

INDEPENDENT BANK CORP /MI/

Form 8-K

January 22, 2004

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
Date of Report (Date of earliest event reported): January 22, 2004

INDEPENDENT BANK CORPORATION

(Exact name of registrant as specified in its charter)

Michigan

(State or Jurisdiction of Incorporation or Organization)

0-7818

(Commission File Number)

38-2032782

(I.R.S. Employer Identification No.)

230 West Main Street, Ionia, Michigan 48846

(Address of principal executive offices)

(616) 527-9450

(Registrant's telephone number, including area code)

NONE

Former name, address and fiscal year, if changed since last report.

Item 7. Financial Statements and Exhibits.

Exhibit

99 Supplemental data to the Registrant's press release dated January 22, 2004.

Item 12. Results of Operations and Financial Condition.

The information attached at Exhibit 99 is supplemental data to the Registrant's press release dated January 22, 2004 regarding its earnings during the quarter ended December 31, 2003.

The information in this Form 8-K and the attached Exhibit shall not be deemed filed for purposes of Section 18 of the Securities Act of 1934, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, except as shall be expressly set forth by specific reference in such filing.

SIGNATURES

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

Date January 22, 2004

By s/ Robert N. Shuster

Robert N. Shuster, Principal Financial Officer

Date January 22, 2004

By s/ James J. Twarozynski

James J. Twarozynski, Principal Accounting Officer

INDEPENDENT BANK CORPORATION AND SUBSIDIARIES
Consolidated Statements of Financial Condition

Exhibit 99

| | December 31, | |
|--|-------------------|--------------|
| | 2003 | 2002 |
| | (unaudited) | |
| | (in thousands) | |
| Assets | | |
| Cash and due from banks | \$ 61,741 | \$ 60,731 |
| Securities available for sale | 453,996 | 371,246 |
| Federal Home Loan Bank stock, at cost | 13,895 | 9,704 |
| Loans held for sale | 32,642 | 129,577 |
| Loans | | |
| Commercial | 603,558 | 536,715 |
| Real estate mortgage | 681,602 | 601,799 |
| Installment | 234,562 | 242,928 |
| Finance receivables | 147,671 | |
| | Total Loans | 1,381,442 |
| Allowance for loan losses | (17,728) | (16,705) |
| | Net Loans | 1,364,737 |
| Property and equipment, net | 43,979 | 40,735 |
| Bank owned life insurance | 36,850 | 35,415 |
| Goodwill | 16,696 | 7,299 |
| Other intangibles | 7,523 | 6,420 |
| Accrued income and other assets | 41,570 | 31,698 |
| | Total Assets | \$ 2,057,562 |
| Liabilities and Shareholders' Equity | | |
| Deposits | | |
| Non-interest bearing | \$ 192,733 | \$ 179,871 |
| Savings and NOW | 700,541 | 657,530 |
| Time | 809,532 | 698,202 |
| | Total Deposits | 1,535,603 |
| Federal funds purchased | 53,885 | 23,840 |
| Other borrowings | 331,819 | 310,413 |
| Guaranteed preferred beneficial interests in Company's subordinated debentures | 50,600 | 17,250 |
| Financed premiums payable | 26,340 | |
| Accrued expenses and other liabilities | 30,891 | 32,409 |
| | Total Liabilities | 1,919,515 |
| Shareholders' Equity | | |
| Preferred stock, no par value-200,000 shares authorized; none outstanding | | |

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| | | |
|--|--------------|--------------|
| Common stock, \$1.00 par value-30,000,000 shares authorized; issued and outstanding: 19,568,867 shares at December 31, 2003 and 17,822,090 shares at December 31, 2002 | 19,569 | 17,822 |
| Capital surplus | 119,353 | 75,076 |
| Retained earnings | 16,953 | 41,785 |
| Accumulated other comprehensive income | 6,341 | 3,364 |
| | <hr/> | <hr/> |
| Total Shareholders' Equity | 162,216 | 138,047 |
| | <hr/> | <hr/> |
| Total Liabilities and Shareholders' Equity | \$ 2,358,557 | \$ 2,057,562 |
| | <hr/> | <hr/> |

INDEPENDENT BANK CORPORATION AND SUBSIDIARIES
Consolidated Statements of Operations

| | Three Months Ended December 31, | | Twelve Months Ended December 31, | |
|--|--|-----------|-------------------------------------|------------|
| | 2003 | 2002 | 2003 | 2002 |
| | (unaudited) | | (unaudited) | |
| Interest Income | (in thousands, except per share amounts) | | | |
| Interest and fees on loans | \$ 30,811 | \$ 27,778 | \$ 118,861 | \$ 109,297 |
| Securities available for sale | | | | |
| Taxable | 3,112 | 2,962 | 11,687 | 12,211 |
| Tax-exempt | 2,225 | 1,842 | 8,207 | 7,018 |
| Other investments | 169 | 302 | 611 | 1,289 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total Interest Income | 36,317 | 32,884 | 139,366 | 129,815 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Interest Expense | | | | |
| Deposits | 6,432 | 8,472 | 27,802 | 35,134 |
| Other borrowings | 4,165 | 3,319 | 16,311 | 12,874 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total Interest Expense | 10,597 | 11,791 | 44,113 | 48,008 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Net Interest Income | 25,720 | 21,093 | 95,253 | 81,807 |
| Provision for loan losses | 1,641 | 717 | 4,032 | 3,562 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Net Interest Income After Provision for Loan Losses | 24,079 | 20,376 | 91,221 | 78,245 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Non-interest Income | | | | |
| Service charges on deposit accounts | 3,865 | 3,639 | 14,668 | 13,049 |
| Net gains (losses) on asset sales | | | | |
| Real estate mortgage loans | 2,268 | 3,854 | 16,269 | 8,178 |
| Securities | (24) | (750) | (779) | (24) |
| Title insurance fees | 459 | 807 | 3,092 | 2,474 |
| Manufactured home loan origination fees and commissions | 487 | 507 | 1,769 | 1,949 |
| Real estate mortgage loan servicing | 902 | (56) | (294) | (870) |
| Other income | 1,895 | 1,519 | 7,879 | 6,155 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total Non-interest Income | 9,852 | 9,520 | 42,604 | 30,911 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Non-interest Expense | | | | |
| Compensation and employee benefits | 11,881 | 9,673 | 43,558 | 37,343 |
| Occupancy, net | 1,684 | 1,403 | 6,519 | 5,424 |
| Furniture and fixtures | 1,414 | 1,358 | 5,539 | 4,731 |
| Loss on prepayment of borrowings | | | 983 | 59 |
| Other expenses | 6,531 | 6,536 | 25,907 | 20,736 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total Non-interest Expense | 21,510 | 18,970 | 82,506 | 68,293 |

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| | | | | | |
|----------------------------|----|----------|----------|-----------|-----------|
| | | 12,421 | 10,926 | 51,319 | 40,863 |
| Income Before Income Tax | | 12,421 | 10,926 | 51,319 | 40,863 |
| Income tax expense | | 3,097 | 2,969 | 13,727 | 11,396 |
| | | 9,324 | 7,957 | 37,592 | 29,467 |
| Net Income | \$ | \$ 9,324 | \$ 7,957 | \$ 37,592 | \$ 29,467 |
| Net Income Per Share | | | | | |
| Basic | \$ | \$.48 | \$.40 | \$ 1.91 | \$ 1.46 |
| Diluted | | .47 | .40 | 1.87 | 1.44 |
| Dividends Per Common Share | | | | | |
| Declared | \$ | \$.16 | \$.13 | \$.59 | \$.44 |

Non-performing assets

| | December 31, | |
|---|------------------------|----------|
| | 2003 | 2002 |
| | (dollars in thousands) | |
| Non-accrual loans | \$ 9,122 | \$ 5,738 |
| Loans 90 days or more past due and still accruing interest | 3,284 | 3,961 |
| Restructured loans | 335 | 270 |
| | <hr/> | <hr/> |
| Total non-performing loans | 12,741 | 9,969 |
| Other real estate | 3,256 | 3,908 |
| | <hr/> | <hr/> |
| Total non-performing assets | \$15,997 | \$13,877 |
| | <hr/> | <hr/> |
| As a percent of Portfolio Loans | | |
| Non-performing loans | 0.76 % | 0.72 % |
| Allowance for loan losses | 1.06 | 1.21 |
| Non-performing assets to total assets | 0.68 | 0.67 |
| Allowance for loan losses as a percent of non-performing loans | 139 | 168 |

Allowance for loan losses

| | Twelve months ended December 31, | |
|--|-------------------------------------|-----------|
| | 2003 | 2002 |
| | (in thousands) | |
| Balance at beginning of period | \$ 16,705 | \$ 16,167 |
| Additions (deduction) | | |
| Allowance on loans acquired | 517 | |
| Provision charged to operating expense | 4,032 | 3,562 |
| Recoveries credited to allowance | 1,087 | 733 |
| Loans charged against the allowance | (4,613) | (3,757) |
| | <hr/> | <hr/> |
| Balance at end of period | \$ 17,728 | \$ 16,705 |
| | <hr/> | <hr/> |
| Net loans charged against the allowance to average Portfolio Loans (annualized) | 0.23% | 0.22% |

| | December 31, | | | 2002 | |
|--|--------------|------|----------|------|--|
| | 2003 | | 2002 | | |
| | Average | | Average | | |
| | Maturity | Rate | Maturity | Rate | |
| | Amount | | Amount | | |

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| | (dollars in thousands) | | | | | |
|--|------------------------|-----------|-------|-----------|-----------|-------|
| Brokered CDs ⁽¹⁾ | \$416,566 | 2.3 years | 2.43% | \$278,012 | 1.9 years | 3.03% |
| Fixed rate FHLB advances ⁽¹⁾ | 84,638 | 5.0 years | 3.99 | 62,861 | 7.9 years | 5.83 |
| Variable rate FHLB advances ⁽¹⁾ | 104,150 | 0.4 years | 1.30 | 131,200 | 0.3 years | 1.50 |
| Securities sold under agreements to Repurchase ⁽¹⁾ | 140,969 | 0.3 years | 1.22 | 98,712 | 0.1 years | 1.74 |
| Federal funds purchased | 53,885 | 1 day | 1.16 | 23,840 | 1 day | 1.38 |
| | <hr/> | | | <hr/> | | |
| Total | \$800,208 | 1.8 years | 2.15% | \$594,625 | 1.8 years | 2.71% |
| | <hr/> | | | <hr/> | | |

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

Capitalization

| | December 31, | |
|--|------------------------|-----------|
| | 2003 | 2002 |
| | (dollars in thousands) | |
| Unsecured debt | | \$ 12,600 |
| Preferred Securities | \$ 50,600 | 17,250 |
| Shareholders' Equity | | |
| Preferred stock, no par value | | |
| Common Stock, par value \$1.00 per share | 19,569 | 17,822 |
| Capital surplus | 119,353 | 75,076 |
| Retained earnings | 16,953 | 41,785 |
| Accumulated other comprehensive income | 6,341 | 3,364 |
| Total shareholders' equity | 162,216 | 138,047 |
| Total capitalization | \$212,816 | \$167,897 |

Non-Interest Income

| | Three Months Ended December 31, | | Twelve Months Ended December 31, | |
|--|------------------------------------|----------|-------------------------------------|-----------|
| | 2003 | 2002 | 2003 | 2002 |
| | (in thousands) | | | |
| Service charges on deposit accounts | \$ 3,865 | \$ 3,639 | \$ 14,668 | \$ 13,049 |
| Net gains (losses) on asset sales | | | | |
| Real estate mortgage loans | 2,268 | 3,854 | 16,269 | 8,178 |
| Securities | (24) | (750) | (779) | (24) |
| Title insurance fees | 459 | 807 | 3,092 | 2,474 |
| Bank owned life insurance | 330 | 395 | 1,432 | 403 |
| Manufactured home loan origination fees and commissions | 487 | 507 | 1,769 | 1,949 |
| Mutual fund and annuity commissions | 318 | 198 | 1,227 | 979 |
| Real estate mortgage loan servicing | 902 | (56) | (294) | (870) |
| Other | 1,247 | 926 | 5,220 | 4,773 |
| Total non-interest income | \$ 9,852 | \$ 9,520 | \$ 42,604 | 30,911 |

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| | Three Months Ended December 31, | | Twelve Months Ended December 31, | |
|--|------------------------------------|------------|-------------------------------------|------------|
| | 2003 | 2002 | 2003 | 2002 |
| | (in thousands) | | | |
| Real estate mortgage loans originated | \$ 153,039 | \$ 331,493 | \$ 1,123,249 | \$ 876,667 |
| Real estate mortgage loans sold | 120,728 | 251,367 | 892,482 | 600,300 |
| Real estate mortgage loans sold with servicing rights released | 8,330 | 89,810 | 51,847 | 165,133 |
| Net gains on the sale of real estate mortgage loans | 2,268 | 3,854 | 16,269 | 8,178 |
| Net gains as a percent of real estate mortgage loans sold (Loan Sale Margin) | 1.88% | 1.53% | 1.82% | 1.36% |
| SFAS #133 adjustments included in the Loan Sale Margin | 0.43% | (0.06)% | 0.10% | (0.16)% |

Non-Interest Expense

| | Three Months Ended December 31, | | Twelve Months Ended December 31, | |
|---|------------------------------------|-----------|-------------------------------------|-----------|
| | 2003 | 2002 | 2003 | 2002 |
| | (in thousands) | | | |
| Salaries | \$ 8,028 | \$ 6,326 | \$ 28,474 | \$ 24,891 |
| Performance-based compensation and benefits | 1,702 | 1,373 | 6,262 | 5,247 |
| Other benefits | 2,151 | 1,974 | 8,822 | 7,205 |
| Compensation and employee benefits | 11,881 | 9,673 | 43,558 | 37,343 |
| Occupancy, net | 1,684 | 1,403 | 6,519 | 5,424 |
| Furniture and fixtures | 1,414 | 1,358 | 5,539 | 4,731 |
| Advertising | 1,117 | 973 | 4,011 | 2,813 |
| Data processing | 1,021 | 1,016 | 3,942 | 3,209 |
| Loan and collection | 697 | 1,154 | 3,352 | 3,028 |
| Communications | 761 | 679 | 2,895 | 2,484 |
| Supplies | 500 | 492 | 1,920 | 1,626 |
| Amortization of intangible assets | 495 | 278 | 1,721 | 1,014 |
| Legal and professional | 236 | 437 | 1,651 | 1,238 |
| Loss on prepayment of borrowings | | | 983 | 59 |
| Other | 1,704 | 1,507 | 6,415 | 5,324 |
| Total non-interest expense | \$ 21,510 | \$ 18,970 | \$ 82,506 | \$ 68,293 |

Average Balances and Tax Equivalent Rates

| | 2003 | | | Three Months Ended December 31, 2002 | | |
|--|--------------------|---------------|-------|--|---------------|-------|
| | Average Balance | Interest | Rate | Average Balance | Interest | Rate |
| (dollars in thousands) | | | | | | |
| Assets | | | | | | |
| Taxable loans ⁽¹⁾ | \$ 1,684,148 | \$ 30,687 | 7.25% | \$ 1,493,507 | \$ 27,617 | 7.36% |
| Tax-exempt loans ^(1,2) | 9,993 | 190 | 7.54 | 11,933 | 248 | 8.25 |
| Taxable securities | 250,147 | 3,112 | 4.94 | 211,067 | 2,962 | 5.57 |
| Tax-exempt securities ⁽²⁾ | 195,470 | 3,516 | 7.14 | 153,761 | 2,890 | 7.46 |
| Other investments | 13,930 | 169 | 4.81 | 20,734 | 302 | 5.78 |
| | <u>2,153,688</u> | <u>37,674</u> | 6.95 | <u>1,891,002</u> | <u>34,019</u> | 7.16 |
| Interest Earning Assets | | | | | | |
| Cash and due from banks | 50,023 | | | 44,620 | | |
| Other assets, net | 124,821 | | | 101,042 | | |
| | <u>2,328,532</u> | | | <u>2,036,664</u> | | |
| Total Assets | | | | | | |
| Liabilities | | | | | | |
| Savings and NOW | \$ 695,464 | 1,012 | 0.58 | \$ 642,445 | 1,666 | 1.03 |
| Time deposits | 781,726 | 5,420 | 2.75 | 713,010 | 6,806 | 3.79 |
| Other borrowings | 441,930 | 4,165 | 3.74 | 335,081 | 3,319 | 3.93 |
| | <u>1,919,120</u> | <u>10,597</u> | 2.19 | <u>1,690,536</u> | <u>11,791</u> | 2.77 |
| Interest Bearing Liabilities | | | | | | |
| Demand deposits | 193,404 | | | 175,661 | | |
| Other liabilities | 57,582 | | | 31,790 | | |
| Shareholders equity | 158,426 | | | 138,677 | | |
| | <u>2,328,532</u> | | | <u>2,036,664</u> | | |
| Total liabilities and shareholders equity | | | | | | |
| Tax Equivalent Net Interest Income | | \$ 27,077 | | | \$ 22,228 | |
| Tax Equivalent Net Interest Income as a Percent of Earning Assets | | | 5.00% | | | 4.69% |

(1) All domestic

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

Average Balances and Tax Equivalent Rates

| | Twelve Months Ended December 31, | | | | | |
|---|-------------------------------------|------------|-------|--------------------|------------|-------|
| | 2003 | | | 2002 | | |
| | Average Balance | Interest | Rate | Average Balance | Interest | Rate |
| Assets | (dollars in thousands) | | | | | |
| Taxable loans ⁽¹⁾ | \$ 1,612,316 | \$ 118,277 | 7.34% | \$ 1,426,286 | \$ 108,664 | 7.62% |
| Tax-exempt loans ^(1,2) | 11,249 | 898 | 7.98 | 11,639 | 974 | 8.37 |
| Taxable securities | 239,296 | 11,687 | 4.88 | 211,777 | 12,211 | 5.77 |
| Tax-exempt securities ⁽²⁾ | 179,668 | 12,992 | 7.23 | 142,320 | 11,053 | 7.77 |
| Other investments | 12,341 | 611 | 4.95 | 21,342 | 1,289 | 6.04 |
| Interest Earning Assets | 2,054,870 | 144,465 | 7.03 | 1,813,364 | 134,191 | 7.40 |
| Cash and due from banks | 48,839 | | | 40,533 | | |
| Other assets, net | 118,309 | | | 79,848 | | |
| Total Assets | \$ 2,222,018 | | | \$ 1,933,745 | | |
| Liabilities | | | | | | |
| Savings and NOW | \$ 688,697 | 4,879 | 0.71 | \$ 634,357 | 7,444 | 1.17 |
| Time deposits | 741,731 | 22,923 | 3.09 | 688,297 | 27,690 | 4.02 |
| Other borrowings | 407,264 | 16,311 | 4.01 | 287,983 | 12,874 | 4.47 |
| Interest Bearing Liabilities | 1,837,692 | 44,113 | 2.40 | 1,610,637 | 48,008 | 2.98 |
| Demand deposits | 183,032 | | | 156,294 | | |
| Other liabilities | 50,283 | | | 28,762 | | |
| Shareholders equity | 151,011 | | | 138,052 | | |
| Total liabilities and shareholders equity | \$ 2,222,018 | | | \$ 1,933,745 | | |
| Tax Equivalent Net Interest Income | | \$ 100,352 | | | \$ 86,183 | |
| Tax Equivalent Net Interest Income as a Percent of Earning Assets | | | 4.88% | | | 4.75% |

(1) All domestic

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

