

INDEPENDENT BANK CORP /MI/
Form 8-K
October 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): October 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 Supplemental data to the Registrant's press release dated October 23, 2003.

Item 12. Results of Operations and Financial Condition.

The information attached at Exhibit 99 is supplemental data to the Registrant's press release dated October 23, 2003 regarding its earnings during the quarter ended September 30, 2003.

The information in this Form 8-K and the attached Exhibit shall not be deemed filed for purposes of Section 18 of the Securities Exchange 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 October 23, 2003

By s/ Robert N. Shuster

Robert N. Shuster, Principal Financial Officer

Date October 23, 2003

By s/ James J. Twarozynski

James J. Twarozynski, Principal Accounting Officer

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INDEPENDENT BANK CORPORATION AND SUBSIDIARIES
Consolidated Statements of Financial Condition

Exhibit 99

| | September 30, 2003 | December 31, 2002 |
|--|-----------------------|----------------------|
| | (unaudited) | |
| | (in thousands) | |
| Assets | | |
| Cash and due from banks | \$ 54,633 | \$ 60,731 |
| Securities available for sale | 437,687 | 371,246 |
| Federal Home Loan Bank stock, at cost | 13,895 | 9,704 |
| Loans held for sale | 69,780 | 129,577 |
| Loans | | |
| Commercial | 594,462 | 536,715 |
| Real estate mortgage | 657,723 | 601,799 |
| Installment | 237,820 | 242,928 |
| Finance receivables | 125,560 | |
| | Total Loans | 1,381,442 |
| Allowance for loan losses | (17,848) | (16,705) |
| | Net Loans | 1,364,737 |
| Property and equipment, net | 43,330 | 40,735 |
| Bank owned life insurance | 36,545 | 35,415 |
| Goodwill | 16,289 | 7,299 |
| Other intangibles | 8,017 | 6,420 |
| Accrued income and other assets | 37,869 | 31,698 |
| | Total Assets | \$ 2,057,562 |
| | | |
| Liabilities and Shareholders' Equity | | |
| Deposits | | |
| Non-interest bearing | \$ 195,871 | \$ 179,871 |
| Savings and NOW | 688,767 | 657,530 |
| Time | 754,720 | 698,202 |
| | Total Deposits | 1,535,603 |
| Federal funds purchased | 67,460 | 23,840 |
| Other borrowings | 346,190 | 310,413 |
| Guaranteed preferred beneficial interests in Company's subordinated debentures | 50,600 | 17,250 |
| Financed premiums payable | 26,406 | |
| Accrued expenses and other liabilities | 31,099 | 32,409 |
| | Total Liabilities | 1,919,515 |
| | | |
| Shareholders' Equity | | |
| Preferred stock, no par value--200,000 shares authorized; none outstanding | | |

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| | | |
|--|----------------|----------------|
| Common stock, \$1.00 par value--30,000,000 shares authorized; issued and outstanding: 19,525,840 shares at September 30, 2003 and 17,822,090 shares at December 31, 2002 | 19,526 | 17,822 |
| Capital surplus | 119,434 | 75,076 |
| Retained earnings | 11,094 | 41,785 |
| Accumulated other comprehensive income | 4,595 | 3,364 |
| | <u>154,649</u> | <u>138,047</u> |
| Total Shareholders' Equity | 154,649 | 138,047 |
| Total Liabilities and Shareholders' Equity | \$ 2,315,762 | \$ 2,057,562 |

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INDEPENDENT BANK CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations

| | Three Months | | Nine Months Ended | |
|--|--|---------------|-----------------------|---------------|
| | Ended September 30, 2003 | 2002 | September 30, 2003 | 2002 |
| | (unaudited) | | (unaudited) | |
| Interest Income | (in thousands, except per share amounts) | | | |
| Interest and fees on loans | \$ 30,945 | \$ 27,616 | \$ 88,050 | \$ 81,519 |
| Securities available for sale | | | | |
| Taxable | 2,727 | 3,223 | 8,575 | 9,249 |
| Tax-exempt | 2,134 | 1,776 | 5,982 | 5,176 |
| Other investments | 165 | 340 | 442 | 987 |
| | <u>35,971</u> | <u>32,955</u> | <u>103,049</u> | <u>96,931</u> |
| Total Interest Income | | | | |
| Interest Expense | | | | |
| Deposits | 6,769 | 8,994 | 21,370 | 26,662 |
| Other borrowings | 3,943 | 2,957 | 12,146 | 9,555 |
| | <u>10,712</u> | <u>11,951</u> | <u>33,516</u> | <u>36,217</u> |
| Total Interest Expense | | | | |
| Net Interest Income | 25,259 | 21,004 | 69,533 | 60,714 |
| Provision for loan losses | 569 | 752 | 2,279 | 2,845 |
| | <u>24,690</u> | <u>20,252</u> | <u>67,254</u> | <u>57,869</u> |
| Net Interest Income After Provision for Loan Losses | | | | |
| Non-interest Income | | | | |
| Service charges on deposit accounts | 3,855 | 3,457 | 10,803 | 9,410 |
| Net gains (losses) on asset sales | | | | |
| Real estate mortgage loans | 5,652 | 1,280 | 14,001 | 4,324 |
| Securities | (1,314) | 550 | (755) | 726 |
| Title insurance fees | 983 | 580 | 2,633 | 1,667 |
| Manufactured home loan origination fees and commissions | 535 | 445 | 1,282 | 1,442 |
| Real estate mortgage loan servicing | 201 | (1,118) | (1,196) | (550) |
| Other income | 1,902 | 1,487 | 5,872 | 4,372 |
| | <u>11,814</u> | <u>6,681</u> | <u>32,640</u> | <u>21,391</u> |
| Total Non-interest Income | | | | |
| Non-interest Expense | | | | |
| Compensation and employee benefits | 11,241 | 9,620 | 31,677 | 27,670 |
| Occupancy, net | 1,611 | 1,371 | 4,835 | 4,021 |
| Furniture and fixtures | 1,381 | 1,123 | 4,125 | 3,373 |
| Loss on prepayment of borrowings | 983 | 0 | 983 | 59 |
| Other expenses | 7,078 | 4,963 | 19,376 | 14,200 |
| | <u>22,304</u> | <u>17,087</u> | <u>61,076</u> | <u>50,323</u> |

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| | | | | | |
|----------------------------|----------------------------|-----------|----------|-----------|-----------|
| | Total Non-interest Expense | 22,294 | 17,077 | 60,996 | 49,323 |
| | Income Before Income Tax | 14,210 | 9,856 | 38,898 | 29,937 |
| Income tax expense | | 3,890 | 2,743 | 10,630 | 8,427 |
| | Net Income | \$ 10,320 | \$ 7,113 | \$ 28,268 | \$ 21,510 |
| Net Income Per Share | | | | | |
| | Basic | \$.53 | \$.35 | \$ 1.44 | \$ 1.06 |
| | Diluted | .51 | .35 | 1.41 | 1.04 |
| Dividends Per Common Share | | | | | |
| | Declared | \$.16 | \$.10 | \$.43 | \$.31 |
| | Paid | .16 | .10 | .43 | .31 |

Non-performing assets

| | September 30, 2003 | December 31, 2002 |
|---|--------------------------|-------------------------|
| | (dollars in thousands) | |
| Non-accrual loans | \$ 5,047 | \$ 5,738 |
| Loans 90 days or more past due and still accruing interest | 3,619 | 3,961 |
| Restructured loans | 286 | 270 |
| | <u>8,952</u> | <u>9,969</u> |
| Other real estate | 3,080 | 3,908 |
| | <u>\$12,032</u> | <u>\$13,877</u> |
| As a percent of Portfolio Loans | | |
| Non-performing loans | 0.55 % | 0.72 % |
| Allowance for loan losses | 1.10 | 1.21 |
| Non-performing assets to total assets | 0.52 | 0.67 |
| Allowance for loan losses as a percent of non-performing loans | 199 | 168 |

Allowance for loan losses

| | Nine months ended September 30, 2003 | 2002 |
|--|--|------------------|
| | (in thousands) | |
| Balance at beginning of period | \$ 16,705 | \$ 16,167 |
| Additions (deduction) | | |
| Allowance on loans acquired | 517 | |
| Provision charged to operating expense | 2,279 | 2,845 |
| Recoveries credited to allowance | 795 | 551 |
| Loans charged against the allowance | (2,448) | (1,865) |
| | <u>\$ 17,848</u> | <u>\$ 17,698</u> |
| Net loans charged against the allowance to average Portfolio Loans (annualized) | 0.15 % | 0.12 % |

September 30, 2003

December 31, 2002

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| | Amount | Average Maturity | Rate | Amount | Average Maturity | Rate |
|--|------------------------|---------------------|--------------|------------------|---------------------|--------------|
| | (dollars in thousands) | | | | | |
| Brokered CDs ⁽¹⁾ | \$354,503 | 2.2 years | 2.43% | \$278,012 | 1.9 years | 3.03% |
| Fixed rate FHLB advances ⁽¹⁾ | 61,684 | 7.1 years | 5.04 | 62,861 | 7.9 years | 5.83 |
| Variable rate FHLB advances ⁽¹⁾ | 147,550 | 0.3 years | 1.32 | 131,200 | 0.3 years | 1.50 |
| Securities sold under agreements to Repurchase ⁽¹⁾ | 133,961 | 0.1 years | 1.26 | 98,712 | 0.1 years | 1.74 |
| Federal funds purchased | 67,460 | 1 day | 1.29 | 23,840 | 1 day | 1.38 |
| Total | \$765,158 | 1.7 years | 2.12% | \$594,625 | 1.8 years | 2.71% |

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

Capitalization

| | September 30, 2003 | December 31, 2002 |
|---|--------------------------|-------------------------|
| | (in thousands) | |
| Unsecured debt | | \$ 12,600 |
| Preferred Securities | \$ 50,600 | 17,250 |
| Shareholders' Equity | | |
| Preferred stock, no par value | | |
| Common Stock, par value \$1.00 per share | 19,526 | 17,822 |
| Capital surplus | 119,434 | 75,076 |
| Retained earnings | 11,094 | 41,785 |
| Accumulated other comprehensive income (loss) | 4,595 | 3,364 |
| Total shareholders' equity | 154,649 | 138,047 |
| Total capitalization | \$205,249 | \$167,897 |

Non-Interest Income

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|-------------------------------------|----------|------------------------------------|-----------|
| | 2003 | 2002 | 2003 | 2002 |
| Service charges on deposit accounts | \$ 3,855 | \$ 3,457 | \$ 10,803 | \$ 9,410 |
| Net gains (losses) on asset sales | | | | |
| Real estate mortgage loans | 5,652 | 1,280 | 14,001 | 4,324 |
| Securities | (1,314) | 550 | (755) | 726 |
| Title insurance fees | 983 | 580 | 2,633 | 1,667 |
| Bank owned life insurance | 360 | 8 | 1,102 | 8 |
| Manufactured home loan origination fees and commissions | 535 | 445 | 1,282 | 1,442 |
| Mutual fund and annuity commissions | 319 | 203 | 909 | 781 |
| Real estate mortgage loan servicing | 201 | (1,118) | (1,196) | (550) |
| Other | 1,223 | 1,276 | 3,861 | 3,583 |
| Total non-interest income | \$ 11,814 | \$ 6,681 | \$ 32,640 | \$ 21,391 |

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| | Three months ended September 30, | | Nine months ended September 30, | |
|---|-------------------------------------|------------|------------------------------------|------------|
| | 2003 | 2002 | 2003 | 2002 |
| | (in thousands) | | | |
| Real estate mortgage loans originated | \$ 344,999 | \$ 251,695 | \$970,210 | \$ 545,174 |
| Real estate mortgage loans sold | 299,502 | 105,613 | 771,754 | 348,933 |
| Real estate mortgage loans sold with servicing rights released | 12,802 | 53,828 | 43,517 | 75,323 |
| Net gains on the sale of real estate mortgage loans | 5,652 | 1,280 | 14,001 | 4,324 |
| Net gains as a percent of real estate mortgage loans sold ("Loan Sale Margin") | 1.89% | 1.21% | 1.81% | 1.24% |
| SFAS #133 adjustments included in the Loan Sale Margin | (0.16)% | (0.56)% | 0.05% | (0.24)% |

Non-Interest Expense

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|-------------------------------------|----------|------------------------------------|----------|
| | 2003 | 2002 | 2003 | 2002 |
| | (in thousands) | | | |
| Salaries | \$ 7,183 | \$ 6,435 | \$20,446 | \$18,565 |
| Performance-based compensation and benefits | 1,670 | 1,325 | 4,560 | 3,874 |
| Other benefits | 2,388 | 1,860 | 6,671 | 5,231 |
| Compensation and employee benefits | 11,241 | 9,620 | 31,677 | 27,670 |
| Occupancy, net | 1,611 | 1,371 | 4,835 | 4,021 |
| Furniture and fixtures | 1,381 | 1,123 | 4,125 | 3,373 |
| Data processing | 1,025 | 766 | 2,921 | 2,193 |
| Advertising | 1,151 | 663 | 2,894 | 1,840 |
| Loan and collection | 824 | 659 | 2,655 | 1,874 |
| Communications | 738 | 592 | 2,134 | 1,805 |
| Supplies | 461 | 463 | 1,420 | 1,134 |
| Legal and professional | 584 | 302 | 1,415 | 801 |
| Amortization of intangible assets | 492 | 244 | 1,226 | 736 |
| Loss on prepayment of borrowings | 983 | | 983 | 59 |
| Other | 1,803 | 1,274 | 4,711 | 3,817 |
| Total non-interest expense | \$22,294 | \$17,077 | \$60,996 | \$49,323 |

**Average Balances and Tax
Equivalent Rates**

| | Three Months Ended September 30, | | | | | |
|--|-------------------------------------|-----------|-------|--------------------|-----------|-------|
| | 2003 | | | 2002 | | |
| | Average Balance | Interest | Rate | Average Balance | Interest | Rate |
| Assets | (dollars in thousands) | | | | | |
| Taxable loans (1) | \$1,698,405 | \$30,797 | 7.22% | \$1,428,149 | \$27,456 | 7.65% |
| Tax-exempt loans (1,2) | 11,236 | 228 | 7.98 | 11,541 | 246 | 8.46 |
| Taxable securities | 246,360 | 2,727 | 4.39 | 221,333 | 3,223 | 5.78 |
| Tax-exempt securities (2) | 188,775 | 3,376 | 7.10 | 145,557 | 2,801 | 7.63 |
| Other investments | 13,414 | 165 | 4.88 | 21,521 | 340 | 6.27 |
| | | | | | | |
| Interest Earning | | | | | | |
| Assets | 2,158,190 | 37,293 | 6.87 | 1,828,101 | 34,066 | 7.41 |
| Cash and due from banks | 55,626 | | | 40,513 | | |
| Other assets, net | 121,333 | | | 87,496 | | |
| | | | | | | |
| Total Assets | \$2,335,149 | | | \$1,956,110 | | |
| | | | | | | |
| Liabilities | | | | | | |
| Savings and NOW | \$ 696,523 | 1,070 | 0.61 | \$ 637,858 | 1,878 | 1.17 |
| Time deposits | 771,731 | 5,699 | 2.93 | 712,287 | 7,116 | 3.96 |
| Other borrowings | 452,372 | 3,943 | 3.46 | 277,199 | 2,957 | 4.23 |
| | | | | | | |
| Interest Bearing | | | | | | |
| Liabilities | 1,920,626 | 10,712 | 2.21 | 1,627,344 | 11,951 | 2.91 |
| Demand deposits | 204,480 | | | 157,227 | | |
| Other liabilities | 57,121 | | | 29,580 | | |
| Shareholders' equity | 152,922 | | | 141,959 | | |
| | | | | | | |
| Total liabilities and shareholders' equity | \$2,335,149 | | | \$1,956,110 | | |
| | | | | | | |
| Tax Equivalent Net Interest Income | | \$ 26,581 | | | \$ 22,115 | |
| | | | | | | |
| Tax Equivalent Net Interest Income as a Percent of Earning Assets | | | 4.90% | | | 4.82% |

(1) All domestic

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

**Average Balances and Tax
Equivalent Rates**

| | Nine Months Ended September 30, | | | | | |
|---|------------------------------------|-----------|-------|--------------------|-----------|-------|
| | 2003 | | | 2002 | | |
| | Average Balance | Interest | Rate | Average Balance | Interest | Rate |
| Assets | (dollars in thousands) | | | | | |
| Taxable loans (1) | \$1,588,440 | \$87,590 | 7.36% | \$1,403,633 | \$81,047 | 7.71% |
| Tax-exempt loans (1,2) | 11,674 | 708 | 8.11 | 11,541 | 726 | 8.41 |
| Taxable securities | 235,641 | 8,575 | 4.87 | 212,014 | 9,249 | 5.83 |
| Tax-exempt securities (2) | 174,344 | 9,476 | 7.27 | 138,465 | 8,163 | 7.88 |
| Other investments | 11,802 | 442 | 5.01 | 21,547 | 987 | 6.12 |
| | <hr/> | | | | | |
| Interest Earning | | | | | | |
| Assets | 2,021,901 | 106,791 | 7.06 | 1,787,200 | 100,172 | 7.49 |
| | <hr/> | | | | | |
| Cash and due from banks | 48,897 | | | 39,163 | | |
| Other assets, net | 117,029 | | | 72,747 | | |
| | <hr/> | | | | | |
| Total Assets | \$2,187,827 | | | \$1,899,110 | | |
| | <hr/> | | | | | |
| Liabilities | | | | | | |
| Savings and NOW | \$ 686,418 | 3,867 | 0.75 | \$ 631,633 | 5,778 | 1.22 |
| Time deposits | 728,254 | 17,503 | 3.21 | 679,968 | 20,884 | 4.11 |
| Other borrowings | 395,579 | 12,146 | 4.11 | 272,111 | 9,555 | 4.69 |
| | <hr/> | | | | | |
| Interest Bearing | | | | | | |
| Liabilities | 1,810,251 | 33,516 | 2.48 | 1,583,712 | 36,217 | 3.06 |
| | <hr/> | | | | | |
| Demand deposits | 179,975 | | | 149,775 | | |
| Other liabilities | 49,090 | | | 27,741 | | |
| Shareholders' equity | 148,511 | | | 137,882 | | |
| | <hr/> | | | | | |
| Total liabilities and shareholders' equity | \$2,187,827 | | | \$1,899,110 | | |
| | <hr/> | | | | | |
| Tax Equivalent Net Interest Income | | \$ 73,275 | | | \$ 63,955 | |
| | <hr/> | | | | | |
| Tax Equivalent Net Interest Income as a Percent of Earning Assets | | | 4.84% | | | 4.78% |
| | <hr/> | | | | | |

(1) All domestic

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

