INDEPENDENT BANK CORP /MI/
Form 8-K
July 23, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Date of Report (Date of earliest event reported): July 23, 2003

INDEPENDENT BANK CORPORATION

(Exact name of registrant as specified in its charter)

Michigan

(State or Jurisdiction of Incorporation or Organization)

0-7818	38-2032782
(Commission File Number)	(I.R.S. Employer Identification No.)

230 West Main Street, Ionia, Michigan 48846

(Address of principal executive offices)

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

NONE

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

Item 7. Financial Statements and Exhibits.

Exhibit

99 Press release dated July 23, 2003.

Item 9. Regulation FD Disclosure.

On July 23, 2003, Independent Bank Corporation issued a press release announcing results for the second fiscal quarter. A copy of the press release is attached as Exhibit 99.

This information furnished under "Item 9. Regulation FD Disclosure" is intended to be furnished under "Item 12. Results of Operations and Financial Condition" in accordance with SEC Release No. 33-8216.

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

SIGNATURES

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

Date	July 23, 2003	By	s/ Robert N. Shuster
			Robert N. Shuster, Principal Financial Officer
Date	July 23, 2003	By	s/ James J. Twarozynski
			James J. Twarozynski, Principal Accounting Officer

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Independent Bank Corporation - 2nd Quarter 2003 Earnings Release Exhibit 99

CONTACT: Robert N. Shuster
#616/527-5820 ext. 1257

FOR IMMEDIATE USE

INDEPENDENT BANK CORPORATION
REPORTS 28% INCREASE IN EARNINGS PER SHARE

IONIA, Michigan, July 23, 2003 .. . . Independent Bank Corporation (Nasdaq: IBCP), a Michigan-based bank holding company reported that its second quarter 2003 net income was a record $9.1 million or $0.50 per diluted share. A year earlier, net income totaled $7.3 million or $0.39 per diluted share. Return on average equity and return on average assets were 24.37% and 1.66%, respectively in the second quarter of 2003 compared to 21.41% and 1.55%, respectively in 2002.

The Company s net income for the six months ended June 30, 2003 totaled $17.9 million or $0.98 per diluted share. Net income for the first six months of 2002 was $14.4 million or $0.76 per diluted share.

The increase in quarterly net income is primarily a result of increases in net interest income, service charges on deposits, net gains from real estate mortgage loan sales, title insurance fees and a decline in the provision for loan losses. Partially offsetting these items was a decline in real estate mortgage loan servicing fees (due to increased amortization of and an impairment charge on capitalized mortgage servicing rights) and increases in non-interest expense and income taxes.

On April 15, 2003, the Company completed its acquisition of Mepco Insurance Premium Financing, Inc. Mepco is a 40-year old Chicago-based company that specializes in financing insurance premiums for businesses and extended automobile warranties for consumers. As a result of the closing of this transaction, the Company issued 247,672 shares of its common stock and paid $5.0 million in cash on April 15, 2003 as the initial consideration. Under the terms of the agreement and plan of merger, additional consideration may be paid in the future pursuant to a five-year earn out. In the second quarter of 2003 included in the Company s results are Mepco s operations subsequent to April 15, 2003. During this two and one-half month period, Mepco recorded approximately $3.3 million in interest income and fees on loans, $0.3 million in interest expense, a $0.1 million provision for credit losses, $0.1 million in other non-interest income, $1.9 million in non-interest expense, $1.1 million in income before income taxes and $0.7 million in net income. At June 30, 2003 Mepco had total assets of $124.6 million, including finance receivables of

$108.7 million. The Company recorded certain purchase accounting adjustments in the second quarter of 2003 and had goodwill of $8.9 million and other intangibles (primarily related to customer relationships) of $2.6 million at June 30, 2003 related to the Mepco acquisition.

The Company s tax equivalent net interest income totaled $24.7 million during the second quarter of 2003, which represents a $3.3 million or 15.7% increase from the comparable quarter one year earlier. This primarily reflects a $260.8 million increase in the balance of average interest-earning assets and to a lesser degree a five basis point increase in the Company s tax equivalent net interest income as a percent of average interest-earning assets. The increase in average interest-earning assets is due to the Mepco acquisition, which added $92.0 million in average loan balances in the second quarter of 2003, as well as growth in commercial loans, real estate mortgage loans held for sale and investment securities. Declining interest rates and increased levels of lower cost core deposits resulted in a 35 basis point decline in the

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Company s interest expense as a percentage of average interest-earning assets during the second quarter of 2003 compared to the second quarter of 2002. The decline in the cost of funds was largely offset by a 31 basis point decline in the tax equivalent yield on average interest-earning assets to 7.20% in the second quarter of 2003 from 7.51% in the second quarter of 2002. This decline is due to both the amortization and prepayment of higher yielding loans and the addition of new loans and new investment securities at lower interest rates. Without the Mepco acquisition, the decline in the tax equivalent yield on average interest-earning assets would have been greater (64 basis points instead of 31 basis points), as Mepco added $92.0 million in average loans at a weighted average yield of 14.34% during the second quarter of 2003. In addition, the second quarter of 2003 also included a $6,000 increase in net interest income (as compared to a $0.3 million increase in the second quarter of 2002) as a result of recording certain derivative instruments, not designated as hedges, at fair value, pursuant to Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activity (SFAS #133).

Service charges on deposits totaled $3.7 million in the second quarter of 2003; a $0.4 million or 13.5% increase from the comparable period in 2002. The increase in deposit related service fees results primarily from the continued growth of checking accounts.

Gains on the sale of real estate mortgage loans were $4.3 million in the second quarter of 2003 compared to $1.2 million in the second quarter of 2002. Real estate mortgage loan sales totaled $242.5 million and $91.5 million in the second quarters of 2003 and 2002, respectively. During the second quarter of 2003, gains on the sale of real estate mortgage loans were increased by approximately $0.4 million, net, as a result of recording changes in the fair value of certain derivative instruments pursuant to SFAS #133 (compared to a $0.2 million decrease in the second quarter of 2002). This SFAS #133 related increase in gains on the sale of real estate mortgage loans primarily represents a timing difference that reversed from March 31, 2003 when the applicable commitments to sell real estate mortgage loans in the secondary market were fulfilled in the second quarter of 2003. Real estate mortgage loans originated totaled $363.1 million in the second quarter of 2003 compared to $152.8 million in the comparable quarter of 2002 and loans held for sale grew to $131.2 million at June 30, 2003.

Primarily as a result of the above mentioned increase in real estate mortgage loan origination activity, title insurance fees increased by 95.5%, to $0.9 million in the second quarter of 2003 compared to $0.5 million in the second quarter of 2002.

Real estate mortgage loan servicing fees declined to an expense of $1.0 million in the second quarter of 2003 compared to $0.3 million of income in the second quarter of 2002. This decline is due to a $0.5 million increase in the amortization of capitalized mortgage loan servicing rights and an additional $0.6 million impairment charge that was recorded on such servicing rights during the quarter. The impairment reserve on capitalized mortgage loan servicing rights totaled $1.8 million at June 30, 2003 compared to $1.3 million and $1.1 million at March 31, 2003 and December 31, 2002, respectively. The increased level of amortization reflects the decline in interest rates, which has resulted in an increase in the level of mortgage loan refinancing/prepayment activity in the second quarter of 2003. The increase in the impairment reserve reflects the valuation of capitalized mortgage loan servicing rights at June 30, 2003 compared to March 31, 2003 as expected future prepayment rates used in the valuation of this asset accelerated in the second quarter of 2003. At June 30, 2003 the Company was servicing approximately $938 million in real estate mortgage loans for others on which servicing rights have been capitalized. This servicing portfolio had a weighted average coupon rate of approximately 6.28% and a weighted average service fee of 26 basis points. Capitalized mortgage servicing rights at June 30, 2003 totaled $5.6 million, representing approximately 59 basis points on the related amount of real estate mortgage loans serviced for others.

Non-interest expense totaled $20.6 million in the second quarter of 2003, an increase of $4.1 million compared to the second quarter of 2002. The April 15, 2003 acquisition of Mepco accounted for $1.9 million of this increase. The remainder of the increase in non-interest expense is primarily due to increases in compensation and employee benefits, occupancy and furniture and fixtures costs, and advertising, supplies and loan and collection expenses. The increase in compensation and employee benefits expense is primarily attributable to merit pay increases that were effective January 1, 2003, staffing level increases associated with the expansion and growth of the organization and increases in performance-based

compensation and health care insurance costs. The increases in occupancy, furniture and fixtures, advertising and supplies expenses are due primarily to costs associated with four new branch offices opened during the last seven months of 2002 and two new loan production offices opened during the first quarter of 2003. The increase in loan and collection expenses reflects costs associated with the holding or disposal of other real estate and repossessed assets.

A breakdown of non-performing loans by loan type is as follows:

Loan Type	6/30/2003	12/31/2002
	(Dollars in Millions)	
Commercial	$3.6	$4.7
Consumer	0.7	1.0
Mortgage	2.6	4.3
Finance receivables	1.3	n/a
Total	$8.2	$10.0
Ratio of non-performing		

loans to total portfolio loans	0.53%	0.72%

The decrease in the level of non-performing commercial loans in 2003 is due primarily to the payoff of a $1.1 million commercial real estate loan in June 2003. The decline in the level of non-performing consumer and mortgage loans may be indicative of somewhat improving economic conditions and also is partially due to the transfer of mortgage loans to other real estate as a result of foreclosure. Non-performing finance receivables are related to the Company s acquisition of Mepco. Other real estate and repossessed assets totaled $3.3 million at June 30, 2003 compared to $3.9 million at December 31, 2002. The decline in other real estate and repossessed assets is due primarily to the sale of a $1.2 million hotel property in the second quarter of 2003 partially offset by an increase in the level of residential homes acquired through foreclosure. The ratio of net charge-offs to average loans was 0.13% on an annualized basis in the second quarter of 2003 compared to 0.14% in the second quarter of 2002. The provision for loan losses declined to $0.7 million in the second quarter of 2003 compared to $1.2 million in 2002. The decrease in the provision reflects the Company s assessment of the allowance for loan losses taking into consideration factors such as loan mix, levels of non-performing and classified loans and net charge-offs. At June 30, 2003 the allowance for loan losses totaled $17.9 million, or 1.17% of portfolio loans compared to $16.7 million, or 1.21% of portfolio loans at December 31, 2002. The decrease in the percentage of the allowance to portfolio loans primarily reflects the acquisition of Mepco. Because of the nature of its loan portfolio, Mepco s allowance as a percentage of loans was 0.52% at June 30, 2003 compared to 1.21% for the balance of the Company s loan portfolio.

Total assets were $2.30 billion at June 30, 2003 compared to $2.06 billion at December 31, 2002. Loans, excluding loans held for sale, increased to $1.53 billion at June 30, 2003 from $1.38 billion at December 31, 2002. The increase in loans is primarily due to the Mepco acquisition as well as growth in commercial loans. Deposits totaled $1.65 billion at June 30, 2003, an increase of $117.8 million from December 31, 2002. This increase is attributable to a $61.5 million increase in checking and savings deposits and a $68.8 million increase in brokered certificates of deposit that was partially offset by a decline in non-brokered certificates of deposit. The increase in brokered certificates of deposit is primarily due to funding loans acquired in the Mepco acquisition.

Stockholders equity totaled $153.5 million at June 30, 2003 or 6.67% of total assets. On April 21, 2003 the Company redeemed all of the $17.25 million 9.25% trust preferred securities issued by IBC Capital Finance in 1996. At June 30, 2003 approximately $48.9 million of the Company s $50.6 million in outstanding trust preferred securities (which are accounted for as debt under generally accepted accounting principles) qualified as Tier 1 capital for regulatory purposes.

Independent Bank Corporation and its subsidiaries provide a wide range of banking and other financial services through 97 offices across Michigan s Lower Peninsula. The Company also provides financing for insurance premiums and extended automobile warranties across the United States, through its wholly owned subsidiary, Mepco Insurance Premium Financing, Inc. The Company s common stock trades on the Nasdaq Stock Market under the symbol IBCP.

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

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Independent Bank Corporation - 2nd Quarter 2003 Earnings Release

INDEPENDENT BANK CORPORATION AND SUBSIDIARIES

Consolidated Statements of Financial Condition

		June 30, 2003
		(u
Assets		(in
Cash and due from banks	$	73,114
Securities available for sale		429,606
Federal Home Loan Bank stock, at cost		12,032
Loans held for sale		131,174
Loans		
Commercial		581,832
Real estate mortgage		607,968

Installment		235,907
Finance Receivables		108,704
	Total Loans	1,534,411
Allowance for loan losses		(17,880)
	Net Loans	1,516,531
Property and equipment, net		42,260
Bank owned life insurance		36,184
Goodwill		16,244
Other intangibles		8,510
Accrued income and other assets		34,626
	Total Assets	$ 2,300,281
Liabilities and Shareholders' Equity		
Deposits		
Non-interest bearing		$ 218,936
Savings and NOW		679,919
Time		754,541
	Total Deposits	1,653,396
Federal funds purchased		42,300
Other borrowings		341,459
Guaranteed preferred beneficial interests in Company's subordinated debentures		50,600
Accrued expenses and other liabilities		59,018
	Total Liabilities	2,146,773
Shareholders' Equity		
Preferred stock, no par value--200,000 shares authorized; none outstanding		
Common stock, $1.00 par value--30,000,000 shares authorized; issued and outstanding: 17,880,811 shares at June 30, 2003 and 17,822,090 shares at December 31, 2002		17,881
Capital surplus		74,352
Retained earnings		54,351
Accumulated other comprehensive income		6,924
	Total Shareholders' Equity	153,508
	Total Liabilities and Shareholders' Equity	$ 2,300,281

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Independent Bank Corporation - 2nd Quarter 2003 Earnings Release

INDEPENDENT BANK CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations

	Three Months Ended	Six

	June 30,		
	2003	2002	2003
	(unaudited)		(u
	(in thousands, except per shar		
Interest Income			
Interest and fees on loans	$ 30,444	$ 26,849	$ 57,
Securities available for sale			
Taxable	2,949	3,315	5,
Tax-exempt	1,930	1,757	3,
Other investments	135	334	
Total Interest Income	35,458	32,255	67,
Interest Expense			
Deposits	7,430	9,042	14,
Other borrowings	4,561	2,970	8,
Total Interest Expense	11,991	12,012	22,
Net Interest Income	23,467	20,243	44,
Provision for loan losses	710	1,166	1,
Net Interest Income After Provision for Loan Losses	22,757	19,077	42,
Non-interest Income			
Service charges on deposit accounts	3,677	3,241	6,
Net gains on asset sales			
Real estate mortgage loans	4,317	1,238	8,
Securities	47	210	
Title insurance fees	907	464	1,
Manufactured home loan origination fees and commissions	389	493	
Real estate mortgage loan service fees, net	(1,047)	273	(1,
Other income	2,121	1,666	3,
Total Non-interest Income	10,411	7,585	20,
Non-interest Expense			
Compensation and employee benefits	10,795	9,262	20,
Occupancy, net	1,626	1,344	3,
Furniture and fixtures	1,424	1,144	2,
Other expenses	6,802	4,754	12,
Total Non-interest Expense	20,647	16,504	38,
Income Before Income Tax	12,521	10,158	24,
Income tax expense	3,390	2,870	6,
Net Income	$ 9,131	$ 7,288	$ 17,

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INDEPENDENT BANK CORPORATION AND SUBSIDIARIES

Selected Financial Data

	Three Months Ended June 30, 2003	Three Months Ended June 30, 2002	Six Month June 2003	
	(unaudited)		(unaudited)	
Per Share Data (A)				
Net Income				
Basic	$ .51	$ .39	$ 1.00	$
Diluted	.50	.39	.98	
Cash dividends declared	.16	.11	.30	
Selected Ratios				
As a percent of average interest-earning assets				
Tax equivalent interest income	7.20 %	7.51 %	7.15 %	
Interest expense	2.36	2.71	2.35	
Tax equivalent net interest income	4.85	4.80	4.80	
Net income to				
Average equity	24.37 %	21.41 %	24.76 %	
Average assets	1.66	1.55	1.71	
Average Shares (A)				
Basic	17,952,397	18,461,870	17,912,647	
Diluted	18,314,087	18,811,591	18,248,129	

(A) Restated to give effect to a 5% stock dividend declared and a three-for-two stock split in 2002. Average shares of common stock for basic net income per share includes shares issued and outstanding during the period. Average shares of common stock for diluted net income per share include shares to be issued upon exercise of stock options.

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