

INDEPENDENT BANK CORP /MI/

Form 10-K

March 10, 2009

**Table of Contents**

**SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-K**

**Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
for the fiscal year ended December 31, 2008**

or

**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
for the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number 0-7818  
INDEPENDENT BANK CORPORATION**

(Exact name of Registrant as specified in its charter)

MICHIGAN

38-2032782

(State or other jurisdiction of incorporation)

(I.R.S. employer identification no.)

230 W. Main St., P.O. Box 491, Ionia, Michigan

48846

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code (616) 527-9450

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, \$1.00 Par Value

NASDAQ

(Title of class)

(Name of Exchange)

8.25% Cumulative Trust Preferred Securities

NASDAQ

(Title of class)

(Name of Exchange)

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b of the Exchange Act).  
Act. Yes  No

The aggregate market value of common stock held by non-affiliates of the Registrant as of June 30, 2008, was \$89,140,752.

The number of shares outstanding of the Registrant's common stock as of March 9, 2009 was 24,030,318.

Documents incorporated by reference Portions of our definitive proxy statement, and annual report, to be delivered to shareholders in connection with the April 28, 2009 Annual Meeting of Shareholders are incorporated by reference into Part I, Part II and Part III of this Form 10-K.

The Exhibit Index appears on Pages 30-31

---

**TABLE OF CONTENTS**

**PART I**

**ITEM 1. BUSINESS**

**ITEM 1. BUSINESS – STATISTICAL DISCLOSURE**

**ITEM 1A. RISK FACTORS**

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

**ITEM 2. PROPERTIES**

**ITEM 3. LEGAL PROCEEDINGS**

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

**PART II**

**ITEM 5. MARKET FOR OUR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

**ITEM 6. ELECTED FINANCIAL DATA**

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**PART II**

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

**ITEM 9A. CONTROLS AND PROCEDURES**

**ITEM 9B. OTHER INFORMATION**

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

**ITEM 11. EXECUTIVE COMPENSATION**

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

**PART III**

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

**SIGNATURES**

**EXHIBIT INDEX**

**EX-13**

**EX-21**

**EX-23**

**EX-31.1**

**EX-31.2**

**EX-32.1**

**EX-32.2**

**Table of Contents**

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

**PART I****ITEM 1. BUSINESS**

Independent Bank Corporation was 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 (the "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 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 their respective 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 \$2.460 billion and \$2.066 billion, respectively, at December 31, 2008.

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's activities cover all phases of banking, including checking and savings accounts, commercial lending, direct and indirect consumer financing, mortgage lending and safe deposit box services. Our Bank's mortgage lending activities are primarily conducted through a separate mortgage bank subsidiary. We also provide payment plans to consumers to purchase extended automobile warranties through Mepco Finance Corporation, a subsidiary of our Bank. In addition, our Bank offers title insurance services through a separate subsidiary and provides 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. The local economies of the communities served by our



**Table of Contents****ITEM 1. BUSINESS** (Continued)

Bank are relatively stable and reasonably diversified. Our Bank serves its markets through its main office and a total of 105 branches, 4 drive-thru facilities and 5 loan production offices.

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:

	2008	2007	2006
Interest and fees on loans	80.0%	74.8%	74.1%
Other interest income	7.3	7.7	8.8
Non-interest income	12.7	17.5	17.1
	100.0%	100.0%	100.0%

As of December 31, 2008, we had 1,030 full-time employees and 275 part-time employees.

**Supervision and Regulation**

The following is a summary of certain statutes and regulations affecting us. This summary is qualified in its entirety by reference to the particular statutes and regulations. 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 Board of Governors of the Federal Reserve System (the Federal Reserve), the Federal Deposit Insurance Corporation (the FDIC), the Michigan Office of Financial and Insurance Regulation (the 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 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.

**Table of Contents****ITEM 1. BUSINESS** (Continued)**Regulatory Developments**

**Emergency Economic Stabilization Act of 2008.** On October 3, 2008, Congress enacted the Emergency Economic Stabilization Act of 2008 ( EESA ). EESA enables the federal government, under terms and conditions developed by the Secretary of the United States Department of the Treasury ( UST ), to insure troubled assets, including mortgage-backed securities, and collect premiums from participating financial institutions. EESA includes, among other provisions: (a) the \$700 billion Troubled Assets Relief Program ( TARP ), under which the Secretary of the UST 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 UST authorized a voluntary capital purchase program ( CPP ) to purchase senior preferred shares of qualifying financial institutions that elect to participate. Participating companies must adopt certain standards for executive compensation, including (a) prohibiting golden parachute payments as defined in 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 UST in the form of non-voting cumulative preferred stock that pays cash dividends at the rate of 5% per annum for the first five years, and then pays cash dividends at the rate of 9% per annum thereafter. In addition, the UST received a warrant to purchase shares of our common stock having an aggregate market price equal to 15% of the preferred stock amount. Of the total proceeds, \$68.4 million was allocated to the 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 is \$3.12 per share, which 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 UST approved our participation in the CPP. The warrant is exercisable, in whole or in part, over a term of 10 years.

The securities purchase agreement, dated December 12, 2008, pursuant to which the securities issued to the UST under the CPP were sold, limits the payment of dividends on our common stock to the current quarterly dividend of \$0.01 per share without prior approval of the UST; limits our ability to repurchase shares of common stock (with certain exceptions); grants the holders of the preferred stock, the warrant and our common stock to be issued under the warrant certain registration rights; and subjects us to the executive compensation limitations included in the EESA.

**Federal Deposit Insurance Coverage.** EESA temporarily raised the limit on federal deposit insurance coverage from \$100,000 to \$250,000 per depositor. Separate from EESA, in October 2008, the FDIC also announced the Temporary Liquidity Guarantee Program. Under one component of this program, the FDIC temporarily provides unlimited coverage for noninterest bearing transaction deposit accounts through December 31, 2009. The limits are scheduled to return to \$100,000 on January 1, 2010.

**Financial Stability Plan.** On February 10, 2009, the UST 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 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





**Table of Contents**

**ITEM 1. BUSINESS** (Continued)

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 ARRA, Congress intended to provide a stimulus to the U.S. economy in light of the significant economic downturn. AARA includes federal tax cuts, expansion of unemployment benefits and other social welfare provisions, and numerous domestic spending efforts in education, healthcare and infrastructure. 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 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 AARA;

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 will be required to permit a separate 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.

The foregoing is a summary of requirements to be included in standards to be established by the Secretary of the UST.

Homeowner Affordability and Stability Plan. On February 18, 2009, President Obama announced the Homeowner Affordability and Stability Plan ( HASP ). 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:

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.

Many details related to these new regulatory developments have yet to be established. We continue to monitor these developments and assess their potential impact on our business.

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 Bank Holding Company Act, as amended (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.

**Table of Contents****ITEM 1. BUSINESS** (Continued)

In addition, if the OFIR deems a bank's capital to be impaired, the 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 failed 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 25% 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 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 10 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 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 Board, in consultation with the Secretary of 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 Bank Holding Company Act generally does not place territorial restrictions on the

**Table of Contents**

**ITEM 1. BUSINESS** (Continued)

domestic activities of non-bank subsidiaries of bank or financial holding companies. While we believe we are eligible to elect to operate as a financial holding company, as of the date of this filing, we have not applied for approval to operate as a financial holding company.

**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. The Federal Reserve has not advised us of any specific minimum Tier 1 Capital leverage ratio applicable to us.

Included in our Tier 1 capital is \$72.8 million of trust preferred securities (classified on our balance sheet as

Subordinated debentures). In March 2005, the Federal Reserve Board issued a final rule that would retain trust preferred securities in the Tier 1 capital of bank holding companies. After a transition period ending March 31, 2009, the aggregate amount of trust preferred securities and certain other capital elements would be limited to 25 percent of Tier 1 capital elements, net of goodwill (less any associated deferred tax liability). The amount of trust preferred securities and certain other elements in excess of the limit could be included in the Tier 2 capital, subject to restrictions. Based upon our existing levels of Tier 1 capital, trust preferred securities and goodwill, this final Federal Reserve Board rule would have reduced our Tier 1 capital to average assets ratio by approximately 29 basis points at December 31, 2008 (this calculation assumes no transition period).

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 authorizes 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, preferred dividends must be paid in accordance with the terms of the CPP. See Item 1A. Risk Factors of this Annual Report on Form 10-K for additional information. Prior to December 12, 2011, unless we have redeemed all of the preferred stock issued to UST on December 12, 2008 or unless the UST has transferred all the preferred securities to a third party, the consent of the UST will be required for us to declare or pay any dividend or make any



**Table of Contents****ITEM 1. BUSINESS** (Continued)

distribution on common stock other than (i) regular quarterly cash dividends of not more than the current level of \$0.01 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.

**Federal Securities Regulation.** Our common stock is registered with the Securities and Exchange Commission ( 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.** Our 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 Board as its primary regulator, and 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 rate schedule established for the first quarter of 2009, most well-capitalized banks will pay 12 to 14 basis points (calculated as an annual rate against the bank's deposit base) for deposit insurance premiums. That rate increases to 50 basis points for banks that pose significant supervisory concerns. Premiums are assessed and collected quarterly by the FDIC. The base rate beginning in the second quarter of 2009 is currently expected to be between 12 and 16 basis points, 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.

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 0.50% or less, and in Interest on Lawyers Trust Accounts (IOLTA) will have a temporary (until December 31, 2009) unlimited guarantee from the FDIC. 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.



**Table of Contents****ITEM 1. BUSINESS** (Continued)

**OFIR Assessments.** Michigan banks are required to pay supervisory fees to the 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:

	<b>Total Risk-Based Capital Ratio</b>	<b>Tier 1 Risk-Based Capital Ratio</b>	<b>Leverage Ratio</b>
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 December 31, 2008, our Bank's ratios exceeded minimum requirements for the well-capitalized category. 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 Board 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

**Table of Contents****ITEM 1. BUSINESS** (Continued)

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.

**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 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-



**Table of Contents**

**ITEM 1. BUSINESS** (Continued)

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 Finance Corporation, is engaged in the business of administering a payment plan program for consumers throughout the United States who have purchased a vehicle service contract and choose to pay the purchase price in installments. 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. Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports are available free of charge through our website at [www.IndependentBank.com](http://www.IndependentBank.com) as soon as reasonably practicable after filing with the SEC.

**Table of Contents****ITEM 1. BUSINESS STATISTICAL DISCLOSURE****I. (A) DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS EQUITY;****(B) INTEREST RATES AND INTEREST DIFFERENTIAL****(C) INTEREST RATES AND DIFFERENTIAL**

The information set forth in the tables captioned Average Balances and Tax Equivalent Rates and Change in Tax Equivalent Net Interest Income of our annual report, to be delivered to shareholders in connection with the April 28, 2009 Annual Meeting of Shareholders (filed as exhibit 13 to this report on Form 10-K) is incorporated herein by reference.

**II. INVESTMENT PORTFOLIO**

(A) The following table sets forth the book value of securities at December 31:

	2008	2007	2006
		(in thousands)	
Trading Preferred stock	\$ 1,929		
Available for sale			
U.S. Treasury			\$ 4,914
States and political subdivisions	\$ 105,553	\$ 208,132	244,284
Mortgage-backed	84,916	109,479	130,195
Other asset-backed	7,421	10,400	12,508
Trust preferred	12,706	9,985	11,259
Preferred stock	4,816	24,198	29,625
Other		2,000	2,000
Total	\$ 215,412	\$ 364,194	\$ 434,785

**Table of Contents****ITEM 1. BUSINESS STATISTICAL DISCLOSURE (Continued)****II. INVESTMENT PORTFOLIO (Continued)**

(B) The following table sets forth contractual maturities of securities at December 31, 2008 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							\$ 1,929	3.51%
Tax equivalent adjustment for calculations of yield							\$ 19	
Available for sale States and political subdivisions	\$ 3,775	7.32%	\$ 20,617	7.29%	\$ 31,349	6.28%	\$ 49,812	6.59%
Mortgage-backed	4,600	5.63	61,469	4.56	16,872	5.85	1,975	5.17
Other asset-backed			5,838	6.90	1,583	7.72		
Trust preferred							12,706	7.87
Preferred stock							4,816	5.51
Total	\$ 8,375	6.39%	\$ 87,924	5.35%	\$ 49,804	6.18%	\$ 69,309	6.71%
Tax equivalent adjustment for calculations of yield	\$ 97		\$ 526		\$ 690		\$ 1,222	

The rates set forth in the tables above for obligations of state and political subdivisions and preferred stock have been restated on a tax equivalent basis assuming a marginal tax rate of 35%. The amount of the adjustment is as follows:

	Tax-Exempt		Rate on Tax Equivalent
	Rate	Adjustment	Basis
Trading After 10 years	2.55%	0.96%	3.51%
Available for sale			
Under 1 year	4.76%	2.56%	7.32%
1-5 years	4.74	2.55	7.29
5-10 years	4.08	2.20	6.28
After 10 years	4.24	2.17	6.41



**Table of Contents****ITEM 1. BUSINESS STATISTICAL DISCLOSURE (Continued)****III. LOAN PORTFOLIO**

(A) The following table sets forth total loans outstanding at December 31:

	2008	2007	2006	2005	2004
			(in thousands)		
Loans held for sale	\$ 27,603	\$ 33,960	\$ 31,846	\$ 28,569	\$ 38,756
Real estate mortgage	839,496	873,945	865,522	852,742	773,609
Commercial	976,391	1,066,276	1,083,921	1,030,095	931,251
Installment	356,806	368,478	350,273	304,053	266,042
Finance receivables	286,836	209,631	160,171	178,286	109,732
<b>Total Loans</b>	<b>\$ 2,487,132</b>	<b>\$ 2,552,290</b>	<b>\$ 2,491,733</b>	<b>\$ 2,393,745</b>	<b>\$ 2,119,390</b>

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, 2008:

	Due Within One Year	Due After One But Within Five Years	Due After Five Years	Total
			(in thousands)	
Real estate mortgage	\$ 45,153	\$ 33,512	\$ 7,676	\$ 86,341
Commercial	457,366	439,516	79,509	976,391
Finance receivables	113,380	173,456		286,836
<b>Total</b>	<b>\$ 615,899</b>	<b>\$ 646,484</b>	<b>\$ 87,185</b>	<b>\$ 1,349,568</b>

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, 2008:

	Fixed Rate	Variable Rate	Total
		(in thousands)	
Due after one but within five years	\$ 613,097	\$ 33,387	\$ 646,484
Due after five years	80,747	6,438	87,185
<b>Total</b>	<b>\$ 693,844</b>	<b>\$ 39,825</b>	<b>\$ 733,669</b>



**Table of Contents****ITEM 1. BUSINESS STATISTICAL DISCLOSURE (Continued)****III. LOAN PORTFOLIO (Continued)**

(C) The following table sets forth loans on non-accrual, loans ninety days or more past due and troubled debt restructured loans at December 31:

	2008	2007	2006	2005	2004
	(in thousands)				
(a) Loans accounted for on a non-accrual basis (1, 2)	\$ 122,639	\$ 72,682	\$ 35,683	\$ 11,546	\$ 11,119
(b) Aggregate amount of loans ninety days or more past due (excludes loans in (a) above)	2,626	4,394	3,479	4,862	3,123
(c) Loans not included above which are troubled debt restructurings as defined in Statement of Financial Accounting Standards No. 15 (2)	9,160	173	60	84	218
<b>Total</b>	<b>\$ 134,425</b>	<b>\$ 77,249</b>	<b>\$ 39,222</b>	<b>\$ 16,492</b>	<b>\$ 14,460</b>

(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 \$7,732,000 would have been earned in 2008 had loans in categories (a) and (c) remained at their original terms; however, only \$928,000 was included in interest income for the year with respect to these loans.

Other loans of concern identified by the loan review department which are not included as non-performing totaled approximately \$3,100,000 at December 31, 2008. 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, 2008, 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, 2008, that would be required to be disclosed above (Item III(C)), if such assets were loans.

There were no foreign loans outstanding at December 31, 2008.

**Table of Contents****ITEM 1. BUSINESS STATISTICAL DISCLOSURE (Continued)****IV. SUMMARY OF LOAN LOSS EXPERIENCE**

(A) The following table sets forth loan balances and summarizes the changes in the allowance for loan losses for each of the years ended December 31:

	2008	2007 (dollars in thousands)		2006		
Total loans outstanding at the end of the year (net of unearned fees)	\$2,487,132		\$2,552,290	\$2,491,733		
Average total loans outstanding for the year (net of unearned fees)	\$2,569,368		\$2,541,305	\$2,472,091		
	Loan Losses	Unfunded Commitments	Loan Losses	Unfunded Commitments	Loan Losses	Unfunded Commitments
Balance at beginning of year	\$ 45,294	\$ 1,936	\$ 26,879	\$ 1,881	\$ 22,420	\$ 1,820
Loans charged-off						
Real estate mortgage	11,942		6,644		2,660	
Commercial	43,641		14,236		6,214	
Installment	6,364		5,943		4,913	
Finance receivables	1,015		213		274	
Total loans charged-off	62,962		27,036		14,061	
Recoveries of loans previously charged-off						
Real estate mortgage	318		381		215	
Commercial	1,800		328		496	
Installment	1,340		1,629		1,526	
Finance receivables	31		8			
Total recoveries	3,489		2,346		2,237	
Net loans charged-off	59,473		24,690		11,824	
Additions to allowance charged to operating expense	72,079	208	43,105	55	16,283	61
Balance at end of year	\$ 57,900	\$ 2,144	\$ 45,294	\$ 1,936	\$ 26,879	\$ 1,881

Net loans charged-off as a percent of average loans outstanding (includes loans held for sale) for the year	2.31%		.97%	.48%
Allowance for loan losses as a percent of loans outstanding (includes loans held for sale) at the end of the year	2.33		1.77	1.08
		15		

---

**Table of Contents****ITEM 1. BUSINESS STATISTICAL DISCLOSURE (Continued)****IV. SUMMARY OF LOAN LOSS EXPERIENCE (Continued)**

	2005		2004	
	(dollars in thousands)			
Total loans outstanding at the end of the year (net of unearned fees)	\$2,393,745		\$2,119,390	
Average total loans outstanding for the year (net of unearned fees)	\$2,268,846		1,893,007	
	Loan	Unfunded	Loan	Unfunded
	Losses	Commit-	Losses	Commit-
		ments		ments
Balance at beginning of year	\$ 24,162	\$ 1,846	\$ 16,455	\$ 892
Loans charged-off				
Real estate mortgage	1,611		677	
Commercial	5,141		849	
Installment	4,246		3,194	
Finance receivables	94		112	
Total loans charged-off	11,092		4,832	
Recoveries of loans previously charged-off				
Real estate mortgage	97		39	
Commercial	226		190	
Installment	1,195		1,012	
Finance receivables				
Total recoveries	1,518		1,241	
Net loans charged-off	9,574		3,591	
Additions to allowance charged to operating expense	7,832	(26)	3,062	954
Allowance on loans from business acquired			8,236	
Balance at end of year	\$ 22,420	\$ 1,820	\$ 24,162	\$ 1,846
Net loans charged-off as a percent of average loans outstanding (includes loans held for sale) for the year	.42%		.19%	
Allowance for loan losses as a percent of loans outstanding (includes loans held for sale) at the end of the year	.94		1.14	

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 in our annual report, to be delivered to shareholders in connection with the April 28, 2009 Annual Meeting of Shareholders (as filed as exhibit 13 to this report on Form 10-K) and is incorporated herein by reference.

**Table of Contents****ITEM 1. BUSINESS STATISTICAL DISCLOSURE (Continued)****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 December 31 follows:

	2008		2007		2006	
	Allowance Amount	Percent of Loans to Total Loans	Allowance Amount	Percent of Loans to Total Loans	Allowance Amount	Percent of Loans to Total Loans
	(dollars in thousands)					
Commercial	\$ 33,090	39.3%	\$ 27,829	41.8%	\$ 15,010	43.5%
Real estate mortgage	8,729	34.9	4,657	35.6	1,645	36.0
Installment	4,264	14.3	3,224	14.4	2,469	14.1
Finance receivables	486	11.5	475	8.2	292	6.4
Unallocated	11,331		9,109		7,463	
Total	\$ 57,900	100.0%	\$ 45,294	100.0%	\$ 26,879	100.0%

	2005		2004	
	Allowance Amount	Percent of Loans to Total Loans	Allowance Amount	Percent of Loans to Total Loans
	(dollars in thousands)			
Commercial	\$ 11,735	43.0%	\$ 13,640	43.9%
Real estate mortgage	1,156	36.8	988	38.3
Installment	2,835	12.7	2,769	12.6
Finance receivables	293	7.5	394	5.2
Unallocated	6,401		6,371	
Total	\$ 22,420	100.0%	\$ 24,162	100.0%

**Table of Contents****ITEM 1. BUSINESS STATISTICAL DISCLOSURE (Continued)****V. DEPOSITS**

The following table sets forth average deposit balances and the weighted-average rates paid thereon for the years ended December 31:

	2008		2007		2006	
	Average Balance	Rate	Average Balance	Rate	Average Balance	Rate
			(dollars in thousands)			
Non-interest bearing demand	\$ 301,117		\$ 300,886		\$ 279,279	
Savings and NOW	968,180	1.06%	971,807	1.93%	864,528	1.57%
Time deposits	917,403	3.97	1,439,177	4.88	1,405,850	4.32
Total	\$ 2,186,700	2.14%	\$ 2,711,870	3.28%	\$ 2,549,657	2.91%

The following table summarizes time deposits in amounts of \$100,000 or more by time remaining until maturity at December 31, 2008:

	(in thousands)
Three months or less	\$ 51,091
Over three through six months	66,565
Over six months through one year	38,266
Over one year	35,326
Total	\$ 191,248

**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 years ended December 31 follow:

	2008	2007	2006	2005	2004
Income (loss) from continuing operations as a percent of <sup>(1)</sup>					
Average common equity	(39.01)%	3.96%	13.06%	18.63%	20.30%
Average total assets	(2.88)	0.31	0.99	1.42	1.48
Net income (loss) as a percent of <sup>(1)</sup>					
Average common equity	(39.01)%	4.12	12.82	19.12	19.42
Average total assets	(2.88)	0.32	0.97	1.45	1.42
Dividends declared per share as a percent of diluted net income per share	NM	186.67	54.55	36.04	35.93
Average shareholders equity as a percent of average total assets	7.50	7.72	7.60	7.61	7.31

(1)



For 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 Consolidated Financial Data in our annual report, to be delivered to shareholders in connection with the April 28, 2009 Annual Meeting of Shareholders (as filed as exhibit 13 to this report on Form 10-K) and is incorporated herein by reference. 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 in our annual report, to be delivered to shareholders in connection with the April 28, 2009 Annual Meeting of Shareholders (as filed as exhibit 13 to this report on Form 10-K) and is incorporated herein by reference.

**VII. SHORT-TERM BORROWINGS**

Short-term borrowings are discussed in note 10 to the consolidated financial statements incorporated herein by reference in Item 8, Part II of this report.

**Table of Contents**

**ITEM 1A. RISK FACTORS**

We have credit risk inherent in our asset portfolios, and our allowance for loan losses may not be sufficient to cover actual loan losses. 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 assure repayment. We may 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. 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 could have a material adverse effect on our results of operations and financial condition.

In particular during 2008, 2007 and 2006 our level of non-performing loans, net loan charge-offs, loan delinquencies and provision for loan losses all increased over the prior years.

Our business has been and may continue to be adversely affected by current conditions in the financial markets and economic conditions generally, which could, among other things, adversely affect our loan portfolio. 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. A continued economic slowdown could 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.

In particular during 2008, 2007 and 2006 our level of non-performing loans, net loan charge-offs, loan delinquencies and provision for loan losses all increased over the prior years.

Additionally, the overall capital and credit markets have been experiencing unprecedented levels of volatility and disruption for more than a year. 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.

During the past year, the general business environment has had an overall adverse effect on our business, and this environment is not expected to improve in the near term. Until conditions improve, we expect our businesses, financial condition and results of operations to continue to be adversely affected.

Current market developments may adversely affect our industry, business and results of operations. Dramatic declines in the housing market during the prior year, 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.

**Table of Contents**

**ITEM 1A. RISK FACTORS (continued)**

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.

There can be no assurance that recently enacted federal government programs will help stabilize the U.S. financial system. Beginning in the fourth quarter of 2008 and continuing into the first quarter of 2009, the federal government has enacted new laws intended to strengthen and restore confidence in the U.S. financial system. See Item 1

Business Regulatory Developments above 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 current financial market conditions could materially and adversely affect our businesses, financial condition, results of operations, access to credit or the trading price of our common stock.

In addition, these statutes are relatively new initiatives and, as such, are subject to change and evolving interpretation. There can be no assurances as to the effects that any such changes will have on the effectiveness of the federal government's efforts to stabilize the credit markets or on our business, financial condition or results of operations.

We have credit risk inherent in our securities portfolio. We maintain diversified securities portfolios, which include obligations of the U.S. Treasury and government-sponsored agencies as well as securities issued by states and political subdivisions, 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, 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.

We may need to raise additional capital in the future and such capital may not be available when needed or at all. We may need to raise additional capital in the future to provide us with sufficient capital resources and liquidity to meet our commitments and business needs. Our ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at that time, which are outside of our control, and our financial performance. The ongoing liquidity crisis and the loss of confidence in financial institutions may increase our cost of funding and limit our access to capital. We cannot be assured that such capital will be available to us on acceptable terms or at all. An inability to raise additional capital on acceptable terms when needed could have a materially adverse effect on our business, financial condition and results of operations.

The operation of our warranty payment plan business involves unique operational risks and could expose us to significant losses. One of our subsidiaries, Mepco Finance Corporation, is engaged in the business of providing payment plans to consumers to purchase vehicle warranties on a national basis. 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. Mepco also 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 will depend largely on the continued services of its executives and other key employees familiar with its business.

**Table of Contents**

**ITEM 1A. RISK FACTORS (continued)**

In addition, because financing in this market is conducted primarily through relationships with unaffiliated automobile warranty 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 significant loss in this business.

Our mortgage-banking revenues are susceptible to substantial variations dependent largely upon factors that we do not control, such as market interest rates. A meaningful portion of our revenues are derived from gains on the sale of real estate mortgage loans. 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.

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. 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 finance 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.

We rely heavily on our management team, and the unexpected loss of key managers may adversely affect our operations. Our success to date has been influenced strongly by our ability to attract and to retain senior

**Table of Contents****ITEM 1A. RISK FACTORS (continued)**

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 strategies. We do not have employment or non-compete agreements with any of these key employees. The unexpected loss of services of any key management personnel, or the inability to recruit and retain qualified personnel in the future, could have an 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.

**We may be unable to maintain our historical growth rate, which may adversely impact our results of operation and financial condition.** To achieve our growth, we have opened additional branches and acquired other financial institutions and branches. We may be unable to sustain our historical rate of growth or may not even be able to grow at all, and we may encounter difficulties obtaining the funding and capital necessary to support our growth. Various factors, such as economic conditions, competition, and regulatory considerations, may impede or prohibit the opening of new branch offices. In addition, we may have difficulty identifying suitable financial institutions and other non-banking entities that we desire to acquire that are available for sale. Further, our inability to attract and retain experienced bankers may adversely affect our internal growth. A significant decrease in our historical rate of growth may adversely impact our results of operations and financial condition.

**We operate in a highly regulated environment and may be adversely affected by changes in federal and local laws and regulations.** In addition to the regulatory programs and their restrictions described above, we are generally subject to extensive regulation, supervision, and examination by federal and state banking authorities. Any change in applicable regulations or federal or state legislation could have a substantial impact on us and our Bank and their operations. Additional legislation and regulations may be enacted or adopted in the future that could significantly affect our powers, authority, and operations, which could 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.

**Future issuances of additional securities could result in dilution to our current shareholders.** Subject to the restrictions imposed on us under the CPP, we may determine from time to time to issue additional securities to raise additional capital, support growth, or for other purposes. These issuances of our securities would dilute the ownership interests of our shareholders.

**We may not pay dividends on your common stock.** Holders of shares 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. Although we have historically declared cash dividends on our common stock, we are not required to do so and may reduce or eliminate our common stock dividend in the future. This could adversely affect the market price of our common stock. Also, participation in the CPP limits our ability to increase our dividend or to repurchase our common stock for so long as any securities issued under such program remain outstanding. See Item 1 Business Regulatory Developments of this Annual Report on Form 10-K for additional information.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**Table of Contents**

**ITEM 2. PROPERTIES**

We and our Bank operate a total of 121 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.

**ITEM 3. 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.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

Not applicable.



**Table of Contents****ADDITIONAL ITEM EXECUTIVE OFFICERS**

Our executive officers are appointed annually by our Board of Directors at the meeting of Directors preceding the Annual Meeting of Shareholders. There are no family relationships among these officers and/or our Directors nor any arrangement or understanding between any officer and any other person pursuant to which the officer was elected. The following sets forth certain information with respect to our executive officers at March 9, 2009.

Name (Age)	Position	First elected as an executive officer
Michael M. Magee, Jr. (53)	President, Chief Executive Officer and Director	1993
Robert N. Shuster (51)	Executive Vice President and Chief Financial Officer	1999
Stefanie M. Kimball (49)	Executive Vice President and Chief Lending Officer	2007
William B. Kessel (44)	Executive Vice President and Chief Operating Officer	2004
David C. Reglin (49)	Executive Vice President, Retail Banking	1998
Richard E. Butler (57)	Senior Vice President, Operations	1998
Mark L. Collins (51)	Senior Vice President, General Counsel	2009
Peter R. Graves (51)	Senior Vice President, Chief Information Officer	1999
James J. Twarozynski (43)	Senior Vice President, Controller	2002

Prior to being named as President and Chief Executive Officer on January 1, 2005, Mr. Magee was Executive Vice President and COO since 2004 and prior to that was President and Chief Executive Officer of Independent Bank since 1993.

Prior to being named Executive Vice President and Chief Lending Officer in 2007, Ms. Kimball was a Senior Vice President at Comerica Incorporated since 1998.

Prior to being named Executive Vice President and Chief Operations Officer in 2007, Mr. Kessel was President and Chief Executive Officer of Independent Bank since 2004 and was Senior Vice President since 1996.

Prior to being named Senior Vice President, General Counsel in 2009, Mr. Collins was a Partner with Varnum LLP, a Grand Rapids, Michigan based law firm, where he specialized in commercial law.

**Table of Contents****PART II.****ITEM 5. MARKET FOR OUR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

The information set forth under the caption "Quarterly Summary" in our annual report, to be delivered to shareholders in connection with the April 28, 2009 Annual Meeting of Shareholders (as filed as exhibit 13 to this report on Form 10-K) is incorporated herein by reference. Information under the caption "Shareholder Return Performance Graph" in our definitive proxy statement, to be delivered to shareholders in connection with the April 28, 2009 Annual Meeting of Shareholders is incorporated by reference. Information under the caption "Shareholder Return Performance Graph" in our definitive proxy statement is not deemed to be filed with the Securities and Exchange Commission.

The following table shows certain information relating to purchases of common stock for the three-months ended December 31, 2008 pursuant to our share repurchase plan:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan	Remaining Number of Shares Authorized for Purchase Under the Plan
October 2008 <sup>(1)</sup>	162	\$ 3.67		7,712
November 2008				7,712
December 2008				7,712
Total	162	\$ 3.67	0	0 <sup>(2)</sup>

(1) Shares purchased to fund our Deferred Compensation and Stock Purchase Plan for Non-employee Directors.

(2) A stock repurchase plan authorizing the purchase of up to 25,000 shares of our common

stock expired on  
December 31,  
2008.

**ITEM 6. SELECTED FINANCIAL DATA**

The information set forth under the caption "Selected Consolidated Financial Data" in our annual report, to be delivered to shareholders in connection with the April 28, 2009 Annual Meeting of Shareholders (as filed as exhibit 13 to this report on Form 10-K) is incorporated herein by reference.

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The information set forth under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our annual report, to be delivered to shareholders in connection with the April 28, 2009 Annual Meeting of Shareholders (as filed as exhibit 13 to this report on Form 10-K) is incorporated herein by reference.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The information set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the caption "Asset/liability management" in our annual report, to be delivered to shareholders in connection with the April 28, 2009 Annual Meeting of Shareholders (as filed as exhibit 13 to this report on Form 10-K) is incorporated herein by reference.

**Table of Contents**

**PART II.**

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The following consolidated financial statements, management's report on internal controls, and the independent auditor's report are set forth in our annual report, to be delivered to shareholders in connection with the April 28, 2009 Annual Meeting of Shareholders (as filed as exhibit 13 to this report on Form 10-K) and is incorporated herein by reference.

Management's Annual Report on Internal Control Over Financial Reporting Report of Independent Registered Public Accounting Firm

Consolidated Statements of Financial Condition at December 31, 2008 and 2007

Consolidated Statements of Operations for the years ended December 31, 2008, 2007 and 2006

Consolidated Statements of Shareholders' Equity for the years ended December 31, 2008, 2007 and 2006

Consolidated Statements of Comprehensive Income for the years ended December 31, 2008, 2007 and 2006

Consolidated Statements of Cash Flows for the years ended December 31, 2008, 2007 and 2006

Notes to Consolidated Financial Statements

The supplementary data required by this item set forth under the caption "Quarterly Financial Data" in our annual report, to be delivered to shareholders in connection with the April 28, 2009 Annual Meeting of Shareholders (as filed as exhibit 13 to this report on Form 10-K) is incorporated herein by reference.

The portions of our annual report, to be delivered to shareholders in connection with the April 28, 2009 Annual Meeting of Shareholders (as filed as exhibit 13 to this report on Form 10-K) which are not specifically incorporated by reference as part of this Form 10-K are not deemed to be a part of this report.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None

**ITEM 9A. CONTROLS AND PROCEDURES**

1. **Evaluation of Disclosure Controls and Procedures.** With the participation of management, our chief executive officer and chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15e and 15d-15e) as of the year ended December 31, 2008 (the "Evaluation Date"), have concluded that, as of such date, our disclosure controls and procedures were effective.
2. Management's Annual Report on Internal Control Over Financial Reporting under Item 8 hereof is included in the 2008 Annual Report under the caption "Management's Annual Report on Internal Control over Financial Reporting" and is incorporated herein by reference. The Company's independent registered public accounting firm's attestation report on our internal control over financial reporting is also included in the 2008 Annual Report under the caption "Report of Independent Registered Public Accounting Firm" under item 8 hereof and is incorporated herein by reference.

**Table of Contents**

**ITEM 9A. CONTROLS AND PROCEDURES (continued)**

3. There were no changes in our internal control over financial reporting during the quarter ended December 31, 2008, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**

None.

**PART III.**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

**DIRECTORS** The information with respect to our Directors, set forth under the captions Election of Directors and Section 16(a) Beneficial Ownership Reporting Compliance in our definitive proxy statement, to be delivered to shareholders in connection with the April 28, 2009 Annual Meeting of Shareholders is incorporated herein by reference.

**EXECUTIVE OFFICERS** Reference is made to additional item under Part I of this report on Form 10-K.

**CODE OF ETHICS** We have adopted a Code of Ethics for our Chief Executive Officer and Senior Financial Officers. A copy of our Code of Ethics is posted on our website at [www.IndependentBank.com](http://www.IndependentBank.com), under Investor Relations, and a printed copy is available upon request by writing to our Chief Financial Officer, Independent Bank Corporation, P.O. Box 491, Ionia, Michigan 48846.

**CORPORATE GOVERNANCE** Information relating to certain functions and the composition of our board committees, set forth under the caption Board Committees Functions in our definitive proxy statement, to be delivered to shareholders in connection with the April 28, 2009 Annual Meeting of Shareholders is incorporated herein by reference.

**ITEM 11. EXECUTIVE COMPENSATION**

The information set forth under the captions Executive Compensation, Compensation of Directors and Compensation Committee Report in our definitive proxy statement, to be delivered to shareholders in connection with the April 28, 2009 Annual Meeting of Shareholders is incorporated herein by reference. Information under the caption Compensation Committee Report in our definitive proxy statement is not deemed to be filed with the Securities and Exchange Commission.

**Table of Contents****ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information set forth under the captions Voting Securities and Record Date , Election of Directors and Securities Ownership of Management in our definitive proxy statement, to be delivered to shareholders in connection with the April 28, 2009 Annual Meeting of Shareholders is incorporated herein by reference.

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, 2008.

Plan Category	(a)	(b)	(c)
	Number of securities to be issued upon exercise of outstanding options, warrants and rights		Weighted-average exercise price of outstanding options, warrants and rights
Equity compensation plans approved by security holders	1,502,000	\$ 19.73	201,000
Equity compensation plan not approved by security holders	None		None

**PART III.****ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information set forth under the captions Transactions Involving Management and Determination of Independence of Board Members in our definitive proxy statement, to be delivered to shareholders in connection with the April 28, 2009 Annual Meeting of Shareholders is incorporated herein by reference.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information set forth under the caption Disclosure of Fees Paid to our Independent Auditors in our definitive proxy statement, to be delivered to shareholders in connection with the April 28, 2009 Annual Meeting of Shareholders is incorporated herein by reference.

**PART IV.****ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

- (a)
1. **Financial Statements** All of our financial statements are incorporated herein by reference as set forth in the annual report to be delivered to shareholders in connection with the April 28, 2009 Annual Meeting of Shareholders (filed as exhibit 13 to this report on Form 10-K.)
  2. **Exhibits** (Numbered in accordance with Item 601 of Regulation S-K) The Exhibit Index is located on the final page of this report on Form 10-K.



**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, we have duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, dated March 9, 2009.

INDEPENDENT BANK CORPORATION

s/Michael M. Magee, Jr.      Michael M. Magee, Jr., President and Chief Executive Officer  
 (Principal Executive Officer)

s/Robert N. Shuster      Robert N. Shuster, Executive Vice President and Chief Financial  
 Officer (Principal Financial Officer)

s/James J. Twarozynski      James J. Twarozynski, Senior Vice President and Controller  
 (Principal Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on our behalf and in the capacities and on the dates indicated. Each director whose signature appears below hereby appoints Michael M. Magee, Jr. and Robert N. Shuster and each of them severally, as his or her attorney-in-fact, to sign in his or her name and on his or her behalf, as a director, and to file with the Commission any and all amendments to this Report on Form 10-K.

Donna J. Banks,      s/Donna J. Banks      March 6, 2009  
 Director

Jeffrey A. Bratsburg,      s/Jeffrey A. Bratsburg      March 6, 2009  
 Director

Stephen L. Gulis, Jr.,      s/Stephen L. Gulis, Jr.      March 3, 2009  
 Director

Terry L. Haske,      s/Terry L. Haske      March 6, 2009  
 Director

Robert L. Hetzler,      s/Robert L. Hetzler      March 5, 2009  
 Director

Michael M. Magee, Jr.,      s/Michael M. Magee,      March 9, 2009  
 Director      Jr.

Clarke B. Maxson,      s/Clarke B. Maxson      March 9, 2009  
 Director



James E. McCarty,      s/James E. McCarty      March 6, 2009  
Director

Charles A. Palmer,      s/Charles A. Palmer      March 6, 2009  
Director

Charles C. Van Loan,      s/Charles C. Van Loan      March 6, 2009  
Director

**Table of Contents**

**EXHIBIT INDEX**

**Exhibit number and description**

**EXHIBITS FILED HEREWITH**

- 13 Annual report, relating to the April 28, 2009 Annual Meeting of Shareholders. This annual report will be delivered to our shareholders in compliance with Rule 14(a)-3 of the Securities Exchange Act of 1934, as amended.
- 21 List of Subsidiaries.
- 23 Consent of Independent Registered Public Accounting Firm (Crowe Horwath LLP)
- 24 Power of Attorney (Included on page 29).
- 31.1 Certificate of the Chief Executive Officer of Independent Bank Corporation pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certificate of the Chief Financial Officer of Independent Bank Corporation pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certificate of the Chief Executive Officer of Independent Bank Corporation pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certificate of the Chief Financial Officer of Independent Bank Corporation pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**EXHIBITS INCORPORATED BY REFERENCE**

- 3.1 Restated Articles of Incorporation (incorporated herein by reference to Exhibit 3(i) to our report on Form 10-Q for the quarter ended June 30, 1994).
- 3.1(a) Amendments to Article III and Article VI of the Articles of Incorporation (incorporated herein by reference to Exhibit 3.1(a) to our report on Form 10-K for the year ended December 31, 2000).
- 3.1(b) Certificate of Designations for Fixed Rate Cumulative Perpetual Preferred Stock, Series A, filed as an amendment to the Restated Articles of Incorporation of Independent Bank Corporation on December 10, 2008 (incorporated herein by reference to Exhibit 3.1 to our current report on Form 8-K dated December 8, 2008 and filed on December 12, 2008).

- 3.2 Amended and Restated Bylaws, conformed through December 8, 2008 (incorporated herein by reference to Exhibit 3.2 to our current report on Form 8-K dated December 8, 2008 and filed on December 12, 2008).
- 4.1 Certificate of Trust of IBC Capital Finance II dated February 26, 2003 (incorporated herein by reference to Exhibit 4.1 to our report on Form 10-Q for the quarter ended March 31, 2003).
- 4.2 Amended and Restated Trust Agreement of IBC Capital Finance II dated March 19, 2003 (incorporated herein by reference to Exhibit 4.2 to our report on Form 10-Q for the quarter ended March 31, 2003).
- 4.3 Preferred Securities Certificate of IBC Capital Finance II dated March 19, 2003 (incorporated herein by reference to Exhibit 4.3 to our report on Form 10-Q for the quarter ended March 31, 2003).
- 4.4 Preferred Securities Guarantee Agreement dated March 19, 2003 (incorporated herein by reference to Exhibit 4.4 to our report on Form 10-Q for the quarter ended March 31, 2003).
- 4.5 Agreement as to Expenses and Liabilities dated March 19, 2003 (incorporated herein by reference to Exhibit 4.5 to our report on Form 10-Q for the quarter ended March 31, 2003).

**Table of Contents**

**EXHIBIT INDEX** (Continued)

- 4.6 Indenture dated March 19, 2003 (incorporated herein by reference to Exhibit 4.6 to our report on Form 10-Q for the quarter ended March 31, 2003).
- 4.7 8.25% Junior Subordinated Debenture of Independent Bank Corporation dated March 19, 2003 (incorporated herein by reference to Exhibit 4.6 to our report on Form 10-Q for the quarter ended March 31, 2003).
- 4.8 Form of Certificate for the Fixed Rate Cumulative Perpetual Preferred Stock, Series A (incorporated herein by reference to Exhibit 4.1 to our current report on Form 8-K dated December 8, 2008 and filed on December 12, 2008).
- 4.9 Warrant dated December 12, 2008 to purchase shares of Common Stock of Independent Bank Corporation (incorporated herein by reference to Exhibit 4.2 to our current report on Form 8-K dated December 8, 2008 and filed on December 12, 2008).
- 10.1\* Deferred Benefit Plan for Directors (incorporated herein by reference to Exhibit 10(C) to our report on Form 10-K for the year ended December 31, 1984).
- 10.2 The form of Indemnity Agreement approved by our shareholders at its April 19, 1988 Annual Meeting, as executed with all of the Directors of the Registrant (incorporated herein by reference to Exhibit 10(F) to our report on Form 10-K for the year ended December 31, 1988).
- 10.3\* Non-Employee Director Stock Option Plan, as amended, approved by our shareholders at its April 15, 1997 Annual Meeting (incorporated herein by reference to Exhibit 4 to our Form S-8 Registration Statement dated July 28, 1997, filed under registration No. 333-32269).
- 10.4\* Employee Stock Option Plan, as amended, approved by our shareholders at its April 17, 2000 Annual Meeting (incorporated herein by reference to Exhibit 4 to our Form S-8 Registration Statement dated October 8, 2000, filed under registration No. 333-47352).
- 10.5 The form of Management Continuity Agreement as executed with executive officers and certain senior managers (incorporated herein by reference to Exhibit 10 to our report on Form 10-K for the year ended December 31, 1998).
- 10.6\* Independent Bank Corporation Long-term Incentive Plan, as amended through April 26, 2005, (incorporated herein by reference to Exhibit 10 to our report on Form 10-K for the year ended

December 31, 2005).

- 10.7 Letter Agreement, dated as of December 12, 2008, between Independent Bank Corporation and the United States Department of the Treasury, and the Securities Purchase Agreement Standard Terms attached thereto (incorporated herein by reference to Exhibit 10.1 to our current report on Form 8-K dated December 8, 2008 and filed on December 12, 2008).
- 10.8 Form of Letter Agreement executed by each of Michael M. Magee, Jr., Robert N. Shuster, William B. Kessel, Stefanie M. Kimball, and David C. Reglin (incorporated herein by reference to Exhibit 10.2 to our current report on Form 8-K dated December 8, 2008 and filed on December 12, 2008).
- 10.9 Form of waiver executed by each of Michael M. Magee, Jr., Robert N. Shuster, William B. Kessel, Stefanie M. Kimball, and David C. Reglin (incorporated herein by reference to Exhibit 10.3 to our current report on Form 8-K dated December 8, 2008 and filed on December 12, 2008).

\* Represents a compensation plan.