. During 2008, we recorded unrealized net losses on trading securities of \$2.8 million related to a decline in fair value of the preferred stocks. We also recorded realized net losses of \$7.6 million in 2008 on the sale of several of these preferred stocks. (See Non-Interest Income .) At December 31, 2009, we only had \$0.1 million of trading securities remaining.

We recorded other than temporary impairment, or OTTI, charges on securities of \$0.1 million, \$0.2 million, and \$1.0 million in 2009, 2008, and 2007, respectively. The 2009 impairment charge relates to a private label mortgage-backed security and a trust preferred security issued by a small Michigan-based community bank. The 2008 impairment charge relates to this same trust preferred security. In 2007, we recorded \$1.0 million of impairment charges on Fannie Mae and Freddie Mac preferred securities. In these instances, we believe that the decline in value is directly due to matters other than changes in interest rates, 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.) In addition, in the fourth quarter of 2008, we recorded a write down of \$6.2 million (from a par value of \$10.0 million to a fair value of \$3.8 million) related to the dissolution of a money-market auction rate security and the distribution of the underlying Bank of America preferred stock.

We evaluate securities for OTTI at least quarterly and more frequently when economic or market concerns warrant such evaluation. In performing this review, we consider (1) the length of time and extent that fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, (3) the impact of changes in market interest rates on the fair value of the security and (4) an assessment of whether we intend to sell, or it is more likely than not that we will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria in clause (4) is met, the entire difference between amortized cost and fair value is recognized in earnings.

For securities that do not meet the aforementioned criteria, the amount of impairment recognized in earnings is limited to the amount related to credit losses, while impairment related to other factors is recognized in other comprehensive income.

U.S. agency residential mortgage-backed securities at December 31, 2009, we had five securities whose fair value was less than amortized cost. The unrealized losses are largely attributed to rising interest rates. As we do not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no declines are deemed to be other than temporary.

Private label residential mortgage and other asset-backed securities at December 31, 2009, we had 23 securities whose fair value was less than amortized cost. Twenty-two of the issues are rated by a major rating agency as investment grade while one is below investment grade. Pricing conditions in the private label residential mortgage and asset-backed security markets are characterized by sporadic secondary market flow, significant implied liquidity risk premiums, a wide bid/ask spread, and an absence of new issuances of similar securities. This market has been closed to new issuances since the third quarter of 2007. Investors in this asset class have suffered significant losses, and at present there are few active buyers for this product. During the fourth quarter of 2009, secondary market trading activity increased modestly. Prices for many securities improved. Much of this improvement is due to technical issues; namely, negative new supply. One dealer reports that price improvements are generally met with increased selling, which serves to mute sustained price recovery.

The unrealized losses are largely attributable to credit spread widening on these securities. The underlying loans within these securities include Jumbo (60%), Alt A (25%), and manufactured housing (15%).

	December 31,			
	2009		2008	
		Net		Net
Fair Value	Unrealized Gain (Loss)	Fair Value	Unrealized Gain (Loss)	
	(In thousands)			

Private label residential mortgage-backed

Jumbo	\$21,718	\$(5,749)	\$26,139	\$(9,349)
Alt-A	9,257	(1,807)	10,748	(2,685)
Other asset-backed Manufactured housing	5,505	(194)	7,421	(855)

All of the private label mortgage-backed transactions have geographic concentrations in California, ranging from 29% to 59% of the collateral pool. Typical exposure levels to California (median exposure is 43%) are consistent with overall market collateral characteristics. Six transactions have modest exposure to Florida, ranging from 5% to 11%, and one transaction has modest exposure to Arizona (5%). The underlying collateral pools do not have meaningful exposure to Nevada, Michigan or Ohio. None of the issues involve subprime mortgage collateral. Thus the impact of this market segment is only indirect, in that it has impacted liquidity and pricing in general for private label mortgage-backed securities. The majority of transactions are backed by fully amortizing loans. However, eight transactions have concentrations in interest only loans ranging from 31% to 94%. The structure of the mortgage and asset-backed securities portfolio provides protection to credit losses. The portfolio primarily consists of senior securities as demonstrated by the following: super senior (7%), senior (73%), senior

support (12%) and mezzanine (8%). The mezzanine classes are from seasoned transactions (65 to 95 months) with significant levels of subordination (8% to 23%). Except for the additional discussion below relating to OTTI, we believe each private label mortgage and asset-backed security has sufficient credit enhancement via subordination to reasonably assure full realization of book value. Our belief is based on a transaction level review of the portfolio. Individual security reviews include: external credit ratings, forecasted weighted average life, recent prepayment speeds, underwriting characteristics of the underlying collateral, the structure of the securitization and the credit performance of the underlying collateral. The review of underwriting characteristics considers: average loan size, type of loan (fixed or ARM), vintage, rate, FICO, loan-to-value, scheduled amortization, occupancy, purpose, geographic mix and loan documentation. The review of the securitization structure focuses on the priority of cash flows to the bond, the priority of the bond relative to the realization of credit losses and the level of subordination available to absorb credit losses. The review of credit performance includes: current period as well as cumulative realized losses; the level of severe payment problems, which includes ORE, foreclosures, bankruptcy and 90 day delinquencies; and the level of less severe payment problems, which consists of 30 and 60 day delinquencies.

While the levels of identified payment problems increased modestly during 2009, we believe the amount of subordination protection remains adequate. Nevertheless, the non-performing asset coverage ratio (credit subordination divided by non-performing assets) deteriorated for four structures with five bonds. This deterioration in structure accounts for the majority of the increase in unrealized loss late in 2009. All of these securities are receiving principal and interest payments. Most of these transactions are pass-through structures, receiving pro rata principal and interest payments from a dedicated collateral pool. The non-receipt of interest cash flows is not expected and thus not presently considered in our discounted cash flow methodology discussed below.

In addition to the review discussed above, certain securities, including the one security with a rating below investment grade, were reviewed for OTTI utilizing a cash flow projection. The scope of review included securities that account for 97% of the \$7.8 million in unrealized losses. In our analysis, recovery was evaluated by discounting the expected cash flows back at the book yield. If the present value of the future cash flows is less than amortized cost, then there would be a credit loss. Our cash flow analysis forecasted cash flow from the underlying loans in each transaction and then applied these cash flows to the bonds in the securitization. The cash flows from the underlying loans considered contractual payment terms (scheduled amortization), prepayments, defaults and severity of loss given default. The analysis used dynamic assumptions for prepayments, defaults and severity. Near term prepayment assumptions were based on recently observed prepayment rates. In many cases, recently observed prepayment rates are depressed due to a sharp decline in new jumbo loan issuance. This loan market is heavily dependent upon securitization for funding, and new securitization transactions have been minimal. Our model projects that prepayment rates gradually revert to historical levels. For seasoned adjustable rate mortgage (ARM), transactions, normalized prepayment rates are estimated at 15% to 25% Conditional Prepayment Rate (CPR). For fixed rate collateral, our analysis considers the spread differential between the collateral and the current market rate for conforming mortgages. Near term default assumptions were based on recent default observations as well as the volume of existing real-estate owned, pending foreclosures and severe delinquencies. Default levels generally are projected to remain elevated or increase for a period of time sufficient to address the level of distressed loans in the transaction. Our model expects defaults to then decline gradually as the housing market and the economy stabilize, generally after two to three years. Current severity assumptions are based on recent observations. Loss severity is expected to decline gradually as the housing market and the economy stabilize, generally after two to three years. Except for one below investment grade security discussed in further detail below, our cash flow analysis forecasts complete recovery of our cost basis for each reviewed security.

The private label mortgage-backed security with a below investment grade credit rating was evaluated for OTTI using the cash flow analysis discussed above. At December 31, 2009, this security had a fair value of \$3.9 million and an unrealized loss of \$4.1 million (amortized cost of \$8.0 million). The underlying loans in this transaction are 30 year fixed rate jumbos with an average origination date FICO of 748 and an average origination date loan-to-value ratio of 73%. The loans backing this transaction were originated in 2007 and is our only security backed by 2007 vintage loans. We believe that this vintage is a key differentiating factor between this security and the others in our portfolio that are rated above investment grade. The bond is a senior security that is receiving principal and interest payments

similar to principal reductions in the underlying collateral. The cash flow analysis described above calculated an OTTI of \$4.1 million at December 31, 2009, \$0.065 million of this amount was attributed to credit and was recognized in our consolidated statements of operations while the balance was attributed to other factors and reflected in our consolidated statements of other comprehensive income (loss).

As we do not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no other declines discussed above are deemed to be other than temporary.

Obligations of states and political subdivisions at December 31, 2009, we had 32 municipal securities whose fair value was less than amortized cost. The unrealized losses are largely attributed to a widening of market spreads and continued illiquidity for certain issues. The majority of the securities are not rated by a major rating agency. Approximately 75% of the non rated securities originally had a AAA credit rating by virtue of bond insurance. However, the insurance provider no longer has an investment grade rating. The remaining non rated issues are small local issues that did not receive a credit rating due to the size of the transaction. The non-rated securities have a periodic internal credit review according to established procedures. As we do not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no declines are deemed to be other than temporary.

Trust preferred securities at December 31, 2009, we had six securities whose fair value was less than amortized cost. All of our trust preferred securities are single issue securities issued by a trust subsidiary of a bank holding company. The pricing of trust preferred securities over the past two years has suffered from significant credit spread widening fueled by uncertainty regarding potential losses of financial companies, the absence of a liquid functioning secondary market and potential supply concerns from financial companies issuing new debt to recapitalize themselves. Since the end of the first quarter of 2009, although still showing signs of weakness, pricing has improved somewhat as some uncertainty has been taken out of the market. Two of the six securities are rated by a major rating agency as investment grade, while two are split rated (these securities are rated as investment grade by one major rating agency and below investment grade by another) and the other two are non-rated. The two non-rated issues are relatively small banks and neither of these issues were ever rated. The issuers on these trust preferred securities, which had a combined book value of \$2.8 million and a combined fair value of \$1.8 million as of December 31, 2009, continue to make interest payments and have satisfactory credit metrics.

Our OTTI analysis for trust preferred securities is based on a security level financial analysis of the issuer. This review considers: external credit ratings, maturity date of the instrument, the scope of the bank's operations, relevant financial metrics and recent issuer specific news. The analysis of relevant financial metrics includes: capital adequacy, assets quality, earnings and liquidity. We use the same OTTI review methodology for both rated and non-rated issues. During the first quarter of 2009, we recorded OTTI on an unrated trust preferred security whose fair value at December 31, 2009 now exceeds its amortized cost. Specifically, this issuer has deferred interest payments on all of its trust preferred securities and is operating under a written agreement with the regulatory agencies that specifically prohibit dividend payments. The issuer is a relatively small bank with operations centered in southeast Michigan. The issuer reported losses in 2009 and 2008 and has a high volume of nonperforming assets relative to tangible capital. This investment's amortized cost has been written down to a price of 26.75, or \$0.07 million, compared to a par value of 100.00, or \$0.25 million.

Securities (Quarter Ends)

	Amortized Cost	Unrealized Gains Losses		Fair Value
		(In thousands)		
Securities available for sale				
June 30, 2010	\$118,235	\$ 882	\$ 6,170	\$112,947
December 31, 2009	171,049	3,149	10,047	164,151

Securities available for sale declined during 2010 because sales, maturities and principal payments in the portfolio were not entirely replaced with new purchases. We sold municipal securities in 2010 and 2009 primarily because our current tax situation (net operating loss carryforward) negates the benefit of holding tax exempt securities. In 2010, we also sold certain agency and private-label residential mortgage-backed securities and bank trust preferred securities to augment our liquidity. (See *Liquidity and Capital Resources.*)

We did not record any other than temporary impairment charges on securities in the second quarter of 2010 or 2009. We recorded other than temporary impairment charges on securities of \$0.1 million and \$0.02 million during the first quarter of 2010 and 2009, respectively. In these instances we believe that the decline in value is directly due to matters other than changes in interest rates, are not expected to be recovered within a reasonable timeframe based upon available information and are therefore other than temporary in nature. The 2010 charge related to a trust preferred security and a private label residential mortgage-backed security. The 2009 charge related to a trust preferred security. (See *Non-Interest Income* and *Asset/Liability Management.*)

Sales of securities were as follows (See *Non-Interest Income.*):

Three months ended		Six months ended	
June 30,		June 30,	
2010	2009	2010	2009

(in thousands)

Proceeds	\$ 69,270	\$ 20,729	\$ 94,685	\$ 27,163
Gross gains	\$ 1,572	\$ 2,610	\$ 1,876	\$ 2,835
Gross losses	(187)	(101)	(221)	(107)
Impairment charges			(118)	(17)
Fair value adjustments	(22)	1,721	(27)	938
Net gains (losses)	\$ 1,363	\$ 4,230	\$ 1,510	\$ 3,649

75

Portfolio Loans and Asset Quality

In addition to the communities served by our bank branch network, our principal lending markets also include nearby communities and metropolitan areas. Subject to established underwriting criteria, we also historically participated in commercial lending transactions with certain non-affiliated banks and also purchased mortgage loans from third-party originators. Currently, we are not engaging in any new commercial loan participations with non-affiliated banks or purchasing any mortgage loans from third party originators.

The senior management and board of directors of our bank retain authority and responsibility for credit decisions, and we have adopted uniform underwriting standards. Our loan committee structure and the loan review process attempt to provide requisite controls and promote compliance with such established underwriting standards. There can be no assurance that these lending procedures and the use of uniform underwriting standards will prevent us from incurring significant credit losses in our lending activities. In fact, we have experienced an elevated provision for loan losses since 2007, compared to historical levels.

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.)

Loan Portfolio Composition (Fiscal Year Ends)

	December 31,	
	2009	2008
	(In thousands)	
Real estate ⁽¹⁾		
Residential first mortgages	\$ 684,567	\$ 760,201
Residential home equity and other junior mortgages	203,222	229,865
Construction and land development	69,496	127,092
Other ⁽²⁾	585,988	666,876
Payment plan receivables	406,341	286,836
Commercial	187,110	207,516
Consumer	156,213	171,747
Agricultural	6,435	9,396
Total loans	\$ 2,299,372	\$ 2,459,529

(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.

Future growth of overall portfolio loans is dependent upon a number of competitive and economic factors. Overall loan growth has slowed since 2007, reflecting weak economic conditions in Michigan. Further, it is our desire to reduce certain loan categories in order to preserve our regulatory capital ratios or for risk management reasons. For example, construction and land development loans have been declining because we are seeking to shrink this portion of our portfolio loans due to a very poor economic climate for real estate development, particularly residential real estate. In addition, payment plan receivables declined in 2010 as we seek to reduce Mepco's vehicle service contract payment plan business. (See Non-Interest Expense.) Declines in portfolio loans or competition that leads to lower relative pricing on new portfolio loans could adversely impact our future operating results.

Non-Performing Assets (Fiscal Year Ends)

	2009	December 31, 2008	2007
	(Dollars in thousands)		
Non-accrual loans	\$ 105,965	\$ 122,639	\$ 72,682
Loans 90 days or more past due and still accruing interest	3,940	2,626	4,394
Total non-performing loans	109,905	125,265	77,076
Other real estate and repossessed assets	31,534	19,998	9,723
Total non-performing assets	\$ 141,439	\$ 145,263	\$ 86,799
As a percent of Portfolio Loans			
Non-performing loans	4.78%	5.09%	3.06%
Allowance for loan losses	3.55	2.35	1.80
Non-performing assets to total assets	4.77	4.91	2.67
Allowance for loan losses as a percent of non-performing loans	74	46	59

Non-Performing Assets (Quarter Ends) ⁽¹⁾

	June 30, 2010	December 31, 2009
	(Dollars in thousands)	
Non-accrual loans	\$ 84,158	\$ 105,965
Loans 90 days or more past due and still accruing interest	356	3,940
Total non-performing loans	84,514	109,905
Other real estate and repossessed assets	41,785	31,534
Total non-performing assets	\$ 126,299	\$ 141,439
As a percent of Portfolio Loans		
Non-performing loans	4.16%	4.78%
Allowance for loan losses	3.72	3.55
Non-performing assets to total assets	4.61	4.77
Allowance for loan losses as a percent of non-performing loans	89.46	74.35

(1) Excludes loans classified as troubled debt restructured that are still

performing.

Non-performing loans declined by \$15.4 million, or 12.3%, from year-end 2008 to year-end 2009. An increase in non-performing mortgage loans and consumer loans was more than offset by a decline in non-performing commercial loans. The decline in non-performing commercial loans is primarily due to net charge-offs and the payoff or other disposition of non-performing credits during 2009. The decrease in non-performing loans since year-end 2009 is due principally to declines in non-performing commercial loans and residential mortgage loans. These declines primarily reflect net charge-offs, pay-offs, negotiated transactions, and the migration of loans into ORE during the first half of 2010. Non-performing commercial loans largely relate to delinquencies caused by cash flow difficulties encountered by real estate developers (primarily due to a decline in sales of real estate) as well as owners of income-producing properties (primarily due to higher vacancy rates and/or lower rental rates). Non-performing commercial loans have declined for the past six quarters. The elevated level of non-performing residential mortgage loans is primarily due to increased delinquencies reflecting both weak economic conditions and soft residential real estate values in many parts of Michigan. However, retail non-performing loans have declined for four consecutive quarters and are at their lowest level since the first quarter of 2009.

ORE and repossessed assets totaled \$41.8 million at June 30, 2010, compared to \$31.5 million at December 31, 2009. This increase is the result of the migration of non-performing loans secured by real estate into ORE as the foreclosure process is completed and any redemption period expires. High foreclosure rates are evident nationwide, but Michigan has consistently had one of the higher foreclosure rates in the U.S. during the past few years. We believe that this high foreclosure rate is due to both weak economic conditions and declining residential real estate values (which has eroded or eliminated the equity that many mortgagors had in their home). Because the redemption period on

foreclosures is relatively long in Michigan (six months to one year) and we have many non-performing loans that were in the process of foreclosure at June 30, 2010, we anticipate that our level of ORE and repossessed assets will likely remain at elevated levels for some period of time. An elevated level of non-performing assets adversely impacts our net interest income.

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.

Allocation of the Allowance for Loan Losses (Fiscal Year Ends)

	2009	December 31, 2008	2007
		(In thousands)	
Specific allocations	\$ 29,593	\$ 16,788	\$ 10,713
Other adversely rated loans	14,481	9,511	10,804
Historical loss allocations	22,777	20,270	14,668
Additional allocations based on subjective factors	14,866	11,331	9,109
Total	\$ 81,717	\$ 57,900	\$ 45,294

Allocation of the Allowance for Loan Losses (Quarter Ends)

	June 30, 2010	December 31, 2009
	(In thousands)	
Specific allocations	\$ 30,099	\$ 29,593
Other adversely rated loans	9,392	14,481
Historical loss allocations	21,740	22,777
Additional allocations based on subjective factors	14,375	14,866
	\$ 75,606	\$ 81,717

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, discounted collateral exposure, and discounted cash flow analysis.

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 both the probability of default and the expected loss rate, or loss given default. The lower the rating assigned to a loan or category, the greater the allocation percentage that is applied. For higher rated loans non-watch credit, we again determine a probability of default and loss given default in order to apply an allocation percentage.

The third element is determined by assigning allocations to homogeneous loan groups based principally upon the five-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 an analysis of delinquent loans. 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 this fourth element, 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 losses is determined in a similar manner as discussed above and primarily takes into account historical loss experience and other subjective factors deemed relevant to its business. Losses associated with Mepco's vehicle service contract payment plans are included in the provision for loan losses. Such losses totaled \$0.3 million, \$0.04 million and \$0.4 million in 2009, 2008 and 2007, respectively. Mepco recorded a credit of \$0.2 million for its provision for loan losses in the first half of 2010 due primarily to a significant decline (\$120.6 million) in the balance of payment plan receivables. This compares to a provision for losses of \$0.3 million in the first half of 2009. Mepco's allowance for losses totaled \$0.5 million and \$0.8 million at June 30, 2010 and December 31, 2009, respectively. Mepco has established procedures for payment plan servicing/administration and collections, including the timely cancellation of the vehicle service contract, in order to protect our collateral position in the event of payment default or voluntary cancellation by the customer. Mepco also has established procedures to attempt to prevent and detect fraud since the payment plan origination activities and initial customer contact is entirely done through unrelated third parties (vehicle service contract administrators and sellers or automobile dealerships). However, 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. The allowance for loan losses for Mepco discussed in this paragraph represents losses associated with outstanding payment plan receivables and is to be distinguished from losses associated with amounts owing to Mepco from its counterparties as a result of the cancellation of a service contract. The provision taken for this latter type of losses is referred to as vehicle service contract payment plan counterparty contingencies expense and is described in more detail under Summary Mepco Finance Corporation above.

The allowance for loan losses increased to 3.55% of total portfolio loans at December 31, 2009 from 2.35% at December 31, 2008. This increase is primarily due to increases in all of the components of the allowance for loan losses outlined above. The allowance for loan losses related to specific loans increased due to larger reserves on some individual credits even though total non-performing commercial loans have declined since year end 2008. The allowance for loan losses related to other adversely rated loans increased primarily due to changes in the mix of commercial loan ratings. The allowance for loan losses related to historical losses increased due to higher loan net charge-offs (which was largely offset by declines in loan balances). Finally, the allowance for loan losses related to subjective factors increased primarily due to weaker economic conditions in Michigan that have contributed to elevated levels of non-performing loans and net loan charge-offs.

The allowance for loan losses decreased \$6.1 million from \$81.7 million at December 31, 2009 to \$75.6 million at June 30, 2010 and was equal to 3.72% of total portfolio loans at June 30, 2010 compared to 3.55% at December 31, 2009. Three of the four components of the allowance for loan losses outlined above declined during the first half of 2010. The allowance for loan losses related to specific loans increased due to a \$10.2 million increase in loss allocations on troubled debt restructured credits which totaled \$18.8 million at June 30, 2010, compared to \$8.6 million at December 31, 2009. This increase is due in part to a \$34.4 million increase in the balance of these loans during the first six months of 2010 which totaled \$112.2 million at June 30, 2010, compared to \$77.8 million at December 31, 2009. This increase was partially offset by a decline in loss allocations on individual commercial credits. The allowance for loan losses related to other adversely rated loans decreased \$5.1 million from December 31, 2009 to June 30, 2010 primarily due to a \$18.3 million decrease in the balance of such loans from \$140.4 million at December 31, 2009 to \$122.1 million at June 30, 2010, with the most significant decrease occurring in non-impaired substandard commercial loans with balances of over \$1 million, which decreased \$16.2 million from \$19.5 million at December 31, 2009 to \$3.3 million at June 30, 2010. The allowance allocation determined on these loans, based on discounted collateral or cash flow analysis, was reduced \$4.4 million from \$6.0 million at December 31, 2009 to \$1.6 million at June 30, 2010. The allowance for loan losses related to historical losses decreased due to declines in loan balances, as total loans declined \$266.4 million from \$2.299 billion at December 31, 2009 to \$2.033 billion at June 30, 2010. Finally, the allowance for loan losses related to subjective factors decreased slightly primarily due to the improvement in certain economic indicators used in computing this portion of the allowance.

Allowance for Losses on Loans and Unfunded Commitments (Fiscal Year Ends)

	2009		2008		2007	
	Loan Losses	Unfunded Commitments	Loan Losses	Unfunded Commitments	Loan Losses	Unfunded Commitments
	(Dollars in thousands)					
Balance at beginning of year	\$ 57,900	\$ 2,144	\$ 45,294	\$ 1,936	\$ 26,879	\$ 1,881
Additions (deductions)						
Provision charged to operating expense	103,318		71,113		43,105	
Recoveries credited to allowance	2,795		3,489		2,346	
Loans charged against the allowance	(82,296)		(61,996)		(27,036)	
Additions (deductions) included in non-interest expense		(286)		208		55
Balance at end of year	\$ 81,717	\$ 1,858	\$ 57,900	\$ 2,144	\$ 45,294	\$ 1,936
Net loans charged against the allowance to average portfolio loans	3.28%		2.30%		0.98%	

Allowance for Losses on Loans and Unfunded Commitments (Period Ends)

	Six months ended June 30,			
	2010		2009	
	Loans	Unfunded Commitments	Loans	Unfunded Commitments
	(Dollars in thousands)			
Balance at beginning of period	\$ 81,717	\$ 1,858	\$ 57,900	\$ 2,144
Additions (deductions)				
Provision for loan losses	29,694		55,783	
Recoveries credited to allowance	1,839		1,494	
Loans charged against the allowance	(37,644)		(49,906)	
Additions (deductions) included in non-interest expense		336		(152)
Balance at end of period	\$ 75,606	\$ 2,194	\$ 65,271	\$ 1,992
Net loans charged against the allowance to average Portfolio Loans (annualized)	3.33%		3.98%	

The ratio of loan net charge-offs to average loans was 3.28% in 2009 (or \$79.5 million) compared to 2.30% in 2008 (or \$58.5 million). The rise in loan net charge-offs primarily reflects increases of \$9.3 million for commercial loans and \$10.5 million for residential mortgage loans. These increases in loan net charge-offs primarily reflect elevated levels of non-performing loans and lower collateral liquidation values, particularly on residential real estate

or real estate held for development. We do not believe that the elevated level of total loan net charge-offs in 2009 is indicative of what we will experience in the future. Loan net charge-offs have moderated during 2009 with \$48.4 million in the first six months compared to \$31.1 million in the last six months. The majority of the loan net charge-offs in the first part of 2009 related to commercial loans and in particular several land or land development loans (due to significant drops in real estate values) and one large commercial credit (which defaulted in March 2009). Land and land development loans now total just \$59.8 million (or 2.0% of total assets) and approximately 56% of these loans are already in non-performing or watch credit status and the entire portfolio has been carefully evaluated and we believe an appropriate allowance or charge-off has been recorded. Further, the commercial loan portfolio is thoroughly analyzed each quarter through our credit review process and we believe an appropriate allowance and provision for loan losses is recorded based on such review and in light of prevailing market conditions.

The ratio of loan net charge-offs to average loans was 3.33% on an annualized basis in the first half of 2010 compared to 3.98% in the first half of 2009. The decline in loan net charge-offs primarily reflects a decrease of \$12.7 million for commercial loans. The reduced level of commercial loan net charge-offs principally reflects a decline in the level of non-performing commercial loans. The commercial loan portfolio is thoroughly analyzed each quarter through our credit review process and an appropriate allowance and provision for loan losses is recorded based on such review and in light of prevailing market and loan collection conditions.

We have taken a variety of steps, beginning in 2007, to address the credit issues identified above (elevated levels of watch credits, non-performing loans and other real estate and repossessed assets), including the following:

An enhanced quarterly watch credit review process to proactively manage higher risk loans.

Loan risk ratings are independently assigned and structure recommendations made upfront by our credit officers.

A special assets group has been established to provide more effective management of our most troubled loans. A select group of law firms supports this team, providing professional advice and systemic feedback.

An independent loan review function provides portfolio/individual loan feedback to evaluate the effectiveness of processes by market.

Management (incentive) objectives for each commercial lender and senior commercial lender emphasize credit quality in addition to profitability.

Portfolio concentrations are monitored with select loan types encouraged and other loan types (such as residential real estate development) requiring significantly higher approval authorities.

Deposits and Borrowings

Historically, the loyalty of our customer base has allowed us to price deposits competitively, contributing to a net interest margin that compares favorably to our peers. However, we still face a significant amount of competition for deposits within many of the markets served by our branch network, which 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 bank, and branch staff sales training. This program has historically generated increases in customer relationships as well as deposit service charges. Over the past two to three years, we have also expanded our treasury management products and services for commercial businesses and municipalities or other governmental units and have also increased our sales calling efforts in order to attract additional deposit relationships from these sectors. We view long-term core deposit growth as an important objective. Core deposits generally provide a more stable and lower cost source of funds than alternative sources such as short-term borrowings. As a result, funding portfolio loans with alternative sources of funds (as opposed to core deposits) may erode certain of our profitability measures, such as return on assets, and may also adversely impact our liquidity. (See Liquidity and Capital Resources.)

During the fourth quarter of 2009, we prepaid estimated quarterly deposit insurance premium assessments to the FDIC for periods through the fourth quarter of 2012. These estimated quarterly deposit insurance premium assessments were based on projected deposit balances over the assessment periods. The prepaid deposit insurance premium assessments totaled \$18.8 million and \$22.0 million at June 30, 2010 and December 31, 2009, respectively, and will be expensed over the assessment period (through the fourth quarter of 2012). The actual expense over the assessment periods may be different from this prepaid amount due to various factors including variances in actual deposit balances and assessment rates used during each assessment period.

We have also implemented strategies that incorporate federal funds purchased, other borrowings and brokered CDs to fund a portion of any increases in interest earning assets. The use of such alternate sources of funds supplements our core deposits and is also an integral part of our asset/liability management efforts.

Alternate Sources of Funds (Fiscal Year Ends)

	Amount	2009 Average Maturity	December 31,		2008 Average Maturity	Rate
			Rate	Amount (Dollars in thousands)		
Brokered CDs ⁽¹⁾	\$ 629,150	2.2 years	2.46%	\$ 182,283	1.1 years	3.63%
Fixed-rate FHLB advances ⁽¹⁾	27,382	5.5 years	6.59	95,714	2.2 years	3.64
Variable-rate FHLB advances ⁽¹⁾	67,000	1.4 years	0.32	218,500	2.3 years	3.43
Securities sold under agreements to repurchase ⁽¹⁾	35,000	.9 years	4.42	35,000	1.9 years	4.42
FRB borrowings				189,500	.1 years	0.54
Federal funds purchased				750	1 day	0.25
Total	\$ 758,532	2.2 years	2.51%	\$ 721,747	1.4 years	2.80%

(1) Certain of these items have had their average maturity and rate altered through the use of derivative instruments, such as pay-fixed interest-rate swaps.

Alternate Sources of Funds (Quarter Ends)

	Amount	June 30, 2010 Average Maturity	Rate	December 31,		Rate
				2009 Average Maturity	Amount (Dollars in thousands)	
Brokered CDs ⁽¹⁾	\$ 422,749	2.5 years	2.95%	\$ 629,150	2.2 years	2.46%
Fixed rate FHLB advances ⁽¹⁾	23,275	5.9 years	6.41	27,382	5.5 years	6.59
Variable rate FHLB advances ⁽¹⁾	75,000	1.2 years	0.48	67,000	1.4 years	0.32

Securities sold under agreements to repurchase ⁽¹⁾	35,000	.4 years	4.42	35,000	.9 years	4.42
Total	\$ 556,024	2.3 years	2.86%	\$ 758,532	2.2 years	2.51%

(1) Certain of these items have had their average maturity and rate altered through the use of derivative instruments, including pay-fixed interest rate swaps.

Other borrowings, principally advances from the FHLB, borrowings from the Federal Reserve, and securities sold under agreements to repurchase, or repurchase agreements, totaled \$133.4 million at June 30, 2010, compared to \$131.2 million at December 31, 2009 and \$542.0 million at December 31, 2008. The \$410.8 million decrease in other borrowed funds from December 31, 2009 to December 31, 2008 principally reflects the repayment of borrowings from the Federal Reserve and the FHLB with funds from new brokered CDs or from the growth in other deposits. The increase in brokered CDs and use of these funds to repay borrowings from the Federal Reserve and the FHLB is designed to improve our liquidity profile. The brokered CDs that we are issuing do not require any collateral and have longer maturity dates (generally two to five years). By paying off Federal Reserve and the FHLB borrowings (which do require collateral), we increase our secured borrowing capacity. The \$2.2 million increase in other borrowed funds from June 30, 2010 to December 31, 2009 principally reflects additional borrowings from the FHLB.

As described above, we rely to some degree on wholesale funding (including Federal Reserve and the FHLB borrowings and brokered CDs) to augment our core deposits to fund our business. As of June 30, 2010, our use of such wholesale funding sources amounted to approximately \$556.2 million or 21.7% of total funding. Because wholesale funding sources are affected by general market conditions, the availability of funding from wholesale lenders may be dependent on the confidence these investors have in our financial condition and operations. In addition, if we fail to remain well-capitalized under federal regulatory standards, which is likely if we are unable to successfully raise additional capital in this offering, we will be prohibited from accepting or renewing brokered CDs without the prior consent of the FDIC. As of June 30, 2010, we had brokered CDs of approximately \$422.7 million or 17.8% of total deposits. Of this amount \$62.1 million mature during the next 12 months. See Risk Factors above for more information.

Moreover, we cannot be sure we will be able to maintain our current level of core deposits. In particular, those deposits that are currently uninsured or those deposits in the FDIC Transaction Account Guarantee Program, or TAGP, which is set to expire on December 31, 2010 for participating institutions that have not opted out, may be particularly susceptible to outflow (although the Dodd-Frank Wall Street Reform and

Consumer Protection Act extended protection similar to that provided under the TAGP through December 31, 2012 for only non-interest bearing transaction accounts). At June 30, 2010, we had \$88.1 million of uninsured deposits and an additional \$174.3 million of deposits in the TAGP. A reduction in core deposits would increase our need to rely on wholesale funding sources, at a time when our ability to do so may be more restricted, as described above. See Risk Factors above for more information.

Prior to April 2008, we had an unsecured revolving credit facility and term loan (that had a remaining balance of \$2.5 million). The lender elected to not renew the \$10.0 million unsecured revolving credit facility (which matured in April 2008) and required repayment of the term loan because we were out of compliance with certain financial covenants contained within the loan documents. The \$2.5 million term loan was repaid in full in April 2008 (it would have otherwise been repaid in full in accordance with the original terms in May 2009).

We employ derivative financial instruments to manage our exposure to changes in interest rates. At June 30, 2010, we employed interest-rate swaps with an aggregate notional amount of \$20.0 million and interest rate caps with an aggregate notional amount of \$35.0 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 as well as maintaining sufficient short-term liquid assets (primarily overnight deposits with the Federal Reserve) in order to be able to respond to unforeseen liquidity needs.

Our sources of funds include our deposit base, secured advances from the FHLB, secured borrowings from the Federal Reserve, a federal funds purchased borrowing facility with another commercial bank, and access to the capital markets (for brokered CDs).

At June 30, 2010 we had \$413.2 million of time deposits that mature in the next twelve months. Historically, a majority of these maturing time deposits are renewed by our customers or are brokered CDs that we expect to replace. Additionally \$1.417 billion of our deposits at June 30, 2010 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 or have been stable 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.

In particular, media reports about bank failures have created concerns among depositors at banks throughout the country, including certain of our customers, particularly those with deposit balances in excess of deposit insurance limits. In response, the FDIC announced several programs during 2008 including increasing the deposit insurance limit from \$100,000 to \$250,000 at least until December 31, 2013 and providing unlimited deposit insurance for balances in non-interest bearing demand deposit and certain low-interest (an interest rate of 0.25% or less after June 30, 2010) transaction accounts until December 31, 2010 for participating institutions that have not opted out. The Dodd-Frank Wall Street Reform and Consumer Protection Act makes the increase in the deposit insurance limit from \$100,000 to \$250,000 permanent and extends protection similar to that provided under the TAGP for only non-interest bearing transaction accounts through December 31, 2012. We have proactively sought to provide appropriate information to our deposit customers about our organization in order to retain our business and deposit relationships. See Risk Factors above for information regarding risks we face with respect to a possible outflow of our core deposits.

We have developed contingency funding plans that stress tests our liquidity needs that may arise from certain events such as an adverse credit event or a disaster recovery situation. Our liquidity management also includes periodic monitoring 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.

As a result of the liquidity risks described above and in Deposits and Borrowings, we have increased our level of overnight cash balances in interest-bearing accounts to \$303.3 million at June 30, 2010 from \$223.5 million at

December 31, 2009 and \$19.2 million at June 30, 2009. We have also issued longer-term (two to five years) callable brokered CDs and reduced certain secured borrowings (such as the Federal Reserve) to increase available funding sources. We believe these actions will assist us in meeting our liquidity needs during 2010.

In addition to these measures, on July 7, 2010, we entered into an Investment Agreement with Dutchess Opportunity Fund, II, LP (the Investor) that establishes an equity line facility as a contingent source of liquidity for our holding company. Pursuant to the Investment Agreement, the Investor committed to purchase up to \$15 million of our common stock over a 36-month period after the registration statement referenced below becomes effective. We have the right, but no obligation, to draw on this equity line facility from time to time during such 36-month period by selling shares of our common stock to the Investor. The sales price would be at a 5% discount to the market price of our common stock at the time of the draw, as such market price is determined pursuant to the terms of the Investment Agreement. To date, no securities have been sold under the equity line facility. In connection with such Investment Agreement, we entered into a Registration Rights Agreement with the Investor, pursuant to which we agreed to register for resale the shares that may be sold to the Investor with the Securities and Exchange Commission. Copies of the Investment Agreement and the Registration Rights Agreement have been filed as exhibits to our

registration statement on Form S-1 of which this prospectus is a part. These agreements were entered into as a private offering exempt from registration pursuant to Section 4(2) of the Securities Act.

In the normal course of business, we enter into certain contractual obligations. Such obligations include requirements 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, 2009.

Contractual Commitments⁽¹⁾

	1 Year or Less	1-3 Years	3-5 Years	After 5 Years	Total
	(Dollars in thousands)				
Time deposit maturities	\$ 512,415	\$ 399,255	\$ 257,483	\$ 2,167	\$ 1,171,320
Other borrowings	42,800	69,634	4,240	14,508	131,182
Subordinated debentures				92,888	92,888
Operating lease obligations	1,179	1,979	1,658	4,813	9,629
Purchase obligations ⁽²⁾	1,469	1,958			3,427
Total	\$ 557,863	\$ 472,826	\$ 263,381	\$ 114,376	\$ 1,408,446

(1) Excludes approximately \$0.9 million of accrued tax and interest relative to uncertain tax benefits due to the high degree of uncertainty as to when, or if, those amounts would be paid.

(2) 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 cumulative trust preferred securities and cumulative preferred stock.

Capitalization

June 30,

December 31,

	2010	2009	2008
	(Dollars in thousands)		
Subordinated debentures	\$ 50,175	\$ 92,888	\$ 92,888
Amount not qualifying as regulatory capital	(1,507)	(2,788)	(2,788)
Amount qualifying as regulatory capital	48,668	90,100	90,100
Shareholders' equity			
Preferred stock	70,458	69,157	68,456
Common stock	250,737	2,386	2,279
Capital surplus		223,095	221,199
Accumulated deficit	(177,242)	(169,098)	(73,849)
Accumulated other comprehensive loss	(14,281)	(15,679)	(23,208)
Total shareholders' equity	129,672	109,861	194,877
Total capitalization	\$ 178,340	\$ 199,961	\$ 284,977

We have four special purpose entities that originally issued \$90.1 million of cumulative trust preferred securities outside of IBC. On June 23, 2010, we exchanged 5.1 million shares of our common stock (having a fair value of approximately \$23.5 million on the date of the exchange) for \$41.4 million in liquidation amount of trust preferred securities and \$2.3 million of accrued and unpaid interest on such securities. As a result, at June 30, 2010, \$48.7 million of cumulative trust preferred securities remained outstanding. These entities have also issued common securities and capital to IBC that in turn, issued subordinated debentures to these special purpose entities equal to the trust preferred securities, common securities and capital issued. The subordinated debentures represent the sole asset of the special purpose entities. The common securities, capital and subordinated debentures are included in our Consolidated Statements of Financial Condition at June 30, 2010 and December 31, 2009.

The Federal Reserve has issued rules regarding trust preferred securities as a component of the Tier 1 capital of bank holding companies. The aggregate amount of trust preferred securities (and certain other capital elements) is limited to 25 percent of Tier 1 capital elements, net of goodwill (net of any associated deferred tax liability). The amount of trust preferred securities and certain other elements in excess of the limit can be included in the Tier 2 capital, subject to restrictions. Currently, at IBC, \$48.0 million of these securities qualify as Tier 1 capital.

In December 2008, we issued 72,000 shares of Series A, \$1,000 liquidation amount, fixed rate cumulative perpetual preferred stock and a warrant to purchase 346,154 shares (at \$31.20 per share) of our common stock to the Treasury in return for \$72.0 million under the TARP CPP. Of the total proceeds, \$68.4 million was originally allocated to the Series A Preferred Stock and \$3.6 million was allocated to the Warrant (included in capital surplus) based on the relative fair value of each. The \$3.6 million discount on the Preferred Stock is being accreted using an effective yield method over five years. The accretion had been recorded as part of the Series A Preferred Stock dividend.

As described under *Capital Plan and This Offering* above, on April 16, 2010, we exchanged the Series A Preferred Stock for our Series B Convertible Preferred Stock. The shares of Series B Convertible Preferred Stock were issued in a private placement exempt from registration pursuant to Section 4(2) of the Securities Act of 1933. We did not receive any cash proceeds from the issuance of the Series B Convertible Preferred Stock. In general, the terms of the Series B Convertible Preferred Stock are substantially similar to the terms of the Series A Preferred Stock that was held by the Treasury, except that the Series B Convertible Preferred Stock is convertible into our common stock. When we completed this exchange, we also amended and restated the Warrant to make the initial exercise price of the Warrant equal to the initial conversion price for the Series B Convertible Preferred Stock. See *Capital Plan and This Offering* and *Description of Our Capital Stock* for more information regarding the terms of the Series B Convertible Preferred Stock and the amended Warrant.

We recorded the exchange of the Series A Preferred Stock for the Series B Convertible Preferred Stock and the exchange of the original Warrant for the amended and restated Warrant in the second quarter of 2010 based on the relative fair values of these newly issued instruments. Because we have exchanged one equity instrument for another, similar equity instrument, no gain or loss was recorded related to this exchange.

In the fourth quarter of 2009, we took certain actions to improve our regulatory capital ratios and preserve capital and liquidity. These actions are described in *Capital Plan and This Offering* above. See also *Description of Our Capital Stock* below for more information regarding the terms of our capital stock, including certain restrictions imposed on us as a result of our decision to defer dividends on our trust preferred securities and preferred stock.

To supplement our balance sheet and capital management activities, we historically would repurchase our common stock. The level of share repurchases in a given time period generally reflected changes in our need for capital associated with our balance sheet growth and our level of earnings. The only share repurchases currently being executed are for our deferred compensation and stock purchase plan for non-employee directors. Such repurchases are funded by the director deferring a portion of his or her fees.

Shareholders' equity applicable to common stock declined to \$40.7 million at December 31, 2009 from \$126.4 million at December 31, 2008. Our tangible common equity, or TCE, totaled \$30.4 million and \$97.5 million, respectively, at those same dates. Our ratio of TCE to tangible assets was 1.03% at December 31, 2009 compared to 3.33% at December 31, 2008 (this calculation does not deduct any net deferred taxes). Shareholders' equity applicable to common stock increased to \$59.2 million at June 30, 2010 from \$40.7 million at December 31, 2009. Our TCE totaled \$49.6 million and \$30.4 million, respectively, at those same dates. Our ratio of TCE to tangible assets was 1.82% at June 30, 2010 compared to 1.03% at December 31, 2009. As previously noted, the foregoing are considered to be non-GAAP financial measures. Please refer to *Non-GAAP Financial Measures* above for certain reconciliations to GAAP.

We are pursuing various alternatives in order to increase our TCE and regulatory capital ratios. These initiatives are described under *Capital Plan and This Offering* above. Although our bank's regulatory capital ratios remain at levels above well capitalized standards, because of: (a) the losses that we have incurred in recent quarters; (b) our elevated levels of non-performing loans and other real estate; (c) increases in vehicle service contract counterparty contingencies expense; (d) the ongoing economic stress in Michigan; and (e) our anticipated future losses, we believe

our pursuit of the initiatives described in our Capital Plan is important.

The primary objective of our Capital Plan is to achieve and thereafter maintain the minimum capital ratios required by our bank's board resolutions adopted in December 2009. As of June 30, 2010, our bank continued to meet the requirements to be considered well-capitalized under federal regulatory standards. However, the minimum capital ratios established by our bank's board are higher than the ratios required in order to be considered well-capitalized under federal standards. The board imposed these higher ratios in order to ensure that we have sufficient capital to withstand potential continuing losses based on our elevated level of non-performing assets and given certain other risks and uncertainties we face. Set forth below are the actual capital ratios of our bank as of June 30, 2010, the minimum capital ratios imposed by the board resolutions, and the minimum ratios necessary to be considered well-capitalized and adequately capitalized under federal regulatory standards:

Bank Capital Ratios

	Actual	Actual	Minimum	Minimum	Minimum
	June 30,	December	Ratios	Ratio for	Ratio for
	2010	31,	Established	Adequately	Well
		2009	By Our	Capitalized	Capitalized
			Board	Institutions	Institutions
Tier 1 capital to average assets	6.37%	6.72%	8.00%	4.00%	5.00%
Tier 1 risk-based capital	9.27	9.08	N/A	4.00	6.00
Total risk-based capital	10.55	10.36	11.00	8.00	10.00

Shareholders' equity totaled \$109.9 million at December 31, 2009. The decrease from \$194.9 million at December 31, 2008 primarily reflects the loss that we incurred in 2009 that was partially offset by a decline in the accumulated other comprehensive loss. Shareholders' equity was equal to 3.70% of total assets at December 31, 2009, compared to 6.59% a year earlier.

Total shareholders' equity at June 30, 2010 increased by \$19.8 million from December 31, 2009, due primarily to our exchange of common stock for trust preferred securities as described above, that was partially offset by our net loss of \$6.0 million for the first six months of 2010. Shareholders' equity totaled \$129.7 million, equal to 4.74% of total assets at June 30, 2010.

Please review Summary and Capital Plan and This Offering above for more details regarding our projected need for capital, our engagement of third parties to verify certain assumptions used in our projections, the capital raising initiatives contemplated by our Capital Plan, the current status of those initiatives, contingency plans we have developed if we are not successful in completing those initiatives, and related information.

Asset/Liability Management

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

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

We employ simulation analyses to monitor our interest-rate risk profile and evaluate potential changes in our 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 sheet. The simulations do not anticipate any actions that we might initiate in response to changes in interest rates and, accordingly, the simulations do not provide a reliable forecast of anticipated results. The simulations are predicated on immediate, permanent and parallel shifts in interest rates and generally assume that current loan and deposit pricing relationships remain constant. The simulations further incorporate assumptions relating to changes in customer behavior, including changes in prepayment rates on certain assets and liabilities.

Changes in Market Value of Portfolio Equity and Net Interest Income

Change in Interest Rates	Market Value of Portfolio Equity⁽¹⁾	Percent Change	Net Interest Income⁽²⁾	Percent Change
			(Dollars in thousands)	
June 30, 2010				
200 basis point rise	\$ 163,200	18.52%	\$ 112,600	1.26%
100 basis point rise	152,400	10.68	110,700	(0.45)
Base-rate scenario	137,700		111,200	
100 basis point decline	122,200	(11.26)	110,900	(0.27)
200 basis point decline	120,700	(12.35)	107,600	(3.24)
December 31, 2009				
200 basis point rise	\$ 160,500	16.14%	\$ 134,000	2.52%
100 basis point rise	150,400	8.83	131,300	0.46
Base-rate scenario	138,200		130,700	
100 basis point decline	128,100	(7.31)	129,900	(0.61)
200 basis point decline	126,300	(8.61)	128,900	(1.38)
December 31, 2008				
200 basis point rise	\$ 202,900	(2.50)%	\$ 125,800	(4.77)%
100 basis point rise	206,500	(0.77)	128,700	(2.57)
Base-rate scenario	208,100		132,100	
100 basis point decline	204,600	(1.68)	134,300	1.67
200 basis point decline	192,400	(7.54)	130,800	(0.98)

(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.

Management Plans and Expectations

As described earlier, we have adopted the Capital Plan which includes a series of actions designed to increase our common equity capital, decrease our expenses and enable us to withstand and better respond to current market conditions and the potential for worsening market conditions. While we are not currently subject to a regulatory agreement or enforcement action and while our bank remains well capitalized under federal regulatory standards, we believe our bank is likely to fall below the standards necessary to remain well-capitalized during the third or fourth quarter of 2010 if we are unable to raise additional capital in this offering. We expect this would have a number of material and adverse consequences, as discussed in our Risk Factors section above.

LITIGATION MATTERS

We are involved in various litigation matters in the ordinary course of business and at the present time, we do not believe that any of these matters will have a significant impact on our financial condition or results of operation.

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 mortgage loan servicing rights, derivative financial instruments, vehicle service contract payment plan counterparty contingencies, and income taxes 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. The topic of other than temporary impairment was at the forefront of discussions within the accounting profession during 2008 and 2009 because of the dislocation of the credit markets that occurred. On January 12, 2009 the FASB issued ASC 325-40-65-1 (formerly Staff Position No. EITF 99-20-1 Amendments to the Impairment Guidance of EITF Issue No. 99-20.) This standard has been applicable to our financial statements since December 31, 2008. In particular, this standard strikes the language that required the use of market participant assumptions about future cash flows from previous guidance. This change now permits the use of reasonable management judgment about whether it is probable that all previously projected cash flows will not be collected in determining other than temporary impairment. Our assessment process resulted in recording other than temporary impairment charges of \$0.1 million, \$0.2 million, and \$1.0 million in 2009, 2008, and 2007, respectively, in our consolidated statements of operations. Our assessment process resulted in recording no other than temporary impairment charges during the second quarters of 2010 and 2009. We did record other than temporary impairment charges of \$0.1 million and \$0.02 million in the first quarters of 2010 and 2009, respectively, in our consolidated statements of operations. 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. Prices for investment securities are largely provided by a pricing service. These prices consider benchmark yields, reported trades, broker / dealer quotes and issuer spreads. Furthermore, prices for mortgage-backed securities consider: To Be Announced (TBA) prices, monthly payment information and collateral performance. As of December 31, 2009, the pricing service did not provide fair values for securities with a fair value of \$36.5 million. Management estimated the fair value of these securities using similar techniques including: observed prices, benchmark yields, dealer bids and TBA pricing. These estimates are subject to change and the resulting level 3 valued securities may be volatile as a result. At June 30, 2010 the cost basis of our investment securities classified as available for sale exceeded their estimated fair value at that same date by \$5.3 million (compared to \$6.9 million at December 31, 2009 and \$16.3 million at December 31, 2008). This amount is included in the accumulated other comprehensive loss section of shareholders' equity.

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 recorded in the second quarter and first half of 2010 and 2009, respectively.

At June 30, 2010 we had approximately \$13.0 million of mortgage loan servicing rights capitalized on our balance sheet (compared to \$15.3 million at December 31, 2009). There are several critical assumptions involved in establishing the value of this asset including estimated future prepayment speeds on the underlying mortgage loans, the interest rate used to discount the net cash flows from the mortgage loan servicing, the estimated amount of ancillary income that will be received in the future (such as late fees) and the estimated cost to service the mortgage loans. We believe the assumptions that we utilize in our valuation are reasonable based upon accepted industry practices for valuing mortgage loan servicing rights and represent neither the most conservative nor aggressive assumptions. We recorded an increase in the valuation allowance on capitalized mortgage loan servicing rights of \$2.5 million in the second quarter of 2010 (compared to a decrease in such valuation allowance of \$3.0 million in the second quarter of 2009 and a decrease in such valuation allowance of \$2.3 million in 2009). Nearly all of our mortgage loans serviced for others at June 30, 2010 are for either Fannie Mae or Freddie Mac. Because of our financial condition at March 31, 2010, we received a letter from Fannie Mae in May 2010 advising us that we were in breach of the selling and servicing contract between IBC and Fannie Mae. The letter states that if this breach is not remedied as evidenced by our call report as of June 30, 2010, Fannie Mae will suspend our servicing contract. The suspension of our contract with Fannie Mae could have a material adverse impact on our financial condition and

results of operations. While our bank remains well-capitalized as of June 30, 2010, the financial condition underlying the May 2010 letter has not been remedied and we have not received further correspondence from Fannie Mae. Thus, this matter remains unresolved and the risk exists that Fannie Mae may require us to very quickly sell or transfer mortgage servicing rights to a third party or unilaterally strip us of such servicing rights if we cannot complete an approved transfer. Depending on the terms of any such transaction, this forced sale or transfer of such mortgage loan servicing rights could have a material adverse impact on our financial condition and future earnings prospects. Although we have not received any notice from Freddie Mac similar to the notice we received from Fannie Mae, a similar type of action could be taken by Freddie Mac.

We use a variety of derivative instruments to manage our interest rate risk. These derivative instruments may include interest rate swaps, collars, floors and caps and mandatory forward commitments to sell mortgage loans. Under FASB ASC Topic 815 Derivatives and Hedging 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. At June 30, 2010 we had approximately \$30.0 million in notional amount of derivative financial instruments that qualified for hedge accounting under this standard (compared to \$160.0 million at December 31, 2009). As a result, generally, changes in the fair value of those derivative financial instruments qualifying as cash flow hedges are recorded in other comprehensive income or loss. The changes in the fair value of those derivative financial instruments qualifying as fair value hedges are recorded in earnings and, generally, are offset by the change in the fair value of the hedged item which is also recorded in earnings (we currently do not have any fair value hedges). The fair value of derivative financial instruments qualifying for hedge accounting was a negative \$1.6 million at June 30, 2010 (compared to a negative \$2.3 million at December 31, 2009).

Mepco purchases payment plans from companies (which we refer to as Mepco's counterparties) that provide vehicle service contracts and similar products to consumers. The payment plans (which are classified as payment plan receivables in our consolidated statements of financial condition) permit a consumer to purchase a service contract by making installment payments, generally for a term of 12 to 24 months, to the sellers of those contracts (one of the counterparties). Mepco does not have recourse against the consumer for nonpayment of a payment plan and therefore does not evaluate the creditworthiness of the individual customer. When consumers stop making payments or exercise their right to voluntarily cancel the contract, the remaining unpaid balance of the payment plan is normally recouped by Mepco from the counterparties that sold the contract and provided the coverage. The refund obligations of these counterparties are not fully secured. We record losses in vehicle service contract counterparty contingencies expense, included in non-interest expenses, for estimated defaults by these counterparties in their obligations to Mepco. These losses (which totaled \$31.2 million, \$1.0 million, and zero, in 2009, 2008, and 2007, respectively, and which totaled \$4.9 million and \$2.2 million in the second quarter of 2010 and 2009, respectively, and \$8.3 million and \$3.0 million in the first half of 2010 and 2009, respectively) are titled "vehicle service contract counterparty contingencies" in our consolidated statements of operations. This area of accounting requires a significant amount of judgment because a number of factors can influence the amount of loss that we may ultimately incur. These factors include our estimate of future cancellations of vehicle service contracts, our evaluation of collateral that may be available to recover funds due from our counterparties, and our assessment of the amount that may ultimately be collected from counterparties in connection with their contractual obligations. We apply a rigorous process, based upon observable contract activity and past experience, to estimate probable incurred losses and quantify the necessary reserves for our vehicle service contract counterparty contingencies, but there can be no assurance that our modeling process will successfully identify all such losses. As a result, we could record future losses associated with vehicle service contract counterparty contingencies that may be materially different than the levels that we recorded thus far in 2010 and 2009.

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, 2009 we had gross deferred tax assets of \$67.3 million, gross deferred tax liabilities of \$6.5 million and a valuation allowance of \$60.2 million (\$24.0 million of such valuation allowance was established in 2009 and \$36.2 million of which was established in 2008) resulting in a net deferred tax asset of \$0.7 million. At June 30, 2010 we had gross deferred tax assets of \$69.9 million, gross deferred tax liabilities of \$6.1 million and a valuation allowance of \$62.4 million (\$2.2 million of such valuation allowance was established during the six months ended June 30, 2010, \$24.0 million of which was established in 2009 and \$36.2 million of which was established in 2008) resulting in a net deferred tax asset of \$1.4 million. This valuation allowance represents our entire net deferred tax asset except for certain deferred tax assets at Mepco that relate to state income taxes and that can be recovered based on Mepco's individual earnings. We are required to assess whether a valuation allowance should be established against our deferred tax assets based on the consideration of all available evidence using a "more likely than not" standard. In accordance with this standard, we reviewed our deferred tax assets and determined that based upon a number of factors including our declining operating performance since 2005 and our net loss in 2009 and 2008, overall negative trends in the banking industry and our expectation that our operating results will continue to be negatively affected by the overall economic environment, we should establish a valuation allowance for our deferred tax assets. In the last quarter of 2008, we recorded a \$36.2 million valuation allowance, which consisted of \$27.6 million recognized as income tax expense and \$8.6 million recognized through the accumulated other comprehensive loss component of shareholders' equity and in 2009 we recorded an additional \$24.0 million valuation allowance (which is net of a \$4.1 million allocation of deferred taxes on the accumulated other comprehensive loss component of shareholders' equity). We had recorded no valuation allowance on our net deferred tax asset in prior years because we believed that the tax benefits associated with this asset would more likely than not, be realized. Changes in tax laws, changes in tax rates and our future level of earnings can impact the ultimate realization of our net deferred tax asset as well as the valuation allowance that we have established.

At June 30, 2010 and December 31, 2009 we had no remaining goodwill. Prior to January 1, 2010, we tested our goodwill for impairment and our accounting for goodwill was a critical accounting policy.

BUSINESS

We were incorporated under the laws of the state of Michigan on September 17, 1973 for the purpose of becoming a bank holding company. We are registered under the Bank Holding Company Act of 1956, as amended, and own the outstanding stock of Independent Bank which is organized under the laws of the state of Michigan. During 2007, we consolidated our existing four bank charters into one.

Aside from the stock of our bank, we have no other substantial assets. We conduct no business except for the collection of dividends from our bank and, when declared by our board of directors, the payment of dividends to our shareholders. Certain employee retirement plans (including employee stock ownership and deferred compensation plans) as well as health and other insurance programs have been established by us. The costs of these plans are borne by our bank and its subsidiaries.

We have no material patents, trademarks, licenses or franchises except the corporate franchise of our bank which permits it to engage in commercial banking pursuant to Michigan law.

Our bank's main office location is Ionia, Michigan, and it had total loans (excluding loans held for sale) and total deposits of \$2.03 billion and \$2.38 billion, respectively, at June 30, 2010.

Our bank transacts business in the single industry of commercial banking. Most of our bank's offices provide full-service lobby and drive-thru services in the communities which they serve. Automatic teller machines are also provided at most locations.

Our bank provides a comprehensive array of products and services to individuals and businesses in the markets we serve. These products and services include checking and savings accounts, commercial loans, direct and indirect consumer financing, mortgage lending, and commercial and municipal treasury management services. Our bank's mortgage lending activities are primarily conducted through a separate mortgage bank subsidiary. In addition, Mepeco acquires and services payment plans used by consumers to purchase vehicle service contracts and similar products provided and administered by third parties. We also offer title insurance services through a separate subsidiary of our bank. Further, we provide investment and insurance services through a third party agreement with PrimeVest Financial Services, Inc. Our bank does not offer trust services. Our principal markets are the rural and suburban communities across lower Michigan that are served by our bank's branch network. Our bank serves its markets through its main office and a total of 105 branches, 4 drive-thru facilities and 5 loan production offices. The ongoing economic stress in Michigan has adversely impacted many of our markets, which is manifested in higher levels of loan defaults and lower demand for credit.

Our bank competes with other commercial banks, savings banks, credit unions, mortgage banking companies, securities brokerage companies, insurance companies, and money market mutual funds. Many of these competitors have substantially greater resources than we do and offer certain services that we do not currently provide. Such competitors may also have greater lending limits than our bank. In addition, non-bank competitors are generally not subject to the extensive regulations applicable to us.

Price (the interest charged on loans and/or paid on deposits) remains a principal means of competition within the financial services industry. Our bank also competes on the basis of service and convenience in providing financial services.

The principal sources of revenue, on a consolidated basis, are interest and fees on loans, other interest income and non-interest income. The sources of revenue for the three most recent years are as follows:

	2009	2008	2007
Interest and fees on loans	71.8%	80.0%	74.8%
Other interest income	4.5	7.3	7.7
Non-interest income	23.7	12.7	17.5
	100.0%	100.0%	100.0%

As of June 30, 2010, we had 1,013 full-time employees and 297 part-time employees.

Supervision and Regulation

The following is a summary of certain statutes and regulations affecting us. A change in applicable laws or regulations may have a material effect on us and our bank.

General

Financial institutions and their holding companies are extensively regulated under federal and state law. Consequently, our growth and earnings performance can be affected not only by management decisions and general and local economic conditions, but also by the statutes administered by, and the regulations and policies of, various governmental regulatory authorities. Those authorities include, but are not limited to, the Federal Reserve, the Federal Deposit Insurance Corporation (FDIC), the Michigan OFIR, the Internal Revenue Service, and state taxing authorities. The effect of such statutes, regulations and policies and any changes thereto can be significant and cannot necessarily be predicted.

Federal and state laws and regulations generally applicable to financial institutions and their holding companies regulate, among other things, the scope of business, investments, reserves against deposits, capital levels, lending activities and practices, the nature and amount of collateral for loans, the establishment of branches, mergers, consolidations and dividends. The system of supervision and regulation applicable to us establishes a comprehensive framework for our operations and is intended primarily for the protection of the FDIC's deposit insurance funds, our depositors, and the public, rather than our shareholders.

Federal law and regulations establish supervisory standards applicable to the lending activities of our bank, including internal controls, credit underwriting, loan documentation and loan-to-value ratios for loans secured by real property.

Regulatory Developments

Emergency Economic Stabilization Act of 2008. On October 3, 2008, Congress enacted the Emergency Economic Stabilization Act of 2008 (EESA). The EESA enables the federal government, under terms and conditions developed by the Secretary of the Treasury, to insure troubled assets, including mortgage-backed securities, and collect premiums from participating financial institutions. The EESA includes, among other provisions: (a) the \$700 billion Troubled Assets Relief Program (TARP), under which the Secretary of the Treasury is authorized to purchase, insure, hold, and sell a wide variety of financial instruments, particularly those that are based on or related to residential or commercial mortgages originated or issued on or before March 14, 2008; and (b) an increase in the amount of deposit insurance provided by the FDIC. Both of these specific provisions are discussed in the below sections.

Troubled Assets Relief Program (TARP). Under TARP, the Treasury authorized a voluntary capital purchase program (CPP) to purchase senior preferred shares of qualifying financial institutions that elected to participate. Participating companies must adopt certain standards for executive compensation, including (a) prohibiting golden parachute payments as defined in the EESA to senior executive officers; (b) requiring recovery of any compensation paid to senior executive officers based on criteria that is later proven to be materially inaccurate; and (c) prohibiting incentive compensation that encourages unnecessary and excessive risks that threaten the value of the financial institution. The terms of the CPP also limit certain uses of capital by the issuer, including repurchases of company stock and increases in dividends.

On December 12, 2008, we participated in the CPP and issued \$72 million in capital to the Treasury in the form of the Series A Preferred Stock that paid cash dividends at the rate of 5% per annum through February 14, 2014, and 9% per annum thereafter. In addition, the Treasury received a Warrant to purchase 346,154 shares of our common stock at a price of \$31.20 per share. Of the total proceeds, \$68.4 million was initially allocated to the Series A Preferred Stock and \$3.6 million was allocated to the Warrant (included in capital surplus) based on the relative fair value of each. The exercise price for the Warrant was determined based on the average of closing prices of our common stock during the 20-trading day period ended November 20, 2008, the last trading day prior to the date the Treasury approved our participation in the CPP. The Warrant was exercisable, in whole or in part, over a term of 10 years.

On April 16, 2010, we exchanged the shares of our Series A Preferred Stock for shares of our Series B Convertible Preferred Stock and issued to the Treasury an amended and restated Warrant. For more information about this transaction, please see Capital Plan and this Offering Exchange with the U.S. Treasury above.

Federal Deposit Insurance Coverage. The EESA temporarily raised the limit on federal deposit insurance coverage from \$100,000 to \$250,000 per depositor, and on May 20, 2009 this temporary increase in the insurance limit was extended until December 31, 2013. Separate from the EESA, in October 2008 the FDIC also announced the Temporary Liquidity Guarantee Program. Under one component of this program, for participating institutions that have not opted out, the FDIC temporarily provides unlimited coverage for noninterest bearing transaction deposit accounts through December 31, 2010 (although the Dodd-Frank Wall Street Reform and Consumer Protection Act extended protection similar to that provided under the TAGP through December 31, 2012 for only non-interest bearing transaction accounts).

Financial Stability Plan. On February 10, 2009, the Treasury announced the Financial Stability Plan (FSP), which is a comprehensive set of measures intended to shore up the U.S. financial system and earmarks the balance of the unused funds originally authorized under the EESA. The major elements of the FSP include: (i) a capital assistance program that will invest in convertible preferred stock of certain qualifying institutions; (ii) a consumer and business lending initiative to fund new consumer loans, small business loans and commercial mortgage asset-backed securities issuances; (iii) a new public-private investment fund that will leverage public and private capital with public financing to purchase up to \$500 billion to \$1 trillion of legacy toxic assets from financial institutions; and (iv) assistance for homeowners by providing up to \$75 billion to reduce mortgage payments and interest rates and establishing loan modification guidelines for government and private programs.

Financial institutions receiving assistance under the FSP going forward will be subject to higher transparency and accountability standards, including restrictions on dividends, acquisitions and executive compensation and additional disclosure requirements. We cannot predict at this time the effect that the FSP may have on us or our business, financial condition or results of operations.

American Recovery and Reinvestment Act of 2009. On February 17, 2009, Congress enacted the American Recovery and Reinvestment Act of 2009 (ARRA). In enacting the ARRA, Congress intended to provide a stimulus to the U.S. economy in light of the significant economic downturn. The ARRA includes federal tax cuts, expansion of unemployment benefits and other social welfare provisions, and numerous domestic spending efforts in education, healthcare and infrastructure. The ARRA also includes numerous non-economic recovery related items, including a limitation on executive compensation in federally-aided financial institutions, including banks that have received or will receive assistance under TARP.

Under the ARRA, a financial institution will be subject to the following restrictions and standards throughout the period in which any obligation arising from financial assistance provided under TARP remains outstanding:

Limits on compensation incentives for risk-taking by senior executive officers;

Requirement of recovery of any compensation paid based on inaccurate financial information;

Prohibition on golden parachute payments as defined in the ARRA;

Prohibition on compensation plans that would encourage manipulation of reported earnings to enhance the compensation of employees;

Establishment of board compensation committees by publicly-registered TARP recipients comprised entirely of independent directors, for the purpose of reviewing employee compensation plans;

Prohibition on bonuses, retention awards, and incentive compensation, except for payments of long-term restricted stock; and

Limitation on luxury expenditures.

In addition, TARP recipients are required to permit a separate non-binding shareholder vote to approve the compensation of executives. The chief executive officer and chief financial officer of each TARP recipient will be required to provide a written certification of compliance with these standards to the SEC.

Homeowner Affordability and Stability Plan. On February 18, 2009, President Obama announced the Homeowner Affordability and Stability Plan (HASP). The HASP is intended to support a recovery in the housing market and ensure that workers can continue to pay off their mortgages through the following elements:

Provide access to low-cost refinancing for responsible homeowners suffering from falling home prices;

A \$75 billion homeowner stability initiative to prevent foreclosure and help responsible families stay in their homes; and

Support low mortgage rates by strengthening confidence in Fannie Mae and Freddie Mac.

More details regarding HASP are expected to be announced at a future date.

Dodd-Frank Act. On July 21, 2010, the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act, which includes the creation of a new Consumer Financial Protection Bureau with power to promulgate and, with respect to financial institutions with more than \$10 billion in assets, enforce consumer protection laws, the creation of a Financial Stability Oversight Council chaired by the Secretary of the Treasury with authority to identify institutions and practices that might pose a systemic risk, provisions affecting corporate governance and executive compensation of all companies whose securities are registered with the Securities and Exchange Commission, a provision that will broaden the base for FDIC insurance assessments and permanently increase FDIC deposit insurance to \$250,000, a provision under which interchange fees for debit cards of issuers with at least \$10 billion in assets will be set by the Federal Reserve under a restrictive reasonable and proportional cost per transaction standard, a provision that will require bank regulators to set minimum capital levels for bank holding companies that are as strong as those required for their insured depository subsidiaries, subject to a grandfather clause for financial institutions with less than \$15 billion in assets as of December 31, 2009, and new restrictions on how mortgage brokers and loan originators may be compensated. When implemented, these provisions may impact our business operations and may negatively affect our earnings and financial condition by affecting our ability to offer certain products or earn certain fees and by exposing us to increased compliance and other costs. Many aspects of the new law require federal regulatory authorities to issue regulations that have not yet been issued, so the full impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act is not yet known.

Future Legislation. Various other legislative and regulatory initiatives, including proposals to overhaul the banking regulatory system, are from time to time introduced in Congress and state legislatures, as well as regulatory agencies. Such future legislation regarding financial institutions may change banking statutes and our operating environment in substantial and unpredictable ways, and could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance depending on whether any such potential legislation is introduced and enacted. The nature and extent of future legislative and regulatory changes affecting financial institutions is very unpredictable at this time. We cannot determine the ultimate effect that any such potential

legislation, if enacted, would have upon our financial condition or results of operations.

Independent Bank Corporation

General

We are a bank holding company and, as such, are registered with, and subject to regulation by, the Federal Reserve under the BHCA. Under the BHCA, we are subject to periodic examination by the Federal Reserve, and are required to file periodic reports of operations and such additional information as the Federal Reserve may require.

In accordance with Federal Reserve policy, a bank holding company is expected to act as a source of financial strength to its subsidiary banks and to commit resources to support the subsidiary banks in circumstances where the bank holding company might not do so absent such policy.

In addition, if the Michigan OFIR deems a bank's capital to be impaired, the Michigan OFIR may require a bank to restore its capital by special assessment upon a bank holding company, as the bank's sole shareholder. If the bank holding company fails to pay such assessment, the directors of that bank would be required, under Michigan law, to sell the shares of bank stock owned by the bank holding company to the highest bidder at either public or private auction and use the proceeds of the sale to restore the bank's capital.

Any capital loans by a bank holding company to a subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to a priority of payment.

Investments and Activities

In general, any direct or indirect acquisition by a bank holding company of any voting shares of any bank which would result in the bank holding company's direct or indirect ownership or control of more than 5% of any class of voting shares of such bank, and any merger or consolidation of the bank holding company with another bank holding company, will require the prior written approval of the Federal Reserve under the BHCA. In acting on such applications, the Federal Reserve must consider various statutory factors including the effect of the proposed transaction on competition in relevant geographic and product markets, and each party's financial condition, managerial resources, and record of performance under the Community Reinvestment Act.

In addition and subject to certain exceptions, the Change in the Bank Control Act (Control Act) and regulations promulgated thereunder by the Federal Reserve, require any person acting directly or indirectly, or through or in concert with one or more persons, to give the Federal Reserve 60 days' written notice before acquiring control of a bank holding company. Transactions which are presumed to constitute the acquisition of control include the acquisition of any voting securities of a bank holding company having securities registered under Section 12 of the Securities Exchange Act of 1934, as amended, if, after the transaction, the acquiring person (or persons acting in concert) owns, controls or holds with power to vote 10% or more of any class of voting securities of the institution. The acquisition may not be consummated subsequent to such notice if the Federal Reserve issues a notice within 60 days, or within certain extensions of such period, disapproving the acquisition.

The merger or consolidation of an existing bank subsidiary of a bank holding company with another bank, or the acquisition by such a subsidiary of the assets of another bank, or the assumption of the deposit and other liabilities by such a subsidiary requires the prior written approval of the responsible Federal depository institution regulatory agency under the Bank Merger Act, based upon a consideration of statutory factors similar to those outlined above with respect to the BHCA. In addition, in certain cases an application to, and the prior approval of, the Federal Reserve under the BHCA and/or the Michigan OFIR under Michigan banking laws, may be required.

With certain limited exceptions, the BHCA prohibits any bank holding company from engaging, either directly or indirectly through a subsidiary, in any activity other than managing or controlling banks unless the proposed non-banking activity is one that the Federal Reserve has determined to be so closely related to banking as to be a proper incident thereto. Under current Federal Reserve regulations, such permissible non-banking activities include such things as mortgage banking, equipment leasing, securities brokerage, and consumer and commercial finance company operations. Well-capitalized and well-managed bank holding companies may, however, engage *de novo* in certain types of non-banking activities without prior notice to, or approval of, the Federal Reserve, provided that written notice of the new activity is given to the Federal Reserve within ten business days after the activity is commenced. If a bank holding company wishes to engage in a non-banking activity by acquiring a going concern, prior notice and/or prior approval will be required, depending upon the activities in which the company to be acquired is engaged, the size of the company to be acquired and the financial and managerial condition of the acquiring bank holding company.

Eligible bank holding companies that elect to operate as financial holding companies may engage in, or own shares in companies engaged in, a wider range of nonbanking activities, including securities and insurance activities and any

other activity that the Federal Reserve, in consultation with the Treasury, determines by regulation or order is financial in nature, incidental to any such financial activity or complementary to any such financial activity and does not pose a substantial risk to the safety or soundness of depository institutions or the financial system generally. The BHCA generally does not place territorial restrictions on the domestic activities of non-bank subsidiaries of bank or financial holding companies. We have not applied for approval to operate as a financial holding company and have no current intention of doing so.

Capital Requirements

The Federal Reserve uses capital adequacy guidelines in its examination and regulation of bank holding companies. If capital falls below minimum guidelines, a bank holding company may, among other things, be denied approval to acquire or establish additional banks or non-bank businesses.

The Federal Reserve's capital guidelines establish the following minimum regulatory capital requirements for bank holding companies: (i) a leverage capital requirement expressed as a percentage of total assets, and (ii) a risk-based requirement expressed as a percentage of total risk-weighted assets. The leverage capital requirement consists of a minimum ratio of Tier 1 capital (which consists principally of shareholders' equity) to total assets of 3% for the most highly rated companies with minimum requirements of 4% to 5% for all others. The risk-based requirement consists of a minimum ratio of total capital to total risk-weighted assets of 8%, of which at least one-half must be Tier 1 capital.

The risk-based and leverage standards presently used by the Federal Reserve are minimum requirements, and higher capital levels will be required if warranted by the particular circumstances or risk profiles of individual banking organizations.

Included in our Tier 1 capital as of June 30, 2010 is \$48.0 million of trust preferred securities (classified on our balance sheet as "Subordinated debentures"). The Federal Reserve has issued rules regarding trust preferred securities as a component of the Tier 1 capital of bank holding companies. The aggregate amount of trust preferred securities and certain other capital elements is limited to 25 percent of Tier 1 capital elements, net of goodwill (net of 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.

The Federal bank regulatory agencies are required biennially to review risk-based capital standards to ensure that they adequately address interest rate risk, concentration of credit risk and risks from non-traditional activities.

Dividends

Most of our revenues are received in the form of dividends paid by our bank. Thus, our ability to pay dividends to our shareholders is indirectly limited by statutory restrictions on the ability of our bank to pay dividends, as discussed below. Further, in a policy statement, the Federal Reserve has expressed its view that a bank holding company experiencing earnings weaknesses should not pay cash dividends exceeding its net income or which can only be funded in ways that weaken the bank holding company's financial health, such as by borrowing. Additionally, the Federal Reserve possesses enforcement powers over bank holding companies and their non-bank subsidiaries to prevent or remedy actions that represent unsafe or unsound practices or violations of applicable statutes and regulations. Among these powers is the ability to proscribe the payment of dividends by banks and bank holding companies. The "prompt corrective action" provisions of federal law and regulation authorize the Federal Reserve to restrict the amount of dividends that an insured bank can pay which fails to meet specified capital levels.

In addition to the restrictions on dividends imposed by the Federal Reserve, the Michigan Business Corporation Act provides that dividends may be legally declared or paid only if after the distribution a corporation can pay its debts as they come due in the usual course of business and its total assets equal or exceed the sum of its liabilities plus the amount that would be needed to satisfy the preferential rights upon dissolution of any holders of preferred stock whose preferential rights are superior to those receiving the distribution.

Finally, dividends on our common stock must be paid in accordance with the terms and restrictions of the CPP and our Exchange Agreement with the Treasury. Prior to December 12, 2011, unless we have redeemed all of the shares of the Series B Convertible Preferred Stock or unless the Treasury ceases to own any of our debt or equity securities acquired pursuant to the Exchange Agreement or the Amended and restated Warrant, the consent of the Treasury will be required for us to declare or pay any dividend or make any distribution on or repurchase of common stock other than (i) regular quarterly cash dividends of not more than \$0.10 per share, as adjusted for any stock split, stock dividend, reverse stock split, reclassification or similar transaction, (ii) dividends payable solely in shares of our common stock, and (iii) dividends or distributions of rights or junior stock in connection with any shareholders' rights plan.

Notwithstanding the foregoing, because we have suspended all dividends on the shares of the Series B Convertible Preferred Stock and all quarterly payments on our outstanding trust preferred securities, we are currently prohibited from paying any cash dividends on our common stock. In addition, in December of 2009, our board of directors

adopted resolutions that prohibit us from paying any dividends on our common stock without, in each case, the prior written approval of the Federal Reserve and the Michigan OFIR. See [Capital Plan](#) and this [Offering](#) above and [Dividend Policy](#) below for more information.

Federal Securities Regulation

Our common stock is registered with the SEC under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended (the [Exchange Act](#)). We are therefore subject to the information, proxy solicitation, insider trading and other restrictions and requirements of the SEC under the Exchange Act. The Sarbanes-Oxley Act of 2002 provides for numerous changes to the reporting, accounting, corporate governance and business practices of companies as well as financial and other professionals who have involvement with the U.S. public markets.

Our Bank

General

Independent Bank is a Michigan banking corporation, is a member of the Federal Reserve System and its deposit accounts are insured by the Deposit Insurance Fund (DIF) of the FDIC. As a member of the Federal Reserve System, and a Michigan chartered bank, our bank is subject to the examination, supervision, reporting and enforcement requirements of the Federal Reserve as its primary federal regulator, and Michigan OFIR, as the chartering authority for Michigan banks. These agencies and the federal and state laws applicable to our bank and its operations, extensively regulate various aspects of the banking business including, among other things, permissible types and amounts of loans, investments and other activities, capital adequacy, branching, interest rates on loans and on deposits, the maintenance of non-interest bearing reserves on deposit accounts, and the safety and soundness of banking practices.

Deposit Insurance

As an FDIC-insured institution, our bank is required to pay deposit insurance premium assessments to the FDIC. Under the FDIC's risk-based assessment system for deposit insurance premiums, all insured depository institutions are placed into one of four categories and assessed insurance premiums based primarily on their level of capital and supervisory evaluations.

The FDIC is required to establish assessment rates for insured depository institutions at levels that will maintain the DIF at a Designated Reserve Ratio (DRR) selected by the FDIC within a range of 1.15% to 1.50%. The FDIC is allowed to manage the pace at which the reserve ratio varies within this range. The DRR is currently established at 1.25%.

Under the FDIC's prevailing rate schedule, assessments are made and adjusted based on risk. Premiums are assessed and collected quarterly by the FDIC. Beginning as of the second quarter of 2009, banks in the lowest risk category paid an initial base rate ranging from 12 to 16 basis points (calculated as an annual rate against the bank's deposit base) for insurance premiums, with certain potential adjustments based on certain risk factors affecting the bank. That base rate is subject to increase to 45 basis points for banks that pose significant supervisory concerns, with certain potential adjustments based on certain risk factors affecting the bank. FDIC insurance assessments could continue to increase in the future due to continued depletion of the DIF.

On May 22, 2009, the FDIC adopted a final rule imposing a five basis point special assessment on each insured depository institution's assets minus Tier 1 capital as of June 30, 2009. This special assessment (which totaled \$1.4 million for our bank) was paid on September 30, 2009. The FDIC may impose additional special assessments under certain circumstances.

During the fourth quarter of 2009 we prepaid estimated quarterly deposit insurance premium assessments to the FDIC for periods through the fourth quarter of 2012. These estimated quarterly deposit insurance premium assessments were based on projected deposit balances over the assessment periods. The prepaid deposit insurance premium assessments totaled \$18.8 million at June 30, 2010 and will be expensed over the assessment period (through the fourth quarter of 2012). The actual expense over the assessment periods may be different from this prepaid amount due to various factors including variances in actual deposit balances and assessment rates used during each assessment period.

In addition, in 2008, the bank elected to participate in the FDIC's Transaction Account Guarantee Program (TAGP). Under the TAGP, funds in non-interest bearing transaction accounts, in interest-bearing transaction accounts with an interest rate of 0.25% or less (after June 30, 2010), and in Interest on Lawyers Trust Accounts (IOLTA) will have a temporary (until December 31, 2010) unlimited guarantee from the FDIC (although the Dodd-Frank Wall Street Reform and Consumer Protection Act extended protection similar to that provided under the TAGP through December 31, 2012 for only non-interest bearing transaction accounts). The coverage under the TAGP is in addition to and separate from the coverage available under the FDIC's general deposit insurance rules which insure accounts up to \$250,000. Participation in the TAGP requires the payment of additional insurance premiums to the FDIC.

FICO Assessments

Our bank, as a member of the DIF, is subject to assessments to cover the payments on outstanding obligations of the Financing Corporation (FICO). FICO was created to finance the recapitalization of the Federal Savings and Loan Insurance Corporation, the predecessor to the FDIC's Savings Association Insurance Fund which was created to insure

the deposits of thrift institutions and was merged with the Bank Insurance Fund into the newly formed DIF in 2006. From now until the maturity of the outstanding FICO obligations in 2019, DIF members will share the cost of the interest on the FICO bonds on a pro rata basis. It is estimated that FICO assessments during this period will be approximately 0.011% of deposits.

Michigan OFIR Assessments

Michigan banks are required to pay supervisory fees to the Michigan OFIR to fund their operations. The amount of supervisory fees paid by a bank is based upon the bank's total assets.

Capital Requirements

The Federal Reserve has established the following minimum capital standards for state-chartered, FDIC-insured member banks, such as our bank: a leverage requirement consisting of a minimum ratio of Tier 1 capital to total assets of 3% for the most highly-rated banks with minimum requirements of 4% to 5% for all others, and a risk-based capital requirement consisting of a minimum ratio of total capital to total risk-weighted assets of 8%, at least one-half of which must be Tier 1 capital. Tier 1 capital consists principally of shareholders' equity. These capital requirements are minimum requirements. Higher capital levels will be required if warranted by the particular circumstances or risk profiles of individual institutions. For example, Federal Reserve regulations provide that higher capital may be required to take adequate account of, among other things, interest rate risk and the risks posed by concentrations of credit, nontraditional activities or securities trading activities.

Federal law provides the federal banking regulators with broad power to take prompt corrective action to resolve the problems of undercapitalized institutions. The extent of the regulators' powers depends on whether the institution in question is well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, or critically undercapitalized. Federal regulations define these capital categories as follows:

	Total Risk-Based Capital Ratio	Tier 1 Risk-Based Capital Ratio	Leverage Ratio
Well capitalized	10% or above	6% or above	5% or above
Adequately capitalized	8% or above	4% or above	4% or above
Undercapitalized	Less than 8%	Less than 4%	Less than 4%
Significantly undercapitalized	Less than 6%	Less than 3%	Less than 3%
Critically undercapitalized			A ratio of tangible equity to total assets of 2% or less

At June 30, 2010, our bank's ratios exceeded minimum requirements for the well-capitalized category.

In conjunction with its discussions with federal and state regulators, the board of directors of our bank adopted resolutions in December 2009 requiring our bank to achieve minimum capital ratios that are higher than the minimum requirements described in the Federal Reserve's capital guidelines. See *Capital Plan* and this Offering above for more information. Our bank currently does not meet these higher capital ratios.

Depending upon the capital category to which an institution is assigned, the regulators' corrective powers include: requiring the submission of a capital restoration plan; placing limits on asset growth and restrictions on activities; requiring the institution to issue additional capital stock (including additional voting stock) or to be acquired; restricting transactions with affiliates; restricting the interest rates the institution may pay on deposits; ordering a new election of directors of the institution; requiring that senior executive officers or directors be dismissed; prohibiting the institution from accepting deposits from correspondent banks; requiring the institution to divest certain subsidiaries; prohibiting the payment of principal or interest on subordinated debt; and ultimately, appointing a receiver for the institution.

In general, a depository institution may be reclassified to a lower category than is indicated by its capital levels if the appropriate federal depository institution regulatory agency determines the institution to be otherwise in an unsafe or unsound condition or to be engaged in an unsafe or unsound practice. This could include a failure by the institution, following receipt of a less-than-satisfactory rating on its most recent examination report, to correct the deficiency.

Dividends

Under Michigan law, banks are restricted as to the maximum amount of dividends they may pay on their common stock. Our bank may not pay dividends except out of its net income after deducting its losses and bad debts. A Michigan state bank may not declare or pay a dividend unless the bank will have a surplus amounting to at least 20% of its capital after the payment of the dividend.

As a member of the Federal Reserve System, our bank is required to obtain the prior approval of the Federal Reserve for the declaration or payment of a dividend if the total of all dividends declared in any year will exceed the total of (a) the bank's retained net income (as defined by federal regulation) for that year, *plus* (b) the bank's retained

net income for the preceding two years. Federal law generally prohibits a depository institution from making any capital distribution (including payment of a dividend) or paying any management fee to its holding company if the depository institution would thereafter be undercapitalized. In addition, the Federal Reserve may prohibit the payment of dividends by a bank, if such payment is determined, by reason of the financial condition of the bank, to be an unsafe and unsound banking practice or if the bank is in default of payment of any assessment due to the FDIC.

In addition to these restrictions, in December of 2009, the board of directors of our bank adopted resolutions that prohibit our bank from paying any dividends to our holding company without the prior written approval of the Federal Reserve and the Michigan OFIR. See *Capital Plan* and this *Offering* above for more information.

Insider Transactions

Our bank is subject to certain restrictions imposed by the Federal Reserve Act on covered transactions with us or our subsidiaries, which include investments in our stock or other securities issued by us or our subsidiaries, the acceptance of our stock or other securities issued by us or our subsidiaries as collateral for loans and extensions of credit to us or our subsidiaries. Certain limitations and reporting requirements are also placed on extensions of credit by our bank to its directors and officers, to our directors and officers and those of our subsidiaries, to our principal shareholders, and to related interests of such directors, officers and principal shareholders. In addition, federal law and regulations may affect the terms upon which any person becoming one of our directors or officers or a principal shareholder may obtain credit from banks with which our bank maintains a correspondent relationship.

Safety and Soundness Standards

Pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), the FDIC adopted guidelines to establish operational and managerial standards to promote the safety and soundness of federally insured depository institutions. The guidelines establish standards for internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, asset quality and earnings.

Investment and Other Activities

Under federal law and regulations, FDIC-insured state banks are prohibited, subject to certain exceptions, from making or retaining equity investments of a type, or in an amount, that are not permissible for a national bank. FDICIA, as implemented by FDIC regulations, also prohibits FDIC-insured state banks and their subsidiaries, subject to certain exceptions, from engaging as a principal in any activity that is not permitted for a national bank or its subsidiary, respectively, unless the bank meets, and continues to meet, its minimum regulatory capital requirements and the bank's primary federal regulator determines the activity would not pose a significant risk to the DIF. Impermissible investments and activities must be otherwise divested or discontinued within certain time frames set by the bank's primary federal regulator in accordance with federal law. These restrictions are not currently expected to have a material impact on the operations of our bank.

Consumer Banking

Our bank's business includes making a variety of types of loans to individuals. In making these loans, our bank is subject to state usury and regulatory laws and to various federal statutes, including the privacy of consumer financial information provisions of the Gramm Leach-Bliley Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Real Estate Settlement Procedures Act, the Home Mortgage Disclosure Act, and the regulations promulgated under these statutes, which (among other things) prohibit discrimination, specify disclosures to be made to borrowers regarding credit and settlement costs, and regulate the mortgage loan servicing activities of our bank, including the maintenance and operation of escrow accounts and the transfer of mortgage loan servicing. In receiving deposits, our bank is subject to extensive regulation under state and federal law and regulations, including the Truth in Savings Act, the Expedited Funds Availability Act, the Bank Secrecy Act, the Electronic Funds Transfer Act, and the Federal Deposit Insurance Act. Violation of these laws could result in the imposition of significant damages and fines upon our bank and its directors and officers.

Branching Authority

Michigan banks, such as our bank, have the authority under Michigan law to establish branches anywhere in the state of Michigan, subject to receipt of all required regulatory approvals. Banks may establish interstate branch networks through acquisitions of other banks. The establishment of *de novo* interstate branches or the acquisition of individual branches of a bank in another state (rather than the acquisition of an out-of-state bank in its entirety) is allowed only if specifically authorized by state law.

Michigan permits both U.S. and non-U.S. banks to establish branch offices in Michigan. The Michigan Banking Code permits, in appropriate circumstances and with the approval of the Michigan OFIR (1) acquisition of Michigan banks by FDIC-insured banks or savings banks located in other states; (2) sale by a Michigan bank of branches to an

FDIC-insured bank or savings bank located in a state in which a Michigan bank could purchase branches of the purchasing entity; (3) consolidation of Michigan banks and FDIC-insured banks or savings banks located in other states having laws permitting such consolidation; (4) establishment of branches in Michigan by FDIC-insured banks located in other states, the District of Columbia or U.S. territories or protectorates having laws permitting a Michigan bank to establish a branch in such jurisdiction; and (5) establishment by foreign banks of branches located in Michigan.

Mepco Finance Corporation

Our subsidiary, Mepco, is engaged in the business of acquiring and servicing payment plans used by consumers throughout the United States who have purchased a vehicle service contract and choose to make monthly payments for their coverage. In the typical transaction, no

interest or other finance charge is charged to these consumers. As a result, Mepco is generally not subject to regulation under consumer lending laws. However, Mepco is subject to various federal and state laws designed to protect consumers, including laws against unfair and deceptive trade practices and laws regulating Mepco's payment processing activities, such as the Electronic Funds Transfer Act.

Mepco purchases these payment plans from companies (which we refer to as Mepco's counterparties) that provide vehicle service contracts and similar products to consumers. The payment plans (which are classified as payment plan receivables in our consolidated statements of financial condition) permit a consumer to purchase a service contract by making installment payments, generally for a term of 12 to 24 months, to the sellers of those contracts (one of the counterparties). Mepco does not evaluate the creditworthiness of the individual customer but instead primarily relies on the payment plan collateral (the unearned vehicle service contract and unearned sales commission) in the event of default. When consumers stop making payments or exercise their right to voluntarily cancel the contract, the remaining unpaid balance of the payment plan is normally recouped by Mepco from the counterparties that sold the contract and provided the coverage. The refund obligations of these counterparties are not fully secured. We record losses, included in non-interest expenses, for estimated defaults by these counterparties in their recourse obligations to Mepco.

Our estimate of vehicle service contract counterparty contingencies expense (probable incurred losses for estimated defaults by Mepco's counterparties) requires a significant amount of judgment because a number of factors can influence the amount of loss Mepco may ultimately incur. These factors include our estimate of future cancellations of vehicle service contracts, our evaluation of collateral that may be available to recover funds due from our counterparties, and the amount that may ultimately be collected from counterparties in connection with their contractual obligations to us. We apply a rigorous process, based upon observable contract activity and past experience, to estimate probable incurred losses and quantify the necessary reserves for our vehicle service contract counterparty contingencies, but there can be no assurance that our modeling process will successfully identify all such losses. As a result, actual future losses associated with in these receivables may exceed the charges we have taken.

Properties

We and our bank operate a total of 120 facilities in Michigan and 1 facility in Chicago, Illinois. The individual properties are not materially significant to us or our bank's business or to the consolidated financial statements.

With the exception of the potential remodeling of certain facilities to provide for the efficient use of work space or to maintain an appropriate appearance, each property is considered reasonably adequate for current and anticipated needs.

Legal Proceedings

Due to the nature of our business, we are often subject to numerous legal actions. These legal actions, whether pending or threatened, arise through the normal course of business and are not considered unusual or material.

Statistical Disclosures**I. DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS EQUITY: INTEREST RATES AND INTEREST DIFFERENTIAL****AVERAGE BALANCES AND RATES**

	2009			2008			2007		
	Average Balance	Interest	Rate	Average Balance	Interest	Rate	Average Balance	Interest	Rate
(Dollars in thousands)									
ASSETS (1)									
Taxable loans	\$ 2,461,896	\$ 177,557	7.21%	\$ 2,558,621	\$ 186,259	7.28%	\$ 2,531,737	\$ 201,924	7.98%
Tax-exempt loans (2)	8,672	391	4.51	10,747	488	4.54	9,568	437	4.57
Taxable securities	111,558	6,333	5.68	144,265	8,467	5.87	179,878	9,635	5.36
Tax-exempt securities (2)	85,954	3,669	4.27	162,144	7,238	4.46	225,676	9,920	4.40
Cash interest bearing	72,606	174	0.24						
Other investments	28,304	932	3.29	31,425	1,284	4.09	26,017	1,338	5.14
Interest earning assets continuing operations	2,768,990	189,056	6.83	2,907,202	203,736	7.01	2,972,876	223,254	7.51
Cash and due from banks	55,451			53,873			57,174		
Taxable loans discontinued operations							8,542		
Other assets, net	157,762			227,969			218,553		
Total assets	\$ 2,982,203			\$ 3,189,044			\$ 3,257,145		
LIABILITIES									
Savings and NOW	\$ 992,529	5,751	0.58	\$ 968,180	10,262	1.06	\$ 971,807	18,768	1.93
Time deposits	1,019,624	29,654	2.91	917,403	36,435	3.97	1,439,177	70,292	4.88
Long-term debt	394,975	15,128	3.83	247	12	4.86	2,240	104	4.64
				682,884	26,878	3.94	205,811	13,499	6.56

Other borrowings

Interest bearing liabilities continuing operations

	2,407,128	50,533	2.10	2,568,714	73,587	2.86	2,619,035	102,663	3.92
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Demand deposits
Time deposits discontinued operations
Other liabilities
Shareholders equity

321,802			301,117			300,886			
						6,166			
80,281			79,929			79,750			
172,992			239,284			251,308			

Total liabilities and shareholders equity

\$ 2,982,203			\$ 3,189,044			\$ 3,257,145			
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Net interest income

	\$ 138,523			\$ 130,149			\$ 120,591		
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Net interest income as a percent of average interest earning assets

		5.00%			4.48%			4.06%	
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(1) All domestic, except for \$5.1 million of payment plan receivables in 2009 included in taxable loans from customers domiciled in Canada.

(2)

Interest on tax-exempt loans and securities is not presented on a fully tax equivalent basis due to the current net operating loss carryforward position and the deferred tax asset valuation allowance.

I. DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL (continued)

	Average Balance	Three Months Ended June 30,			Average Balance	Interest	Rate
		2010 Interest	Rate (dollars in thousands)	2009 Interest			
Assets ⁽¹⁾							
Taxable loans	\$ 2,115,837	\$ 36,569	6.93%	\$ 2,513,367	\$ 45,157	7.20%	
Tax-exempt loans ⁽²⁾	9,866	106	4.31	7,069	67	3.80	
Taxable securities	87,554	902	4.13	118,116	1,705	5.79	
Tax-exempt securities ⁽²⁾	49,012	526	4.30	88,601	976	4.42	
Cash interest bearing	324,592	192	0.24				
Other investments	27,001	197	2.93	28,011	239	3.42	
Interest Earning Assets	2,613,862	38,492	5.90	2,755,164	48,144	7.01	
Cash and due from banks	48,751			74,659			
Other assets, net	160,291			165,715			
Total Assets	\$ 2,822,904			\$ 2,995,538			
Liabilities							
Savings and NOW	\$ 1,088,526	670	0.25	\$ 974,994	1,493	0.61	
Time deposits	1,019,882	6,838	2.69	979,506	7,318	3.00	
Other borrowings	227,979	2,413	4.25	448,714	3,814	3.41	
Interest Bearing Liabilities	2,336,387	9,921	1.70	2,403,214	12,625	2.11	
Demand deposits	340,558			320,920			
Other liabilities	52,051			93,861			
Shareholders equity	93,908			177,543			
Total liabilities and shareholders equity	\$ 2,822,904			\$ 2,995,538			
Net Interest Income		\$ 28,571			\$ 35,519		
Net Interest Income as a Percent of Earning Assets			4.38%			5.17%	

(1)

All domestic, except for \$0.4 million and \$8.8 million for the three months ended June 30, 2010 and 2009, respectively, of average payment plan receivables included in taxable loans for customers domiciled in Canada.

- (2) Interest on tax-exempt loans and securities is not presented on a fully tax equivalent basis due to the current net operating loss carryforward position and the deferred tax asset valuation allowance.

I. DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL (continued)

	Six Months Ended June 30,					
	2010				2009	
	Average Balance	Interest	Rate	Average Balance	Interest	Rate
	(dollars in thousands)					
Assets ⁽¹⁾						
Taxable loans	\$ 2,184,046	\$ 75,491	6.95%	\$ 2,504,582	\$ 89,457	7.19%
Tax-exempt loans ⁽²⁾	9,997	211	4.26	8,490	168	3.99
Taxable securities	91,859	2,062	4.53	116,478	3,438	5.95
Tax-exempt securities ⁽²⁾	56,671	1,211	4.31	95,795	2,083	4.38
Cash interest bearing	299,910	349	0.23			
Other investments	27,426	412	3.03	28,641	563	3.96
Interest Earning Assets	2,669,909	79,736	6.01	2,753,986	95,709	6.99
Cash and due from banks	53,855			67,935		
Other assets, net	154,408			162,086		
Total Assets	\$ 2,878,172			\$ 2,984,007		
Liabilities						
Savings and NOW	\$ 1,086,524	1,533	0.28	\$ 960,032	3,074	0.65
Time deposits	1,073,452	14,194	2.67	917,609	14,285	3.14
Other borrowings	227,801	5,407	4.79	523,630	8,484	3.27
Interest Bearing Liabilities	2,387,777	21,134	1.78	2,401,271	25,843	2.17
Demand deposits	334,100			314,762		
Other liabilities	58,359			81,267		
Shareholders equity	97,936			186,707		
Total liabilities and shareholders equity	\$ 2,878,172			\$ 2,984,007		
Net Interest Income		\$ 58,602			\$ 69,866	
Net Interest Income as a Percent of Earning Assets			4.41%			5.10%

(1)

All domestic, except for \$0.7 million and \$7.4 million for the six months ended June 30, 2010 and 2009, respectively, of average payment plan receivables included in taxable loans for customers domiciled in Canada.

- (2) Interest on tax-exempt loans and securities is not presented on a fully tax equivalent basis due to the current net operating loss carryforward position and the deferred tax asset valuation allowance.

I. DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL (continued)
CHANGE IN NET INTEREST INCOME

	December 31, 2009 Compared to 2008			December 31, 2008 Compared to 2007		
	Volume	Rate	Net	Volume	Rate	Net
	(Dollars in thousands)					
Increase (decrease) in interest income ⁽¹⁾⁽²⁾						
Taxable loans	\$ (6,989)	\$ (1,713)	\$ (8,702)	\$ 2,124	\$ (17,789)	\$ (15,665)
Tax-exempt loans ⁽³⁾	(94)	(3)	(97)	54	(3)	51
Taxable securities	(1,865)	(269)	(2,134)	(2,031)	863	(1,168)
Tax-exempt securities ⁽³⁾	(3,265)	(304)	(3,569)	(2,834)	152	(2,682)
Cash interest bearing	174	0	174			
Other investments	(119)	(233)	(352)	249	(303)	(54)
Total interest income	(12,158)	(2,522)	(14,680)	(2,438)	(17,080)	(19,518)
Increase (decrease) in interest expense ⁽¹⁾						
Savings and NOW	252	(4,763)	(4,511)	(70)	(8,436)	(8,506)
Time deposits	3,740	(10,521)	(6,781)	(22,342)	(11,515)	(33,857)
Long-term debt	(12)	0	(12)	(97)	5	(92)
Other borrowings	(11,046)	(704)	(11,750)	20,619	(7,240)	13,379
Total interest expense	(7,066)	(15,988)	(23,054)	(1,890)	(27,186)	(29,076)
Net interest income	\$ (5,092)	\$ 13,466	\$ 8,374	\$ (548)	\$ 10,106	\$ 9,558

(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, except for \$0.5 million of interest income in 2009 on payment plan receivables included in taxable loans from customers domiciled in Canada.

- (3) Interest on tax-exempt loans and securities is not presented on a fully tax equivalent basis due to the net operating loss carryforward position and the deferred tax asset valuation allowance.

I. DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL (continued)
CHANGE IN NET INTEREST INCOME

	Six Months Ended June 30, 2010 Compared to 2009		
	Volume	Rate	Net
	(Dollars in thousands)		
Increase (decrease) in interest income ⁽¹⁾			
Taxable loans ⁽²⁾	\$ (11,154)	\$ (2,812)	\$ (13,966)
Tax-exempt loans ⁽²⁾⁽³⁾	31	12	43
Taxable securities ⁽²⁾	(645)	(731)	(1,376)
Tax-exempt securities ⁽²⁾⁽³⁾	(837)	(35)	(872)
Cash interest bearing ⁽²⁾	349		349
Other investments ⁽²⁾	(23)	(128)	(151)
 Total interest income	 (12,279)	 (3,694)	 (15,973)
 Increase (decrease) in interest expense ⁽¹⁾			
Savings and NOW	\$ 362	\$ (1,903)	\$ (1,541)
Time deposits	2,232	(2,323)	(91)
Other borrowings	(6,016)	2,939	(3,077)
 Total interest expense	 (3,422)	 (1,287)	 (4,709)
 Net interest income	 \$ (8,857)	 \$ (2,407)	 \$ (11,264)

(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 except for \$0.05 million

and
\$0.34 million of
interest income
for the six
month periods
ending June 30,
2010 and 2009
on payment plan
receivables
included in
taxable loans
from customers
domiciled in
Canada.

- (3) Interest on
tax-exempt
loans and
securities is not
presented on a
fully tax
equivalent basis
due to the
current net
operating loss
carryforward
position and the
deferred tax
asset valuation
allowance.

I. DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL (continued)
COMPOSITION OF AVERAGE INTEREST EARNING ASSETS AND INTEREST BEARING LIABILITIES

	Year Ended December 31,		
	2009	2008	2007
As a percent of average interest earning assets			
Loans ⁽¹⁾	89.2%	88.4%	85.5%
Other interest earning assets	10.8	11.6	14.5
Average interest earning assets	100.0%	100.0%	100.0%
Savings and NOW	35.8%	33.3%	32.7%
Time deposits	14.1	23.9	21.9
Brokered CDs	22.7	7.7	26.5
Other borrowings and long-term debt	14.3	23.5	7.0
Average interest bearing liabilities	86.9%	88.4%	88.1%
Earning asset ratio	92.9%	91.2%	91.3%
Free-funds ratio	13.1	11.6	11.9

(1) All domestic, except for 0.2% of payment plan receivables in 2009 from customers domiciled in Canada.

	Six months ended June 30,	
	2010	2009
As a percent of average interest earning assets		
Loans-all domestic	82.2%	91.3%
Other interest earning assets	17.8	8.7
Average interest earning assets	100.0%	100.0%
Savings and NOW	40.7%	34.9%
Time deposits	20.5	23.2

Brokered CDs	19.7	10.1
Other borrowings and long-term debt	8.5	19.0
Average interest bearing liabilities	89.4%	87.2%
Earning asset ratio	92.8%	92.3%
Free-funds ratio	10.6	12.8

(1) All domestic, except for payment plan receivables from customers domiciled in Canada of 0.03% and 0.27%, for the six month periods ending June 30, 2010 and 2009, respectively.

II. INVESTMENT PORTFOLIO

(A) The following table sets forth the book value of securities at the dates indicated:

	June 30, 2010	December 31, 2009	December 31, 2008	December 31, 2007
	(Dollars in thousands)			
Trading Preferred stock	\$ 27	\$ 54	\$ 1,929	
Available for sale				
U.S. Treasury	\$ 38,152			
States and political subdivisions	35,951	\$ 67,132	\$ 105,553	\$ 208,132
U.S. agency mortgage-backed	14,344	47,522	48,029	59,004
Private label mortgage-backed	16,464	30,975	36,887	50,475
Other asset-backed		5,505	7,421	10,400
Trust preferred	8,036	13,017	12,706	9,985
Preferred stock			4,816	24,198
Other				2,000
Total	\$ 112,947	\$ 164,151	\$ 215,412	\$ 364,194

(B) The following table sets forth contractual maturities of securities at December 31, 2009 and the weighted average yield of such securities:

	Maturing Within One Year		Maturing After One But Within Five Years		Maturing After Five But Within Ten Years		Maturing After Ten Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(Dollars in thousands)							
Trading Preferred stock							\$ 54	0.00%
Tax equivalent adjustment for calculations of yield							\$ 0	
Available for sale								
States and political subdivisions	\$ 2,741	4.66%	\$ 13,320	4.86%	\$ 25,478	4.07%	\$ 25,593	4.14%
U.S. agency mortgage-backed	836	4.60	26,742	4.19	11,176	6.48	8,768	4.62
Private label mortgage-backed	565	4.83	24,094	4.83	6,316	5.08		

Other asset-backed Trust preferred			5,505	6.97			13,017	7.66
Total	\$ 4,142	4.67%	\$ 69,661	4.76%	\$ 42,970	4.85%	\$ 47,378	5.20%
Tax equivalent adjustment for calculations of yield	\$ 0		\$ 0		\$ 0		\$ 0	

(1) The rates set forth in the table above for obligations of state and political subdivisions have not been restated on a tax equivalent basis due to the current net operating loss carryforward position and the deferred tax asset valuation allowance.

II. INVESTMENT PORTFOLIO

(continued)

The following table sets forth contractual maturities of securities at June 30, 2010 and the weighted average yield of such securities:

	Maturing Within One Year		Maturing After One But Within Five Years		Maturing After Five But Within Ten Years		Maturing After Ten Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Trading Preferred stock							\$ 49	0.0%
Tax equivalent adjustment for calculations of yield							\$ 0	
Available for sale ⁽¹⁾								
U.S. Treasury States and political subdivisions	\$ 38,152	0.23%						
U.S. agency residential mortgage-backed Private label residential mortgage-backed Trust preferred	2,698	4.73	\$ 9,213	4.39%	\$ 11,669	4.27%	\$ 12,371	4.00%
	427	6.60	571	3.94	138	3.98	13,208	4.19
			7,542	5.30	8,922	5.28		
							8,036	7.03
Total	\$ 41,277	0.59%	\$ 17,326	4.77%	\$ 20,729	4.70%	\$ 33,615	4.80%
Tax equivalent adjustment for calculations of yield	\$ 0		\$ 0		\$ 0		\$ 0	

(1) The rates set forth in the table above for obligations of state and political

subdivisions
have not been
restated on a tax
equivalent basis
due to the
current net
operating loss
carryforward
position and the
deferred tax
asset valuation
allowance.

III. LOAN PORTFOLIO

(A) The following table sets forth total loans outstanding at the dates indicated:

	June 30, 2010	December 31, 2009	December 31, 2008	December 31, 2007	December 31, 2006	December 31, 2005
	(Dollars in thousands)					
Loans held for sale	\$ 32,786	\$ 34,234	\$ 27,603	\$ 33,960	\$ 31,846	\$ 28,569
Real estate mortgage	704,604	749,298	839,496	873,945	865,522	852,742
Commercial	767,285	840,367	976,391	1,066,276	1,083,921	1,030,095
Installment	275,335	303,366	356,806	368,478	350,273	304,053
Payment plan receivables	285,749	406,341	286,836	209,631	160,171	178,286
Total Loans	\$ 2,065,759	\$ 2,333,606	\$ 2,487,132	\$ 2,552,290	\$ 2,491,733	\$ 2,393,745

The loan portfolio is periodically and systematically reviewed, and the results of these reviews are reported to the board of directors of our bank. The purpose of these reviews is to assist in assuring proper loan documentation, to facilitate compliance with consumer protection laws and regulations, to provide for the early identification of potential problem loans (which enhances collection prospects) and to evaluate the adequacy of the allowance for loan losses.

(B) The following table sets forth scheduled loan repayments (excluding 1-4 family residential mortgages and installment loans) at December 31, 2009:

	Due Within One Year	Due After One But Within Five Years	Due After Five Years	Total
	(Dollars in thousands)			
Real estate mortgage	\$ 39,153	\$ 18,145	\$ 6,068	\$ 63,366
Commercial	393,732	386,879	59,756	840,367
Payment plan receivables	119,119	287,222		406,341
Total	\$ 552,004	\$ 692,246	\$ 65,824	\$ 1,310,074

The following table sets forth loans due after one year which have predetermined (fixed) interest rates and/or adjustable (variable) interest rates at December 31, 2009:

	Fixed Rate	Variable Rate	Total
	(Dollars in thousands)		
Due after one but within five years	\$ 674,252	\$ 17,994	\$ 692,246
Due after five years	60,089	5,735	65,824

Total \$ 734,341 \$ 23,729 \$ 758,070

The following table sets forth scheduled loan repayments (excluding 1-4 family residential mortgages and installment loans) at June 30, 2010:

	Due Within One Year	Due After One But Within Five Years	Due After Five Years	Total
	(Dollars in thousands)			
Real estate mortgage	\$ 38,808	\$ 14,266	\$ 5,481	\$ 58,555
Commercial	354,843	360,611	51,831	767,285
Payment plan receivables	124,708	161,041		285,749
Total	\$ 518,359	\$ 535,918	\$ 57,312	\$ 1,111,589

III. LOAN PORTFOLIO (continued)

The following table sets forth loans due after one year which have predetermined (fixed) interest rates and/or adjustable (variable) interest rates at June 30, 2010:

	Fixed Rate	Variable Rate	Total
	(Dollars in thousands)		
Due after one but within five years	\$ 521,772	\$ 14,146	\$ 535,918
Due after five years	52,009	5,303	57,312
Total	\$ 573,781	\$ 19,449	\$ 593,230

(C) The following table sets forth loans on non-accrual, loans ninety days or more past due and troubled debt restructured loans at the dates indicated:

	June 30, 2010	December 31, 2009	December 31, 2008	December 31, 2007	December 31, 2006	December 31, 2005
	(Dollars in thousands)					
(a) Loans accounted for on a non-accrual basis (1)(2)	\$ 84,514	\$ 105,965	\$ 122,639	\$ 72,682	\$ 35,683	\$ 11,546
(b) Aggregate amount of loans ninety days or more past due (excludes loans in (a) above)	356	3,940	2,626	4,394	3,479	4,862
(c) Loans not included above which are troubled debt restructurings as defined by accounting guidance	106,393	71,961	9,160	173	60	84
Total	\$ 191,263	\$ 181,866	\$ 134,425	\$ 77,249	\$ 39,222	\$ 16,492

(1) 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. Non-accrual loans may be restored to accrual status when interest and principal payments are current and the loan appears otherwise collectible.

- (2) Interest in the amount of \$11,201,000 would have been earned in 2009 had loans in categories (a) and (c) remained at their original terms; however, only \$3,817,000 was included in interest income for the year with respect to these loans. Interest in the amount of \$5,502,000 would have been earned in the six month period ended June 30, 2010 had loans in categories (a) and (c) remained at their original terms; however, only \$2,164,000 was included in interest income for the three month period

with respect to
these loans.

Other loans of concern identified by the loan review department which are not included as non-performing totaled approximately \$14,063 at June 30, 2010 (compared to \$24,264,000 at December 31, 2009). These loans involve circumstances which have caused management to place increased scrutiny on the credits and may, in some instances, represent an increased risk of loss.

At December 31, 2009 and June 30, 2010, there was no concentration of loans exceeding 10% of total loans which is not already disclosed as a category of loans in this section Loan Portfolio (Item III(A)).

There were no other interest-bearing assets at December 31, 2009 or June 30, 2010, that would be required to be disclosed above (Item III(C)), if such assets were loans.

At December 31, 2009, total loans include \$1.7 million of payment plan receivables from customers domiciled in Canada and there were no other foreign loans outstanding. At June 30, 2010, total loans include \$0.3 million of payment plan receivables from customers domiciled in Canada and there were no other foreign loans outstanding.

IV. SUMMARY OF LOAN LOSS EXPERIENCE

(A) The following table sets forth loan balances and summarizes the changes in the allowance for loan losses and allowance for credit losses on unfunded commitments for each of the periods indicated:

	Six months ended		Twelve months ended							
	June 30, 2010	June 30, 2009	December 31, 2009	December 31, 2008	December 31, 2007					
(Dollars in thousands)										
Total loans outstanding at the end of the period (net of unearned fees)	\$ 2,065,759	\$ 2,508,403	\$ 2,333,606	\$ 2,487,132	\$ 2,552,290					
Average total loans outstanding for the period (net of unearned fees)	\$ 2,194,043	\$ 2,513,072	\$ 2,470,568	\$ 2,569,368	\$ 2,541,305					
	Loan Losses	Unfunded Commitments	Loan Losses	Unfunded Commitments	Loan Losses	Unfunded Commitments	Loan Losses	Unfunded Commitments	Loan Losses	Unfunded Commitments
(Dollars in thousands)										
Balance at beginning of period	\$ 81,717	\$ 1,858	\$ 57,900	\$ 2,144	\$ 57,900	\$ 2,144	\$ 45,294	\$ 1,936	\$ 26,879	\$ 1,881
Loans charged-off										
Real estate mortgage	10,945		11,574		22,869		11,942		6,644	
Commercial	22,295		34,760		51,840		43,641		14,236	
Installment	1,360		3,569		7,562		6,364		5,943	
Payment plan receivables	44		3		25		49		213	
Total loans charged-off	37,644		49,906		82,296		61,996		27,036	
Recoveries of loans previously charged-off										
Real estate mortgage	588		524		791		318		381	
Commercial	504		287		731		1,800		328	
Installment	736		681		1,271		1,340		1,629	
Payment plan receivables	11		2		2		31		8	

Total recoveries	1,839		1,494		2,795		3,489		2,346	
Net loans charged-off	35,805		48,412		79,501		58,507		24,690	
Additions (deductions) charged to operating expense	29,694	336	55,783	(152)	103,318	(286)	71,113	208	43,105	55
Balance at end of year	\$ 75,606	\$ 2,194	\$ 65,271	\$ 1,992	\$ 81,717	\$ 1,858	\$ 57,900	\$ 2,144	\$ 45,294	\$ 1,936
Net loans charged-off as a percent of average loans outstanding (includes loans held for sale) annualized	3.26%		3.85%		3.22%		2.28%		.97%	
Allowance for loan losses as a percent of loans outstanding (includes loans held for sale) at the end of the period	3.66		2.60		3.50		2.33		1.77	

IV. SUMMARY OF LOAN LOSS EXPERIENCE (continued)

	Twelve months ended			
	December		December 31,	
	31,		2005	
	2006		(Dollars in thousands)	
Total loans outstanding at the end of the year (net of unearned fees)	\$ 2,491,733		\$ 2,393,745	
Average total loans outstanding for the year (net of unearned fees)	\$ 2,472,091		\$ 2,268,846	
	Loan	Unfunded	Loan	Unfunded
	Losses	Commit-	Losses	Commit-
		ments		ments
Balance at beginning of year	\$ 22,420	\$ 1,820	\$ 24,162	\$ 1,846
Loans charged-off				
Real estate mortgage	2,660		1,611	
Commercial	6,214		5,141	
Installment	4,913		4,246	
Payment plan receivables	274		94	
Total loans charged-off	14,061		11,092	
Recoveries of loans previously charged-off				
Real estate mortgage	215		97	
Commercial	496		226	
Installment	1,526		1,195	
Payment plan receivables				
Total recoveries	2,237		1,518	
Net loans charged-off	11,824		9,574	
Additions (deductions) charged to operating expense	16,283	61	7,832	(26)
Balance at end of year	\$ 26,879	\$ 1,881	\$ 22,420	\$ 1,820
	.48%		.42%	

Net loans charged-off as a percent of average loans
outstanding (includes loans held for sale) for the year

Allowance for loan losses as a percent of loans
outstanding (includes loans held for sale) at the end of
the year

1.08

.94

The allowance for loan losses reflected above is a valuation allowance in its entirety and the only allowance available to absorb probable loan losses.

Further discussion of the provision and allowance for loan losses (a critical accounting policy) as well as non-performing loans, is presented in Management's Discussion and Analysis of Financial Condition and Results of Operations above.

IV. SUMMARY OF LOAN LOSS EXPERIENCE (continued)

(B) We have allocated the allowance for loan losses to provide for the possibility of losses being incurred within the categories of loans set forth in the table below. The amount of the allowance that is allocated and the ratio of loans within each category to total loans at the dates indicated:

	June 30, 2010		December 31, 2009		December 31, 2008		December 31, 2007	
	Percent of Loans to Total Loans		Percent of Loans to Total Loans		Percent of Loans to Total Loans		Percent of Loans to Total Losses	
	Allowance Amount		Allowance Amount		Allowance Amount		Allowance Amount	
	(Dollars in thousands)							
Commercial	\$ 31,762	\$ 37.2%	\$ 41,259	36.1%	\$ 33,090	39.3%	\$ 27,829	41.8%
Real estate mortgage	21,723	35.7	18,434	33.5	8,729	34.9	4,657	35.6
Installment	7,242	13.3	6,404	13.0	4,264	14.3	3,224	14.4
Payment plan receivables	504	13.8	754	17.4	486	11.5	475	8.2
Unallocated	14,375		14,866		11,331		9,109	
Total	\$ 75,606	\$ 100.0%	\$ 81,717	100.0%	\$ 57,900	100.0%	\$ 45,294	100.0%

	December 31, 2006		December 31, 2005	
	Percent of Loans to Total Loans		Percent of Loans to Total Loans	
	Allowance Amount		Allowance Amount	
	(Dollars in thousands)			
Commercial	\$ 15,010	43.5%	\$ 11,735	43.0%
Real estate mortgage	1,645	36.0	1,156	36.8
Installment	2,469	14.1	2,835	12.7
Payment plan receivables	292	6.4	293	7.5
Unallocated	7,463		6,401	
Total	\$ 26,879	100.0%	\$ 22,420	100.0%

V. DEPOSITS

The following table sets forth average deposit balances and the weighted-average rates paid thereon for the periods indicated:

	Six months ended				Twelve months ended					
	June 30, 2010		June 30, 2009		December 31, 2009		December 31, 2008		December 31, 2007	
	Average Balance	Rate	Average Balance	Rate	Average Balance	Rate	Average Balance	Rate	Average Balance	Rate
(Dollars in thousands)										
Non-interest bearing demand	\$ 334,100		\$ 314,762		\$ 321,802		\$ 301,117		\$ 300,886	
Savings and NOW	1,086,524	0.28%	960,032	0.65%	992,529	0.58%	968,180	1.06%	971,807	1.93%
Time deposits	1,073,452	2.67	917,609	3.14	1,019,624	2.91	917,403	3.97	1,439,177	4.88
Total	\$ 2,494,076	1.27%	\$ 2,192,403	1.60%	\$ 2,333,955	1.52%	\$ 2,186,700	2.14%	\$ 2,711,870	3.28%

The following table summarizes time deposits in amounts of \$100,000 or more by time remaining until maturity at December 31, 2009:

	(Dollars in thousands)
Three months or less	\$ 25,646
Over three through six months	29,463
Over six months through one year	45,756
Over one year	66,797
Total	\$ 167,662

The following table summarizes time deposits in amounts of \$100,000 or more by time remaining until maturity at June 30, 2010:

	(Dollars in thousands)
Three months or less	\$ 35,633
Over three through six months	41,166
Over six months through one year	21,203
Over one year	62,849
Total	\$ 160,851

VI. RETURN ON EQUITY AND ASSETS

The ratio of net income (loss) to average shareholders equity and to average total assets, and certain other ratios, for the periods indicated follow:

	Six months ended		Twelve months ended				
	June 30, 2010	June 30, 2009	December 31, 2009	December 31, 2008	December 31, 2007	December 31, 2006	December 31, 2005
Income (loss) from continuing operations as a percent of (1)							
Average common equity	(57.53)%	(44.24)%	(90.72)%	(39.01)%	3.96%	13.06%	18.63%
Average total assets	(0.57)	(1.75)	(3.17)	(2.88)	0.31	0.99	1.42
Net income (loss) as a percent of (1)							
Average common equity	(57.53)%	(44.24)%	(90.72)	(39.01)	4.12	12.82	19.12
Average total assets	(0.57)	(1.75)	(3.17)	(2.88)	0.32	0.97	1.45
Dividends declared per share as a percent of diluted net income per share	NM	NM	NM	NM	186.67	54.55	36.04
Average shareholders equity as a percent of average total assets	3.40	6.26	5.80	7.50	7.72	7.60	7.61

(1) For 2010, 2009 and 2008, these amounts are calculated using loss from continuing operations applicable to common stock and net loss applicable to

common stock.

NM Not meaningful.

Additional performance ratios are set forth in Selected Financial Data, located earlier in this prospectus. Any significant changes in the current trend of the above ratios are reviewed in Management's Discussion and Analysis of Financial Condition and Results of Operations above.

VII. SHORT-TERM BORROWINGS

Short-term borrowings are discussed in note 9 to the consolidated financial statements, included at page F-64 of this prospectus.

MANAGEMENT**Executive Officers and Directors**

Listed below are our executive officers and directors as of June 30, 2010.

Name (Age)	Position
Jeffrey A. Bratsburg (age 67)	Chairman of the Board of Directors
Michael M. Magee, Jr. (54)	President, Chief Executive Officer and Director
James E. McCarty (age 63)	Director
Donna J. Banks, Ph.D. (age 53)	Director
Robert L. Hetzler (age 65)	Director
Charles C. Van Loan (age 62)	Director
Stephen L. Gulis, Jr. (age 52)	Director
Terry L. Haske (age 62)	Director
Clarke B. Maxson (age 70)	Director
Charles A. Palmer (age 65)	Director
Robert N. Shuster (52)	Executive Vice President and Chief Financial Officer
Stefanie M. Kimball (50)	Executive Vice President and Chief Lending Officer
William B. Kessel (45)	Executive Vice President and Chief Operating Officer
David C. Reglin (50)	Executive Vice President, Retail Banking
Mark L. Collins (52)	Executive Vice President, General Counsel
Richard E. Butler (59)	Senior Vice President, Operations
Peter R. Graves (53)	Senior Vice President, Chief Information Officer
James J. Twarozynski (44)	Senior Vice President, Controller

Directors

Mr. Bratsburg is the Chairman of our Board of Directors. Mr. Bratsburg served as President and CEO of Independent Bank West Michigan (one of our former subsidiary banks whose charter was consolidated with the charter of Independent Bank in 2007) from 1985 until his retirement in 1999. He became a Director in 2000.

Mr. Magee is our President and Chief Executive Officer. See Executive Management Team below for more information.

Mr. McCarty is the retired President of McCarty Communications (commercial printing). He became a Director in 2002.

Dr. Banks is a retired Senior Vice President of the Kellogg Company. She became a Director in 2005.

Mr. Hetzler is the retired President of Monitor Sugar Company (food processor). He became a Director in 2000.

Mr. Van Loan served as our President and CEO from 1993 until 2004 and as executive Chairman during 2005. He retired on December 31, 2005. He became a Director in 1992.

Mr. Gulis is the retired Executive Vice President and President of Wolverine Worldwide Global Operations Group. He became a Director in 2004.

Mr. Haske is a CPA and Principal with Anderson, Tuckey, Bernhardt & Doran, P.C. since 2008. Prior to 2008 he was the President of Ricker & Haske, CPAs, and P.C. He became a Director in 1996.

Mr. Maxson served as Chairman, President and CEO of Midwest Guaranty Bancorp, Inc. from its founding in 1988 until July 2004 when he retired. We acquired Midwest Guaranty Bancorp in July 2004, at which time Mr. Maxson joined the Board of Directors of Independent Bank East Michigan (which merged into Independent Bank in September 2007). He was appointed as a Director in September 2007.

Mr. Palmer is an attorney and a professor of law at Thomas M. Cooley Law School. He became a Director in 1991.

Executive Management Team

We believe we have a strong executive management team that has the appropriate experience and capabilities to lead us in pursuit of the strategies discussed in Summary above. Our executive management team consists of the following:

Michael M. Magee *President & Chief Executive Officer.* Mr. Magee, age 54, was appointed as our President and Chief Executive Officer effective January 1, 2005. He served as our Chief Operating Officer from April to December, 2004. From 1993 until April 2004, he was the President and Chief Executive Officer of Independent Bank (prior to the consolidation of our four bank charters in 2007). He joined us in 1987.

Robert N. Shuster *Executive Vice President & Chief Financial Officer.* Mr. Shuster, age 52, was appointed Executive Vice President and Chief Financial Officer of the Company in 2001. Prior to this appointment, he was President and Chief Executive Officer of Independent Bank MSB since 1999 and was President and Chief Executive Officer of Mutual Savings Bank, f.s.b since 1994. Mr. Shuster is a certified public accountant and received his degree from the University of Michigan.

William Brad Kessel *Executive Vice President and Chief Operations Officer.* Mr. Kessel, age 45, was appointed Executive Vice President Chief Operations Officer of Independent Bank in September 2007 in conjunction with the consolidation of our bank charters. He joined Independent Bank Corporation in 1994 as Vice President of Finance. In 1996 he was appointed Senior Vice President of Branch Administration for Independent Bank, a position he held until being named as President and CEO of Independent Bank in 2004 (prior to the consolidation of our four bank charters in 2007). Mr. Kessel is a certified public accountant and received his undergraduate degree from Miami University (Ohio) and his MBA from Grand Valley State University.

David C. Reglin *Executive Vice President Retail Banking.* Mr. Reglin, age 50, was appointed Executive Vice President Retail Banking in September 2007 in conjunction with our bank charter consolidation. Prior to September 2007, he had been the President and Chief Executive Officer of Independent Bank West Michigan since 1999 and prior to that time he was Senior Vice President of the Bank since 1991. Mr. Reglin is also the President of Independent Title Services, Inc. He originally joined Independent Bank Corporation in 1981. Mr. Reglin received his bachelor's degree from Central Michigan University.

Stefanie M. Kimball *Executive Vice President and Chief Lending Officer.* Ms. Kimball, age 50, joined the Company in April 2007 as Executive Vice President Commercial Lending. Prior to joining Independent Bank, she had been with Comerica Incorporated for 25 years, serving as a Senior Vice President for 10 years. Ms. Kimball held several notable positions during her Comerica tenure including Senior Credit Officer responsible for various lending businesses to Middle Market, Small Business, Private Banking as well as Consumer Lending. In addition she assumed the role of Senior Vice President, Credit Risk Management and was responsible for design and implementation of the bank's Basel credit risk initiatives. Ms. Kimball received her undergraduate degree from Oakland University and her MBA from the University of Detroit.

Mark Collins Executive Vice President and General Counsel. Mr. Collins, age 52, joined the Company as General Counsel in 2009. In June 2010, he was also appointed as President and Chief Executive Officer of Mepco Finance Corporation, a wholly-owned subsidiary of Independent Bank. Prior to joining the Company, Mr. Collins was a partner with Varnum LLP, a Grand Rapids-based law firm, where he specialized in commercial law and creditors' rights. Mr. Collins received his law degree in 1982 from the Villanova University School of Law.

Executive Compensation

Compensation Discussion and Analysis

Overview and Objectives

The primary objectives of our executive compensation program are to (1) attract and retain talented executives; (2) motivate and reward executives for achieving our business goals; (3) align our executives' incentives with our strategies and goals, as well as the creation of shareholder value; and (4) provide competitive compensation at a reasonable cost. Consequently, our executive compensation plans are designed to achieve these objectives.

As described in more detail below, our executive compensation program has three primary components: base salary; an annual cash incentive bonus; and long-term incentive compensation that is payable in cash, stock options and stock grant awards. The compensation committee of our board has not established policies or guidelines with respect to the specific mix or allocation of total compensation among base salary, annual incentive bonuses, and long-term compensation. However, as part of our long-standing pay-for-performance compensation philosophy, we typically set the base salaries of our executives somewhat below market median base salaries in return for above market median incentive opportunities. Combined, our five named executives (identified below) have served us for a total of 84 years.

The compensation committee of our board has utilized the services of third-party consultants from time to time to assist in the design of our executive compensation programs and render advice on compensation matters generally. In 2006, the compensation committee engaged the services of Mercer Human Resource Consulting to review our executive compensation programs. As part of those services, Mercer (1) reviewed our existing compensation strategies and plans; (2) conducted a study of peer group compensation, including the competitiveness and effectiveness of each element of our compensation program, as well as our historical performance relative to that peer group; and (3) recommended changes to our compensation program, including those directly applicable to our executive officers. Neither we, our board, nor any committee of our board retained any compensation consultants during 2009.

Restrictions on Executive Compensation Under Federal Law

On December 12, 2008, we sold \$72 million of our Series A Preferred Stock and Warrants to Treasury under TARP's CPP. Participants in TARP are subject to a number of limitations and restrictions on executive compensation, including certain provisions of the ARRA. Under the ARRA, Treasury established standards regarding executive compensation relative to the requirements listed below on June 15, 2009. The substance of this Compensation Discussion and Analysis is based upon the existing guidance issued by Treasury. The compensation committee of our board conducted the required review of our named executives' incentive compensation arrangements with our senior risk officers, within the 90 day period following our sale of securities to the Treasury under TARP.

As a general matter, until such time that we are no longer a TARP participant, we will be subject to the following requirements, among others:

Our incentive compensation program may not include incentives for our named executives (defined below) to take unnecessary and excessive risks that threaten the value of our company;

We are entitled to recover any bonus, retention award, or incentive compensation paid to any of our 25 most highly compensated employees based upon statements of earnings, revenues, gains, or other criteria that are later found to be materially inaccurate;

We are prohibited from making any golden parachute payments to any of our ten most highly compensated employees;

We are prohibited from paying to any named executive or the next 20 most highly compensated employees any tax gross-ups on compensation such as perquisites.

Our compensation program may not encourage the manipulation of reported earnings to enhance the compensation of our employees;

We may not pay or accrue any bonus, retention award, or incentive compensation to any of our named executives, other than payments made in the form of restricted stock, subject to the further condition that any such awards may not vest while we are a participant in TARP and that any award not have a value greater than one-third of the named executive's total annual compensation; and

Our shareholders must be given the opportunity to vote on an advisory (non-binding) resolution at our annual meeting to approve the compensation of our executives.

The foregoing discussion is intended to provide a background and context for the information that follows regarding our existing compensation programs to those persons who served as our executive officers during 2009 and to assist in understanding the information included in the executive compensation tables included below.

Components of Compensation

The principal components of compensation we pay to our executives consist of the following:

Base salary;

Annual cash incentive; and

Long-term incentive compensation, generally payable in the form of a combination of cash, stock options and restricted stock.

Base Salary

Base salaries are established each year for our executive officers. None of our executive officers has a separate employment agreement. In determining base salaries, we consider a variety of factors. Peer group compensation is a primary factor, but additional factors include an individual's performance, experience, expertise, and tenure with us. The executive compensation review conducted by Mercer, including its update in 2008, revealed that the base salaries of most of our executives are at or below competitive rates and market median levels.

Each year the compensation committee recommends the base salary for our President and CEO for consideration and approval by the full board. For 2009, the committee approved management's recommendation to freeze the base salary levels of all of our executive officers, including Mr. Magee. Similarly, for 2010, the base salary levels of our named executives were frozen at the 2008 levels. Accordingly, Mr. Magee's salary of \$382,000 has remained unchanged since 2008.

The base salaries of other executive officers are established by our President and CEO. In setting base salaries, our President and CEO considers peer group compensation, as well as the individual performance of each respective executive officer. For the reasons noted above, the base salaries of our other named executives for 2009 remained unchanged from 2008 and were as follows: Mr. Shuster \$230,000; Mr. Reglin \$226,000; Mr. Kessel \$226,000; and Ms. Kimball \$226,000. To date, these salaries are the same for 2010.

Annual Cash Incentives

Annual cash incentives are paid under the terms of our Management Incentive Compensation Plan. This Plan sets forth performance incentives that are designed to provide for annual cash awards that are payable if we meet or exceed the annual performance objectives established by our board. Under this Plan, our board establishes annual performance levels as follows: (1) threshold represents the performance level of what must be achieved before any incentive awards are payable; (2) target performance is defined as a desired level of performance in view of all relevant factors, as described in more detail below; and (3) the maximum represents that which reflects outstanding performance. As noted above, target performance under this Plan is intended to provide for aggregate annual cash compensation (salary and bonus) that approximates peer level compensation.

Threshold performance would result in earning 50 percent of the target incentive, target would be 100 percent, and maximum would be 200 percent, with compensation prorated between these award levels. Target incentive is defined as 65 percent of base salary for our CEO and 50 percent of base salary for our other named executives.

For 2009, 75 percent of the performance goal was based upon our performance, while 25 percent was based upon predetermined individual goals. The corporate performance standards for 2009 were based upon our success in after-tax earnings per share (EPS), on success in reducing our loan loss provision and our success in growing core deposits. Each of the factors were weighted 25 percent. For 2009, the performance goals for our company were as follows:

	EPS	Loan Loss Provision	Core Deposits
Threshold	\$ 0.00	\$51 million	\$1.9 billion

Target	3.00	45 million	2.0 billion
Maximum	10.00	16 million	2.2 billion

Following the adoption of the ARRA, discussed above, none of the named executives are currently eligible to receive any payments under our annual Management Incentive Compensation Plan. Given our performance during 2009, no bonuses were paid to any of our employees for

2009. Annually, the committee is to set these performance goals not later than the 60th day of each year. The performance goals for 2010 were not established due to the suspension of annual cash incentives under this plan for 2010. The awards are paid in full following certification of our financial results for the performance period.

Long-Term Incentive Program

Following the committee's and our board's review and analysis of the Mercer report, effective January 1, 2007, the board adopted a long-term incentive program that includes three separate components: stock options, restricted stock, and long-term cash, each of which comprise one-third of the total long-term incentive grant each year. The target value of the cumulative amount of these awards is set at 100 percent of our CEO's salary and 50 percent for each of our other named executives. Because the first possible payout under the cash portion of the long-term program cannot be made until 2010 (the year after the first three-year performance period), the committee elected to grant stock options and restricted stock having a value equal to the aggregate target bonuses under the long-term incentive program for both 2007 and 2008. For 2009, and as explained in more detail below, the committee authorized only the grant of stock options under this program at a target value well below two-thirds of the target bonus.

Cash Incentive Elements. The committee adopted performance goals for the cash portion of this long-term incentive program, based upon our three-year total shareholder return (TSR). TSR is determined by dividing the sum of our stock price appreciation and dividends by our stock price at the beginning of the performance period. The first performance period is the three year period beginning January 1, 2007. For purposes of determining achievement, our TSR is measured against the Nasdaq Bank Index median TSR over the same period. The committee established the three target levels of performance, with threshold at the 50th percentile, target at the 70th percentile and maximum at the 90th percentile.

Equity-Based Incentive Element. The other two-thirds of the program are made up of stock options and shares of restricted stock, each of which are awarded under the terms of our Long-Term Incentive Plan. As a general practice, these awards are recommended by the committee, and approved by our board, at our board's first meeting in each calendar year and after the announcement of our earnings for the immediately preceding year. Under this Plan, the committee has the authority to grant a wide variety of stock-based awards. The exercise price of options granted under this Plan may not be less than the fair market value of our common stock at the date of grant; options are restricted as to transferability and generally expire ten years after the date of grant. The Plan is intended to assist our executive officers in the achievement of our share ownership guidelines. Under these guidelines (1) our CEO is expected to own Independent Bank Corporation stock having a market value equal to twice his base salary, (2) our executive vice presidents are to own stock having a market value of not less than 125 percent of their respective base salaries, and (3) our senior vice presidents are to own stock having a market value of not less than 50 percent of their respective base salaries. Once these guidelines are achieved, the failure to maintain the guidelines due to decreases in the market value of our common stock does not mandate additional purchases; rather, further sales of our common stock are prohibited until the employee again reaches the required level of ownership. Not more than 75 percent of the shares held by an executive in our Employee Stock Ownership Plan (ESOP) may count toward the achievement of these guidelines, and only in the money stock options granted after January 1, 2004, count as well. These guidelines apply ratably over a five-year period commencing January 1, 2004, or the date of hire or promotion to one of these positions.

The value of the options that make up one-third of our long-term incentive program is measured under ASC topic 718, Compensation—Stock Compensation and vest ratably over three years. The value of the shares of the restricted stock that make up the final one-third of our long-term incentive program is based upon the grant date value of the shares of our common stock. These shares do not vest until the fifth anniversary of the grant date.

Due to the limited number of shares available for issuance under the terms of our Long-Term Incentive Plan, the committee elected to grant the entire amount of the equity portion of the long-term incentive program in the form of restricted shares of common stock for 2008. The value of the shares of restricted stock, based upon the grant date values, equaled 100 percent of our CEO's base compensation and 50 percent of the base compensation of each of our other named executives. As of the time of the annual grant for equity-based awards under the Plan in 2009, there remained approximately 30,000 shares available for grant under the Plan. Due to the limited number of remaining shares available for award, and due to the fact that the committee utilized restricted stock awards exclusively in 2008, the committee approved the grant of options covering a total of 29,999 shares for 2009, which were allocated among

participants in accordance with their respective target bonuses under the Long-Term Incentive Program. Based upon the restrictions imposed by ARRA, our named executives may only receive awards under the Plan in the form of restricted stock, subject to the further limitation that those shares may not vest while we are a TARP participant and the value of any award may not exceed one-third of that employee's total annual compensation. No awards under the Long-Term Incentive Program have been made or authorized for 2010.

Severance and Change in Control Payments

We have in place Management Continuity Agreements for each of our executive officers. These agreements provide severance benefits if an individual's employment is terminated within 36 months after a change in control or within six months before a change in control and if the individual's employment is terminated or constructively terminated in contemplation of a change in control for three years thereafter. For

purposes of these agreements, a change in control is defined to mean any occurrence reportable as such in a proxy statement under applicable rules of the SEC, and would include, without limitation, the acquisition of beneficial ownership of 20 percent or more of our voting securities by any person, certain extraordinary changes in the composition of our Board, or a merger or consolidation in which we are not the surviving entity, or our sale or liquidation.

Severance benefits are not payable if an individual's employment is terminated for cause, employment terminates due to an individual's death or disability, or the individual resigns without good reason. An individual may resign with good reason after a change in control and receive his or her severance benefits if an individual's salary or bonus is reduced, his or her duties and responsibilities are inconsistent with his or her prior position, or there is a material, adverse change in the terms or conditions of the individual's employment. The agreements are for self-renewing terms of three years unless we elect not to renew the agreement. The agreements are automatically extended for a three-year term from the date of a change in control. These agreements provide for a severance benefit in a lump sum payment equal to 18 months to three years' salary and bonus and a continuation of benefits coverage for 18 months to three years. These benefits are limited, however, to one dollar less than three times an executive's base amount compensation as defined in Section 280G of the Internal Revenue Code of 1986, as amended.

Following the adoption of the ARRA, discussed above, none of our ten most highly compensated employees will be eligible to receive any severance or change in control benefits due to the prohibition related to golden parachute payments for the period during which any obligation we have arising under TARP remains outstanding.

Other Benefits

We believe that other components of our compensation program, which are generally provided to other full-time employees, are an important factor in attracting and retaining highly qualified personnel. Executive officers are eligible to participate in all of our employee benefit plans, such as medical, group life and accidental death and dismemberment insurance and our 401(k) Plan, and in each case on the same basis as other employees. We also maintain an ESOP that provides substantially all full-time employees with an equity interest in Independent Bank Corporation. Contributions to the ESOP are determined annually and are subject to the approval of our board. We did not make any contributions to the plan for the year ended December 31, 2009.

Perquisites

Our board and compensation committee regularly reviews the perquisites offered to our executive officers. The committee believes that the cost of such perquisites is relatively minimal. Under the standards established by the Treasury on June 15, 2009, we may not pay to any named executive or the next 20 most highly compensated employees any tax gross-ups on compensation such as perquisites.

Summary Compensation Table 2009

The following table shows certain information regarding the compensation for our Chief Executive Officer, Chief Financial Officer, and the three most highly compensated executive officers other than our CEO and CFO, referred to in this prospectus as named executives.

Name and Principal Position	Year	Salary ⁽¹⁾	Bonus	Non-Equity Incentive			Totals	
				Stock Awards ⁽²⁾	Option Awards ⁽²⁾	Plan Compensation ⁽³⁾		All Other Compensation ⁽³⁾
Michael M. Magee	2009	\$382,000	\$		\$ 42,677	\$	\$ 26,853	\$451,530
President and Chief Executive Officer	2008	382,000		349,996			35,904	767,900
Robert N. Shuster	2009	230,000			174,998	51,186	21,878	773,057
Executive Vice President and Chief Financial Officer	2008	230,000		109,994			28,959	271,807
David C. Reglin	2009	226,000		54,994	54,999	39,600	24,318	364,312
Executive Vice President Retail Banking	2007	226,000		54,994	54,999		21,051	390,644
Stefanie M. Kimball ⁽⁴⁾	2009	226,000			12,624		24,612	263,236
Executive Vice President Chief Lending Officer	2008	226,000		109,994			27,415	363,409
William B. Kessel	2009	226,000		54,994	54,999	33,000	24,017	387,010
Executive Vice President Chief Operations Officer	2008	226,000		99,999			14,414	253,038
	2007	130,769		49,987	49,997	25,000	16,558	342,557
	2009	226,000			12,624		3,399	259,152
	2008	226,000		107,499			22,363	260,987
	2007	215,000		53,742	53,748	32,500	27,431	360,930
							25,494	380,484

(1) Includes elective deferrals by employees pursuant to Section 401(k) of the Internal Revenue Code and elective deferrals pursuant to a non-qualified deferred compensation plan.

(2) Amounts set forth in the stock award and option award columns represent the aggregate fair value of the

awards as of the grant date, computed in accordance with FASB ASC topic 718, Compensation Stock Compensation. The assumptions used in calculating these amounts are set forth in Note 15 in our consolidated financial statements for the year ended December 31, 2009, included in this prospectus.

- (3) Amounts include our contributions to the ESOP (subject to certain age and service requirements, all employees are eligible to participate in the plan), matching contributions to qualified defined contribution plans, IRS determined personal use of company owned automobiles, country club and other social club dues and restricted stock

dividends.

- (4) Ms. Kimball
began
employment
with us on
April 25, 2007.

Grants of Plan-Based Awards 2009

The following table sets forth information on equity awards granted by us to the named executives during 2009 under our Long-Term Incentive Plan. The Compensation Discussion and Analysis provides further details on these awards under the Long-Term Incentive Plan. As noted in the Compensation Discussion and Analysis, our named executives are not eligible to participate in our Management Incentive Compensation Plan.

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other	All Other	Grant Date Fair Value of Stock and Option Awards
		Threshold \$(1)	Target \$	Maximum \$	Threshold \$	Target \$	Maximum \$	Stock Awards Number of Shares of Stock Underlying Awards	Option Awards: Exercise Price of Option	
							Units	Options(2)	Base Price (\$/Sh)(3)	
Michael M. Magee	1/30/09	58,333	116,667	233,334				6,166	\$ 15.90	\$ 42,678
Robert N. Shuster	1/30/09	18,333	36,667	73,333				1,856	15.90	12,848
David C. Reglin	1/30/09	18,333	36,667	73,333				1,824	15.90	12,624
Stefanie M. Kimball	1/30/09	16,667	33,333	66,667				1,824	15.90	12,624
William B. Kessel	1/30/09	17,917	35,833	71,667				1,824	15.90	12,624

(1) Represents awards granted under our long term incentive program. The referenced payouts are dependent upon our three-year total shareholder return (TSR) as

described in our Compensation Discussion and Analysis above for the period ending December 31, 2010, relative to the Nasdaq Bank Index median TSR over the same period.

- (2) Each option has a term of ten years and vests pro rata over three years.
- (3) The exercise price of all stock options equals the market value of our common stock on the grant date.
- (4) Grant date values are computed in accordance with ASC topic 718, Compensation Stock Compensation.

As shown in the Summary Compensation Table above, each named executive's base salary generally constitutes the majority of his or her respective compensation for 2009, 2008 and 2007. This is due to the fact that no annual bonus was paid in 2008 or 2009 under the Management Incentive Compensation Plan and bonuses earned under that plan for 2007 were attributable to the achievement of certain individual performance goals. Effective January 1, 2007, our Management Incentive Compensation Plan was modified to permit our executives to earn relatively modest bonuses based upon individual achievement, irrespective of whether we achieved our financial performance targets.

Outstanding Equity Awards at Fiscal Year-End

The following table shows the option and restricted stock awards that were outstanding as of December 31, 2009. The table shows both exercisable and unexercisable options, as well as shares of restricted stock that have not yet vested, all of which were granted under our long term incentive plan. During 2009, our named executives voluntarily surrendered, for no consideration, options providing for the purchase of 335,645 shares of our common stock. Each of these options had an exercise price of \$10.00 or greater and an expiration date of greater than one year from the date of surrender.

Name	Grant Date	Option Awards			Stock Awards		
		Number of Securities		Option Exercise Price	Option Exercise Date	Number of Shares or Units of Stock That Have Not Vested ⁽²⁾	Market Value of Shares or Units of Stock That Have Not Vested ⁽³⁾
		Underlying	Unexercised Options				
Michael M. Magee	01/21/01	1,022		\$ 97.90	01/21/11		
	04/24/07					1,049	\$ 7,549
	01/15/08					4,587	33,027
	01/30/09		6,166	15.90	01/30/19		
Robert N. Shuster	04/17/01	477		99.70	04/17/11		
	05/11/04	169		221.30	04/20/10		
	04/24/07					330	2,372
	01/15/08					1,442	10,380
	01/30/09		1,856	15.90	01/30/19		
David C. Reglin	01/21/01	930		97.90	01/21/11		
	04/17/01	605		99.70	04/17/11		
	05/21/01	327		119.70	01/18/10		
	04/24/07					330	2,372
	01/15/08					1,442	10,380
01/30/09		1,824	15.90	01/30/19			
Stefanie M. Kimball	04/24/07					300	2,156
	01/15/08					1,311	9,436
	01/30/09		1,824	15.90	01/30/19		
William B. Kessel	04/24/07					322	2,318
	01/15/08					1,409	10,144
	01/30/09		1,824	15.90	01/30/19		

(1) The options granted on January 30, 2009, vest ratably over the three-year

period
beginning
January 30,
2010.

- (2) The shares of restricted stock are subject to risks of forfeiture until they vest, in full, on the fifth anniversary of the grant date.

- (3) The market value of the shares of restricted stock that have not vested is based on the closing price of our common stock as of December 31, 2009.

Option Exercises and Stock Vested 2009

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise	Value Realized on Exercise	Number of Shares Acquired on Vesting	Value Realized on Vesting
Michael M. Magee				
Robert N. Shuster				
David C. Reglin				
Stefanie M. Kimball				
William B. Kessel				

None of our named executives exercised any options during 2009, nor were any restricted stock awards vested during 2009.

Nonqualified Deferred Compensation

The table below provides certain information relating to each defined contribution plan that provides for the deferral of compensation on a basis that is not tax qualified.

Name	Executive Contributions in Last FY	Registrant Contributions in Last FY	Aggregate Earnings in Last FY	Aggregate Withdrawals/ Distributions	Aggregate Balance at Last FYE
Michael M. Magee			\$(14,482)	\$	\$ 7,505
Robert N. Shuster			5,446	(8,512)	52,416
David C. Reglin					
Stefanie M. Kimball					
William B. Kessel			107	(23,057)	

Certain of our officers, including the named executives, can contribute, on a tax deferred basis, up to 80% of his or her base salary and 100% of his or her annual cash bonus into our executive non-qualified excess plan. We make no contributions to this plan, and contributions by participants may be directed into various investment options as selected by each participant. Earnings on the investments accrue to the participants on a tax deferred basis. Participants can withdraw balances from their accounts in accordance with plan provisions.

Other Potential Post-Employment Payments

Executive Name	(1) Estimated Liability for Severance Payments & Benefit Amounts Under Continuity Agreements	(2) Payment Limitation Based on IRS Section 280G Limitation on Severance Amounts
Michael M. Magee	\$ 1,302,958	\$ 1,141,078
Robert N. Shuster	810,064	707,834
David C. Reglin	790,798	704,045
Stefanie M. Kimball	794,285	642,490
William B. Kessel	789,688	778,298

(1) We have entered into Management Continuity Agreements with each of the above named executives that provide for defined severance compensation and other benefits if they are terminated following a change of control of our company. The Agreements provide for a lump sum payout of the severance compensation and a continuation of certain health and medical insurance related benefits for a period of three years. For further detailed

information, see the section titled Severance and Change in Control Payments included as part of the Compensation Discussion and Analysis in this prospectus.

- (2) The total amounts which may be due under the Management Continuity Agreements are subject to and limited by Internal Revenue Code Section 280G, as amended. This column indicates the estimated payout based on IRS limitations.

As long as we have any obligation outstanding arising under TARP, none of the potential payments described above can be paid due to the prohibition related to golden parachute payments under ARRA, as discussed above.

Director Compensation

During 2009, in response to the prevailing, uncertain economic conditions, our board reduced by ten percent the annual retainer paid to non-employee directors as well as the annual retainer payable to non-employee directors of our bank. As a result, these amounts were \$40,500 and \$10,800, respectively for 2009, and will remain the same for 2010. Half of the combined retainer is paid in cash and the other half is paid under our Deferred Compensation and Stock Purchase Plan for Non-Employee Directors (the Purchase Plan) described below until that director achieves the required share ownership under our share ownership guidelines. Once a director has achieved the requisite level of share ownership under those guidelines, each director then has a choice of receiving his or her director compensation in cash or deferred share units under our Purchase Plan, at his or her discretion. Our board approved the payment of additional retainers of \$5,000, \$3,000, and \$2,000 to the Chairpersons of our board's audit committee, compensation committee, and nominating and corporate governance committee, respectively. No fees are payable for attendance at either board or committee meetings.

Pursuant to our long term incentive plan, the compensation committee may grant options to each non-employee director to purchase shares of our common stock. No such stock options were granted during 2009, 2008 or 2007.

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 our 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 our 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 our bank. A Deferred Stock Account is credited with the amount of Fees deferred and converted into stock units based on the fair market value of our common stock at the time of the deferral. Amounts in the Deferred Stock Account are credited with cash dividends and other distributions on our common stock. Fees credited to a Deferred Cash Investment Account or a Deferred Stock Account are deferred for income tax purposes. The Purchase Plan does not provide for distributions of amounts deferred prior to a participant's termination as a non-employee director. Participants may generally elect either a lump sum or installment distributions.

Director Compensation 2009

Name	Fees Earned or		Option Awards ⁽¹⁾	Totals	Aggregate Stock Options
	Paid in Cash				Held as of 12/31/09
Donna J. Banks	\$ 51,300		\$	\$ 51,300	
Jeffrey A. Bratsburg	51,300			51,300	3,099
Stephen L. Gulis, Jr. ⁽²⁾	71,300			71,300	
Terry L. Haske ⁽³⁾	59,300			59,300	1,646
Robert L. Hetzler ⁽⁴⁾	51,800			51,800	1,646
Clarke B. Maxson	51,300			51,300	
James E. McCarty ⁽⁵⁾	54,300			54,300	
Charles A. Palmer ⁽⁶⁾	53,300			53,300	1,646
Charles C. Van Loan ⁽⁴⁾	59,800			59,800	
Totals	\$ 503,700		\$	\$ 503,700	8,037

(1) No stock options were awarded to our board during 2009, 2008, or 2007. No amounts were recognized as compensation expense in 2009 for financial reporting purposes with respect to stock options granted to directors in accordance with SFAS No. 123R.

(2) Includes additional retainer for service as chairperson of the audit

committee and
service on ad
hoc special
committee of
our board.

- (3) Includes
additional
retainer for
service on ad
hoc special
committee of
our board.
- (4) Includes fees
received for
attendance at
Meeco board
meetings during
2009.
- (5) Includes
additional
retainer for
service as
chairperson of
the
compensation
committee.
- (6) Includes
additional
retainer for
service as
chairperson of
the nominating
and corporate
governance
committee and
for service on ad
hoc special
committee of
our board.

Director Independence

For many years, our board of directors has been committed to sound and effective corporate governance practices. Our 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 our 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.IndependentBank.com under the Investor Relations tab. (The reference to our website is not intended to be an active link and the information on our website is not, and you must not consider the information to be, a part of this prospectus.)

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 Rule 5605(a)(2) of The NASDAQ Stock Market LLC: Donna J. Banks, Jeffrey A. Bratsburg, Stephen L. Gulis, Terry L. Haske, Robert L. Hetzler, Clarke B. Maxson, James E. McCarty, Charles A. Palmer and Charles C. Van Loan. Our board has also determined that each member of the three committees of our 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 SEC. There are no family relationships between or among our directors, nominees or executive officers.

Compensation Committee Interlocks and Insider Participation

Our compensation committee, which met on five occasions in 2009, consists of directors Banks, Gulis, Hetzler, Van Loan, and McCarty (Chairman). Mr. Van Loan previously served as our CEO. None of our directors has interlocking or other relationships with other boards, compensation committees, or our executive officers that require disclosure under Item 407(e)(4) of Regulation S-K.

Our compensation committee reviews and makes recommendations to our board on executive compensation matters, including any benefits to be paid to our executives and officers. At the beginning of each year, the committee meets to review our CEO's performance against our corporate goals and objectives for the preceding year and also to review and approve the corporate goals and objectives that relate to CEO compensation for the forthcoming year. The committee also evaluates the CEO and other key executives' payouts against (a) pre-established, measurable performance goals and budgets; (b) generally comparable groups of executives; and (c) external market trends. Following this review, the committee recommends to the full board, the annual base salary, annual incentive compensation, total compensation and benefits for our CEO. The committee is also responsible for approving equity-based compensation awards under our long term incentive plan. Base salaries of executive officers, other than our CEO, are established by our CEO.

The committee is also responsible to recommend to the full board the amount and form of compensation payable to directors. From time to time, the committee relies upon third party consulting firms to assist the committee in its oversight of our executive compensation policy and our board compensation. This is discussed in more detail above.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

As of June 30, 2010, no person was known by us to be the beneficial owner of 5% or more of our common stock.

The following table sets forth the beneficial ownership of our common stock by our named executives, set forth in the compensation table above, and by all directors and executive officers as a group as of June 30, 2010, as adjusted for the 1-for-10 reverse stock split which occurred on August 31, 2010:

Name	Amount and Nature of Beneficial Ownership ⁽¹⁾	Percent of Outstanding
Michael M. Magee	15,467 ⁽²⁾	.20
Robert N. Shuster	15,685	.21
David C. Reglin	9,840	.13
William B. Kessel	3,840	.05
Stefanie M. Kimball	2,693	.04
All executive officers and directors as a group (consisting of 18 persons)	365,359 ⁽³⁾	4.82

- (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 ESOP.

- (2) Includes 1,043 common stock units held in a deferred compensation plan.

- (3) Beneficial ownership is disclaimed as to 202,634 shares, all of which are held by the Independent Bank Corporation Employee Stock Ownership Trust (which is the beneficial owner of 219,375 shares of our common stock (or 2.92%) as of June 30, 2010).

CERTAIN MANAGEMENT RELATIONSHIPS AND BENEFITS**Equity Compensation Plan Information**

We maintain certain equity compensation plans under which our common stock is authorized for issuance to employees and directors, including our Non-employee Director Stock Option Plan, Employee Stock Option Plan and Long-Term Incentive Plan.

The following sets forth certain information regarding our equity compensation plans as of December 31, 2009, as adjusted for the 1-for-10 reverse stock split which occurred on August 31, 2010.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	110,000	\$ 131.89	53,000
Equity compensation plan not approved by security holders	None		None

Certain Relationships and Related Transactions

Our board of directors and executive officers and their associates were customers of, and had transactions with, our bank subsidiary in the ordinary course of business during 2009. 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 collectability or present other unfavorable features. Such loans totaled \$599,000 at December 31, 2009, equal to 0.5% of shareholders' equity.

UNDERWRITING

Subject to the terms and conditions stated in the underwriting agreement with Stifel, Nicolaus & Company, Incorporated and FBR Capital Markets & Co. as the representatives of the underwriters named below, each underwriter named below has severally agreed to purchase from us the respective number of shares of our common stock set forth opposite its name in the table below.

Name	Number of Shares
Stifel, Nicolaus & Company, Incorporated	[]
FBR Capital Markets & Co.	[]
[]	[]
Total	[]

The underwriting agreement provides that the underwriters' obligations are several, which means that each underwriter is required to purchase a specific number of shares of common stock, but it is not responsible for the commitment of any other underwriter. The underwriting agreement provides that the underwriters' several obligations to purchase our shares of common stock depend on the satisfaction of the conditions contained in the underwriting agreement, including:

the representations and warranties made by us to the underwriters are true;

there is no material adverse change in the financial markets; and

we deliver customary closing documents and legal opinions to the underwriters.

Subject to these conditions, the underwriters are committed to purchase and pay for all shares of common stock offered by this prospectus, if any such shares of common stock are purchased. However, the underwriters are not obligated to purchase or pay for the shares of common stock covered by the underwriters' over-allotment option described below, unless and until they exercise this option.

The shares of common stock are being offered by the several underwriters, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of certain legal matters by counsel for the underwriters and other conditions. The underwriters reserve the right to withdraw, cancel, or modify this offering and to reject orders in whole or in part.

Offering Price

We have been advised that the underwriters propose to offer the shares of common stock to the public at the offering price set forth on the cover of this prospectus and to certain selected dealers at this price, less a concession not in excess of \$[] per share. The underwriters may allow, and any selected dealers may reallow, a concession not to exceed \$[] per share to certain brokers and dealers. After the shares of common stock are released for sale to the public, the offering price and other selling terms may from time to time be changed by the underwriters.

Over-Allotment Option

We have granted to the underwriters an over-allotment option, exercisable no later than 30 days from the date of this prospectus, to purchase up to an aggregate of [] additional shares of our common stock at the public offering price, less the underwriting discount and commission set forth on the cover page of this prospectus. To the extent that the underwriters exercise their over-allotment option, the underwriters will become obligated, so long as the conditions of the underwriting agreement are satisfied, to purchase the additional shares of our common stock in proportion to their respective initial purchase amounts. We will be obligated to sell the shares of our common stock to the underwriters to the extent the over-allotment option is exercised. The underwriters may exercise this option only to cover over-allotments made in connection with the sale of the shares of our common stock offered by this prospectus.

Commissions and Expenses

The following table shows the per share and total underwriting discount that we will pay to the underwriters. These amounts are shown assuming both no exercise and full exercise of the underwriters' over-allotment option.

	Per Share	Total Without Option Exercised	Total With Option Exercised
Public offering price	\$	\$	\$
Underwriting discount	\$	\$	\$
	128		

In addition to the underwriting discount, we will pay the legal fees of underwriters' counsel up to a maximum of \$17,500 per month (up to an aggregate total of \$100,000) and reimburse it for its out-of-pocket expenses (up to an aggregate total of \$5,000).

We estimate that our share of the total offering expenses, excluding underwriting discounts and commissions, will be approximately \$0.4 million.

Lock-Up Agreements

We, our executive officers and our directors have agreed that for a period of 180 days from the date of this prospectus (subject to possible extension), neither we nor any of our executive officers or directors will, without the prior written consent of both Stifel, Nicolaus & Company, Incorporated and FBR Capital Markets & Co., on behalf of the underwriters, subject to certain exceptions, sell, offer to sell or otherwise dispose of or hedge any shares of our common stock or any securities convertible into or exercisable or exchangeable for our common stock. The 180-day restricted period described above will be automatically extended if (1) during the last 17 days of the 180-day restricted period, we issue an earnings release or material news or a material event relating to us occurs or (2) prior to the expiration of the 180-day restricted period, we announce we will release earnings results or become aware that material news or a material event will occur during the 16-day period beginning on the last day the 180-day restricted period, in which case the restricted period will continue to apply until the expiration of the 18-day period beginning on the date on which the earnings release is issued or the material news or material event related to us occurs. Upon agreement of both Stifel, Nicolaus & Company, Incorporated and FBR Capital Markets & Co. the securities subject to these lock-up agreements may be released at any time without notice.

Indemnity

We and our bank, jointly and severally, have agreed to indemnify the underwriters and persons who control the underwriters against certain liabilities, including liabilities under the Securities Act, and to contribute to payments that the underwriters may be required to make for these liabilities.

Electronic Prospectus Delivery

A prospectus in electronic format may be made available on the web sites maintained by one or more of the underwriters. In connection with this offering, certain of the underwriters or securities dealers may distribute this prospectus electronically. Stifel, Nicolaus & Company, Incorporated and FBR Capital Markets & Co. as representatives for the several underwriters may agree to allocate a number of shares of common stock to underwriters for sale to their online brokerage account holders. The representatives will allocate shares of common stock to underwriters that may make Internet distributions on the same basis as other allocations. Other than this prospectus in electronic format, the information on any of these web sites and any other information contained on a web site maintained by an underwriter or syndicate member is not part of this prospectus.

Passive Market Making

In connection with this offering, the underwriters and selected dealers, if any, who are qualified market makers on The Nasdaq Global Select Market, may engage in passive market making transactions in our common stock on The Nasdaq Global Select Market in accordance with Rule 103 of Regulation M under the Securities Act. Rule 103 permits passive market making activity by the participants in our common stock offering. Passive market making may occur before the pricing of our offering, or before the commencement of offers or sales of our common stock. Each passive market maker must comply with applicable volume and price limitations and must be identified as a passive market maker. In general, a passive market maker must display its bid at a price not in excess of the highest independent bid for the security. If all independent bids are lowered below the bid of the passive market maker, however, the bid must then be lowered when purchase limits are exceeded. Net purchases by a passive market maker on each day are limited to a specified percentage of the passive market maker's average daily trading volume in our common stock during a specified period and must be discontinued when that limit is reached. The underwriters and other dealers are not required to engage in passive market making and may end passive market making activities at any time.

Stabilization

In connection with this offering, the underwriters may engage in stabilizing transactions, over-allotment transactions, covering transactions, and penalty bids in accordance with Regulation M under the Exchange Act as set

forth below:

Over-allotment involves sales by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase, which creates a short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by the underwriters is not greater than the number of shares that they may purchase in the over-allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over-allotment option. The underwriters may close out any covered short position by either exercising their over-allotment option or purchasing shares in the open market;

Covering transactions involve the purchase of common stock in the open market after the distribution has been completed in order to

cover short positions. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. If the underwriters sell more shares than could be covered by the over-allotment option, a naked short position, the position can only be closed out by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in this offering; and

Penalty bids permit the underwriters to reclaim a selling concession from a selected dealer when the common stock originally sold by the selected dealer is purchased in a stabilizing covering transaction to cover short positions.

These stabilizing transactions, covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of our common stock. As a result, the price of our common stock may be higher than the price that might otherwise exist in the open market. Neither we nor the underwriters make any representation or prediction as to the effect that the transactions described above may have on the price of our common stock. These transactions may be effected on the Nasdaq Global Select Market or otherwise and, if commenced, may be discontinued at any time.

Other Considerations

It is expected that delivery of the shares of our common stock will be made against payment therefor on or about the date specified on the cover page of this prospectus. Under Rule 15c6-1 promulgated under the Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise.

Certain of the underwriters and their affiliates have in the past provided, and may in the future from time to time provide, investment banking and other financing and banking services to us, for which they have in the past received, and may in the future receive, customary fees and reimbursement for their expenses.

LEGAL MATTERS

The validity of the shares of common stock to be issued in this offering will be passed upon for us by Varnum LLP, Grand Rapids, Michigan. Certain legal matters related to this offering are being passed upon for the underwriters by Lewis, Rice & Fingersh, L.C., St. Louis, Missouri.

EXPERTS

The financial statements as of December 31, 2009 and December 31, 2008 and for each of the three years in the period ended December 31, 2009, which are included in this prospectus, have been included in reliance on the report of Crowe Horwath LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

**INDEPENDENT BANK CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS**

CONTENTS	PAGE
<u>Interim Condensed Consolidated Statements of Financial Condition</u>	F-2
<u>Interim Condensed Consolidated Statements of Operations</u>	F-3
<u>Interim Condensed Consolidated Statements of Cash Flows</u>	F-4
<u>Interim Condensed Consolidated Statements of Shareholders' Equity</u>	F-5
<u>Notes to Interim Condensed Consolidated Financial Statements</u>	F-6
<u>Report of Independent Registered Public Accounting Firm</u>	F-41
<u>Consolidated Statements of Financial Condition</u>	F-42
<u>Consolidated Statements of Operations</u>	F-43
<u>Consolidated Statements of Shareholders' Equity</u>	F-45
<u>Consolidated Statements of Comprehensive Income (Loss)</u>	F-46
<u>Consolidated Statements of Cash Flows</u>	F-47
<u>Notes to Consolidated Financial Statements</u>	F-48
	F-1

INDEPENDENT BANK CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Financial Condition

	June 30, 2010	December 31, 2009
	(unaudited)	
	(in thousands, except share amounts)	
Assets		
Cash and due from banks	\$ 52,663	\$ 65,214
Interest bearing deposits	303,268	223,522
Cash and Cash Equivalents	355,931	288,736
Trading securities	27	54
Securities available for sale	112,947	164,151
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	26,443	27,854
Loans held for sale, carried at fair value	32,786	34,234
Loans		
Commercial	767,285	840,367
Mortgage	704,604	749,298
Installment	275,335	303,366
Payment plan receivables	285,749	406,341
Total Loans	2,032,973	2,299,372
Allowance for loan losses	(75,606)	(81,717)
Net Loans	1,957,367	2,217,655
Other real estate and repossessed assets	41,785	31,534
Property and equipment, net	70,277	72,616
Bank-owned life insurance	46,953	46,514
Other intangibles	9,615	10,260
Capitalized mortgage loan servicing rights	13,022	15,273
Prepaid FDIC deposit insurance assessment	18,811	22,047
Vehicle service contract counterparty receivables, net	25,376	5,419
Accrued income and other assets	25,821	29,017
Total Assets	\$ 2,737,161	\$ 2,965,364
Liabilities and Shareholders Equity		
Deposits		
Non-interest bearing	\$ 347,844	\$ 334,608
Savings and NOW	1,069,062	1,059,840
Retail time	537,496	542,170
Brokered time	422,749	629,150
Total Deposits	2,377,151	2,565,768
Other borrowings	133,402	131,182
Subordinated debentures	50,175	92,888

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Vehicle service contract counterparty payables	13,999	21,309
Accrued expenses and other liabilities	32,762	44,356
Total Liabilities	2,607,489	2,855,503
Shareholders' Equity		
Preferred stock, no par value, 200,000 shares authorized Issued and outstanding:		
At June 30, 2010: Series B, 74,426 shares, \$1,010 liquidation preference per share	70,458	
At December 31, 2009: Series A, 72,000 shares, \$1,000 liquidation preference per share		69,157
Common stock, no par value at June 30, 2010, and \$1.00 par value at December 31, 2009 authorized: 500,000,000 shares at June 30, 2010, and 60,000,000 shares at December 31, 2009; issued and outstanding: 7,513,348 shares at June 30, 2010, and 2,402,851 shares at December 31, 2009	250,737	2,386
Capital surplus		223,095
Accumulated deficit	(177,242)	(169,098)
Accumulated other comprehensive loss	(14,281)	(15,679)
Total Shareholders' Equity	129,672	109,861
Total Liabilities and Shareholders' Equity	\$ 2,737,161	\$ 2,965,364

See notes to interim condensed consolidated financial statements (unaudited)

INDEPENDENT BANK CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Operations

	Three Months Ended		Six Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
	(unaudited)			
	(in thousands, except per share data)			
Interest Income				
Interest and fees on loans	\$ 36,675	\$ 45,224	\$ 75,702	\$ 89,625
Interest on securities				
Taxable	902	1,705	2,062	3,438
Tax-exempt	526	976	1,211	2,083
Other investments	389	239	761	563
Total Interest Income	38,492	48,144	79,736	95,709
Interest Expense				
Deposits	7,508	8,811	15,727	17,359
Other borrowings	2,413	3,814	5,407	8,484
Total Interest Expense	9,921	12,625	21,134	25,843
Net Interest Income	28,571	35,519	58,602	69,866
Provision for loan losses	12,680	25,659	29,694	55,783
Net Interest Income After Provision for Loan Losses	15,891	9,860	28,908	14,083
Non-interest Income				
Service charges on deposit accounts	5,833	6,321	11,108	11,828
Net gains (losses) on assets				
Mortgage loans	2,372	3,262	4,215	6,543
Securities	1,363	4,230	1,628	3,666
Other than temporary loss on securities available for sale				
Total impairment loss			(118)	(17)
Loss recognized in other comprehensive loss				
Net impairment loss recognized in earnings			(118)	(17)
VISA check card interchange income	1,655	1,500	3,227	2,915
Mortgage loan servicing	(2,043)	2,349	(1,611)	1,507
Title insurance fees	366	732	860	1,341
Gain on extinguishment of debt	18,086		18,086	
Other income	1,682	2,617	3,936	4,806
Total Non-interest Income	29,314	21,011	41,331	32,589
Non-interest Expense				
Compensation and employee benefits	13,430	13,328	26,643	25,905
Vehicle service contract counterparty contingencies	4,861	2,215	8,279	3,015

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Loan and collection	2,785	3,227	7,571	7,265
Occupancy, net	2,595	2,560	5,504	5,608
Data processing	2,039	2,010	4,144	4,106
Loss on other real estate and repossessed assets	1,554	1,939	3,583	3,200
FDIC deposit insurance	1,763	2,755	3,565	3,941
Furniture, fixtures and equipment	1,648	1,848	3,367	3,697
Credit card and bank service fees	1,500	1,668	3,175	3,132
Advertising	674	1,421	1,453	2,863
Other expenses	4,316	4,020	9,016	8,364
Total Non-interest Expense	37,165	36,991	76,300	71,096
Income (Loss) Before Income Tax	8,040	(6,120)	(6,061)	(24,424)
Income tax expense (benefit)	156	(959)	(108)	(666)
Net Income (Loss)	\$ 7,884	\$ (5,161)	\$ (5,953)	\$ (23,758)
Preferred dividends and discount accretion	1,113	1,075	2,190	2,150
Net Income (Loss) Applicable to Common Stock	\$ 6,771	\$ (6,236)	\$ (8,143)	\$ (25,908)
Net Income (Loss) Per Common Share				
Basic	\$ 2.37	\$ (2.60)	\$ (3.10)	\$ (10.93)
Diluted	.44	(2.60)	(3.10)	(10.93)
Dividends Per Common Share				
Declared	\$.00	\$.10	\$.00	\$.20
Paid	.00	.10	.00	.20
See notes to interim condensed consolidated financial statements (unaudited)				

F-3

INDEPENDENT BANK CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows

	Six months ended June 30,	
	2010	2009
	(unaudited)	
	(in thousands)	
Net Loss	\$ (5,953)	\$ (23,758)
Adjustments to Reconcile Net Loss to Net Cash from (used in) Operating Activities		
Proceeds from the sales of trading securities		2,827
Proceeds from sales of loans held for sale	178,593	307,637
Disbursements for loans held for sale	(172,930)	(339,927)
Provision for loan losses	29,694	55,783
Depreciation, amortization of intangible assets and premiums and accretion of discounts on securities and loans	(16,925)	(19,752)
Net gains on sales of mortgage loans	(4,215)	(6,543)
Net gains on securities	(1,628)	(3,666)
Securities impairment recognized in earnings	118	17
Net loss on other real estate and repossessed assets	3,583	3,200
Vehicle service contract counter party contingencies	8,279	3,015
Gain on extinguishment of debt	(18,086)	
Deferred loan fees	326	(262)
Share based compensation	292	345
(Increase) decrease in accrued income and other assets	4,542	(1,178)
Increase (decrease) in accrued expenses and other liabilities	2,690	13,151
	14,333	14,647
Net Cash from (used in) Operating Activities	8,380	(9,111)
Cash Flow from Investing Activities		
Proceeds from the sale of securities available for sale	94,685	24,336
Proceeds from the maturity of securities available for sale	2,165	3,256
Principal payments received on securities available for sale	10,834	14,261
Purchases of securities available for sale	(53,355)	(14,256)
Redemption of Federal Reserve Bank stock	1,411	209
Portfolio loans originated, net of principal payments	190,798	(23,764)
Proceeds from the sale of other real estate	8,986	4,130
Capital expenditures	(2,017)	(4,758)
Net Cash from Investing Activities	253,507	3,414
Cash Flow from (used in) Financing Activities		
Net increase (decrease) in total deposits	(188,617)	302,445
Net decrease in other borrowings and federal funds purchased	(1,674)	(181,880)
Proceeds from Federal Home Loan Bank advances	33,000	241,524
Payments of Federal Home Loan Bank advances	(29,106)	(345,122)

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Net increase (decrease) in vehicle service contract counterparty payables	(7,310)	12,379
Extinguishment of debt, net	(985)	
Dividends paid		(2,002)
Net Cash from (used in) Financing Activities	(194,692)	27,344
Net Increase in Cash and Cash Equivalents	67,195	21,647
Cash and Cash Equivalents at Beginning of Period	288,736	57,705
Cash and Cash Equivalents at End of Period	\$ 355,931	\$ 79,352
Cash paid during the period for		
Interest	\$ 21,873	\$ 25,912
Income taxes	204	150
Transfer of loans to other real estate	22,820	17,092
Transfer of payment plan receivables to vehicle service contract counterparty receivables	38,599	1,288
Common stock issued for extinguishment of debt	23,502	
See notes to interim condensed consolidated financial statements (unaudited)		

F-4

INDEPENDENT BANK CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Shareholders' Equity

	Six months ended June 30,	
	2010	2009
	(unaudited)	
	(in thousands)	
Balance at beginning of period	\$ 109,861	\$ 194,877
Net loss	(5,953)	(23,758)
Preferred dividends	(1,076)	(1,800)
Cash dividends declared		(481)
Issuance of common stock	23,502	1,193
Share based compensation	292	345
Issuance of Series B preferred stock	69,550	
Retirement of Series A preferred stock	(69,364)	
Issuance of common stock warrants	5,041	
Retirement of common stock warrants	(3,579)	
Net change in accumulated other comprehensive income, net of related tax effect	1,398	4,860
 Balance at end of period	 \$ 129,672	 \$ 175,236

See notes to interim condensed consolidated financial statements (unaudited)

F-5

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. The interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although we believe that the disclosures made are adequate to make the information not misleading. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes for the year ended December 31, 2009 included in our annual report on Form 10-K.

In our opinion, the accompanying unaudited condensed consolidated financial statements contain all the adjustments necessary to present fairly our consolidated financial condition as of June 30, 2010 and December 31, 2009, and the results of operations for the three and six-month periods ended June 30, 2010 and 2009. The results of operations for the three and six-month periods ended June 30, 2010, are not necessarily indicative of the results to be expected for the full year. Certain reclassifications have been made in the prior period financial statements to conform to the current period presentation. Our critical accounting policies include the assessment for other than temporary impairment (OTTI) on investment securities, the determination of the allowance for loan losses, the determination of vehicle service contract payment plan counterparty contingencies, the valuation of derivative financial instruments, the valuation of originated mortgage loan servicing rights and the valuation of deferred tax assets. Refer to our 2009 Annual Report on Form 10-K for a disclosure of our accounting policies.

2. In June 2009, the FASB issued FASB ASC Topic 860 Transfers and Servicing (formerly SFAS No. 166 Accounting for Transfers of Financial Assets – an Amendment of FASB Statement No. 140). This standard removes the concept of a qualifying special-purpose entity and limits the circumstances in which a financial asset, or portion of a financial asset, should be derecognized when the transferor has not transferred the entire financial asset to an entity that is not consolidated with the transferor in the financial statements being presented and/or when the transferor has continuing involvement with the transferred financial asset. The adoption of this standard on January 1, 2010 did not have a material impact on our consolidated financial statements.

In June 2009, the FASB issued FASB ASC Topic 810-10, Consolidation (formerly SFAS No. 167 Amendments to FASB Interpretation No. 46(R)). The standard amends tests for variable interest entities to determine whether a variable interest entity must be consolidated. This standard requires an entity to perform an analysis to determine whether an entity's variable interest or interests give it a controlling financial interest in a variable interest entity. This standard requires ongoing reassessments of whether an entity is the primary beneficiary of a variable interest entity and enhanced disclosures that provide more transparent information about an entity's involvement with a variable interest entity. The adoption of this standard on January 1, 2010 did not have a material impact on our consolidated financial statements.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

3. Securities available for sale consist of the following:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
		(in thousands)		
June 30, 2010				
U.S. Treasury	\$ 38,147	\$ 5	\$	\$ 38,152
U.S. agency residential mortgage-backed	14,066	278		14,344
Private label residential mortgage-backed	20,834	26	4,396	16,464
Obligations of states and political	35,722	573	344	35,951
Trust preferred	9,466		1,430	8,036
Total	\$ 118,235	\$ 882	\$ 6,170	\$ 112,947
December 31, 2009				
U.S. agency residential mortgage-backed	\$ 46,108	\$ 1,500	\$ 86	\$ 47,522
Private label residential mortgage-backed	38,531	97	7,653	30,975
Other asset-backed	5,699		194	5,505
Obligations of states and political	66,439	1,096	403	67,132
Trust preferred	14,272	456	1,711	13,017
Total	\$ 171,049	\$ 3,149	\$ 10,047	\$ 164,151

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 follows:

	Less Than Twelve Months		Twelve Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(in thousands)			
June 30, 2010						
Private label residential mortgage-backed	\$	\$	\$ 14,954	\$ 4,396	\$ 14,954	\$ 4,396
Obligations of states and political subdivisions	5,549	176	2,502	168	8,051	344
Trust preferred	4,551	230	3,485	1,200	8,036	1,430
Total	\$ 10,100	\$ 406	\$ 20,941	\$ 5,764	\$ 31,041	\$ 6,170
December 31, 2009						
U.S. agency residential mortgage-backed	\$ 7,310	\$ 86	\$	\$	\$ 7,310	\$ 86
	4,343	112	18,126	7,541	22,469	7,653

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Private label residential mortgage-backed						
Other asset backed	783	3	4,722	191	5,505	194
Obligations of states and political subdivisions	4,236	124	3,960	279	8,196	403
Trust preferred			7,715	1,711	7,715	1,711
Total	\$ 16,672	\$ 325	\$ 34,523	\$ 9,722	\$ 51,195	\$ 10,047

F-7

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

Our portfolio of available-for-sale securities is reviewed quarterly for impairment in value. In performing this review management considers (1) the length of time and extent that fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, (3) the impact of changes in market interest rates on the market value of the security and (4) an assessment of whether we intend to sell, or it is more likely than not that we will be required to sell a security in an unrealized loss position before recovery of its amortized cost basis. For securities that do not meet the aforementioned recovery criteria, the amount of impairment recognized in earnings is limited to the amount related to credit losses, while impairment related to other factors is recognized in other comprehensive income or loss. Private label residential mortgage and other asset-backed securities at June 30, 2010 we had 11 securities whose fair value is less than amortized cost. Eight of the issues are rated by a major rating agency as investment grade while three are below investment grade. During 2009 pricing conditions in the private label residential mortgage and other asset-backed security markets were characterized by sporadic secondary market flow, significant implied liquidity risk discounts, a wide bid / ask spread and an absence of new issuances of similar securities. In the first and second quarters of 2010, while this market is still closed to new issuance, secondary market trading activity increased and appeared to be more orderly than compared to 2009. In addition, many bonds are trading at levels near their economic value with fewer distressed valuations relative to 2009. Prices for many securities have been rising, due in part to negative new supply. This improvement in trading activity is supported by sales of 11 securities with an amortized cost of \$14.2 million at a \$0.2 million gain during the first quarter of 2010 and an additional seven securities (all of our remaining other asset-backed securities) with an amortized cost of \$5.3 million at a \$0.1 million gain during the second quarter of 2010.

The unrealized losses, while showing improvement in the aggregate during the first six months of 2010, are largely attributable to credit spread widening on these securities. The underlying loans within these securities include Jumbo (64%) and Alt A (36%).

	June 30, 2010		December 31, 2009	
	Fair	Net	Fair	Net
	Value	Unrealized	Value	Unrealized
		Gain (Loss)		Gain (Loss)
		(in thousands)		
Private label residential mortgage-backed				
Jumbo	\$10,589	\$(2,098)	\$21,718	\$(5,749)
Alt-A	5,875	(2,272)	9,257	(1,807)
Other asset-backed			5,505	(194)
Manufactured housing				

F-8

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

All of the private label residential mortgage-backed transactions have geographic concentrations in California, ranging from 29% to 59% of the collateral pool. Typical exposure levels to California (median exposure is 39%) are consistent with overall market collateral characteristics. Five transactions have modest exposure to Florida, ranging from 5% to 11%, and one transaction has modest exposure to Arizona (5%). The underlying collateral pools do not have meaningful exposure to Nevada, Michigan or Ohio. None of the issues involve subprime mortgage collateral. Thus the impact of this market segment is only indirect, in that it has impacted liquidity and pricing in general for private label residential mortgage-backed securities. The majority of transactions are backed by fully amortizing loans. However, eight transactions have concentrations in interest only loans ranging from 31% to 94%. The structure of the residential mortgage securities portfolio provides protection to credit losses. The portfolio primarily consists of senior securities as demonstrated by the following: super senior (8%), senior (57%), senior support (20%) and mezzanine (15%). The mezzanine classes are from seasoned transactions (71 to 101 months) with significant levels of subordination (8% to 25%). Except for the additional discussion below relating to other than temporary impairment, each private label residential mortgage security has sufficient credit enhancement via subordination to reasonably assure full realization of book value. This assertion is based on a transaction level review of the portfolio. Individual security reviews include: external credit ratings, forecasted weighted average life, recent prepayment speeds, underwriting characteristics of the underlying collateral, the structure of the securitization and the credit performance of the underlying collateral. The review of underwriting characteristics considers: average loan size, type of loan (fixed or ARM), vintage, rate, FICO, loan-to-value, scheduled amortization, occupancy, purpose, geographic mix and loan documentation. The review of the securitization structure focuses on the priority of cash flows to the bond, the priority of the bond relative to the realization of credit losses and the level of subordination available to absorb credit losses. The review of credit performance includes: current period as well as cumulative realized losses; the level of severe payment problems, which includes other real estate (ORE), foreclosures, bankruptcy and 90 day delinquencies; and the level of less severe payment problems, which consists of 30 and 60 day delinquencies.

All of these securities are receiving some principal and interest payments. Most of these transactions are passthrough structures, receiving pro rata principal and interest payments from a dedicated collateral pool for loans that are performing. The nonreceipt of interest cash flows is not expected and thus not presently considered in our discounted cash flow methodology discussed below.

In addition to the review discussed above, certain securities, including the three securities with a rating below investment grade, were reviewed for OTTI utilizing a cash flow projection. The scope of review included securities that account for 90% of the \$4.4 million in gross unrealized losses. The cash flow analysis forecasted cash flow from the underlying loans in each transaction and then applied these cash flows to the bonds in the securitization. The cash flows from the underlying loans considered contractual payment terms (scheduled amortization), prepayments, defaults and severity of loss given default. The analysis used dynamic assumptions for prepayments, defaults and severity. Near term prepayment assumptions were based on recently observed prepayment rates. In some cases, recently observed prepayment rates are depressed due to a sharp decline in new jumbo loan issuance. This loan market is heavily dependent upon securitization for funding, and new securitization transactions have been minimal. Some transactions have experienced a decline in prepayment activity due to the lack of refinancing opportunities for nonconforming mortgages. In these cases, our projections anticipate that prepayment rates gradually revert to historical levels. For seasoned ARM transactions, normalized prepayment rates are estimated at 15% to 25% CPR. For fixed rate collateral (one transaction), the prepayment speed is projected to increase modestly given the spread differential between the collateral and the current market rate for conforming mortgages.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

Near term default assumptions were based on recent default observations as well as the volume of existing real -estate owned, pending foreclosures and severe delinquencies. Default levels generally are projected to remain elevated for a period of time sufficient to address the level of distressed loans in the transaction. Our projections expect defaults to then decline as the housing market and the economy stabilize, generally after 2 to 3 years. Current severity assumptions are based on recent observations. Loss severity is expected to decline gradually as the housing market and the economy stabilize. Except for one below investment grade security discussed in further detail below, our cash flow analysis forecasts complete recovery of our cost basis for each reviewed security.

At June 30, 2010 one below investment grade private label residential mortgage-backed security with a fair value of \$6.8 million and an unrealized loss of \$0.5 million (amortized cost of \$7.3 million) had unrealized losses that were considered other than temporary. The underlying loans in this transaction are 30 year fixed rate jumbos with an average origination date FICO of 748 and an average origination date loan-to -value ratio of 73%. The loans backing this transaction were originated in 2007 and is our security backed by 2007 vintage loans. We believe that this vintage is a key differentiating factor between this security and the others in our portfolio that do not have unrealized losses that are considered OTTI. The bond is a senior security that is receiving principal and interest payments similar to principal reductions in the underlying collateral. The cash flow analysis described above calculated an OTTI of \$0.5 million at June 30, 2010, \$0.116 million of this amount was attributed to credit and was recognized in our consolidated statements of operations (zero, \$0.051 million and \$0.051 million during the three months ended June 30, 2010, March 31, 2010 and December 31, 2009, respectively) while the balance was attributed to other factors and reflected in other comprehensive income (loss) during those same periods.

As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no other declines discussed above are deemed to be other than temporary.

Obligations of states and political subdivisions at June 30, 2010 we had 26 municipal securities whose fair value is less than amortized cost. The unrealized losses are largely attributed to a widening of market spreads and continued illiquidity for certain issues. The majority of the securities are not rated by a major rating agency. Approximately 77% of the non rated securities originally had a AAA credit rating by virtue of bond insurance. However, the insurance provider no longer has an investment grade rating. The remaining non rated issues are small local issues that did not receive a credit rating due to the size of the transaction. The non rated securities have a periodic internal credit review according to established procedures. As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no declines are deemed to be other than temporary.

Trust preferred securities at June 30, 2010 we had five securities whose fair value is less than amortized cost. All of our trust preferred securities are single issue securities issued by a trust subsidiary of a bank holding company. The pricing of trust preferred securities over the past two years has suffered from significant credit spread widening fueled by uncertainty regarding potential losses of financial companies, the absence of a liquid functioning secondary market and potential supply concerns from financial companies issuing new debt to recapitalize themselves. During the first six months of 2010, although still showing signs of weakness, pricing for non-rated issues improved from the prior year end due to credit spread tightening. Despite this year to date improvement, pricing deteriorated during the second quarter of 2010 relative to the first quarter of 2010. Two of the five securities are rated by a major rating agency as investment

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

grade, while one is split rated (this security is rated as investment grade by one major rating agency and below investment grade by another) and the other two are non-rated. The two non-rated issues are relatively small banks and neither of these issues were ever rated. The issuers on these trust preferred securities, which had a combined amortized cost of \$2.8 million and a combined fair value of \$2.1 million as of June 30, 2010, continue to make interest payments and have satisfactory credit metrics.

Our OTTI analysis for trust preferred securities is based on a security level financial analysis of the issuer. This review considers: external credit ratings, maturity date of the instrument, the scope of the bank's operations, relevant financial metrics and recent issuer specific news. The analysis of relevant financial metrics includes: capital adequacy, asset quality, earnings and liquidity. We use the same OTTI review methodology for both rated and non-rated issues.

During the first quarter of 2010 we recorded OTTI on an unrated trust preferred security of \$0.067 million (we had recorded OTTI on this security of \$0.183 million in prior periods). Specifically, this issuer has deferred interest payments on all of its trust preferred securities and is operating under a written agreement with the regulatory agencies that specifically prohibits dividend payments. The issuer is a relatively small bank with operations centered in southeast Michigan. The issuer reported losses in 2008 and 2009 and now is insolvent. Additionally, the issuer has a high volume of nonperforming assets. This investment's amortized cost has been written down to zero, compared to a par value of \$0.25 million.

The following table breaks out our trust preferred securities in further detail as of June 30, 2010 and December 31, 2009:

	June 30, 2010		December 31, 2009	
	Fair	Net	Fair	Net
	Value	Unrealized	Value	Unrealized
		Gain		Gain
		(Loss)		(Loss)
		(in thousands)		
Trust preferred securities				
Rated issues no OTTI	\$5,981	\$(680)	\$11,188	\$ (212)
Unrated issues no OTTI	2,055	(750)	1,761	(1,044)
Unrated issues with OTTI			68	1

As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no other declines discussed above are deemed to be other than temporary.

The amortized cost and fair value of securities available for sale at June 30, 2010, by contractual maturity, follow. The actual maturity may differ from the contractual maturity because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

	Amortized Cost	Fair Value
	(in thousands)	
Maturing within one year	\$ 40,818	\$ 40,850
Maturing after one year but within five years	9,108	9,213
Maturing after five years but within ten years	11,429	11,669
Maturing after ten years	21,980	20,407
	83,335	82,139
U.S. agency residential mortgage-backed	14,066	14,344
Private label residential mortgage-backed	20,834	16,464
Total	\$ 118,235	\$ 112,947

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. A summary of proceeds from the sale of securities available for sale and gains and losses for the six month periods ending June 30, follows:

	Proceeds	Realized Gains (in thousands)	Losses(1)
2010	\$94,685	\$ 1,876	\$221
2009	24,336	2,835	107

(1) Losses in 2010 and 2009 exclude \$0.118 million and \$0.017 million of other than temporary impairment, respectively.

During 2010 and 2009 our trading securities consisted of various preferred stocks. During the first six months of 2010 and 2009 we recognized gains (losses) on trading securities of \$(0.027) million and \$0.938 million, respectively, that are included in net gains (losses) on assets in the consolidated statements of operations. \$(0.027) million and \$0.025 million of these amounts, relate to gains (losses) recognized on trading securities still held at each respective period end.

4. Our assessment of the allowance for loan losses is based on an evaluation of the loan portfolio, recent loss experience, current economic conditions and other pertinent factors. Loans on non-accrual status and past due more than 90 days (Non-performing Loans) amounted to \$84.5 million at June 30, 2010, and \$109.9 million at December 31, 2009.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

Impaired loans are as follows :

	June 30, 2010	December 31, 2009
	(in thousands)	
Impaired loans with no allocated allowance		
TDR	\$ 19,692	\$ 9,059
Non TDR	4,574	2,995
Impaired loans with an allocated allowance		
TDR allowance based on collateral	30,445	3,552
TDR allowance based on present value cash flow	81,770	74,287
Non TDR allowance based on collateral	39,724	68,032
 Total impaired loans	 \$ 176,205	 \$ 157,925
 Amount of allowance for loan losses allocated		
TDR allowance based on collateral	\$ 8,048	\$ 761
TDR allowance based on present value cash flow	10,800	7,828
Non TDR allowance based on collateral	11,251	21,004
 Total amount of allowance for losses allocated	 \$ 30,099	 \$ 29,593

Our average investment in impaired loans was approximately \$167.7 million and \$92.9 million for the six-month periods ended June 30, 2010 and 2009, respectively. Cash receipts on impaired loans on non-accrual status are generally applied to the principal balance. Interest income recognized on impaired loans during the first six months of 2010 and 2009 was approximately \$2.8 million and \$0.5 million, respectively, the majority of which was received in cash.

The increase in impaired loans relative to the decrease in Non-performing Loans during the first six months of 2010 reflects a \$34.4 million increase from December 31, 2009 in troubled debt restructured (TDR) loans that remain performing at June 30, 2010. The increase in TDR loans is primarily attributed to the restructuring of repayment terms of residential mortgage and commercial loans. TDR loans not already included in Non-performing Loans totaled \$106.4 million and \$72.0 million at June 30, 2010 and December 31, 2009, respectively.

An analysis of the allowance for loan losses is as follows:

Allowance for loan losses

	Six months ended June 30,			
	2010			2009
	Loans	Unfunded Commitments	Loans	Unfunded Commitments
	(dollars in thousands)			
Balance at beginning of period	\$ 81,717	\$ 1,858	\$ 57,900	\$ 2,144
Additions (deduction)				
Provision for loan losses	29,694		55,783	
Recoveries credited to allowance	1,839		1,494	
Loans charged against the allowance	(37,644)		(49,906)	

Additions (deductions) included in non-interest expense			336		(152)
Balance at end of period	\$ 75,606	\$	2,194	\$ 65,271	\$ 1,992
Net loans charged against the allowance to average Portfolio Loans (annualized)		3.33%		3.98%	
		F-13			

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

5. Comprehensive income (loss) for the three- and six-month periods ended June 30 follows:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2010	2009	2010	2009
	(in thousands)			
Net income (loss)	\$ 7,884	\$ (5,161)	\$ (5,953)	\$ (23,758)
Net change in unrealized gain (loss) on securities available for sale, net of related tax effect	(1,329)	3,170	(1,247)	4,001
Change in unrealized losses on securities available for sale for which a portion of other than temporary impairment has been recognized in earnings	627		2,294	
Net change in unrealized loss on derivative instruments, net of related tax effect	(33)	757	73	859
Reclassification adjustment for accretion on settled derivative instruments	203		278	
Comprehensive income (loss)	\$ 7,352	\$ (1,234)	\$ (4,555)	\$ (18,898)

The net change in unrealized loss on securities available for sale reflects net gains reclassified into earnings as follows:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2010	2009	2010	2009
	(in thousands)			
Net gain reclassified into earnings	\$ 1,385	\$ 2,509	\$ 1,537	\$ 2,711
Federal income tax expense as a result of the reclassification of these amounts from comprehensive income				

6. Our reportable segments are based upon legal entities. We currently have two reportable segments: Independent Bank (IB or Bank) and Mepco Finance Corporation (Mepco). These business segments are also differentiated based on the products and services provided. We evaluate performance based principally on net income (loss) of the respective reportable segments.

In the normal course of business, our IB segment provides funding to our Mepco segment through an intercompany line of credit priced at Prime beginning on January 1, 2010 and priced principally based on Brokered CD rates prior to that time. Our IB segment also provides certain administrative services to our Mepco segment which reimburses at an agreed upon rate. These intercompany transactions are eliminated upon consolidation. The only other material intersegment balances and transactions are investments in subsidiaries at the parent entities and cash balances on deposit at our IB segment.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

A summary of selected financial information for our reportable segments as of or for the three-month and six-month periods ended June 30, follows:

As of or for the three months ended June 30,

	IB	Mepco ⁽¹⁾	Other ⁽²⁾ (in thousands)	Elimination ⁽³⁾	Total
2010					
Total assets	\$2,404,858	\$332,926	\$184,781	\$(185,404)	\$2,737,161
Interest income	28,470	10,022			38,492
Net interest income	22,139	7,719	(1,287)		28,571
Provision for loan losses	12,814	(134)			12,680
Income (loss) before income tax	(9,183)	740	16,506	(23)	8,040
Net income (loss)	(9,076)	477	16,506	(23)	7,884
2009					
Total assets	\$2,512,641	\$461,314	\$270,476	\$(267,802)	\$2,976,629
Interest income	34,725	13,419			48,144
Net interest income	24,587	12,590	(1,658)		35,519
Provision for loan losses	25,512	147			25,659
Income (loss) before income tax	(12,334)	7,948	(1,711)	(23)	(6,120)
Net income (loss)	(8,422)	4,995	(1,998)	264	(5,161)

(1) Total assets include gross payment plan receivables of \$0.3 million and \$4.8 million at June 30, 2010 and 2009, respectively from customers domiciled in Canada. The amount at June 30, 2010 represents less than 1% of total payment plan receivables outstanding and we anticipate this balance to decline in future periods.

- (2) Includes amounts relating to our parent company and certain insignificant operations.
- (3) Includes parent company's investment in subsidiaries and cash balances maintained at subsidiary.

F-15

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

As of or for the six months ended June 30,

	IB	Mepco ⁽¹⁾	Other ⁽²⁾	Elimination ⁽³⁾	Total
			(in thousands)		
2010					
Total assets	\$2,404,858	\$332,926	\$184,781	\$(185,404)	\$2,737,161
Interest income	58,131	21,605			79,736
Net interest income	45,028	16,696	(3,122)		58,602
Provision for loan losses	29,931	(237)			29,694
Income (loss) before income tax	(21,904)	1,824	14,066	(47)	(6,061)
Net income (loss)	(21,118)	1,146	14,066	(47)	(5,953)
2009					
Total assets	\$2,512,641	\$461,314	\$270,476	\$(267,802)	\$2,976,629
Interest income	71,007	24,702			95,709
Net interest income	50,215	23,018	(3,367)		69,866
Provision for loan losses	55,474	309			55,783
Income (loss) before income tax	(35,697)	15,044	(3,724)	(47)	(24,424)
Net income (loss)	(29,567)	9,580	(4,011)	240	(23,758)

(1) Total assets include gross payment plan receivables of \$0.3 million and \$4.8 million at June 30, 2010 and 2009, respectively from customers domiciled in Canada. The amount at June 30, 2010 represents less than 1% of total finance receivables outstanding and we anticipate this balance to decline further in future periods.

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

(3) Includes parent company's investment in subsidiaries and cash balances maintained at subsidiary.

7. Basic income (loss) per share includes weighted average common shares outstanding during the period and participating share awards. Diluted income (loss) per share includes the dilutive effect of additional potential common shares to be issued upon the conversion of convertible preferred stock, exercise of common stock warrants, exercise of stock options and stock units for a deferred compensation plan for non-employee directors.

F-16

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

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