

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED March 31, 2006

Commission file number 0-7818

INDEPENDENT BANK CORPORATION

(Exact name of registrant as specified in its charter)

Michigan

(State or jurisdiction of Incorporation or Organization)

38-2032782

(I.R.S. Employer Identification Number)

230 West Main Street, P.O. Box 491, 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.

Indicate by check mark whether the registrant (1) has filed all documents and reports required to be filed by Sections 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 whether the Registrant is a large accelerated filer, an accelerated filer or non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common stock, par value \$1

Class

21,841,042

Outstanding at May 5, 2006

INDEPENDENT BANK CORPORATION AND SUBSIDIARIES

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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; 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.

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Part I

Item 1.

INDEPENDENT BANK CORPORATION AND SUBSIDIARIES
Consolidated Statements of Financial Condition

| | March 31, 2006 | December 31, 2005 |
|---|---|----------------------|
| | (unaudited) | |
| | (in thousands) | |
| Assets | | |
| Cash and due from banks | \$ 62,117 | \$ 67,586 |
| Securities available for sale | 470,844 | 483,447 |
| Federal Home Loan Bank stock, at cost | 17,322 | 17,322 |
| Loans held for sale | 29,643 | 28,569 |
| Loans | | |
| Commercial | 1,040,145 | 1,030,095 |
| Real estate mortgage | 860,855 | 852,742 |
| Installment | 312,254 | 304,053 |
| Finance receivables | 401,692 | 368,871 |
| | Total Loans | 2,555,761 |
| Allowance for loan losses | (23,494) | (23,035) |
| | Net Loans | 2,532,266 |
| Property and equipment, net | 65,568 | 63,173 |
| Bank owned life insurance | 39,870 | 39,451 |
| Goodwill | 56,417 | 55,946 |
| Other intangibles | 10,086 | 10,729 |
| Accrued income and other assets | 59,455 | 56,899 |
| | Total Assets | \$ 3,402,774 |
| Liabilities and Shareholders' Equity | | |
| Deposits | | |
| Non-interest bearing | \$ 284,925 | \$ 295,151 |
| Savings and NOW | 879,268 | 861,277 |
| Time | 1,526,784 | 1,484,629 |
| | Total Deposits | 2,641,057 |
| Federal funds purchased | 133,215 | 80,299 |
| Other borrowings | 170,163 | 227,047 |
| Subordinated debentures | 64,197 | 64,197 |
| Financed premiums payable | 42,143 | 35,378 |
| Accrued expenses and other liabilities | 53,312 | 59,611 |
| | Total Liabilities | 3,107,589 |
| 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: 21,724,605 shares at March 31, 2006 and 21,991,001 shares at December 31, 2005 | 21,725 | 21,991 |
| Capital surplus | 172,772 | 179,913 |
| Retained earnings | 49,701 | 41,486 |
| Accumulated other comprehensive income | 4,569 | 4,869 |
| | Total Shareholders' Equity | 248,259 |
| | Total Liabilities and Shareholders' Equity | \$ 3,402,774 |

See notes to interim consolidated financial statements

INDEPENDENT BANK CORPORATION AND SUBSIDIARIES
Consolidated Statements of Operations

| | Three Months Ended March 31, | |
|--|---|------------------|
| | 2006 | 2005 |
| | (unaudited) | |
| | (in thousands, except per share amounts) | |
| Interest Income | | |
| Interest and fees on loans | \$ 49,917 | \$ 41,185 |
| Securities available for sale | | |
| Taxable | 2,848 | 3,692 |
| Tax-exempt | 2,869 | 2,568 |
| Other investments | 223 | 212 |
| Total Interest Income | <u>55,857</u> | <u>47,657</u> |
| Interest Expense | | |
| Deposits | 17,971 | 9,174 |
| Other borrowings | 4,324 | 4,962 |
| Total Interest Expense | <u>22,295</u> | <u>14,136</u> |
| Net Interest Income | <u>33,562</u> | <u>33,521</u> |
| Provision for loan losses | <u>1,586</u> | <u>1,606</u> |
| Net Interest Income After Provision for Loan Losses | <u>31,976</u> | <u>31,915</u> |
| Non-interest Income | | |
| Service charges on deposit accounts | 4,242 | 4,042 |
| Mepco litigation settlement | 2,800 | |
| Net gains (losses) on assets | | |
| Real estate mortgage loans | 1,026 | 1,388 |
| Securities | | (32) |
| Title insurance fees | 442 | 497 |
| Manufactured home loan origination fees and commissions | 239 | 274 |
| VISA check card interchange income | 791 | 622 |
| Real estate mortgage loan servicing | 653 | 1,064 |
| Other income | 2,119 | 1,870 |
| Total Non-interest Income | <u>12,312</u> | <u>9,725</u> |
| Non-interest Expense | | |
| Compensation and employee benefits | 14,003 | 13,479 |
| Occupancy, net | 2,768 | 2,238 |
| Furniture, fixtures and equipment | 1,831 | 1,798 |
| Mepco claims expense | 1,700 | |
| Other expenses | 8,488 | 8,511 |
| Total Non-interest Expense | <u>28,790</u> | <u>26,026</u> |
| Income Before Income Tax | <u>15,498</u> | <u>15,614</u> |
| Income tax expense | <u>3,155</u> | <u>4,313</u> |
| Net Income | <u>\$ 12,343</u> | <u>\$ 11,301</u> |
| Net Income Per Share | | |
| Basic | \$.57 | \$.51 |
| Diluted | .56 | .50 |
| Dividends Per Common Share | | |
| Declared | \$.20 | \$.18 |
| Paid | .19 | .16 |

See notes to interim consolidated financial statements

INDEPENDENT BANK CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows

| | Three months ended March 31, | |
|--|---------------------------------|------------------|
| | 2006 | 2005 |
| | (unaudited) | |
| | (in thousands) | |
| Net Income | \$ 12,343 | \$ 11,301 |
| Adjustments to Reconcile Net Income to Net Cash from Operating Activities | | |
| Proceeds from sales of loans held for sale | 61,273 | 89,306 |
| Disbursements for loans held for sale | (61,321) | (90,819) |
| Provision for loan losses | 1,586 | 1,606 |
| Depreciation and amortization of premiums and accretion of discounts on securities and loans | (2,696) | (2,780) |
| Net gains on sales of real estate mortgage loans | (1,026) | (1,388) |
| Net losses on securities | | 32 |
| Deferred loan fees | (53) | (308) |
| Increase in accrued income and other assets | (3,039) | (288) |
| Increase (decrease) in accrued expenses and other liabilities | (6,433) | 33 |
| | <u>(11,709)</u> | <u>(4,606)</u> |
| Net Cash from Operating Activities | 634 | 6,695 |
| Cash Flow used in Investing Activities | | |
| Proceeds from the sale of securities available for sale | | 7,876 |
| Proceeds from the maturity of securities available for sale | 2,622 | 2,448 |
| Principal payments received on securities available for sale | 9,530 | 12,099 |
| Purchases of securities available for sale | (400) | (22,208) |
| Portfolio loans originated, net of principal payments | (54,542) | (95,705) |
| Capital expenditures | (4,579) | (2,787) |
| Net Cash used in Investing Activities | <u>(47,369)</u> | <u>(98,277)</u> |
| Cash Flow from Financing Activities | | |
| Net increase in total deposits | 51,622 | 171,110 |
| Net increase in short-term borrowings | 21,093 | 43,721 |
| Proceeds from Federal Home Loan Bank advances | 700 | 49,000 |
| Payments of Federal Home Loan Bank advances | (25,261) | (171,488) |
| Repayment of long-term debt | (500) | (500) |
| Net increase (decrease) in financed premiums payable | 6,765 | (7,039) |
| Dividends paid | (4,188) | (3,404) |
| Repurchase of common stock | (9,178) | |
| Proceeds from issuance of common stock | 213 | 711 |
| Net Cash from Financing Activities | <u>41,266</u> | <u>82,111</u> |
| Net Decrease in Cash and Cash Equivalents | <u>(5,469)</u> | <u>(9,471)</u> |
| Cash and Cash Equivalents at Beginning of Period | 67,586 | 72,815 |
| Cash and Cash Equivalents at End of Period | <u>\$ 62,117</u> | <u>\$ 63,344</u> |
| Cash paid during the period for | | |
| Interest | \$ 22,470 | \$ 13,215 |
| Income taxes | 63 | 3,252 |
| Transfer of loans to other real estate | 565 | 892 |

See notes to interim consolidated financial statements

INDEPENDENT BANK CORPORATION AND SUBSIDIARIES
Consolidated Statements of Shareholders' Equity

| | Three months ended | |
|---|--------------------|-------------------|
| | 2006 | 2005 |
| | March 31, | |
| | (unaudited) | |
| | (in thousands) | |
| Balance at beginning of period | \$ 248,259 | \$ 230,292 |
| Net income | 12,343 | 11,301 |
| Cash dividends declared | (4,128) | (4,047) |
| Issuance of common stock | 1,771 | 1,212 |
| Repurchase of common stock | (9,178) | |
| Net change in accumulated other comprehensive income, net of related tax effect | (300) | 366 |
| Balance at end of period | <u>\$ 248,767</u> | <u>\$ 239,124</u> |

See notes to interim consolidated financial statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. In our opinion, the accompanying unaudited consolidated financial statements contain all the adjustments necessary to present fairly our consolidated financial condition as of March 31, 2006 and December 31, 2005, and the results of operations for the three-month periods ended March 31, 2006 and 2005. Certain reclassifications have been made in the prior year financial statements to conform to the current year presentation. Our critical accounting policies include the assessment for other than temporary impairment on investment securities, the determination of the allowance for loan losses, the valuation of derivative financial instruments, the valuation of originated mortgage servicing rights, the valuation of deferred tax assets and the valuation of goodwill. Refer to our 2005 Annual Report on Form 10-K for a disclosure of our accounting policies.

2. Our assessment of the allowance for loan losses is based on an evaluation of the loan portfolio, recent loss experience, current economic conditions and other pertinent factors. Loans on non-accrual status, past due more than 90 days, or restructured amounted to \$21.6 million at March 31, 2006, and \$18.0 million at December 31, 2005. (See Management's Discussion and Analysis of Financial Condition and Results of Operations).

3. Comprehensive income for the three-month periods ended March 31 follows:

| | Three months ended March 31, | |
|---|---------------------------------|------------------|
| | 2006 | 2005 |
| | (in thousands) | |
| Net income | \$ 12,343 | \$ 11,301 |
| Net change in unrealized gain on securities available for sale, net of related tax effect | (428) | (1,244) |
| Net change in unrealized gain (loss) on derivative instruments, net of related tax effect | 213 | 1,610 |
| Reclassification adjustment for accretion on settled derivative financial instruments | (85) | |
| Comprehensive income | <u>\$ 12,043</u> | <u>\$ 11,667</u> |

The net change in unrealized gain on securities available for sale reflect net gains and losses reclassified into earnings as follows:

| | Three months ended March 31, | |
|---|---------------------------------|---------|
| | 2006 | 2005 |
| | (in thousands) | |
| Gain (loss) reclassified into earnings | \$ | \$ (32) |
| Federal income tax expense (benefit) as a result of the reclassification of these amounts from comprehensive income | | (11) |

4. Our reportable segments are based upon legal entities. We have five reportable segments: Independent Bank ("IB"), Independent Bank West Michigan ("IBWM"), Independent Bank South Michigan ("IBSM"), Independent Bank East Michigan ("IBEM") and Mepco Insurance Premium Financing, Inc. ("Mepco"). We evaluate performance based principally on net income of the respective reportable segments.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

A summary of selected financial information for our reportable segments as of or for the three-month periods ended March 31, follows:

As of or for the three months ended March 31,

| | IB | IBWM | IBSM | IBEM | Mepco(1) | Other(2) | Elimination | Total |
|------------------------------------|----------------|------------|------------|------------|------------|------------|--------------|--------------|
| | (in thousands) | | | | | | | |
| 2006 | | | | | | | | |
| Total assets | \$ 1,029,276 | \$ 727,604 | \$ 490,211 | \$ 724,119 | \$ 432,301 | \$ 346,789 | \$ (347,526) | \$ 3,402,774 |
| Interest income | 15,771 | 12,301 | 7,490 | 11,284 | 9,178 | 5 | (172) | 55,857 |
| Net interest income | 9,901 | 8,383 | 4,448 | 7,296 | 5,088 | (1,512) | (42) | 33,562 |
| Provision for loan losses | 340 | 232 | 542 | 218 | 254 | | | 1,586 |
| Income (loss) before income tax | 4,706 | 4,736 | 1,963 | 2,520 | 573 | 979 | 21 | 15,498 |
| Net income (loss) | 3,603 | 3,326 | 1,579 | 1,899 | 355 | 1,605 | (24) | 12,343 |
| 2005 | | | | | | | | |
| Total assets | \$ 1,194,082 | \$ 524,238 | \$ 436,554 | \$ 686,981 | \$ 335,351 | \$ 325,109 | \$ (314,968) | \$ 3,187,347 |
| Interest income | 17,123 | 7,558 | 5,837 | 9,377 | 7,771 | 5 | (14) | 47,657 |
| Net interest income | 12,266 | 5,727 | 3,940 | 7,108 | 5,891 | (1,411) | | 33,521 |
| Provision for loan losses | (362) | 94 | 1,280 | 318 | 276 | | | 1,606 |
| Income (loss) before income tax | 7,400 | 3,522 | 1,071 | 2,628 | 3,439 | (2,294) | (152) | 15,614 |
| Net income (loss) | 5,356 | 2,510 | 951 | 1,980 | 2,047 | (1,391) | (152) | 11,301 |

(1) 2006 net income includes \$1.7 million of non-interest expense related to the settlement of litigation involving the former owners of Mepco.

(2) Includes items relating to the Registrant and certain insignificant operations. 2006 net income includes \$2.8 million of non-interest income related to the settlement of litigation involving the former owners of Mepco. This amount was not taxable.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

5. Basic income per share is based on weighted average common shares outstanding during the period. Diluted income per share includes the dilutive effect of additional potential common shares to be issued upon the exercise of stock options and stock units for a deferred compensation plan for non-employee directors.

A reconciliation of basic and diluted earnings per share for the three-month periods ended March 31 follows:

| | Three months ended March 31, | |
|---|---------------------------------|-----------------------------------|
| | 2006 (in thousands, | 2005 except per share amounts) |
| Net income | <u>\$ 12,343</u> | <u>\$ 11,301</u> |
| Shares outstanding | 21,846 | 22,290 |
| Effect of stock options | 324 | 418 |
| Stock units for deferred compensation plan for non-employee directors | 49 | 47 |
| Shares outstanding for calculation of diluted earnings per share | <u>22,219</u> | <u>22,755</u> |
| Net income per share | | |
| Basic | \$.57 | \$.51 |
| Diluted | .56 | .50 |

Weighted average stock options outstanding that were anti-dilutive totaled 0.5 million and 0.1 million for the three-months ended March 31, 2006 and 2005, respectively.

Per share data has been restated for a 5% stock dividend in 2005.

6. Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," ("SFAS #133") which was subsequently amended by SFAS #138, requires companies to record derivatives on the balance sheet as assets and liabilities measured at their fair value. The accounting for increases and decreases in the value of derivatives depends upon the use of derivatives and whether the derivatives qualify for hedge accounting.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

Our derivative financial instruments according to the type of hedge in which they are designated under SFAS #133 follows:

| | Notional Amount | March 31, 2006 Average Maturity (years) | Fair Value |
|---|------------------------|--|-----------------|
| | (dollars in thousands) | | |
| Fair Value Hedge — pay variable interest-rate swap agreements | \$ 383,159 | 3.4 | \$ (9,032) |
| Cash Flow Hedge | | | |
| Pay fixed interest-rate swap agreements | \$ 201,500 | 1.3 | \$ 3,082 |
| Interest-rate cap agreements | 177,000 | 2.8 | 2,000 |
| | <u>\$ 378,500</u> | <u>2.0</u> | <u>\$ 5,082</u> |
| No hedge designation | | | |
| Pay variable interest-rate swap agreements | \$ 35,000 | 0.7 | (98) |
| Interest-rate cap agreements | 10,000 | 2.5 | 110 |
| Rate-lock real estate mortgage loan commitments | 45,366 | 0.1 | (127) |
| Mandatory commitments to sell real estate mortgage loans | 45,580 | 0.1 | 218 |
| Total | <u>\$ 135,946</u> | <u>0.4</u> | <u>\$ 103</u> |

We have established management objectives and strategies that include interest-rate risk parameters for maximum fluctuations in net interest income and market value of portfolio equity. We monitor our interest rate risk position via simulation modeling reports (See “Asset/liability management”). The goal of our asset/liability management efforts is to maintain profitable financial leverage within established risk parameters.

We use variable rate and short-term fixed-rate (less than 12 months) debt obligations to fund a portion of our balance sheet, which exposes us to variability in cash flows due to changes in interest rates. To meet our objectives, we may periodically enter into derivative financial instruments to mitigate exposure to fluctuations in cash flows resulting from changes in interest rates (“Cash Flow Hedges”). Cash Flow Hedges currently include certain pay-fixed interest-rate swaps and interest-rate cap agreements.

Pay-fixed interest-rate swaps convert the variable-rate cash flows on debt obligations to fixed-rates. Under interest-rate caps, we will receive cash if interest rates rise above a predetermined level. As a result, we effectively have variable rate debt with an established maximum rate.

We record the fair value of Cash Flow Hedges in accrued income and other assets and accrued expenses and other liabilities. On an ongoing basis, we adjust our balance sheet to reflect the then current fair value of Cash Flow Hedges. The related gains or losses are reported in other comprehensive income and are subsequently reclassified into earnings, as a yield adjustment in the same period in which the related interest on the hedged items (primarily variable-rate debt obligations) affect earnings. It is anticipated that approximately \$1.9 million, net of tax, of unrealized gains on Cash Flow Hedges at March 31, 2006 will be reclassified to earnings over the next twelve months. To the extent that the Cash Flow Hedges are not effective, the ineffective portion of the Cash Flow Hedges are immediately recognized as interest expense. The maximum term of any Cash Flow Hedge at March 31, 2006 is 6.2 years.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

We also use long-term, fixed-rate brokered CDs to fund a portion of our balance sheet. These instruments expose us to variability in fair value due to changes in interest rates. To meet our objectives, we may enter into derivative financial instruments to mitigate exposure to fluctuations in fair values of such fixed-rate debt instruments (“Fair Value Hedges”). Fair Value Hedges currently include pay-variable interest rate swaps.

Also, we record Fair Value Hedges at fair value in accrued income and other assets and accrued expenses and other liabilities. The hedged items (primarily fixed-rate debt obligations) are also recorded at fair value through the statement of operations, which offsets the adjustment to Fair Value Hedges. On an ongoing basis, we will adjust our balance sheet to reflect the then current fair value of both the Fair Value Hedges and the respective hedged items. To the extent that the change in value of the Fair Value Hedges do not offset the change in the value of the hedged items, the ineffective portion is immediately recognized as interest expense.

Certain financial derivative instruments are not designated as hedges. The fair value of these derivative financial instruments have been recorded on our balance sheet and are adjusted on an ongoing basis to reflect their then current fair value. The changes in the fair value of derivative financial instruments not designated as hedges, are recognized currently in earnings.

In the ordinary course of business, we enter into rate-lock real estate mortgage loan commitments with customers (“Rate Lock Commitments”). These commitments expose us to interest rate risk. We also enter into mandatory commitments to sell real estate mortgage loans (“Mandatory Commitments”) to reduce the impact of price fluctuations of mortgage loans held for sale and Rate Lock Commitments. Mandatory Commitments help protect our loan sale profit margin from fluctuations in interest rates. The changes in the fair value of Rate Lock Commitments and Mandatory Commitments are recognized currently as part of gains on the sale of real estate mortgage loans. We obtain market prices from an outside third party on Mandatory Commitments and Rate Lock Commitments. Net gains on the sale of real estate mortgage loans, as well as net income may be more volatile as a result of these derivative instruments, which are not designated as hedges.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

The impact of SFAS #133 on net income and other comprehensive income for the three-month periods ended March 31, 2006 and 2005 is as follows:

| | <u>Income (Expense)</u> | | |
|--|-------------------------|---|---------------|
| | <u>Net Income</u> | <u>Other Comprehensive Income</u> (in thousands) | <u>Total</u> |
| Change in fair value during the three-month period ended March 31, 2006 | | | |
| Interest-rate swap agreements not designated as hedges | \$ (62) | | \$ (62) |
| Interest-rate cap agreements not designated as hedges | 29 | | 29 |
| Rate Lock Commitments | (160) | | (160) |
| Mandatory Commitments | 316 | | 316 |
| Ineffectiveness of Fair value hedges | 6 | | 6 |
| Cash flow hedges | | \$ (632) | (632) |
| Reclassification adjustment | | 829 | 829 |
| Total | <u>129</u> | <u>197</u> | <u>326</u> |
| Income tax | 45 | 69 | 114 |
| Net | <u>\$ 84</u> | <u>\$ 128</u> | <u>\$ 212</u> |

| | <u>Income (Expense)</u> | | |
|--|-------------------------|---|-----------------|
| | <u>Net Income</u> | <u>Other Comprehensive Income</u> (in thousands) | <u>Total</u> |
| Change in fair value during the three-month period ended March 31, 2005 | | | |
| Interest-rate swap agreements not designated as hedges | \$ (58) | | \$ (58) |
| Rate Lock Commitments | 346 | | 346 |
| Mandatory Commitments | 236 | | 236 |
| Ineffectiveness of cash flow hedges | (6) | | (6) |
| Cash flow hedges | | \$ 2,776 | 2,776 |
| Reclassification adjustment | | (299) | (299) |
| Total | <u>518</u> | <u>2,477</u> | <u>2,995</u> |
| Income tax | 181 | 867 | 1,048 |
| Net | <u>\$ 337</u> | <u>\$ 1,610</u> | <u>\$ 1,947</u> |

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

7. Statement of Financial Accounting Standards No. 141, "Business Combinations," ("SFAS #141") and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," ("SFAS #142") effects how organizations account for business combinations and for the goodwill and intangible assets that arise from those combinations or are acquired otherwise.

Intangible assets, net of amortization, were comprised of the following at March 31, 2006 and December 31, 2005:

| | <u>March 31, 2006</u> | | <u>December 31, 2005</u> | |
|---|--------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|
| | <u>Gross Carrying Amount</u> | <u>Accumulated Amortization</u> | <u>Gross Carrying Amount</u> | <u>Accumulated Amortization</u> |
| | (dollars in thousands) | | | |
| Amortized intangible assets | | | | |
| Core deposit | \$ 20,545 | \$ 12,202 | \$ 20,545 | \$ 11,709 |
| Customer relationship | 2,604 | 1,774 | 2,604 | 1,700 |
| Covenants not to compete | 1,520 | 607 | 1,520 | 531 |
| Total | <u>\$ 24,669</u> | <u>\$ 14,583</u> | <u>\$ 24,669</u> | <u>\$ 13,940</u> |
| Unamortized intangible assets - Goodwill | <u>\$ 56,417</u> | | <u>\$ 55,946</u> | |

Based on our review of goodwill recorded on the Statement of Financial Condition, no impairment existed as of March 31, 2006.

Amortization of intangibles has been estimated through 2011 and thereafter in the following table, and does not take into consideration any potential future acquisitions or branch purchases.

| | (dollars in thousands) |
|-------------------------------------|---------------------------|
| Nine months ended December 31, 2006 | \$ 1,929 |
| Year ending December 31: | |
| 2007 | 2,382 |
| 2008 | 2,061 |
| 2009 | 966 |
| 2010 | 729 |
| 2011 and thereafter | 2,019 |
| Total | <u>\$ 10,086</u> |

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

Changes in the carrying amount of goodwill by reporting segment for the three months ended March 31, 2006 and 2005 were as follows:

| | IB | IBWM | IBSM | IBEM | Mepco | Other(1) | Total |
|----------------------------|------------------------|--------------|------|------------------|------------------|---------------|------------------|
| | (dollars in thousands) | | | | | | |
| Goodwill | | | | | | | |
| Balance, December 31, 2005 | \$ 9,560 | \$ 32 | | \$ 23,205 | \$ 22,806 | \$ 343 | \$ 55,946 |
| Acquired during period | | | | | 471(2) | | 471 |
| Balance, March 31, 2006 | <u>\$ 9,560</u> | <u>\$ 32</u> | | <u>\$ 23,205</u> | <u>\$ 23,277</u> | <u>\$ 343</u> | <u>\$ 56,417</u> |
| Balance, December 31, 2004 | \$ 9,702 | \$ 32 | | \$ 23,205 | \$ 20,035 | \$ 380 | \$ 53,354 |
| Acquired during period | (142)(3) | | | | 481(2) | (37)(4) | 302 |
| Balance, March 31, 2005 | <u>\$ 9,560</u> | <u>\$ 32</u> | | <u>\$ 23,205</u> | <u>\$ 20,516</u> | <u>\$ 343</u> | <u>\$ 53,656</u> |

- (1) Includes items relating to the Registrant and certain insignificant operations.
- (2) Goodwill associated with contingent consideration accrued pursuant to an earnout.
- (3) Adjustment to goodwill associated with the acquisition of North Bancorp, Inc.
- (4) Adjustment to goodwill associated with the acquisition of Midwest Guaranty Bancorp, Inc.

8. On January 1, 2006 we adopted Statement of Financial Accounting Standards No. 123 (revised 2004), "Share Based Payment," ("SFAS #123R") which is a revision of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," ("SFAS #123"). SFAS #123R supersedes Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," ("APB #25") and amends Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows," ("SFAS #95"). Generally the requirements of SFAS #123R are similar to the requirements described in SFAS #123. However, SFAS #123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the statement of operations based on their fair values. Pro forma disclosure is no longer an alternative.

We adopted SFAS #123R using the "modified prospective" method in which compensation cost is recognized beginning January 1, 2006 (a) based on the requirements of SFAS #123R for all share-based payments granted after January 1, 2006 and (b) based on the requirements of SFAS #123 for all awards granted to employees prior to January 1, 2006 that remain unvested on that date.

Prior to the adoption of SFAS #123R we accounted for stock based compensation under the provisions of SFAS #123 which permitted us to account for share-based payments to employees using APB #25's intrinsic value method and, as such, generally recognize no compensation cost for employee stock options. We also provided pro forma disclosures for our net income and earnings per share as if we had adopted the fair value accounting method for stock based compensation.

We maintain performance-based compensation plans that includes a long-term incentive plan that permits the issuance of equity based compensation awards, including stock options. At the present time, we do not anticipate utilizing stock option grants in the future, thus the only expense related to stock options would be associated with the issuance (if any) of new stock options associated with the "reload" feature of existing outstanding stock options. All stock options outstanding at December 31, 2005 were fully vested and there were no new stock option grants during the three month period ended March 31, 2006.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

Prior to January 1, 2006 we granted options to our non-employee directors as well as certain officers. Options that were granted had vesting periods of up to one year, a price equal to the fair market value of the common stock on the date of grant, and expire not more than ten years after the date of grant. The per share weighted-average fair value of stock options was obtained using the Black-Scholes options pricing model. The following table summarizes the assumptions used and values obtained for the three months ended March 31, 2005:

| | |
|---------------------------------------|----------|
| Expected dividend yield | 2.27% |
| Risk-free interest rate | 4.14% |
| Expected life (in years) | 9.68 |
| Expected volatility | 31.97% |
| Per share weighted-average fair value | \$ 11.80 |

The following table summarizes the impact on our net income had compensation cost included the fair value of options at the grant date for the three months end March 31, 2005:

| | (in thousands except per share amounts) |
|--|--|
| Net income – as reported | \$ 11,301 |
| Stock based compensation expense determined under fair value based method, net of related tax effect | (662) |
| Pro-forma net income | <u>\$ 10,639</u> |
| Income per share | |
| Basic | |
| As reported | \$.51 |
| Pro-forma | .48 |
| Diluted | |
| As reported | \$.50 |
| Pro-forma | .47 |

A summary of outstanding stock option grants and transactions for the three month period ended March 31, 2006 follows:

| | Number of Shares | Average Exercise Price |
|--------------------------------|---------------------|------------------------------|
| Outstanding at January 1, 2006 | 1,520,379 | \$ 20.63 |
| Granted | | |
| Exercised | 17,211 | 12.41 |
| Forfeited | | |
| Outstanding at March 31, 2006 | <u>1,503,168</u> | <u>\$ 20.72</u> |

The aggregate intrinsic value and weighted-average remaining contractual term of outstanding options at March 31, 2006 were \$11.7 million and 7.0 years, respectively.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

Common shares issued upon exercise of stock options come from currently authorized but unissued shares. The following summarizes certain information regarding options exercised during the three month periods ending March 31:

| | 2006 | 2005 |
|------------------------|----------------|----------|
| | (in thousands) | |
| Intrinsic value | \$ 261 | \$ 1,270 |
| Cash proceeds received | \$ 214 | \$ 695 |
| Tax benefit realized | \$ 92 | \$ 287 |

9. In March 2006, the FASB issued Statement of Financial Accounting Standards No. 156, "Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140," ("SFAS #156"). This statement amends SFAS #140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities", to permit entities to choose to either subsequently measure servicing rights at fair value and report changes in fair value in earnings, or amortize servicing rights in proportion to and over the estimated net servicing income or loss and assess the rights for impairment or the need for an increased obligation. In addition, this statement (1) clarifies when a servicer should separately recognize servicing assets and liabilities, (2) requires all separately recognized servicing assets and liabilities to be initially measured at fair value, (3) permits at the date of adoption, a one-time reclassification of available for sale ("AFS") securities to trading securities without calling into question the treatment of other AFS securities under SFAS #115, "Accounting for Certain Investments in Debt and Equity Securities" and (4) requires additional disclosures for all separately recognized servicing assets and liabilities. This statement is effective as of the beginning of an entities first fiscal year that begins after September 15, 2006. Early adoption is permitted as of the beginning of an entities fiscal year, provided the entity has not yet issued financial statements for any interim period of that fiscal year. We expect to adopt SFAS #156 on January 1, 2007.

10. The results of operations for the three-month periods ended March 31, 2006, are not necessarily indicative of the results to be expected for the full year.

Item 2.

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

The following section presents additional information that may be necessary to assess our financial condition and results of operations. This section should be read in conjunction with our consolidated financial statements contained elsewhere in this report as well as our 2005 Annual Report on Form 10-K. The Form 10-K includes a list of risk factors that you should consider in connection with any decision to buy or sell our securities.

FINANCIAL CONDITION

Summary Our total assets increased by \$46.9 million during the first three months of 2006. Loans, excluding loans held for sale ("Portfolio Loans"), totaled \$2.615 billion at March 31, 2006, an increase of \$59.2 million from December 31, 2005. This was driven by increases in all categories of Portfolio Loans. (See "Portfolio Loans and asset quality.")

Deposits totaled \$2.691 billion at March 31, 2006, compared to \$2.641 billion at December 31, 2005. The \$49.9 million increase in total deposits during the period principally reflects an increase in savings and NOW accounts and time deposits partially offset by a decline in non-interest bearing deposits. Other borrowings totaled \$170.2 million at March 31, 2006, a decrease of \$56.9 million from December 31, 2005. This was primarily attributable to the payoff of maturing borrowings with federal funds purchased.

Securities We maintain diversified securities portfolios, which may include obligations of the U.S. Treasury and government-sponsored agencies as well as securities issued by states and political subdivisions, corporate securities, mortgage-backed securities and asset-backed securities. We also invest in capital securities, which include preferred stocks and trust preferred securities. We regularly evaluate asset/liability management needs and attempt to maintain a portfolio structure that provides sufficient liquidity and cash flow. We believe that the unrealized losses on securities available for sale are temporary in nature and due primarily to changes in interest rates and are expected to be recovered within a reasonable time period. We also believe that we have the ability to hold securities with unrealized losses to maturity or until such time as the unrealized losses reverse. (See "Asset/liability management.")

Securities

| | Amortized Cost | Unrealized | | Fair Value |
|-------------------------------|-------------------|------------|---------|---------------|
| | | Gains | Losses | |
| (in thousands) | | | | |
| Securities available for sale | | | | |
| March 31, 2006 | \$467,768 | \$9,049 | \$5,973 | \$470,844 |
| December 31, 2005 | 479,713 | 8,225 | 4,491 | 483,447 |

Securities available for sale declined during the first quarter of 2006 because loan growth supplanted the need for any significant purchases of new investment securities, and the flat yield curve has created a difficult environment for constructing investment security transactions that meet our profitability objectives. Generally we cannot earn the same interest-rate spread on

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securities as we can on Portfolio Loans. As a result, purchases of securities will tend to erode some of our profitability measures, including our return on assets.

At March 31, 2006 and December 31, 2005, we had \$14.8 million and \$15.3 million, respectively, of asset-backed securities included in securities available for sale. All of our asset-backed securities are backed by mobile home loans and all are rated as investment grade (by the major rating agencies) except for one security with a book value of \$2.0 million at March 31, 2006 that was down graded during 2004 to a below investment grade rating. We did not record any impairment charges on this security during the first quarter of 2006 but during the first quarter of 2005 we recorded an impairment charge of \$0.2 million on this security due primarily to credit related deterioration on the underlying mobile home loan collateral. We continue to closely monitor this particular security as well as our entire mobile home loan asset-backed securities portfolio. We do not foresee, at the present time, any significant risk of loss (related to credit issues) with respect to any of our other asset-backed securities. We did not record impairment charges on any other investment securities during the first quarter of 2006 but during the first quarter of 2005 we recorded an additional \$0.1 million impairment charge on Fannie Mae and Freddie Mac preferred securities. At March 31, 2006, we had a remaining book balance of \$26.2 million in Fannie Mae and Freddie Mac preferred securities.

Sales of securities available for sale were as follows (See “Non-interest income.”):

| | Three months ended March 31, | |
|--------------------|---------------------------------|----------|
| | 2006 | 2005 |
| Proceeds | \$ — | \$ 7,876 |
| Gross gains | \$ — | \$ 499 |
| Gross losses | — | 279 |
| Impairment charges | — | 252 |
| Net gains (losses) | \$ — | \$ (32) |

Portfolio Loans and asset quality We believe that our decentralized loan origination structure provides important advantages in serving the credit needs of our principal lending markets. In addition to the communities served by our bank branch networks, principal lending markets include nearby communities and metropolitan areas. Subject to established underwriting criteria, we also participate in commercial lending transactions with certain non-affiliated banks and may also purchase real estate mortgage loans from third-party originators.

Our 2003 acquisition of Mepco added the financing of insurance premiums for businesses and the provision of payment plans to purchase vehicle service contracts for consumers (warranty finance) to our lending activities. These are relatively new lines of business for us and expose us to new risks. Mepco conducts its lending activities across the United States. Mepco generally does not evaluate the creditworthiness of the individual customer but instead primarily relies on the loan/payment plan collateral (the unearned insurance premium or vehicle service contract) in the event of default. As a result, we have established and monitor counterparty concentration limits in order to manage our collateral exposure. The counterparty concentration limits are primarily based on the AM Best rating and statutory surplus level for an insurance company and on other factors, including financial evaluation and distribution of concentrations, for warranty

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administrators and warranty sellers/dealers. The sudden failure of one of Mepco's major counterparties (an insurance company or warranty administrator) could expose us to significant losses. In particular, at March 31, 2006 we have an exposure of approximately \$2.4 million with one warranty administrator that was created due primarily to an increased level of cancellations on existing vehicle service contract payment plans and insufficient holdbacks on more recently funded vehicle service contract payment plans. We are carefully monitoring business with this warranty administrator and are establishing specific requirements to eliminate this exposure including increased holdbacks on new business and additional required monthly payments. While we currently do not anticipate incurring any loss related to our exposure with this warranty administrator, adverse future events such as a material decline in new business or higher cancellations of existing vehicle service contract payment plans could result in a loss.

Mepco also has established procedures for loan servicing and collections, including the timely cancellation of the insurance policy or vehicle service contract, in order to protect our collateral position in the event of default. Mepco also has established procedures to attempt to prevent and detect fraud since the loan/payment plan origination activities and initial customer contact is entirely done through unrelated third parties (primarily insurance agents and automobile warranty administrators or automobile dealerships). There can be no assurance that the aforementioned risk management policies and procedures will prevent us from the possibility of incurring significant credit or fraud related losses in this business segment.

Although the management and board of directors of each of our banks retain authority and responsibility for credit decisions, we have adopted uniform underwriting standards. Further, our loan committee structure as well as the centralization of commercial loan credit services and the loan review process, provides requisite controls and promotes compliance with such established underwriting standards. Such centralized functions also facilitate compliance with consumer protection laws and regulations. There can be no assurance that the aforementioned centralization of certain lending procedures and the use of uniform underwriting standards will prevent us from the possibility of incurring significant credit losses in our lending activities.

We generally retain loans that may be profitably funded within established risk parameters. (See "Asset/liability management.") As a result, we may hold adjustable-rate and balloon real estate mortgage loans as Portfolio Loans, while 15- and 30-year, fixed-rate obligations are generally sold to mitigate exposure to changes in interest rates. (See "Non-interest income.") During the first three months of 2006 our balance of real estate mortgage loans held in portfolio increased by \$8.1 million.

The \$10.1 million increase in commercial loans during the three months ended March 31, 2006, principally reflects our emphasis on lending opportunities within this category of loans and an increase in commercial lending staff. Loans secured by real estate comprise the majority of new commercial loans.

The \$401.7 million of finance receivables at March 31, 2006 are comprised principally of loans to businesses to finance insurance premiums and payment plans offered to individuals to purchase vehicle service contracts. The growth in this category of loans is primarily due to the geographic expansion of Mepco's lending activities and the addition of sales staff to call on insurance agencies and automobile warranty administrators. During the first quarter of 2006 we instituted pricing increases and certain funding changes in the warranty finance division of Mepco. In April 2006, Mepco experienced a number of changes in key personnel. Effective April 25, 2006, we appointed Raymond Biggs, who was previously the senior vice president of commercial

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lending for Independent Bank East Michigan, president of Mepco. Unrelated to Mr. Biggs' appointment, certain key employees in the warranty finance division resigned. While we have replaced those former employees with individuals in which we have the utmost confidence, it is possible that these changes in management, as well as recent pricing increases and funding changes in Mepco's warranty finance division, could negatively impact Mepco's operations. This, in turn, could have an adverse impact on our results of operations. We are aggressively taking action to mitigate the impact from these changes in management, including the close monitoring of our relationships with key counter parties in the warranty finance business.

Future growth of overall Portfolio Loans is dependent upon a number of competitive and economic factors. Declines in Portfolio Loans or competition leading to lower relative pricing on new Portfolio Loans could adversely impact our future operating results. We continue to view loan growth consistent with prevailing quality standards as a major short and long-term challenge.

Non-performing assets

| | March 31, 2006 | December 31, 2005 |
|--|------------------------|----------------------|
| | (dollars in thousands) | |
| Non-accrual loans | \$ 17,407 | \$ 13,057 |
| Loans 90 days or more past due and still accruing interest | 4,129 | 4,862 |
| Restructured loans | 77 | 84 |
| Total non-performing loans | 21,613 | 18,003 |
| Other real estate | 2,599 | 2,147 |
| Total non-performing assets | \$ 24,212 | \$ 20,150 |
| As a percent of Portfolio Loans | | |
| Non-performing loans | 0.83% | 0.70% |
| Allowance for loan losses | 0.90 | 0.90 |
| Non-performing assets to total assets | 0.71 | 0.60 |
| Allowance for loan losses as a percent of non-performing loans | 109 | 128 |

The increase in the overall level of non-performing loans in the first quarter of 2006 is primarily due to an increase in non-performing commercial loans. Non-performing commercial loans increased to \$9.0 million at March 31, 2006 from \$5.2 million at December 31, 2005. This increase is due to the addition of two loans. One of these loans with a balance of \$3.6 million is secured by a low/moderate income apartment complex. We have commenced collection of this credit through foreclosure and do not currently anticipate any significant loss. The other commercial real estate loan has a balance of \$1.5 million and is secured by vacant land. A purchase offer is pending on the real estate securing this loan, which if consummated is expected to cure this default.

Other real estate and repossessed assets totaled \$2.6 million and \$2.1 million at March 31, 2006 and December 31, 2005, respectively. This increase is primarily a result of a rise in the level of residential homes acquired through foreclosure.

We will place a loan that is 90 days or more past due on non-accrual, unless we believe the loan is both well secured and in the process of collection. Accordingly, we have determined that the

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collection of the accrued and unpaid interest on any loans that are 90 days or more past due and still accruing interest is probable.

The ratio of net loan charge-offs to average loans was 0.17% on an annualized basis in the first quarter of 2006 compared to 0.30% in the first quarter of 2005. First quarter 2005 net charge-offs included a \$0.7 million charge-off (based on an updated collateral analysis) on a real estate mortgage and commercial loan relationship with one borrower who had declared bankruptcy.

At March 31, 2006, the allowance for loan losses totaled \$23.5 million, or 0.90% of Portfolio Loans compared to \$23.0 million, or 0.90% of Portfolio Loans at December 31, 2005.

Impaired loans totaled approximately \$9.8 million and \$15.3 million at March 31, 2006 and 2005, respectively. At those same dates, certain impaired loans with balances of approximately \$8.1 million and \$13.8 million, respectively had specific allocations of the allowance for loan losses, which totaled approximately \$1.6 million and \$4.0 million, respectively. Our average investment in impaired loans was approximately \$8.2 million and \$14.9 million for the three-month periods ended March 31, 2006 and 2005, respectively. Cash receipts on impaired loans on non-accrual status are generally applied to the principal balance. Interest income recognized on impaired loans during the first quarters of 2006 and 2005 was approximately \$0.10 million and \$0.14 million, respectively of which the majority of these amounts were recorded in cash.

Allowance for loan losses

| | 2006 | | Three months ended March 31, 2005 | |
|--|------------------------|---------------------------------|---|---------------------------------|
| | <u>Loan Losses</u> | <u>Unfunded Commitments</u> | <u>Loan Losses</u> | <u>Unfunded Commitments</u> |
| Balance at beginning of period | \$ 23,035 | \$ 1,820 | \$ 24,737 | \$ 1,846 |
| Additions (deduction) | | | | |
| Provision charged to operating expense | 1,588 | (2) | 1,613 | (7) |
| Recoveries credited to allowance | 635 | | 419 | |
| Loans charged against the allowance | (1,764) | | (2,141) | |
| Balance at end of period | <u>\$ 23,494</u> | <u>\$ 1,818</u> | <u>\$ 24,628</u> | <u>\$ 1,839</u> |
| Net loans charged against the allowance to average Portfolio Loans (annualized) | 0.17% | | 0.30% | |

In determining the allowance and the related provision for loan losses, we consider four principal elements: (i) specific allocations based upon probable losses identified during the review of the loan portfolio, (ii) allocations established for other adversely rated loans, (iii) allocations based principally on historical loan loss experience, and (iv) additional allowances based on subjective factors, including local and general economic business factors and trends, portfolio concentrations and changes in the size, mix and/or the general terms of the loan portfolios.

The first element reflects our estimate of probable losses based upon our systematic review of specific loans. These estimates are based upon a number of objective factors, such as payment history, financial condition of the borrower, and discounted collateral exposure.

The second element reflects the application of our loan rating system. This rating system is similar to those employed by state and federal banking regulators. Loans that are rated below a certain predetermined classification are assigned a loss allocation factor for each loan

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classification category that is based upon a historical analysis of losses incurred. The lower the rating assigned to a loan or category, the greater the allocation percentage that is applied.

The third element is determined by assigning allocations based principally upon the ten-year average of loss experience for each type of loan. Recent years are weighted more heavily in this average. Average losses may be further adjusted based on the current delinquency rate. Loss analyses are conducted at least annually.

The fourth element is based on factors that cannot be associated with a specific credit or loan category and reflects our attempt to ensure that the overall allowance for loan losses appropriately reflects a margin for the imprecision necessarily inherent in the estimates of expected credit losses. We consider a number of subjective factors when determining the unallocated portion, including local and general economic business factors and trends, portfolio concentrations and changes in the size, mix and the general terms of the loan portfolios. (See "Provision for credit losses.")

Mepeco's allowance for loan losses is determined in a similar manner as discussed above and takes into account delinquency levels, net charge-offs, unsecured exposure and other subjective factors deemed relevant to their lending activities.

Allocation of the Allowance for Loan Losses

| | March 31, 2006 | December 31, 2005 |
|--|-------------------|----------------------|
| | (in thousands) | |
| Specific allocations | \$ 1,566 | \$ 1,418 |
| Other adversely rated loans | 8,240 | 8,466 |
| Historical loss allocations | 6,790 | 6,693 |
| Additional allocations based on subjective factors | 6,898 | 6,458 |
| | <u>\$23,494</u> | <u>\$23,035</u> |

Deposits and borrowings Our competitive position within many of the markets served by our bank branch networks limits the ability to materially increase deposits without adversely impacting the weighted-average cost of core deposits. Accordingly, we compete principally on the basis of convenience and personal service, while employing pricing tactics that are intended to enhance the value of core deposits.

To attract new core deposits, we have implemented a high-performance checking program that utilizes a combination of direct mail solicitations, in-branch merchandising, gifts for customers opening new checking accounts or referring business to our banks and branch staff sales training. This program has generated increases in customer relationships as well as deposit service charges. We believe that the new relationships that result from these marketing and sales efforts provide valuable opportunities to cross sell related financial products and services.

Over the past two to three years we have also expanded our treasury management products and services for commercial businesses and municipalities or other governmental units and have also increased our sales calling efforts in order to attract additional deposit relationships from these sectors. Despite these efforts our core deposit growth has not kept pace with the growth of our Portfolio Loans and we have primarily utilized brokered certificates of deposit ("Brokered CD's") to fund this Portfolio Loan growth. We view long-term core deposit growth as a significant challenge. Core deposits generally provide a more stable and lower cost source of funds than

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alternate sources such as short-term borrowings. As a result, the continued funding of Portfolio Loan growth with alternative sources of funds (as opposed to core deposits) may erode certain of our profitability measures, such as return on assets, and may also adversely impact our liquidity. (See “Liquidity and capital resources.”)

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

Alternate sources of funds

| | March 31, 2006 | | | December 31, 2005 | | |
|--|------------------------|---------------------|--------------|----------------------|---------------------|--------------|
| | Amount | Average Maturity | Rate | Amount | Average Maturity | Rate |
| | (dollars in thousands) | | | | | |
| Brokered CDs ⁽¹⁾ | \$1,026,004 | 1.7 years | 4.05% | \$1,009,804 | 1.8 years | 3.79% |
| Fixed rate FHLB advances ^(1,2) | 51,964 | 5.9 years | 5.64 | 51,525 | 6.2 years | 5.65 |
| Variable rate FHLB advances ⁽¹⁾ | | | | 25,000 | 0.5 years | 4.18 |
| Securities sold under agreements to Repurchase ⁽¹⁾ | 100,509 | 0.1 years | 4.82 | 137,903 | 0.1 years | 4.41 |
| Federal funds purchased | 133,215 | 1 day | 5.00 | 80,299 | 1 day | 4.23 |
| Total | <u>\$1,311,692</u> | <u>1.6 years</u> | <u>4.27%</u> | <u>\$1,304,531</u> | <u>1.7 years</u> | <u>3.96%</u> |

(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.

(2) Advances totaling \$10.0 million at both March 31, 2006 and December 31, 2005, respectively, have provisions that allow the FHLB to convert fixed-rate advances to adjustable rates prior to stated maturity.

Other borrowed funds, principally advances from the Federal Home Loan Bank (the “FHLB”) and securities sold under agreements to repurchase (“Repurchase Agreements”), totaled \$170.2 million at March 31, 2006, compared to \$227.0 million at December 31, 2005. The \$56.9 million decrease in other borrowed funds principally reflects the payoff of maturing variable rate FHLB advances and Repurchase Agreements with proceeds from federal funds purchased.

Derivative financial instruments are employed to manage our exposure to changes in interest rates. (See “Asset/liability management.”) At March 31, 2006, we employed interest-rate swaps with an aggregate notional amount of \$619.7 million and interest rate caps with an aggregate notional amount of \$187.0 million. (See note #6 of Notes to Interim Consolidated Financial Statements.)

Liquidity and capital resources Liquidity risk is the risk of being unable to timely meet obligations as they come due at a reasonable funding cost or without incurring unacceptable losses. Our liquidity management involves the measurement and monitoring of a variety of sources and uses of funds. Our Consolidated Statements of Cash Flows categorize these sources and uses into operating, investing and financing activities. We primarily focus our liquidity management on developing access to a variety of borrowing sources to supplement our deposit gathering activities and provide funds for growing our investment and loan portfolios as well as to be able to respond to unforeseen liquidity needs.

Our sources of funds include a stable deposit base, secured advances from the Federal Home Loan Bank of Indianapolis, both secured and unsecured federal funds purchased borrowing

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facilities with other commercial banks, an unsecured holding company credit facility and access to the capital markets (for trust preferred securities and Brokered CD's).

At March 31, 2006 we had \$897.5 million of time deposits that mature in the next twelve months. Historically, a majority of these maturing time deposits are renewed by our customers or are Brokered CD's that we expect to replace. Additionally \$1.164 billion of our deposits at March 31, 2006 were in account types from which the customer could withdraw the funds on demand. Changes in the balances of deposits that can be withdrawn upon demand are usually predictable and the total balances of these accounts have generally grown over time as a result of our marketing and promotional activities. There can be no assurance that historical patterns of renewing time deposits or overall growth in deposits will continue in the future.

We have developed contingency funding plans that stress tests our liquidity needs that may arise from certain events such as an adverse credit event, rapid loan growth or a disaster recovery situation. Our liquidity management also includes periodic monitoring of each bank that segregates assets between liquid and illiquid and classifies liabilities as core and non-core. This analysis compares our total level of illiquid assets to our core funding. It is our goal to have core funding sufficient to finance illiquid assets.

Over the past several years our Portfolio Loans have grown more rapidly than our core deposits. In addition much of this growth has been in loan categories that cannot generally be used as collateral for FHLB advances (such as commercial loans and finance receivables). As a result, we have become more dependent on wholesale funding sources (such as Brokered CD's and Repurchase Agreements). In order to reduce this greater reliance on wholesale funding we intend to complete a securitization of finance receivables during the second quarter of 2006. It is likely that a securitization facility would have a higher total cost than our current wholesale funding sources, which would adversely impact our future net interest income. However, we believe that the improved liquidity will likely outweigh the adverse impact on our net interest income.

Effective management of capital resources is critical to our mission to create value for our shareholders. The cost of capital is an important factor in creating shareholder value and, accordingly, our capital structure includes unsecured debt and cumulative trust preferred securities.

We also believe that a diversified portfolio of quality loans will provide superior risk-adjusted returns. Accordingly, we have implemented balance sheet management strategies that combine efforts to originate Portfolio Loans with disciplined funding strategies. Acquisitions have also been an integral component of our capital management strategies. (See "Acquisitions.")

We have three special purpose entities that have issued \$62.4 million of cumulative trust preferred securities outside of Independent Bank Corporation that currently qualifies as Tier 1 capital. These entities have also issued common securities and capital to Independent Bank Corporation. Independent Bank Corporation, in turn, issued subordinated debentures to these special purpose entities equal to the trust preferred securities, common securities and capital issued. The subordinated debentures represent the sole asset of the special purpose entities. The common securities, capital and subordinated debentures are included in our Consolidated Statements of Financial Condition at March 31, 2006, and December 31, 2005.

In March 2005, the Federal Reserve Board issued a final rule that retains 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 will be

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limited to 25 percent of Tier 1 capital elements, net of goodwill (net of any associated deferred tax liability). The amount of trust preferred securities and certain other elements in excess of the limit could be included in the Tier 2 capital, subject to restrictions. 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 9 basis points at March 31, 2006, (this calculation assumes no transition period).

To supplement our balance sheet and capital management activities, we periodically repurchase our common stock. The level of share repurchases in a given year generally reflects changes in our need for capital associated with our balance sheet growth. We previously announced that our board of directors had authorized the repurchase of up to 750 thousand shares. This authorization expires on December 31, 2006. During the first quarter of 2006 we repurchased 342 thousand shares at a weighted average price of \$27.00 per share.

Capitalization

| | March 31, 2006 | (in thousands) | December 31, 2005 |
|---|-------------------|----------------|----------------------|
| Unsecured debt | \$ 6,500 | | \$ 7,000 |
| Subordinated debentures | 64,197 | | 64,197 |
| Amount not qualifying as regulatory capital | (1,847) | | (1,847) |
| Amount qualifying as regulatory capital | 62,350 | | 62,350 |
| Shareholders' Equity | | | |
| Preferred stock, no par value | | | |
| Common stock, par value \$1.00 per share | 21,725 | | 21,991 |
| Capital surplus | 172,772 | | 179,913 |
| Retained earnings | 49,701 | | 41,486 |
| Accumulated other comprehensive income | 4,569 | | 4,869 |
| Total shareholders' equity | 248,767 | | 248,259 |
| Total capitalization | \$ 317,617 | | \$ 317,609 |

Total shareholders' equity at March 31, 2006 increased \$0.5 million from December 31, 2005, due primarily to the retention of earnings and the issuance of common stock pursuant to certain compensation plans that was largely offset by share repurchases and cash dividends that we declared as well as a \$0.3 million decrease in accumulated other comprehensive income. Shareholders' equity totaled \$248.8 million, equal to 7.31% of total assets at March 31, 2006. At December 31, 2005, shareholders' equity totaled \$248.3 million, which was equal to 7.40% of assets.

Capital ratios

| | March 31, 2006 | December 31, 2005 |
|---|----------------|-------------------|
| Equity capital | 7.31% | 7.40% |
| Tier 1 leverage (tangible equity capital) | 7.31 | 7.40 |
| Tier 1 risk-based capital | 9.17 | 9.31 |
| Total risk-based capital | 10.15 | 10.27 |

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

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

We employ simulation analyses to monitor each bank's interest-rate risk profiles and evaluate potential changes in each banks' net interest income and market value of portfolio equity that result from changes in interest rates. The purpose of these simulations is to identify sources of interest-rate risk inherent in our balance sheets. The simulations do not anticipate any actions that we might initiate in response to changes in interest rates and, accordingly, the simulations do not provide a reliable forecast of anticipated results. The simulations are predicated on immediate, permanent and parallel shifts in interest rates and generally assume that current loan and deposit pricing relationships remain constant. The simulations further incorporate assumptions relating to changes in customer behavior, including changes in prepayment rates on certain assets and liabilities.

RESULTS OF OPERATIONS

Summary Net income totaled \$12.3 million during the three months ended March 31, 2006, compared to \$11.3 million during the comparable period in 2005. 2006 results include \$2.8 million of other income and \$1.7 million of non-interest expense related to the settlement of litigation involving the former owners of Mepco. (See "Litigation Matters.") Additionally, 2006 results also include \$0.3 million in compensation and benefits expense for severance payments primarily associated with reduction in staff initiatives implemented in the first quarter and \$0.1 million of legal and professional fees related to the aforementioned litigation settlement. Collectively, these items resulted in a net after-tax increase in net income of \$1.5 million, or \$0.07 per diluted share, in the first quarter of 2006. The first quarter of 2005 included a recovery of \$0.6 million (\$0.4 million after tax, or \$0.02 per diluted share) of previously recorded impairment reserves on capitalized mortgage loan servicing rights.

Key performance ratios

| | Three months ended March 31, | |
|----------------------------|------------------------------|---------|
| | 2006 | 2005 |
| Net income (annualized) to | | |
| Average assets | 1.49% | 1.47% |
| Average equity | 20.17 | 19.38 |
| Earnings per common share | | |
| Basic | \$ 0.57 | \$ 0.51 |
| Diluted | 0.56 | 0.50 |

We believe that our earnings per share growth rate over a long period of time (five years or longer) is the best single measure of our performance. We strive to achieve an average annual long term earnings per share growth rate of approximately 10% to 15%. Accordingly, our focus is on long-term results taking into consideration that certain components of our revenues are cyclical in nature (such as mortgage-banking) which can cause fluctuations in our earnings per share from one period to another. For the period from 2001 through 2005 our compound average annual earnings per share growth rate was approximately 17%. Our primary strategies for achieving long-term growth in earnings per share include: earning asset growth (both organic and through acquisitions), diversification of revenues (within the financial services industry), effective capital management (efficient use of our shareholders' equity) and sound risk management (credit, interest rate, liquidity and regulatory risks). As we have grown in size, and also considering the relatively low economic growth rates in Michigan (our primary market for banking), we believe achieving a 10% to 15% growth rate in earnings per share will be challenging without future acquisitions.

Net interest income Net interest income is the most important source of our earnings and thus is critical in evaluating our results of operations. Changes in our tax equivalent net interest income are primarily influenced by our level of interest-earning assets and the income or yield that we earn on those assets and the manner by which we fund (and the related cost of funding) such interest-earning assets. Certain macro-economic factors can also influence our net interest income such as the level and direction of interest rates, the difference between short-term and long-term interest rates (the steepness of the yield curve) and the general strength of the economies in which we are doing business. Finally, risk management plays an important role in our level of net interest income. The ineffective management of credit risk and interest-rate risk in particular can adversely impact our net interest income.

Tax equivalent net interest income totaled \$35.3 million during the first quarter of 2006, which represents an \$0.2 million or 0.7% increase from the comparable quarter one year earlier. We review yields on certain asset categories and our net interest margin on a fully taxable equivalent basis. This presentation is not in accordance with generally accepted accounting principles ("GAAP") but is customary in the banking industry. In this non-GAAP presentation, net interest income is adjusted to reflect tax-exempt interest income on an equivalent before-tax basis. This measure ensures comparability of net interest income arising from both taxable and tax-exempt sources. The adjustments to determine tax equivalent net interest income were \$1.7 million and \$1.5 million for the first quarters of 2006 and 2005, respectively, and were computed using a 35% tax rate.

The increase in tax equivalent net interest income primarily reflects a \$231.4 million increase in the balance of average interest-earning assets that was largely offset by a 33 basis point decrease in our tax equivalent net interest income as a percent of average interest-earning assets (the "net interest margin"). The increase in average interest-earning assets is due primarily to growth in all categories of loans. The net interest margin was equal to 4.59% during the first quarter of 2006 compared to 4.92% in the first quarter of 2005. The tax equivalent yield on average interest-earning assets rose to 7.50% in the first quarter of 2006 from 6.92% in the first quarter of 2005. This increase primarily reflects the rise in short-term interest rates that has resulted in variable rate loans repricing and new loans being originated at higher rates. The increase in the tax equivalent yield on average interest-earning assets was more than offset by a 91 basis point rise in

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our interest expense as a percentage of average interest-earning assets (the “cost of funds”) to 2.91% during the first quarter of 2006 from 2.00% during the first quarter of 2005. The increase in our cost of funds reflects the rise in short-term interest rates that has resulted in higher rates on certain short-term and variable rate borrowings and higher rates on deposits.

Average Balances and Tax Equivalent Rates

| | 2006 | | | Three Months Ended March 31, 2005 | | |
|--|---------------------|------------------|--------------|---|------------------|--------------|
| | Average Balance | Interest | Rate | Average Balance | Interest | Rate |
| (dollars in thousands) | | | | | | |
| Assets | | | | | | |
| Taxable loans (1) | \$ 2,603,408 | \$ 49,849 | 7.73% | \$ 2,298,934 | \$ 41,106 | 7.22% |
| Tax-exempt loans (1,2) | 5,894 | 105 | 7.22 | 6,569 | 122 | 7.53 |
| Taxable securities | 220,333 | 2,848 | 5.24 | 304,285 | 3,692 | 4.92 |
| Tax-exempt securities (2) | 255,798 | 4,533 | 7.19 | 244,331 | 4,026 | 6.68 |
| Other investments | 17,437 | 223 | 5.19 | 17,384 | 212 | 4.95 |
| Interest Earning Assets | 3,102,870 | 57,558 | 7.50 | 2,871,503 | 49,158 | 6.92 |
| Cash and due from banks | 54,357 | | | 62,876 | | |
| Other assets, net | 204,781 | | | 189,128 | | |
| Total Assets | \$ 3,362,008 | | | \$ 3,123,507 | | |
| Liabilities | | | | | | |
| Savings and NOW | \$ 878,731 | 2,988 | 1.38 | \$ 881,454 | 1,674 | 0.77 |
| Time deposits | 1,529,782 | 14,983 | 3.97 | 1,093,119 | 7,500 | 2.78 |
| Long-term debt | 4,994 | 57 | 4.63 | 6,994 | 80 | 4.56 |
| Other borrowings | 322,374 | 4,267 | 5.37 | 541,637 | 4,882 | 3.66 |
| Interest Bearing Liabilities | 2,735,881 | 22,295 | 3.30 | 2,523,204 | 14,136 | 2.27 |
| Demand deposits | 275,597 | | | 275,130 | | |
| Other liabilities | 102,345 | | | 88,623 | | |
| Shareholders' equity | 248,185 | | | 236,550 | | |
| Total liabilities and shareholders' equity | \$ 3,362,008 | | | \$ 3,123,507 | | |
| Tax Equivalent Net Interest Income | | \$ 35,263 | | | \$ 35,022 | |
| Tax Equivalent Net Interest Income as a Percent of Earning Assets | | | 4.59% | | | 4.92% |

(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%

Provision for loan losses The provision for loan losses was \$1.6 million during both the three months ended March 31, 2006 and 2005. The provision reflects our assessment of the allowance for loan losses taking into consideration factors such as loan mix, levels of non-performing and classified loans and net charge-offs. While we use relevant information to recognize losses on loans, additional provisions for related losses may be necessary based on changes in economic conditions, customer circumstances and other credit risk factors. (See “Portfolio loans and asset quality.”)

Non-interest income Non-interest income is a significant element in assessing our results of operations. On a long-term basis we are attempting to grow non-interest income in order to

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diversify our revenues within the financial services industry. We regard net gains on real estate mortgage loan sales as a core recurring source of revenue but they are quite cyclical and volatile. We regard net gains (losses) on securities as a “non-operating” component of non-interest income. As a result, we believe it is best to evaluate our success in growing non-interest income and diversifying our revenues by also comparing non-interest income when excluding net gains (losses) on assets (real estate mortgage loans and securities).

Non-interest income totaled \$12.3 million during the first three months of 2006 compared to \$9.7 million in 2005. The first quarter of 2006 included \$2.8 million of non-recurring income from the litigation settlement described earlier. Excluding the income from the litigation settlement and net gains and losses on asset sales, non-interest income grew by 1.4% to \$8.5 million during the first three months of 2006 compared to 2005. As described below, the first quarter of 2005 did include a \$0.6 million recovery of previously recorded impairment charges on capitalized mortgage loan servicing rights.

Non-Interest Income

| | Three months ended March 31, | |
|---|---------------------------------|-----------------|
| | 2006 | 2005 |
| | (in thousands) | |
| Service charges on deposit accounts | \$ 4,242 | \$ 4,042 |
| Mepco litigation settlement | 2,800 | |
| Net gains (losses) on assets sales | | |
| Real estate mortgage loans | 1,026 | 1,388 |
| Securities | | (32) |
| VISA check card interchange income | 791 | 622 |
| Real estate mortgage loan servicing | 653 | 1,064 |
| Title insurance fees | 442 | 497 |
| Bank owned life insurance | 392 | 389 |
| Mutual fund and annuity commissions | 295 | 292 |
| Manufactured home loan origination fees and commissions | 239 | 274 |
| Other | 1,432 | 1,189 |
| Total non-interest income | <u>\$ 12,312</u> | <u>\$ 9,725</u> |

Service charges on deposits totaled \$4.2 million in the first quarter of 2006, a \$0.2 million or 4.9% increase from the comparable period in 2005. The increase in such service charges principally relates to growth in checking accounts as a result of deposit account promotions.

Gains on the sale of real estate mortgage loans were \$1.0 million and \$1.4 million in the first quarters of 2006 and 2005, respectively. Real estate mortgage loan sales totaled \$60.2 million in the first quarter of 2006 compared to \$87.9 million in the first quarter of 2005. Real estate mortgage loans originated totaled \$118.7 million in the first quarter of 2006 compared to \$147.0 million in the comparable quarter of 2005. Loans held for sale were \$29.6 million at March 31, 2006 compared to \$28.6 million at December 31, 2005. Based on current interest rates and economic conditions in Michigan, we would expect the level of mortgage loan origination and sales activity in 2006 to be below 2005 levels and would therefore also anticipate somewhat

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lower levels of gains on loan sales during the balance of 2006 compared to the same period in 2005.

Real Estate Mortgage Loan Activity

| | Three months ended March 31, | |
|---|---------------------------------|-----------|
| | 2006 | 2005 |
| | (in thousands) | |
| Real estate mortgage loans originated | \$118,651 | \$146,962 |
| Real estate mortgage loans sold | 60,247 | 87,918 |
| Real estate mortgage loans sold with servicing rights released | 7,444 | 10,298 |
| Net gains on the sale of real estate mortgage loans | 1,026 | 1,388 |
| Net gains as a percent of real estate mortgage loans sold ("Loans Sale Margin") | 1.70% | 1.58% |
| SFAS #133 adjustments included in the Loan Sale Margin | 0.21 | 0.06 |

The volume of loans sold is dependent upon our ability to originate real estate mortgage loans as well as the demand for fixed-rate obligations and other loans that we cannot profitably fund within established interest-rate risk parameters. (See "Portfolio loans and asset quality.") Net gains on 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. As a result, this category of revenue can be quite cyclical and volatile.

We had no gains or losses on the sale of securities or impairment charges on securities during the first quarter of 2006. We incurred a loss of \$32,000 on securities in the first quarter of 2005. The 2005 loss is due primarily to the aforementioned \$0.3 million of impairment charges (see "Securities" above) partially offset by approximately \$0.2 million in net gains on the sale of certain corporate and municipal securities.

VISA check card interchange income increased to \$0.8 million in the first quarter of 2006 compared to \$0.6 million in the first quarter of 2005. These results can be primarily attributed to an increase in the size of our card base due to growth in checking accounts and the frequency of use of our VISA check card product by our customer base has also increased.

Title insurance fees decreased slightly during the first quarter of 2006 compared to the first quarter of 2005 as a result of a decline in real estate mortgage lending origination volume.

Manufactured home loan origination fees and commissions declined slightly during the first quarter of 2006 compared to the first quarter of 2005. This industry has faced a challenging environment as several buyers of this type of loan have exited the market or materially altered the guidelines under which they will purchase such loans. Further, regulatory changes have reduced the opportunity to generate revenues on the sale of insurance related to this type of lending. As a result, the lower level of revenue recorded in the first quarter of 2006 from this activity is likely to be fairly reflective of ensuing quarters, at least in the short-term.

Real estate mortgage loan servicing generated revenue of \$0.7 million in the first quarter of 2006, compared to \$1.1 million in the first quarter of 2005. This decrease is primarily due to changes in the impairment reserve on capitalized real estate mortgage loan servicing rights. The period end impairment reserve is based on a third-party valuation of our real estate mortgage loan servicing

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portfolio and the amortization is primarily impacted by prepayment activity. Activity related to capitalized mortgage loan servicing rights is as follows:

Capitalized Real Estate Mortgage Loan Servicing Rights

| | Three months ended March 31, | |
|---|---------------------------------|------------------|
| | 2006 | 2005 |
| | (in thousands) | |
| Balance at beginning of period | \$ 13,439 | \$ 11,360 |
| Originated servicing rights capitalized | 634 | 755 |
| Amortization | (345) | (479) |
| Decrease in impairment reserve | | 619 |
| Balance at end of period | <u>\$ 13,728</u> | <u>\$ 12,255</u> |
| Impairment reserve at end of period | <u>\$ 11</u> | <u>\$ 147</u> |

At March 31, 2006 we were servicing approximately \$1.5 billion 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 5.89% and a weighted average service fee of 25.9 basis points. Remaining capitalized real estate mortgage loan servicing rights at March 31, 2006 totaled \$13.7 million and had an estimated fair market value of \$19.7 million.

Other non-interest income rose to \$1.4 million in the first quarter of 2006 from \$1.2 million in 2005. Increases in ATM fees have accounted for the majority of this growth. The growth is generally reflective of the overall expansion of the organization in terms of numbers of customers and accounts.

Non-interest expense Non-interest expense is an important component of our results of operations. However, we primarily focus on revenue growth, and while we strive to efficiently manage our cost structure, our non-interest expenses will generally increase from year to year because we are expanding our operations through acquisitions and by opening new branches and loan production offices.

Non-interest expense totaled \$28.8 million in the first quarter of 2006 which included \$1.7 million of claims expense and \$0.1 million of legal and professional fees related to the litigation settlement discussed above as well as \$0.3 million of severance costs. Excluding these items, non-interest expense rose by \$0.7 million or 2.6% from the first quarter of 2005. This increase is principally due to increased operating costs related to the addition of staff at new branch and loan production offices and overall growth in the organization, along with associated rises in such costs as occupancy, furniture, fixtures and equipment and data processing. Compensation and employee benefits expenses in 2006 were also impacted by merit pay increases that were effective January 1, 2006.

Non-Interest Expense

| | Three months ended March 31, | |
|---|---------------------------------|------------------|
| | 2006 | 2005 |
| | (in thousands) | |
| Salaries | \$ 9,417 | \$ 8,379 |
| Performance-based compensation and benefits | 1,780 | 2,120 |
| Other benefits | 2,806 | 2,980 |
| Compensation and employee benefits | 14,003 | 13,479 |
| Occupancy, net | 2,768 | 2,238 |
| Furniture, fixtures and equipment | 1,831 | 1,798 |
| Mepco claims expense | 1,700 | |
| Data processing | 1,404 | 1,143 |
| Communications | 1,058 | 1,076 |
| Advertising | 1,020 | 979 |
| Credit card and bank service fees | 953 | 621 |
| Loan and collection | 839 | 956 |
| Amortization of intangible assets | 643 | 693 |
| Legal and professional | 562 | 791 |
| Supplies | 527 | 610 |
| Other | 1,482 | 1,642 |
| Total non-interest expense | \$ 28,790 | \$ 26,026 |

Performance based compensation and benefits decreased in 2006 compared to 2005 due primarily to an decreased funding level for our employee stock ownership plan and lower incentive compensation.

We maintain performance-based compensation plans. In addition to commissions and cash incentive awards, such plans include an employee savings and stock ownership plan and a long-term incentive compensation plan, that permits the issuance of equity based compensation awards, including employee stock options. Both the first quarter of 2006 and 2005 include an expense of \$0.1 million for the issuance of some form of equity based incentive compensation (other than stock options).

Occupancy, furniture, fixtures and equipment and data processing expenses all generally increased in 2006 compared to 2005 as a result of the growth of the organization through the opening of new branch and loan production offices. In addition occupancy costs are also up in 2006 due to higher utility costs (primarily natural gas) and additional depreciation expense of approximately \$0.2 million in the first quarter of 2006 related to the accelerated write-off of the remaining book value of the former main office of North Bancorp, Inc. (which was acquired in 2004) in Gaylord, Michigan. In the fourth quarter of 2005 we determined that this building would be razed and replaced with a new branch facility by June 2006. As a result the depreciation on this facility was accelerated so that the remaining book value would be written off by June 30, 2006 (which corresponds to its now remaining useful life).

Credit card and bank service fees have increased due to growth in the number of vehicle service payment plans at Mepco. Since most customers utilize credit cards to make monthly payments on these plans, Mepco incurs charges related to processing these credit card payments.

Legal and professional expenses include for the first quarter of 2006, \$0.1 million of additional legal fees related to the litigation settlement discussed above, and for the first quarter of 2005, include \$0.1 million of additional audit related costs and \$0.2 million other professional fees related to the Mepco investigation (see "Litigation Matters" below).

Income tax expense Changes in our federal income tax expense are generally commensurate with the changes in our pre-tax earnings. Our actual federal income tax expense is lower than the amount computed by applying our statutory federal income tax rate to our pre-tax earnings primarily due to tax-exempt interest income. Our effective tax rate was 20.4% and 27.6% during the first three months of 2006 and 2005, respectively. The lower effective income tax rate in the first quarter of 2006 is because the \$2.8 million in income recorded for the litigation settlement (see “Litigation Matters” below) is not taxable.

CRITICAL ACCOUNTING POLICIES

Our accounting and reporting policies are in accordance with accounting principles generally accepted within the United States of America and conform to general practices within the banking industry. Accounting and reporting policies for other than temporary impairment of investment securities, the allowance for loan losses, originated real estate mortgage loan servicing rights, derivative financial instruments, income taxes and goodwill are deemed critical since they involve the use of estimates and require significant management judgments. Application of assumptions different than those that we have used could result in material changes in our financial position or results of operations.

We are required to assess our investment securities for “other than temporary impairment” on a periodic basis. The determination of other than temporary impairment for an investment security requires judgment as to the cause of the impairment, the likelihood of recovery and the projected timing of the recovery. Our assessment process during the first quarter of 2006 resulted in no impairment charges for other than temporary impairment on various investment securities within our portfolio (we had a \$0.3 million impairment charge during the first quarter of 2005). We believe that our assumptions and judgments in assessing other than temporary impairment for our investment securities are reasonable and conform to general industry practices.

Our methodology for determining the allowance and related provision for loan losses is described above in “Financial Condition – Portfolio Loans and asset quality.” In particular, this area of accounting requires a significant amount of judgment because a multitude of factors can influence the ultimate collection of a loan or other type of credit. It is extremely difficult to precisely measure the amount of losses that are probable in our loan portfolio. We use a rigorous process to attempt to accurately quantify the necessary allowance and related provision for loan losses, but there can be no assurance that our modeling process will successfully identify all of the losses that are probable in our loan portfolio. As a result, we could record future provisions for loan losses that may be significantly different than the levels that we have recorded in the most recent quarter.

At March 31, 2006 we had approximately \$13.7 million of real estate mortgage loan servicing rights capitalized on our balance sheet. There are several critical assumptions involved in establishing the value of this asset including estimated future prepayment speeds on the underlying real estate mortgage loans, the interest rate used to discount the net cash flows from the real estate mortgage loan servicing, the estimated amount of ancillary income that will be received in the future (such as late fees) and the estimated cost to service the real estate mortgage loans. We utilize an outside third party (with expertise in the valuation of real estate mortgage loan servicing rights) to assist us in our valuation process. We believe the assumptions that we utilize in our valuation are reasonable based upon accepted industry practices for valuing mortgage servicing rights and represent neither the most conservative or aggressive assumptions.

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We use a variety of derivative instruments to manage our interest rate risk. These derivative instruments include interest rate swaps, collars, floors and caps and mandatory forward commitments to sell real estate mortgage loans. Under SFAS #133 the accounting for increases or decreases in the value of derivatives depends upon the use of the derivatives and whether the derivatives qualify for hedge accounting. At March 31, 2006 we had approximately \$761.7 million in notional amount of derivative financial instruments that qualified for hedge accounting under SFAS #133. As a result, generally, changes in the fair market value of those derivative financial instruments qualifying as cash flow hedges are recorded in other comprehensive income. The changes in the fair value of those derivative financial instruments qualifying as fair value hedges are recorded in earnings and, generally, are offset by the change in the fair value of the hedged item which is also recorded in earnings. The fair value of derivative financial instruments qualifying for hedge accounting was a negative \$3.9 million at March 31, 2006.

Our accounting for income taxes involves the valuation of deferred tax assets and liabilities primarily associated with differences in the timing of the recognition of revenues and expenses for financial reporting and tax purposes. At December 31, 2005 we had recorded a net deferred tax asset of \$7.2 million, which included a net operating loss carryforward of \$5.7 million. We have recorded no valuation allowance on our net deferred tax asset because we believe that the tax benefits associated with this asset will more likely than not, be realized. However, changes in tax laws, changes in tax rates and our future level of earnings can adversely impact the ultimate realization of our net deferred tax asset.

At March 31, 2006 we had recorded \$56.4 million of goodwill. Under SFAS #142, amortization of goodwill ceased, and instead this asset must be periodically tested for impairment. Our goodwill primarily arose from the 2004 acquisitions of two banks, the 2003 acquisition of Mepco and the past acquisitions of other banks and a mobile home loan origination company. We test our goodwill for impairment utilizing the methodology and guidelines established in SFAS #142. This methodology involves assumptions regarding the valuation of the business segments that contain the acquired entities. We believe that the assumptions we utilize are reasonable. However, we may incur impairment charges related to our goodwill in the future due to changes in business prospects or other matters that could affect our valuation assumptions.

LITIGATION MATTERS

On March 16, 2006, we entered into a settlement agreement with the former shareholders of Mepco, (the "Former Shareholders") and Edward, Paul, and Howard Walder (collectively referred to as the "Walders") for purposes of resolving and dismissing all pending litigation between the parties. Under the terms of the settlement, on April 3, 2006, the Former Shareholders paid us a sum of \$2.8 million, half of which was paid in the form of cash and half of which was paid in shares of our common stock. In return, we released 90,766 shares of Independent Bank Corporation common stock held pursuant to an escrow agreement among the parties that was previously entered into for the purpose of funding certain contingent liabilities that were, in part, the subject of the pending litigation. As a result of settlement of the litigation, we recorded other income of \$2.8 million and an additional claims expense of approximately \$1.7 million (related to the release of the shares held in escrow) in the first quarter of 2006.

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The settlement covers both the claim filed by the Walders against Independent Bank Corporation and Mepco in the Circuit Court of Cook County, Illinois, as well as the litigation filed by Independent Bank Corporation and Mepco against the Walders in the Ionia County Circuit Court of Michigan.

As permitted under the terms of the merger agreement under which we acquired Mepco, on April 3, 2006, we paid the accelerated earn-out payments for the last three years of the performance period ending April 30, 2008. Those payments totaled approximately \$8.9 million, which was included in accrued expenses and other liabilities at March 31, 2006. Also, under the terms of the merger agreement, the second year of the earn out for the year ended April 30, 2005, in the amount of \$2.7 million was paid on March 21, 2006. As a result of the settlement and these payments, no future payments are due under the terms of the merger agreement under which we acquired Mepco.

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

Item 3.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

No material changes in the market risk faced by the Registrant have occurred since December 31, 2005.

Item 4.

CONTROLS AND PROCEDURES

(a) 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 – 15(e) and 15d – 15(e)) for the period ended March 31, 2006, have concluded that, as of such date, our disclosure controls and procedures were effective.

(b) Changes in Internal Controls.

During the quarter ended March 31, 2006, there were no changes in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Part II

Item 2. Changes in securities, use of proceeds and issuer purchases of equity securities

The following table shows certain information relating to purchases of common stock for the three-months ended March 31, 2006, pursuant to our share repurchase plan:

| Period | Total Number of Shares Purchased(1) | Average Price Paid Per Share | Total Number of Shares Purchased as Part of a Publicly Announced Plan(2) | Remaining Number of Shares Authorized for Purchase Under the Plan |
|---------------|-------------------------------------|------------------------------|--|---|
| January 2006 | 352 | \$27.62 | | |
| February 2006 | 230,000 | 27.04 | | |
| March 2006 | 111,159 | 26.92 | | |
| Total | 341,511 | \$27.00 | | 408,489 |

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

(2) Our current stock repurchase plan authorizes the purchase up to 750,000 shares of our common stock. The repurchase plan expires on December 31, 2006.

Item 6. Exhibits

(a) The following exhibits (listed by number corresponding to the Exhibit Table as Item 601 in Regulation S-K) are filed with this report:

10. Technology Outsourcing Renewal Agreement.
11. Computation of Earnings Per Share.
- 31.1 Certificate of the Chief Executive Officer of Independent Bank Corporation pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).
- 31.2 Certificate of the Chief Financial Officer of Independent Bank Corporation pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).
- 32.1 Certificate of the Chief Executive Officer of Independent Bank Corporation pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).
- 32.2 Certificate of the Chief Financial Officer of Independent Bank Corporation pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).

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 May 5, 2006

By /s/ Robert N. Shuster
Robert N. Shuster, Principal Financial
Officer

Date May 5, 2006

By /s/ James J. Twarozynski
James J. Twarozynski, Principal
Accounting Officer

EXHIBIT INDEX

| EXHIBIT NO. | EXHIBIT DESCRIPTION |
|--------------------|--|
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TECHNOLOGY OUTSOURCING RENEWAL AGREEMENT

This Master Agreement is made as of the 1st day of April, 2006 (the "Effective Date"), by and between **Independent Bank Corporation**, a Michigan Corporation ("Customer"), and **Metavante Corporation**, a Wisconsin corporation ("Metavante").

Customer desires Metavante to provide to Customer the services set forth in this Agreement, and Metavante desires to provide such services to Customer, all as provided in this Agreement.

THEREFORE, in consideration of the payments to be made and services to be performed hereunder, upon the terms and subject to the conditions set forth in this Agreement and intending to be legally bound, the parties hereto agree as follows:

Metavante shall provide to Customer and Customer shall receive from Metavante, all upon the terms and conditions set forth in this Agreement, the Services specified in this Agreement. The term of this Agreement shall commence on the Effective Date and end on the six (6th) anniversary of the last day of the month in which the Effective Date occurs (the "Initial Term").

As of the Effective Date, the parties acknowledge that this Agreement includes the following Schedules:

- Services and Charges Schedule
- Service Level Schedule
- Termination Fee Schedule
- Strategic Network Solutions Schedule

As of the Effective Date, the parties acknowledge that Services will be provided for Customer and the following Affiliates of Customer:

- First Home Financial (General Ledger only), MSB Investments (General Ledger only),
Independent Bank West Michigan, Independent Bank, Independent Bank South
Michigan, Independent Bank East Michigan, Independent Bank Corp. (General Ledger
only), and IBC Services, Inc. (General Ledger only)

By signing below, the parties agree to the terms and conditions of this Agreement, and Customer appoints Metavante as: (1) Customer's attorney-in-fact to transmit files and information to the Internal Revenue Service ("IRS") and to take all appropriate actions in connection therewith and empowers Metavante to authorize the IRS to release information return documents supplied to the IRS by Metavante to states which participate in the "Combined Federal/State Program"; and (2) Customer's agent to sign on Customer's behalf the Affidavit required by the Internal Revenue Service on Form 4804, or any successor form. Customer

TERMS AND CONDITIONS

1. CONSTRUCTION

1.1. Definitions. Capitalized terms shall have the meaning ascribed to them in Article 18 of this Agreement.

1.2. References. In this Agreement, references and mention of the word “includes” and “including” shall mean “includes, without limitation” and “including, without limitation,” as applicable, and the word “any” shall mean “any or all”. Headings in this Agreement are for reference purposes only and shall not affect the interpretation or meaning of this Agreement.

1.3. Interpretation. The terms and conditions of this Agreement and all schedules attached hereto are incorporated herein and deemed part of this Agreement. In the event of a conflict between the general terms and conditions and the terms of any schedules or exhibits attached hereto, the terms of the schedules and exhibits shall prevail and control the interpretation of the Agreement with respect to the subject matter of the applicable schedules and/or exhibits. The schedules and exhibits together with the general terms and conditions shall be interpreted as a single document. This Agreement may be executed simultaneously in any number of counterparts, each of which shall be deemed an original, but all of which together constitute one and the same agreement.

1.4. Affiliates. Independent Bank Corporation agrees that it is responsible for ensuring compliance with this Agreement by those of its Affiliates that receive Services under this Agreement. Independent Bank Corporation agrees to be responsible for the submission of its Affiliates’ data to Metavante for processing and for the transmission to Independent Bank Corporation’s Affiliates of such data processed by and received from Metavante. Independent Bank Corporation agrees to pay any and all fees owed under this Agreement for Services rendered to its Affiliates.

2. TERM

2.1. Duration. Unless this Agreement has been earlier terminated or unless Customer provides Metavante with written notice of non-renewal at least nine (9) months prior to the expiration of the Initial Term, this Agreement shall automatically renew at the end of the Initial Term on the same terms (including pricing terms) for one (1) twelve-month period. Upon expiration of such twelve (12) -month extension, this Agreement shall expire unless renewed in writing by the parties, provided, however, that Metavante may, but has no obligation to, continue to provide all or any portion of the Services thereafter on a month-to-month basis subject to these Terms and Conditions and Metavante’s then-current standard fees and charges.

2.2. Termination Assistance. Following the expiration or early termination of this Agreement, Metavante shall provide to Customer the Customer Data in the format in which it exists on Metavante’s systems, in accordance with Metavante’s then-current standard prices for the delivery media. In addition, Metavante agrees to provide to Customer, at Customer’s expense, all necessary assistance to facilitate the orderly transition of Services to Customer or its

designee (“Termination Assistance”). As part of the Termination Assistance, Metavante shall assist Customer to develop a plan for the transition of all Services then being performed by Metavante under this Agreement, from Metavante to Customer or Customer’s designee, on a reasonable schedule developed jointly by Metavante and Customer. Prior to providing any Termination Assistance, Metavante shall deliver to Customer a good-faith estimate of all such Expenses and charges, including charges for custom programming services. Customer understands and agrees that all Expenses and charges for Termination Assistance shall be computed in accordance with Metavante’s then-current standard prices for such products, materials, and services, notwithstanding the foregoing, programming fees applicable to Termination Assistance will be as specified in the Services and Charges Schedule hereto. Customer shall pay for the Customer Data and any Termination Assistance in advance of Metavante providing such data or assistance. Nothing contained herein shall obligate Customer to receive Termination Assistance from Metavante.

3. CONDITIONS AND LICENSES

3.1. Performance by Subcontractors. Customer understands and agrees that the actual performance of the Services may be made by Metavante, one or more Affiliates of Metavante, or subcontractors of any of the foregoing Entities (collectively, the “Eligible Providers”). For purposes of this Agreement, performance of the Services by any Eligible Provider shall be deemed performance by Metavante itself. Metavante shall remain fully responsible for the performance or non-performance of the Services by any Eligible Provider, to the same extent as if Metavante itself performed or failed to perform such services. Customer agrees to look solely to Metavante, and not to any Eligible Provider, for satisfaction of any claims Customer may have arising out of this Agreement or the performance or nonperformance of Services. However, in the event that Customer contracts directly with a Third Party for any products or services, Metavante shall have no liability to Customer for such Third Party’s products or services, even if such products or services are necessary for Customer to access or receive the Services hereunder.

3.2. Customer Marks. Metavante is authorized to use Customer’s service marks and trademarks solely if necessary to perform the Services and solely for the purpose of providing the Services to Customer. Any use of Customer’s marks by Metavante shall be subject to Customer’s prior written approval, which shall not be unreasonably withheld by Customer.

3.3. Software License. Customer (a) will install and operate copies of certain Metavante-supplied software, if any, that is identified in the Services and Charges Schedule as required for Customer to access or receive certain of the Initial Services, (b) may access certain software that Metavante will make available on the internet, and (c) may be provided with copies of software for demonstration purposes (collectively, the “Incidental Software”). Metavante hereby grants to Customer a personal, nonexclusive, and nontransferable license and right, for the duration of this Agreement, to use the Incidental Software solely in accordance with the applicable Documentation and for no other purposes. Customer shall not do any of the following: (i) distribute, sell, assign, transfer, or sublicense the Incidental Software, or any part thereof, to any third party; (ii) except as specifically set forth in this Agreement, adapt, modify, translate, reverse engineer, decompile, disassemble, or create derivative works based on the Incidental Software or any part thereof; (iii) copy the Incidental Software, in whole or in part,

without including appropriate copyright notices; (iv) except for providing banking services to Customer's customers, use the Incidental Software in any manner to provide Service Bureau, time sharing, or other computer services to Third Parties; (v) export the Incidental Software outside the United States, either directly or indirectly; and/or (vi) install the Incidental Software on a different platform or interface the Incidental Software to an application written in a different computer language other than that set forth in the Documentation. Within 10 days of the Effective Date of Termination, Customer shall, at its own expense, return the Incidental Software to Metavante and/or destroy all copies thereof.

4. SERVICES

4.1. Initial Services. Metavante agrees to provide Services as set forth in the Schedules listed on the first page of this Agreement as of the Effective Date.

4.2. Professional Services. Metavante shall perform the Professional Services for Customer as set forth in the Services and Charges Schedule and shall perform additional Professional Services as mutually agreed upon by the parties from time to time under this Agreement, provided that either party may require execution of a separate mutually acceptable professional services agreement prior to Metavante's performance of Professional Services other than those set forth in the Services and Charges Schedule.

4.3. Service Levels. Service Levels, if any, relating to a particular Service shall be as set forth in the Service Level Schedule. The parties agree that Metavante's performance of Services at a level at or above any Service Level shall be satisfactory performance, provided that this sentence shall not be deemed to modify or reduce any of Metavante's other obligations or warranties pursuant to this Agreement. Metavante shall cure any failure to achieve a Service Level within the period specified within the applicable schedule. Remedies, if any, for failure to achieve a Service Level shall be as set forth in the Service Level Schedule.

4.4. EFD Services. The following additional terms shall apply with respect to the EFD Services. The EFD Services are those Services provided by Metavante to support Customer's on-line and off-line debit and credit card products.

A. Network Rules and Responsibilities. "Network" shall mean a shared system, operating under a common name, through which member financial institutions are able to authorize, route, process, and settle transactions (e.g., MasterCard and Visa). Customer acknowledges and agrees that Customer must obtain required memberships in all applicable Networks and, upon Metavante's request, shall provide Metavante with copies of its fully executed membership agreements. Customer shall comply with the articles, bylaws, operating regulations, rules, procedures, and policies of all Networks, as applicable to its operations, and shall be solely responsible, as between Customer and Metavante, for any claims, liabilities, lawsuits, and expenses arising out of or caused by Customer's failure to comply with the same. Customer acknowledges and agrees that, because Metavante is Customer's processor, Metavante may receive certain services from MasterCard, Visa, and/or other Networks that Customer could receive directly in the event Customer performed the processing services for itself. Customer agrees that Metavante may pass through to Customer any fees charged to Metavante for such

services and that Metavante has no responsibility or liability to Customer for any such services. Prior to the transfer of the EFD Services to Customer or its designee upon the Effective Date of Termination, Customer shall take all actions required by the applicable Network to effect the transfer. In addition to the charges specified on the Fee Schedule, Customer shall be responsible for (i) all interchange and network provider fees; (ii) all dues, fees, fines, and assessments established by and owed by Customer to any Network; and (iii) for all costs and fees associated with changes to ATM protocol caused by Customer's conversion to the EFD Services.

B. Card Production Services. Delivery of cards will be deemed complete with respect to any order upon Metavante's delivery of the supply of cards to either the United States Post Office, a common carrier or courier, or Customer's designated employee or agent. Following delivery of the cards in accordance with the foregoing, the card production services with respect to such order shall be completed, and Metavante shall have no further responsibility whatsoever for any use, abuse, loss, damage, alteration, or theft of cards following delivery. Metavante shall be responsible to produce cards in conformance with applicable network standards and for the proper preparation of mailers (e.g., sealing and addressing). Customer shall notify Metavante in writing of any alleged breach of the foregoing by Metavante. Metavante's sole responsibility, and Customer's sole remedy, shall be to provide, at Metavante's expense, a conforming replacement card to the appropriate cardholder(s).

C. Verification and Notice. Customer shall notify Metavante of any data entry errors, including any unauthorized transactions, new accounts, new files, or unauthorized amounts, within thirty (30) days of the date of the applicable Metavante report. Customer's failure to notify Metavante of errors or discrepancies within such thirty (30)-day period shall constitute Customer's agreement that it has reviewed and approved the content of each such report using proper internal control review procedures. Metavante does not guarantee that the Services will be one hundred percent (100%) error-free or that the variables and options selected and approved by Customer will produce a result, which is problem-free and otherwise meets the expectations of Customer. The only responsibility Metavante shall have with regard to (i) data entry errors and other similar human errors which occur in the usual course of business and (ii) unsatisfactory data processing results caused by options and variables selected or approved by Customer is, respectively, to correct such errors as they are discovered and to assist Customer in revising data processing options and variables to achieve a satisfactory result.

D. Settlement. Customer acknowledges and agrees that, where Metavante processes a transaction for a stored value card, debit card, or credit card issued by Customer, Customer is either obligated to pay the amount of the transaction, or Customer is entitled to receive the amount of the transaction under applicable Network rules. Customer authorizes Metavante to receive or pay, as applicable, any such amounts due to or payable by Customer. Metavante shall daily determine the "Net Settlement" for Customer. "Net Settlement" means the net amount payable to Customer by Metavante, or the net amount payable to Metavante by Customer, as applicable, for transactions settled for Customer by Metavante with Networks, and/or other financial institutions, including Customer's Affiliates, in accordance with applicable Network operating rules. Customer shall maintain an account with a settlement bank for purposes of funding or receiving Net Settlement, as applicable, and authorizes Metavante to charge the settlement account via ACH debit or otherwise for any Net Settlement owed by

Customer to Metavante, and to deposit to the settlement account any Net Settlement owed by Metavante to Customer. Customer shall, upon Metavante's demand, pay to Metavante any Net Settlement that Metavante is unable to collect from the settlement account for any reason. Metavante will provide Customer with daily settlement and accounting information, and Customer agrees that Customer is responsible for the daily maintenance and reconciliation of all accounting entries. Metavante shall monthly determine the average monthly Net Settlement payable by Customer to Metavante, if any. Customer agrees to reimburse Metavante for its cost of funds in the amount determined by multiplying Customer's average monthly Net Settlement payable by the then-published prime rate of M&I Marshall & Ilsley Bank. For at least 120 days following the Effective Date of Termination, Customer shall maintain a settlement account with Metavante or the depository institution designated by Metavante which Metavante may charge to settle any trailing activity which accrues prior to the Effective Date of Termination and which is not known to Metavante until sometime thereafter (including any chargeback of a transaction which is authorized prior to the Effective Date of Termination). Customer shall pay to Metavante fees at Metavante's then-current standard rates to settle such trailing activity.

E. Credit Card Operations.

(i) Customer is responsible for all risks (including risk of credit losses, fraud losses, counterfeit losses, and fees and fines for noncompliance with laws, regulations, or Visa/MasterCard rules) and funding for the operation of its credit card programs, and for all operating expenses and charges, whether or not itemized. Metavante will provide Customer with certain reports (some in paper form, some in microfiche form, and/or some available on-line or through some other electronic media), including management reports, but Customer is responsible to review, monitor, and act upon information in such reports to minimize and control risks, losses, fees, and fines. Metavante may assist Customer in establishing such credit scoring or approval criteria, but Customer is responsible for establishing and applying credit and other approval criteria in accordance with all governing laws, rules, and regulations. Customer shall be responsible to furnish and pay for all forms and documents used by Customer and shall be solely responsible for the compliance of such forms, documents, and procedures with the operating requirements of Metavante, Visa and MasterCard rules and operating regulations, and applicable federal, state, and local laws and regulations. Metavante may provide sample forms, documents, and procedures to Customer for information purposes, but Metavante makes no warranty or representation as to the legality or accuracy of such forms, documents, or procedures. Customer is responsible to retain originals and/or records of any and all documentation relating to its cardholders and merchants as required under applicable record retention laws and regulations. All credit card and/or merchant accounts of Customer now in existence and those added during the Term are and shall be the sole property of Customer; however, Customer shall not sell, assign, transfer or convey any of such accounts, or any rights, proceeds, claims or collateral thereunder, to any Third Party without either termination of this Agreement or the prior written consent of Metavante.

(ii) Customer authorizes Metavante and grants to Metavante power-of-attorney to endorse any and all checks payable to Customer which are received by Metavante in payment of credit card accounts for which Metavante provides payment processing services.

(iii) Customer may request that Metavante make available to Customer's credit card cardholders checks or drafts which the cardholders may use to draw on their credit card account ("Credit Card Checks"). Any Credit Card Checks made available by Metavante to one of Customer's credit card cardholders shall be payable through such bank (the "Payable Through Bank") as Metavante shall designate in its sole discretion. Customer agrees that neither Metavante nor the Payable Through Bank shall have any responsibility to review or verify the signature of the drawer of any Credit Card Check. Customer agrees to indemnify and hold harmless Metavante and the Payable Through Bank from, defend Metavante and the Payable Through Bank against, and pay any final judgment against Metavante or the Payable Through Bank for any and all claims, damages, costs, expenses (including reasonable attorney's fees), and liabilities relating to the Payable Through Bank's payment or refusal to pay any Credit Card Checks, including any liability of the Payable Through Bank as the payor bank under Regulation CC of the Federal Reserve Board or under the Uniform Commercial Code.

4.5 Electronic Banking Services. The following additional terms shall apply with respect to the Electronic Banking Services. The Electronic Banking Services are (a) Metavante's Internet and telephone banking services that enable Customer's consumer and/or commercial depositors and other customers ("End Users") to access, receive, collect, concentrate, and/or report data and/or initiate transactions via a personal computer or telephone, (b) Metavante's consumer payment provider services ("CPP Services") that enable End Users to remit payments to payees located within the United States scheduled up to 364 days in the future, and/or recurring weekly, bi-weekly, monthly, bi-monthly, semi-monthly, quarterly, semi-annually, or annually (if and as available), and (c) Metavante's consumer service provider services ("CSP Services") that enable Customer to provide Web-based bill consolidation and presentment services via a branded Website.

A. Access. Customer shall comply with Metavante's requirements for making the Electronic Banking Services operational and available for Customer's and/or Customer's End Users. Customer agrees that Metavante is under no obligation to provide any End User with access to the Electronic Banking Services unless and until Customer has provided Metavante with all information and documentation required by Metavante for End User set-up.

B. End User Agreements. Customer shall be solely responsible for contracting with, and managing the relationship with, End Users of the Electronic Banking Services and for obtaining all necessary End User authorizations and consents. Metavante will not have a contractual relationship with End Users, and so must rely upon Customer to manage liability and risk issues. Customer will include appropriate provisions in its End User agreements regarding, and shall indemnify Metavante against, defend Metavante against, and hold Metavante harmless from claims arising from: (a) any End User's use of or inability to use the Electronic Banking Services, specifically including, without limitation, any End User's claim for economic loss or damages arising from the End User's use of the Internet Banking Services or Bill Payment Services; (b) transactions effected with a lost, stolen, counterfeit or misused access code or identification number issued by Customer to any End User. Customer and its End Users shall be responsible for selecting and safeguarding their passwords for using the Electronic Banking Services. As between Customer and Metavante, any use of the Electronic Banking

Services through use of a valid password shall be authorized use, provided that Metavante will cancel or disable passwords promptly following notification from Customer.

C. ACH Services. In providing ACH services for Customer, Metavante acts as Customer's third-party service provider and is not itself an "Originator," "ODFI," or "RDFI" (as defined under NACHA rules). Customer shall be responsible for compliance with all applicable laws, rules, and regulations regarding Customer's use of and/or access to the ACH services, including applicable rules and regulations of the National Automated Clearing House Association ("NACHA"). In particular and as applicable, Customer will provide its depositors with all disclosures required under state and federal law, as then required by applicable law or NACHA rules. Customer shall indemnify Metavante from, defend Metavante against, and hold Metavante harmless from any and all loss, claim, or liability to any Third Party from Customer's breach of the foregoing obligations. Upon notification from Customer of the occurrence of an error or omission with respect to an ACH entry, Metavante shall promptly furnish corrected ACH entry(ies) to the applicable ACH operator, unless the NACHA rules prohibit the processing of the correct ACH entry(ies). Metavante's liability to Customer for claims arising out of the ACH services performed by Metavante pursuant to this Agreement shall be limited to the processing of appropriate corrected ACH entry(ies).

D. Bill Payment Services.

(i) Customer understands that it is fully responsible for the availability of good funds necessary to settle the payment activities of its End Users initiated through the use of the Electronic Banking Services. Metavante shall either initiate debit ACH entries or paper drafts against each End User's designated account for bill payment activities initiated by the End User, or shall charge Customer's designated settlement account to fund such payments. Customer is and shall remain solely and exclusively responsible to Metavante for the entire amount of any payment processed for and on behalf of an End User which is not funded due to insufficient funds in the applicable settlement account or for any other reason outside Metavante's control. Customer shall reimburse Metavante for any amounts that Metavante determines, in its sole discretion, to be uncollectable from the End User. Metavante shall not be responsible for losses associated with payments to, or at the direction of, government agencies, organizations and institutions, or court directed payments. Customer shall be exclusively responsible for and, upon Metavante's demand, reimburse Metavante for, the amount of any such payments which Metavante reasonably believes it cannot collect from the End User for any reason.

(ii) Customer authorizes and directs Metavante to contact payees and End Users with respect to payments processed by Metavante. All payee data and Metavante's payee database shall be Metavante's property which may be used by Metavante without limitation for purposes of maintaining and providing "pay anyone" bill payment services for its customers. Metavante shall have the right to remit, stop, cancel, and manage payments and ACH re-issuance and returns as deemed most reasonable by Metavante. Metavante may set an expiration date for payment checks. From time to time, Metavante may contact End Users to recover payment errors (common sources of payment errors include: Incorrect recipient (payee), delivered incorrectly by the postal service, consolidation error directed the payment to an

incorrect party; stop payment request honored and funds re-credited to End User's Billable Account, but the check was paid; Metavante error; or duplicate payment made to payee). In the case of payment errors, Metavante will always contact the payee first to attempt direct retrieval of the funds. If Metavante is unable to retrieve the funds and the End User received benefit of the payment, Metavante may seek reimbursement from the End User.

E. Transferred Data. In the event that Customer transfers data from another service provider to Metavante to convert Customer's end users to Metavante's systems, Metavante will not be responsible for any errors, delays, or problems in providing the Services that arise from the quality, reliability, or currency of the transferred data, including, without limitation, late fees for payments that are delayed due to the conversion of inaccurate or outdated payee data. In addition, Customer shall reimburse Metavante, at Metavante's then-current rates for professional services, for any additional work that Metavante must perform to address claims or support arising from errors or inadequacies of transferred data.

4.6 ACH Services.

A. General. "ACH Services" means Services whereby Metavante will (i) initiate and/or receive automated clearing house debit and credit entries, and adjustments to debit entries and credit entries to Customer's account, (ii) credit and/or debit the same to such account. Customer authorizes Metavante to act as Customer's third-party processor for initiating, transmitting, and/or receiving ACH entries. If agreed to between Customer and Metavante, Metavante shall provide for the posting of ACH entries to Customer deposit accounts. Metavante shall provide reports to Customer showing errors and rejections resulting from ACH entries transmitted on behalf of Customer during a particular day. It shall be Customer's responsibility to review such reports and correct erroneous ACH entries.

B. Timing. Metavante shall make reasonable efforts to deliver ACH entries to Customer or to an ACH operator, as appropriate, prior to any applicable deadline for such delivery. Metavante does not guarantee timely delivery. Metavante shall have no liability to Customer as a result of any late delivery, except to the extent such late delivery is (i) caused by the willful misconduct of Metavante, and (ii) made more than 24 hours after its scheduled deadline.

C. NACHA Rules. In providing ACH Services for Customer, Metavante acts as Customer's third-party service provider and is not itself an "Operator," "Originator," "ODFI," or "RDFI" (as defined under NACHA rules). Customer shall be responsible for compliance with all applicable laws, rules, and regulations regarding Customer's use of and/or access to the ACH Services, including applicable rules and regulations of the National Automated Clearing House Association ("NACHA"). In particular and as applicable, (i) Customer will provide its depositors with all disclosures required under state and federal law and (ii) shall enter into an agreement with each party that will initiate ACH entries to accounts (an "Originator") prior to permitting the Originator to initiate ACH entries, as then required by law or applicable NACHA rules. Customer shall indemnify Metavante from, defend Metavante against, and hold Metavante harmless from any and all loss, claim, or liability to any Third Party from Customer's breach of the foregoing obligations. Upon notification from Customer of the occurrence of an error or

omission with respect to an ACH entry, Metavante shall promptly furnish corrected ACH entry(ies) to the applicable ACH operator, unless the NACHA rules prohibit the processing of the correct ACH entry(ies). Metavante's liability to Customer for claims arising out of the ACH Services performed by Metavante pursuant to this Agreement shall be limited to the processing of appropriate corrected ACH entry(ies).

5. FEES

5.1 Fee Structure. Customer agrees to pay fees for the Initial Services as set forth in the Services and Charges Schedule. If Customer elects to receive Services that are not specifically set forth in the Services and Charges Schedule, Customer agrees to pay fees as mutually agreed upon for such Services.

5.2 Pricing and Operational Assumptions. (Intentionally omitted)

5.3 Excluded Costs. The fees set forth in the Services and Charges Schedule do not include Expenses, late fees or charges, or Taxes, all of which shall be the responsibility of Customer.

5.4 Disputed Amounts. If Customer disputes any charge or amount on any invoice and such dispute cannot be resolved promptly through good-faith discussions between the parties, Customer shall pay the amounts due under this Agreement minus the disputed amount, and the parties shall diligently proceed to resolve such disputed amount. An amount will be considered disputed in good faith if (i) Customer delivers a written statement to Metavante, on or before the due date of the invoice, describing in detail the basis of the dispute and the amount being withheld by Customer, (ii) such written statement represents that the amount in dispute has been determined after due investigation of the facts and that such disputed amount has been determined in good faith, and (iii) all other amounts due from Customer that are not in dispute have been paid in accordance with the terms of this Agreement. In the event Customer notifies Metavante of a supposed billing error following payment of an invoice, the parties will work together in good faith to resolve the error.

5.5 Terms of Payment. Any and all amounts payable under this Agreement shall be due thirty (30) days following the date of invoice, unless otherwise provided in the Services and Charges Schedule. Undisputed charges not paid by the applicable due date shall be subject to annual interest at the rate of 12% or the highest rate permitted by law, whichever is lower. Customer is not required to pay monthly fees for Services it is not then receiving under the Agreement. Customer shall also pay any collection fees, court costs, reasonable attorneys' fees, and other fees, costs, and charges incurred by Metavante in collecting payment of the charges and any other amounts for which Customer is liable under the terms and conditions of this Agreement. Customer agrees to maintain a depository account with a financial institution reasonably acceptable to Metavante for the payment of amounts payable hereunder and hereby authorizes Metavante to initiate debit entries to such account for the payment of amounts payable hereunder. Customer agrees to provide Metavante with any and all information necessary for Metavante to initiate such debit entries via the Automated Clearing House (ACH) system.

5.6 Modification of Terms and Pricing. Provided total revenue (less pass through fees and one time fees) paid to Metavante for Services provided in a calendar year increases by a minimum of seven percent (7%) over the previous calendar year's revenue paid to Metavante, Metavante will waive the annual increase for the applicable year. In the event at least seven percent (7%) growth is not achieved, charges for all Services shall be subject to annual adjustments which shall not exceed, in aggregate effect, the lesser of (i) an annual rate of two percent (2%), or (ii) the change to the Employment Cost Index over the applicable period.

6. PERFORMANCE WARRANTY/DISCLAIMER OF ALL OTHER WARRANTIES

6.1 Performance Warranty. Metavante warrants that it will provide all Services in a commercially reasonable manner in material conformance with the applicable Documentation (the "Performance Warranty"). Where the parties have agreed upon Service Levels for any aspect of Metavante's performance, such Service Levels shall apply in lieu of the Performance Warranty. THIS PERFORMANCE WARRANTY IS SUBJECT TO THE WARRANTY EXCLUSIONS SET FORTH BELOW IN SECTION 6.2.

6.2 Performance Warranty Exclusions. Except as may be expressly agreed in writing by Metavante, Metavante's Performance Warranty does not apply to:

A. defects, problems, or failures caused by the Customer's nonperformance of obligations essential to Metavante's performance of its obligations; and/or

B. defects, problems, or failures caused by an event of *force majeure*.

6.3 DISCLAIMER OF ALL OTHER WARRANTIES. THIS PERFORMANCE WARRANTY, AND THE WARRANTIES IN ARTICLE 6 HEREOF, ARE IN LIEU OF, AND METAVANTE DISCLAIMS ANY AND ALL OTHER WARRANTIES, CONDITIONS, OR REPRESENTATIONS (EXPRESS OR IMPLIED, ORAL OR WRITTEN) WITH RESPECT TO THE SERVICES PROVIDED UNDER THIS AGREEMENT, INCLUDING, WITHOUT LIMITATION, ANY AND ALL IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS OR SUITABILITY FOR ANY PURPOSE (WHETHER OR NOT METAVANTE KNOWS, HAS REASON TO KNOW, HAS BEEN ADVISED, OR IS OTHERWISE IN FACT AWARE OF ANY SUCH PURPOSE), WHETHER ALLEGED TO ARISE BY LAW, BY REASON OF CUSTOM OR USAGE IN THE TRADE, OR BY COURSE OF DEALING. IN ADDITION, METAVANTE DISCLAIMS ANY WARRANTY OR REPRESENTATION TO ANY PERSON OTHER THAN CUSTOMER WITH RESPECT TO THE SERVICES PROVIDED UNDER THIS AGREEMENT.

7. MODIFICATION OR PARTIAL TERMINATION

7.1 Modifications to Services. Metavante may relocate, modify, amend, enhance, update, or provide an appropriate replacement for the software used to provide the Services, or any element of its systems or processes at any time or withdraw, modify, or amend any function of the Services, provided that neither the functionality of the Services nor any applicable Service Levels are materially adversely affected.

7.2 Partial Termination by Metavante. Except as may be provided in any Schedule, Metavante may, at any time, withdraw any of the Services upon providing one hundred eighty (180) days' prior written notice to Customer, provided that Metavante is withdrawing the Service(s) from its entire client base. Metavante may also terminate any function or any Services immediately upon any final regulatory, legislative, or judicial determination that providing such function or Services is inconsistent with applicable law or regulation or the rights of any Third Party. If Metavante terminates any Service pursuant to this paragraph, Metavante agrees to assist Customer, without additional charge, in identifying an alternate provider of such terminated Service.

7.3 Partial Termination by Customer. Except as may be provided in any Schedule, Customer agrees that, during the Term, Metavante shall be Customer's sole and exclusive provider of all Services. If Customer breaches the foregoing covenant, the same shall constitute a partial termination of this Agreement, and Customer shall pay Metavante the Termination Fee for the affected Service, as liquidated damages and not as a penalty.

8. TERMINATION/DEFAULT

8.1 Early Termination. The terms and conditions set forth on the Termination Fee Schedule of the Agreement shall govern the early termination of this Agreement (or any Service).

8.2 For Cause. If either party fails to perform any of its material obligations under this Agreement (a "Default") and does not cure such Default in accordance with this Section, then the non-defaulting party may, by giving notice to the other party, terminate this Agreement as of the date specified in such notice of termination, or such later date agreed to by the parties, and/or recover Damages. A party may terminate the Agreement in accordance with the foregoing if such party provides written notice to the defaulting party and either (a) the defaulting party does not cure the Default within thirty (30) days of the defaulting party's receipt of notice of the Default, if the Default is capable of cure within thirty (30) days, or (b) if the Default is not capable of cure within thirty (30) days, the defaulting party does not both (i) implement a plan to cure the Default within thirty (30) days of receipt of notice of the Default, and (ii) diligently carry-out the plan in accordance with its terms. The parties acknowledge and agree that a failure to pay any amount when due hereunder shall be a Default that is capable of being cured within thirty (30) days. The parties acknowledge and agree that any error in processing data, preparation or filing of a report, form, or file, or the failure to perform Services as required hereunder shall be satisfactorily cured upon the completion of accurate re-processing, the preparation or filing of the accurate report, form, or file, or the re-performance of the Services in accordance with applicable requirements, respectively.

8.3 For Insolvency. In addition to the termination rights set forth in Sections 8.1 and 8.2, subject to the provisions of Title 11, United States Code, if either party becomes or is declared insolvent or bankrupt, is the subject to any proceedings relating to its liquidation, insolvency or for the appointment of a receiver or similar officer for it, makes an assignment for the benefit of all or substantially all of its creditors, or enters into an agreement for the

composition, extension, or readjustment of all or substantially all of its obligations, or is subject to regulatory sanction by any Federal Regulator, then the other party may, by giving written notice to such party, may terminate this Agreement as of a date specified in such notice of termination; provided that the foregoing shall not apply with respect to any involuntary petition in bankruptcy filed against a party unless such petition is not dismissed within sixty (60) days of such filing.

9. LIMITATION OF LIABILITY/MAXIMUM DAMAGES ALLOWED

9.1 Equitable Relief. Either party may seek equitable remedies, including injunctive relief, for a breach of the other party's obligations under Article 13 of this Agreement, prior to commencing the dispute resolution procedures set forth in Section 11 below.

9.2 Exclusion of Incidental and Consequential Damages. Independent of, severable from, and to be enforced independently of any other provision of this Agreement, NEITHER PARTY WILL BE LIABLE TO THE OTHER PARTY (NOR TO ANY PERSON CLAIMING RIGHTS DERIVED FROM THE OTHER PARTY'S RIGHTS) IN CONTRACT, TORT (INCLUDING NEGLIGENCE), OR OTHERWISE, FOR INCIDENTAL, CONSEQUENTIAL, SPECIAL, PUNITIVE, OR EXEMPLARY DAMAGES OF ANY KIND—including lost profits, loss of business, or other economic damage, and further including injury to property, AS A RESULT OF BREACH OF ANY WARRANTY OR OTHER TERM OF THIS AGREEMENT, INCLUDING ANY FAILURE OF PERFORMANCE, REGARDLESS OF WHETHER THE PARTY LIABLE OR ALLEGEDLY LIABLE WAS ADVISED, HAD OTHER REASON TO KNOW, OR IN FACT KNEW OF THE POSSIBILITY THEREOF.

9.3 Maximum Damages Allowed. Notwithstanding any other provision of this Agreement, and for any reason, including breach of any duty imposed by this Agreement or independent of this Agreement, and regardless of any claim in contract, tort (including negligence) or otherwise, Metavante's total, aggregate liability under this Agreement shall in no circumstance exceed payments made to Metavante by Customer for the Services during the six (6) months prior to the act or event giving rise to such claim.

9.4 Statute of Limitations. No lawsuit or other action may be brought by either party hereto, or on any claim or controversy based upon or arising in any way out of this Agreement, after one (1) year from the date on which the cause of action arose regardless of the nature of the claim or form of action, whether in contract, tort (including negligence), or otherwise; provided, however, the foregoing limitation shall not apply to the collection of any amounts due Metavante under this Agreement.

9.5 Tort Claim Waiver. In addition to and not in limitation of any other provision of this Article 9, each party hereby knowingly, voluntarily, and intentionally waives any right to recover from the other party, and Customer waives any right to recover from any Eligible Provider, any economic losses or damages in any action brought under tort theories, including, misrepresentation, negligence and/or strict liability, and/or relating to the quality or performance of any products or services provided by Metavante. For purposes of this waiver, economic losses and damages include monetary losses or damages caused by a defective product or service

except personal injury or damage to other tangible property. Even if remedies provided under this Agreement shall be deemed to have failed of their essential purpose, neither party shall have any liability to the other party under tort theories for economic losses or damages.

9.6 Liquidated Damages. Customer acknowledges that Metavante shall suffer a material adverse impact on its business if this Agreement is terminated prior to expiration of the Term (except for Termination by Customer for Cause and except as this Agreement otherwise permits termination without payment of a termination fee), and that the resulting damages may not be susceptible of precise determination. Customer acknowledges that the Termination Fee is a reasonable approximation of such damages and shall be deemed to be liquidated damages and not a penalty.

9.7 Essential Elements. Customer and Metavante acknowledge and agree that the limitations contained in this Article 9 are essential to this Agreement, and that Metavante has expressly relied upon the inclusion of each and every provision of this Article 9 as a condition to executing this Agreement.

10. INSURANCE AND INDEMNITY

10.1 Insurance. Metavante shall maintain for its own protection fidelity bond coverage for its personnel; insurance coverage for loss from fire, disaster or other causes contributing to interruption of normal services, reconstruction of data file media and related processing costs; additional expenses incurred to continue operations; and business interruption to reimburse Metavante for losses resulting from suspension of the Services due to physical loss of equipment.

10.2 Indemnity.

A. Except as provided in 10.2B below, Customer shall indemnify Metavante from, defend Metavante against, and pay any final judgments awarded against Metavante, resulting from any claim brought by a Third Party against Metavante based on Customer's use of the Services to support its operations, Metavante's compliance with Customer's specifications or instructions, or Metavante's use of trademarks or data supplied by Customer.

B. Metavante shall indemnify Customer from, defend Customer against, and pay any final judgment awarded against Customer, resulting from any claim brought by a Third Party against Customer based on Metavante's alleged infringement of any patent, copyright, or trademark of such Third Party under the laws of the United States, unless and except to the extent that such infringement is caused by Metavante's compliance with Customer's unique specifications or instructions, or Metavante's use of trademarks or data supplied by Customer.

10.3 Indemnification Procedures. If any Third Party makes a claim covered by Section 10.2 against an indemnitee with respect to which such indemnitee intends to seek indemnification under this Section, such indemnitee shall give notice of such claim to the indemnifying party, including a brief description of the amount and basis therefor, if known. Upon giving such notice, the indemnifying party shall be obligated to defend such indemnitee

against such claim, and shall be entitled to assume control of the defense of the claim with counsel chosen by the indemnifying party, reasonably satisfactory to the indemnitee. The indemnitee shall cooperate fully with and assist the indemnifying party in its defense against such claim in all reasonable respects. The indemnifying party shall keep the indemnitee fully apprised at all times as to the status of the defense. Notwithstanding the foregoing, the indemnitee shall have the right to employ its own separate counsel in any such action, but the fees and expenses of such counsel shall be at the expense of the indemnitee. Neither the indemnifying party nor any indemnitee shall be liable for any settlement of action or claim effected without its consent. Notwithstanding the foregoing, the indemnitee shall retain, assume, or reassume sole control over all expenses relating to every aspect of the defense that it believes is not the subject of the indemnification provided for in this Section. Until both (a) the indemnitee receives notice from indemnifying party that it will defend, and (b) the indemnifying party assumes such defense, the indemnitee may, at any time after ten (10) days from the date notice of claim is given to the indemnifying party by the indemnitee, resist or otherwise defend the claim or, after consultation with and consent of the indemnifying party, settle or otherwise compromise or pay the claim. The indemnifying party shall pay all costs of indemnity arising out of or relating to that defense and any such settlement, compromise, or payment. The indemnitee shall keep the indemnifying party fully apprised at all times as to the status of the defense. Following indemnification as provided in this Section, the indemnifying party shall be subrogated to all rights of the indemnitee with respect to the matters for which indemnification has been made.

11. DISPUTE RESOLUTION

11.1 Representatives of Parties. All disputes arising under or in connection with this Agreement shall initially be referred to the representatives of each party who customarily manages the relationship between the parties. If such representatives are unable to resolve the dispute within five (5) Business Days after referral of the matter to them, the managers of the representatives shall attempt to resolve the dispute. If, after five (5) Business Days they are unable to resolve the dispute, senior executives of the parties shall attempt to resolve the dispute. If, after five (5) Business Days they are unable to resolve the dispute, the parties shall submit the dispute to the chief executive officers of the parties for resolution. Neither party shall commence legal proceedings with regard to a dispute until completion of the dispute resolution procedures set forth in this Section 11, except to the extent necessary to preserve its rights or maintain a superior position against other creditors or claimants.

11.2 Continuity of Performance. During the pendency of the dispute resolution proceedings described in this Article 11, Metavante shall continue to provide the Services so long as Customer shall continue to pay all undisputed amounts to Metavante in a timely manner.

12. AUTHORITY

12.1 Metavante. Metavante warrants that:

A. Metavante has the right to provide the Services hereunder, using all computer software required for that purpose.

B. Metavante is a corporation validly existing and in active status under the laws of the State of Wisconsin. It has all the requisite corporate power and authority to execute, deliver, and perform its obligations under this Agreement. The execution, delivery, and performance of this Agreement have been duly authorized by Metavante, and this Agreement is enforceable in accordance with its terms against Metavante. No approval, authorization, or consent of any governmental or regulatory authorities is required to be obtained or made by Metavante in order for Metavante to enter into and perform its obligations under this Agreement.

12.2 Customer. Customer warrants that:

A. Customer has all required licenses and approvals necessary to use the Services in the operation of its business.

B. Customer is validly existing and in good standing under the laws of the state of its incorporation or charter, or if a national bank, the United States of America. It has all the requisite corporate power and authority to execute, deliver, and perform its obligations under this Agreement. The execution, delivery, and performance of this Agreement have been duly authorized by Customer, and this Agreement is enforceable in accordance with its terms against Customer. No approval, authorization, or consent of any governmental or regulatory authorities is required to be obtained or made by Customer in order for Customer to enter into and perform its obligations under this Agreement.

C. In the event that Customer requests Metavante to disclose to any Third Party or to use any of Customer's Confidential Information (as defined in Section 13.3), and such Confidential Information is or may be subject to the Privacy Regulations, such disclosure or use shall be permitted by the Privacy Regulations and by any initial, annual, opt-out, or other privacy notice that Customer issued with respect to such Confidential Information pursuant to the Privacy Regulations.

13. CONFIDENTIALITY AND OWNERSHIP

13.1 Customer Data. Customer shall remain the sole and exclusive owner of all Customer Data and its Confidential Information (as defined in Section 13.3), regardless of whether such data is maintained on magnetic tape, magnetic disk, or any other storage or processing device. All such Customer Data and other Confidential Information shall, however, be subject to regulation and examination by the appropriate auditors and regulatory agencies to the same extent as if such information were on Customer's premises.

13.2 Metavante Systems. Customer acknowledges that it has no rights in any of Metavante's software, systems, documentation, guidelines, procedures, and similar related materials or any modifications thereof, unless and except as expressly granted under this Agreement.

13.3 Confidential Information. "Confidential Information" of a party shall mean all confidential or proprietary information and documentation of such party, whether or not marked

as such including, with respect to Customer, all Customer Data. Confidential Information shall not include: (a) information which is or becomes publicly available (other than by the party having the obligation of confidentiality) without breach of this Agreement; (b) information independently developed by the receiving party; (c) information received from a Third Party not under a confidentiality obligation to the disclosing party; or (d) information already in the possession of the receiving party without obligation of confidence at the time first disclosed by the disclosing party. The parties acknowledge and agree that the substance of the negotiations of this Agreement, and the terms of this Agreement are considered Confidential Information subject to the restrictions contained herein.

13.4 Obligations of the Parties. Except as permitted under this Section 13.4 and applicable law, neither party shall use, copy, sell, transfer, publish, disclose, display, or otherwise make any of the other party's Confidential Information available to any Third Party without the prior written consent of the other party. Each party shall hold the Confidential Information of the other party in confidence and shall not disclose or use such Confidential Information other than for the purposes contemplated by this Agreement and, to the extent that Confidential Information of Customer may be subject to the Privacy Regulations, as permitted by the Privacy Regulations, and shall instruct their employees, agents, and contractors to use the same care and discretion with respect to the Confidential Information of the other party or of any Third Party utilized hereunder that Metavante and Customer each require with respect to their own most confidential information, but in no event less than a reasonable standard of care, including the utilization of security devices or procedures designed to prevent unauthorized access to such materials. Each party shall instruct its employees, agents, and contractors (a) of its confidentiality obligations hereunder and (b) not to attempt to circumvent any such security procedures and devices. Each party's obligation under the preceding sentence may be satisfied by the use of its standard form of confidentiality agreement, if the same reasonably accomplishes the purposes here intended. All such Confidential Information shall be distributed only to persons having a need to know such information to perform their duties in conjunction with this Agreement. A party may disclose the other party's Confidential Information if required to do so by subpoena, court or regulatory order, or other legal process, provided the party notifies the disclosing party of its receipt of such process, and reasonably cooperates, at the disclosing party's expense, with efforts of the disclosing party to prevent or limit disclosure in response to such process.

13.5 Information Security. Metavante shall be responsible for establishing and maintaining an information security program that is designed to (i) ensure the security and confidentiality of Customer Data, (ii) protect against any anticipated threats or hazards to the security or integrity of Customer Data, (iii) protect against unauthorized access to or use of Customer Data that could result in substantial harm or inconvenience to Customer or any of its customers, and (iv) ensure the proper disposal of Customer Data. Customer shall be responsible for maintaining security for its own systems, servers, and communications links as necessary to (a) protect the security and integrity of Metavante's systems and servers on which Customer Data is stored, and (b) protect against unauthorized access to or use of Metavante's systems and servers on which Customer Data is stored. Metavante will (1) take appropriate action to address any incident of unauthorized access to Customer Data and (2) notify Customer as soon as possible of any incident of unauthorized access to Sensitive Customer Information and any other

breach in Metavante's security that materially affects Customer or Customer's customers. If the primary federal regulator for Customer is the Office of Thrift Supervision (the "OTS"), Metavante will also notify the OTS as soon as possible of any breach in Metavante's security that materially affects Customer or Customer's customers. Either party may change its security procedures from time to time as commercially reasonable to address operations risks and concerns in compliance with the requirements of this section.

13.6 Ownership and Proprietary Rights. Metavante reserves the right to determine the hardware, software, and tools to be used by Metavante in performing the Services. Metavante shall retain title and all other ownership and proprietary rights in and to the Metavante Proprietary Materials and Information, and any and all derivative works based thereon. Such ownership and proprietary rights shall include any and all rights in and to patents, trademarks, copyrights, and trade secret rights. Customer agrees that the Metavante Proprietary Materials and Information are not "work made for hire" within the meaning of U.S. Copyright Act, 17 U.S.C. Section 101.

13.7 The Privacy Regulations. In the event that Customer requests Metavante to disclose to any Third Party or to use any of Customer's Confidential Information, and such Confidential Information is or may be subject to the Privacy Regulations, Metavante reserves the right, prior to such disclosure or use, (a) to review any initial, annual, opt-out, or other privacy notice that Customer issued with respect to such Confidential Information pursuant to the Privacy Regulations, and if requested by Metavante, Customer shall promptly provide Metavante with any such notice, and (b) to decline to disclose to such Third Party or to use such Confidential Information if Metavante, in Metavante's sole discretion, believes that such disclosure or use is or may be prohibited by the Privacy Regulations or by any such notice.

13.8 Publicity. Neither party shall refer to the other party directly or indirectly in any media release, public announcement, or public disclosure relating to this Agreement or its subject matter, in any promotional or marketing materials, lists, or business presentations, without consent from the other party for each such use or release in accordance with this Section, provided that Metavante may include Customer's name in Metavante's customer list and may identify Customer as its customer in its sales presentations and marketing materials without obtaining Customer's prior consent. Notwithstanding the foregoing, at Metavante's request, Customer may agree to issue a joint press release prepared by Metavante to announce the relationship established by the parties hereunder. Customer agrees that such press release shall be deemed approved by Customer in the event that, within five (5) Business Days of receiving Metavante's proposed press release, Customer does not provide written notice to Metavante describing in reasonable detail Customer's objections to the press release. All other media releases, public announcements, and public disclosures by either party relating to this Agreement or the subject matter of this Agreement (each, a "Disclosure"), including promotional or marketing material, but not including (a) announcements intended solely for internal distribution, or (b) disclosures to the extent required to meet legal or regulatory requirements beyond the reasonable control of the disclosing party, shall be subject to review and approval, which approval shall not be unreasonably withheld, by the other party prior to release. Such approval shall be deemed to be given if a party does not object to a proposed Disclosure within five (5) Business Days of receiving same. Disputes regarding the reasonableness of objections to the

joint press release or any Disclosures shall be subject to the Dispute Resolution Procedures of Section 11.1 above.

14. REGULATORY COMPLIANCE AND ASSURANCES

14.1 Legal Requirements.

A. Customer shall be solely responsible for monitoring and interpreting (and for complying with, to the extent such compliance requires no action by Metavante) the Legal Requirements. Based on Customer's instructions, Metavante shall select the processing parameter settings, features, and options (collectively, the "Parameters") within Metavante's system that will apply to Customer. Customer shall be responsible for determining that such selections are consistent with the Legal Requirements and with the terms and conditions of any agreements between Customer and its clients. In making such determinations, Customer may rely upon the written descriptions of such Parameters contained in the User Manuals. Metavante shall perform system processing in accordance with the Parameters.

B. Subject to the foregoing, Metavante shall perform an on-going review of federal laws, rules, and regulations. Metavante shall maintain the features and functions set forth in the User Manuals for each of the Services in accordance with all changes in federal laws, rules, and regulations applicable to such features and functions, in a non-custom environment. For any new federal laws, rules, and regulations, Metavante will perform a business review, with input from Metavante's customers and user groups. If Metavante elects to support a new federal law, rule, or regulation through changes to the Metavante Software, Metavante shall develop and implement modifications to the Services to enable Customer to comply with such new federal laws, rules, and regulations.

C. In any event, Metavante shall work with Customer in developing and implementing a suitable procedure or direction to enable Customer to comply with federal and state laws, rules, and regulations applicable to the Services being provided by Metavante to Customer, including in those instances when Metavante has elected to, but it is not commercially practicable to, modify the Metavante Software prior to the regulatory deadline for compliance.

14.2 Regulatory Assurances. Metavante and Customer acknowledge and agree that the performance of these Services will be subject to regulation and examination by Customer's regulatory agencies to the same extent as if such Services were being performed by Customer. Upon request, Metavante agrees to provide any appropriate assurances to such agency and agrees to subject itself to any required examination or regulation. Customer agrees to reimburse Metavante for reasonable costs actually incurred due to any such examination or regulation that is performed primarily for the purpose of examining Services used by Customer if examination is directed primarily at Customer and not at similarly situated customers.

A **Notice Requirements.** Customer shall be responsible for complying with all regulatory notice provisions to any applicable governmental agency, which shall include providing timely and adequate notice to Federal Regulators as of the Effective Date of this

Agreement, identifying those records to which this Agreement shall apply and the location at which such Services are to be performed.

B Examination of Records. The parties agree that the records maintained and produced under this Agreement shall, at all times, be available at the Operations Center for examination and audit by governmental agencies having jurisdiction over the Customer's business, including any Federal Regulator. The Director of Examinations of any Federal Regulator or his or her designated representative shall have the right to ask for and to receive directly from Metavante any reports, summaries, or information contained in or derived from data in the possession of Metavante related to the Customer. Metavante shall notify Customer as soon as reasonably possible of any formal request by any authorized governmental agency to examine Customer's records maintained by Metavante, if Metavante is permitted to make such a disclosure to Customer under applicable law or regulations. Customer agrees that Metavante is authorized to provide all such described records when formally required to do so by a Federal Regulator.

C Audits. Metavante shall cause a Third Party review of its operations and related internal controls to be conducted annually by its independent auditors. Metavante shall provide to Customer, upon written request, one copy of the audit report resulting from such review.

14.3 IRS Filing. Customer represents it has complied with all laws, regulations, procedures, and requirements in attempting to secure correct tax identification numbers (TINs) for Customer's payees and customers and agrees to attest to this compliance by an affidavit provided annually.

15. DISASTER RECOVERY

15.1 Services Continuity Plan. Throughout the Term of the Agreement, Metavante shall maintain a Services Continuity Plan (the "Plan") in compliance with applicable regulatory requirements. Review and acceptance of the Plan, as may be required by any applicable regulatory agency, shall be the responsibility of Customer. Metavante shall cooperate with Customer in conducting such reviews as such regulatory agency may, from time to time, reasonably request. A detailed Executive Summary of the Plan has been provided to Customer. Updates to the Plan shall be provided to Customer without charge.

15.2 Relocation. If appropriate, Metavante shall relocate all affected Services to an alternate disaster recovery site as expeditiously as possible after declaration of a Disaster, and shall coordinate with Customer all requisite telecommunications modifications necessary to achieve full connectivity to the disaster recovery site, in material compliance with all regulatory requirements. "Disaster" shall have the meaning set forth in the Plan.

15.3 Resumption of Services. The Plan provides that, in the event of a Disaster, Metavante will be able to resume the Services in accordance therewith within the time periods specified in the Plan. In the event Metavante is unable to resume the Services to Customer within the time periods specified in the Plan, Customer shall have the right to terminate this

Agreement without payment of the Termination Fee upon written notice to Metavante delivered within forty-five (45) days after declaration of such Disaster.

15.4 Annual Test. Metavante shall test its Plan by conducting one (1) test annually and shall provide Customer with a description of the test results in accordance with applicable laws and regulations.

16. MISCELLANEOUS PROVISIONS

16.1 Equipment and Network. Customer shall obtain and maintain at its own expense its own data processing and communications equipment as may be necessary or appropriate to facilitate the proper use and receipt of the Services. Customer shall pay all installation, monthly, and other charges relating to the installation and use of communications lines between Customer's datacenter and the Operations Center, as set forth in the Network Schedule. Metavante maintains and will continue to maintain a network control center with diagnostic capability to monitor reliability and availability of the communication lines described in the Network Schedule, but Metavante shall not be responsible for the continued availability or reliability of such communications lines. Metavante agrees to provide services to install, configure, and support the wide-area network to interconnect Customer to the Operations Center as described in, and subject to the terms and conditions of, the Network Schedule.

16.2 Data Backup. Customer shall maintain adequate records for at least ten (10) Business Days, including backup on magnetic tape or other electronic media where transactions are being transmitted to Metavante, from which reconstruction of lost or damaged files or data can be made. Customer assumes all responsibility and liability for any loss or damage resulting from failure to maintain such records.

16.3 Balancing and Controls. Customer shall (a) on a daily basis, review all input and output, controls, reports, and documentation, to ensure the integrity of data processed by Metavante; and (b) on a daily basis, check exception reports to verify that all file maintenance entries and non-dollar transactions were correctly entered. Customer shall be responsible to notify Metavante immediately in the event of any error so that Metavante may initiate timely remedial action to correct any improperly processed data which these reviews disclose. In the event of any error by Metavante in processing any data or preparing any report or file, Metavante's sole responsibility, and Customer's sole remedy, shall be to correct the error by reprocessing the affected data or preparing and issuing a new file or report at no additional cost to Customer.

16.4 Future Acquisitions. Customer acknowledges that Metavante has established the Fee Schedule(s) and enters into this Agreement on the basis of Metavante's understanding of the Customer's current need for Services and Customer's anticipated future need for Services as a result of internally generated expansion of its customer base. If the Customer expands its operations by acquiring Control of additional financial institutions or if Customer experiences a Change in Control, the following provisions shall apply:

A. Acquisition of Additional Entities. If, after the Effective Date, Customer acquires Control of one or more financial holding companies, banks, savings and loan associations, or other financial institutions that are not currently Affiliates, Metavante agrees to provide Services for such new Affiliates, and such Affiliates shall automatically be included in the definition of "Customer"; provided that (i) the conversion of each new Affiliate must be scheduled at a mutually agreeable time (taking into account, among other things, the availability of Metavante conversion resources) and must be completed before Metavante has any obligation to provide Services to such new Affiliate; (ii) the Customer will be liable for any and all Expenses in connection with the conversion of such new Affiliate; and (iii) Customer shall pay conversion fees in an amount to be mutually agreed upon with respect to each new Affiliate. The estimated costs for the conversion/merger of institutions acquired by Customer to Metavante's systems is attached as Exhibit 1.

B. Change in Control of Customer. If a Change in Control occurs with respect to Customer, Metavante agrees to continue to provide Services under this Agreement; provided that (a) Metavante's obligation to provide Services shall be limited to the Entities comprising the Customer prior to such Change in Control and (b) Metavante's obligation to provide Services shall be limited in any and all circumstances to the number of accounts processed in the three (3) - month period prior to such Change in Control occurring, plus twenty-five percent (25%).

16.5 Transmission of Data. If the Services require transportation or transmission of data between Metavante and Customer, the responsibility and expense for transportation and transmission of, and the risk of loss for, data and media transmitted between Metavante and Customer shall be borne by Customer. Data lost by Metavante following receipt shall either be restored by Metavante from its backup media or shall be reprocessed from Customer's backup media at no additional charge to Customer.

16.6 Reliance on Data. Metavante will perform the Services described in this Agreement on the basis of information furnished by Customer. Metavante shall be entitled to rely upon any such data, information, directions, or instructions as provided by Customer (whether given by letter, memorandum, telegram, cable, telex, telecopy facsimile, computer terminal, e-mail, other "on line" system or similar means of communication, or orally over the telephone or in person), and shall not be responsible for any liability arising from Metavante's performance of the Services in accordance with Customer's instructions. Customer assumes exclusive responsibility for the consequences of any instructions Customer may give Metavante, for Customer's failure to properly access the Services in the manner prescribed by Metavante, and for Customer's failure to supply accurate input information. If any error results from incorrect input supplied by Customer, Customer shall be responsible for discovering and reporting such error and supplying the data necessary to correct such error to Metavante for processing at the earliest possible time.

16.7 Use of Services. Customer agrees that, except as otherwise permitted in this Agreement or in writing by Metavante, Customer will use the Services only for its own internal business purposes to service its *bona fide* customers and clients and will not sell or otherwise provide, directly or indirectly, any of the Services or any portion thereof to any Third Party.

Customer agrees that Metavante may use all suggestions, improvements, and comments regarding the Services that are furnished by Customer to Metavante in connection with this Agreement, without accounting or reservation. Unless and except to the extent that Metavante has agreed to provide customer support services for Customer, Customer shall be responsible for handling all inquiries of its customers relating to Services performed by Metavante, including inquiries regarding credits or debits to a depositor's account. Metavante agrees to reasonably assist Customer in responding to such inquiries by providing such information to Customer as Metavante can reasonably provide.

16.8 Financial Statements. Metavante agrees to furnish to the Customer copies of the then-current annual report for the Marshall & Ilsley Corporation, within forty-five (45) days after such document is made publicly available.

16.9 Solicitation. Neither party shall solicit the employees of the other party for employment during the Term of this Agreement, for any reason. The foregoing shall not preclude either party from employing any such employee (a) who seeks employment with the other party in response to any general advertisement or solicitation that is not specifically directed towards employees of such party or (b) who contacts the other party on his or her own initiative without any direct or indirect solicitation by such party.

17. GENERAL

17.1 Governing Law. The validity, construction and interpretation of this Agreement and the rights and duties of the parties hereto shall be governed by the internal laws of the State of Wisconsin, excluding its principles of conflict of laws.

17.2 Venue and Jurisdiction. In the event of litigation to enforce the terms of this Agreement, the parties consent to venue in the exclusive jurisdiction of the courts of Milwaukee County, Wisconsin, and the Federal District Court for the Eastern District of Wisconsin. The parties further consent to the jurisdiction of any federal or state court located within a district which encompasses assets of a party against which a judgment has been rendered, either through arbitration or litigation, for the enforcement of such judgment or award against such party or the assets of such party.

17.3 Entire Agreement; Amendments. This Agreement, together with the schedules hereto, constitutes the entire agreement between Metavante and the Customer with respect to the subject matter hereof. There are no restrictions, promises, warranties, covenants, or undertakings other than those expressly set forth herein and therein. This Agreement supersedes all prior negotiations, agreements, and undertakings between the parties with respect to such matter. This Agreement, including the schedules hereto, may be amended only by an instrument in writing executed by the parties or their permitted assignees.

17.4 Relationship of Parties. The performance by Metavante of its duties and obligations under this Agreement shall be that of an independent contractor and nothing contained in this Agreement shall create or imply an agency relationship between Customer and

Metavante, nor shall this Agreement be deemed to constitute a joint venture or partnership between Customer and Metavante.

17.5 Assignment. Neither this Agreement nor the rights or obligations hereunder may be assigned by either party, by operation of law or otherwise, without the prior written consent of the other party, which consent shall not be unreasonably withheld, provided that (a) Metavante's consent need not be obtained in connection with the assignment of this Agreement pursuant to a merger in which Customer is a party and as a result of which the surviving Entity becomes an Affiliate of another bank holding company, bank, savings and loan association or other financial institution, so long as the provisions of all applicable Schedules are complied with; and (b) Metavante may freely assign this Agreement (i) in connection with a merger, corporate reorganization, or sale of all or substantially all of its assets, stock, or securities, or (ii) to any Entity which is a successor to the assets or the business of Metavante.

17.6 Notices. Except as otherwise specified in the Agreement, all notices, requests, approvals, consents, and other communications required or permitted under this Agreement shall be in writing and shall be personally delivered or sent by (a) first-class U.S. mail, registered or certified, return receipt requested, postage pre-paid; or (b) U.S. express mail, or other, similar overnight courier service to the address specified below. Notices shall be deemed given on the day actually received by the party to whom the notice is addressed.

In the case of Customer:

Independent Bank Corporation
230 W. Main Street
Ionia, MI 48846
Attn.: _____

For Billing Purposes:

In the case of Metavante:

Metavante Corporation
4900 West Brown Deer Road
Milwaukee WI 53223
Attn: _____

Copy to:

Legal Services Division

17.7 Waiver. No delay or omission by either party to exercise any right or power it has under this Agreement shall impair or be construed as a waiver of such right or power. A waiver by any party of any breach or covenant shall not be construed to be a waiver of any succeeding breach or any other covenant. All waivers must be in writing and signed by the party waiving its rights.

17.8 Severability. If any provision of this Agreement is held by court or arbitrator of competent jurisdiction to be contrary to law, then the remaining provisions of this Agreement will remain in full force and effect. Articles 5, 8, 10, 13, and 17 shall survive the expiration or earlier termination of this Agreement for any reason.

17.9 Attorneys' Fees and Costs. If any legal action is commenced in connection with the enforcement of this Agreement or any instrument or agreement required under this Agreement, the prevailing party shall be entitled to costs, attorneys' fees actually incurred, and necessary disbursements incurred in connection with such action, as determined by the court.

17.10 No Third Party Beneficiaries. Each party intends that this Agreement shall not benefit, or create any right or cause of action in or on behalf of, any person or entity other than the Customer and Metavante.

17.11 Force Majeure. Notwithstanding any provision contained in this Agreement, neither party shall be liable to the other to the extent fulfillment or performance of any terms or provisions of this Agreement is delayed or prevented by revolution or other civil disorders; wars; acts of enemies; strikes; lack of available resources from persons other than parties to this Agreement; labor disputes; electrical equipment or availability failure; fires; floods; acts of God; federal, state or municipal action; statute; ordinance or regulation; or, without limiting the foregoing, any other causes not within its control, and which by the exercise of reasonable diligence it is unable to prevent, whether of the class of causes hereinbefore enumerated or not. This clause shall not apply to the payment of any sums due under this Agreement by either party to the other.

17.12 Negotiated Agreement. Metavante and Customer each acknowledge that the limitations and exclusions contained in this Agreement have been the subject of active and complete negotiation between the parties and represent the parties' voluntary agreement based upon the level of risk to Customer and Metavante associated with their respective obligations under this Agreement and the payments to be made to Metavante and the charges to be incurred by Metavante pursuant to this Agreement. The parties agree that the terms and conditions of this Agreement shall not be construed in favor of or against any party by reason of the extent to which any party or its professional advisors participated in the preparation of this document.

17.13 Waiver of Jury Trial. Each of Customer and Metavante hereby knowingly, voluntarily and intentionally waives any and all rights it may have to a trial by jury in respect of any litigation based on, or arising out of, under, or in connection with, this Agreement or any course of conduct, course of dealing, statements (whether verbal or written), or actions of Metavante or Customer, regardless of the nature of the claim or form of action, contract or tort, including negligence.

18. DEFINITIONS. The following terms shall have the meanings ascribed to them as follows:

A. "ACH" shall mean automated clearing house services.

B. "Affiliate" shall mean, with respect to a party, any Entity at any time Controlling, Controlled by, or under common Control with such party.

C. "Agreement" shall mean this master agreement and all schedules and exhibits attached hereto, which are expressly incorporated, any future amendments thereto, and any future schedules and exhibits added hereto by mutual agreement.

D. "Business Days" shall be Mondays through Fridays except holidays recognized by the Federal Reserve Board of Chicago.

E. "Change in Control" shall mean any event or series of events by which (i) any person or entity or group of persons or entities shall acquire Control of another person or entity or (ii) in the case of a corporation, during any period of twelve consecutive months commencing before or after the date hereof, individuals who, at the beginning of such twelve-month period, were directors of such corporation shall cease for any reason to constitute a majority of the board of directors of such corporation.

F. "Confidential Information" shall have the meaning set forth in Section 13.3.

G. "Consumer" shall mean an individual who obtains a financial product or service from Customer to be used primarily for personal, family, or household purposes and who has a continuing relationship with Customer.

H. "Contract Year" shall mean successive periods of twelve months, the first of which (being slightly longer than twelve (12) months) shall commence on the Commencement Date and terminate on the last day of the month in which the first anniversary of the Commencement Date occurs.

I. "Control" shall mean the direct or indirect ownership of over fifty percent (50%) of the capital stock (or other ownership interest, if not a corporation) of any Entity or the possession, directly or indirectly, of the power to direct the management and policies of such Entity by ownership of voting securities, by contract or otherwise. "Controlling" shall mean having Control of any Entity, and "Controlled" shall mean being the subject of Control by another Entity.

J. "Conversion" shall mean (i) the transfer of Customer's data processing and other information technology services to Metavante's systems; (ii) completion of upgrades, enhancements and software modifications as set forth in this Agreement; and (iii) completion of all interfaces set forth in this Agreement and full integration thereof such that Customer is able to receive the Initial Services in a live operating environment.

K. "Conversion Date" shall mean the date on which Conversion for Customer or a particular Affiliate has been completed.

L. "Customer" shall mean the Entity entering into this Agreement with Metavante and all Affiliates of such Entity for whom Metavante agrees to provide Services under this Agreement, as reflected on the first page of this Agreement or amendments executed after the Effective Date.

M. "Customer Data" means any and all data and information of any kind or nature submitted to Metavante by Customer, or received by Metavante on behalf of Customer, necessary for Metavante to provide the Services.

N. "Damages" shall mean actual and verifiable monetary obligations incurred, or costs paid (except overhead costs, attorneys' fees, and court costs) which (i) would not have been incurred or paid but for a party's action or failure to act in breach of this Agreement, and (ii) are directly and solely attributable to such breach, but excluding any and all consequential, incidental, punitive and exemplary damages, and/or other damages expressly excluded by the terms of this Agreement.

O. "Documentation" shall mean Metavante's standard user instructions relating to the Services, including tutorials, on-screen help, and operating procedures, as provided to Customer in written or electronic form.

P. "Effective Date" shall mean the date so defined on the signature page of this Agreement, or, if blank, the date executed by Metavante, as reflected in Metavante's records.

Q. "Effective Date of Termination" shall mean the last day on which Metavante provides the Services to Customer (excluding any services relating to termination assistance).

R. "Eligible Provider" shall have the meaning as set forth in Section 3.1.

S. "Employment Cost Index" shall mean the Employment Cost Index (not seasonally adjusted) as promulgated by the United States Department of Labor's Bureau of Labor Statistics (or any successor index).

T. "Entity" means an individual or a corporation, partnership, sole proprietorship, limited liability company, joint venture, or other form of organization, and includes the parties hereto.

U. "Estimated Remaining Value" shall mean the number of calendar months remaining between the Effective Date of Termination and the last day of the then current Term, multiplied by the average of the three (3) highest monthly fees (but in any event no less than the Monthly Base Fee or other monthly minimums) payable by Customer during the twelve (12) -month period prior to the event giving rise to termination rights under this Agreement. In the event the Effective Date of Termination occurs prior to expiration of the First Contract Year, the monthly fees used in calculating the Estimated Remaining Value shall be the greater of (i) the estimated monthly fees set forth in the Fee Schedule(s) and (ii) the average monthly fees described in the preceding sentence. For clarification purposes, one-time fees and pass through fees will not be included in the calculation of the Estimated Remaining Value.

V. "Expenses" shall mean any and all reasonable and direct expenses paid by Metavante to Third Parties in connection with Services provided to or on behalf of Customer under this Agreement, including any postage, supplies, materials, travel and lodging, and telecommunication fees, but not payments by Metavante to Eligible Providers.

W. "Federal Regulator" shall mean the Chief Examiner of the Federal Home Loan Bank Board, the Office of Thrift Supervision, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Federal Reserve Board, or their successors, as applicable.

X. "Fee Schedule" shall mean the portions of schedules containing fees and charges for services rendered to Customer under this Agreement.

Y. "Initial Services" shall mean all Services requested by Customer from Metavante under this Agreement prior to the Commencement Date. The Initial Services requested as of the Effective Date are set forth in the schedules attached hereto, which shall be modified to include any additional services requested by Customer prior to the Commencement Date.

Z. "Initial Term" shall mean the period set forth on the first page of this Agreement.

AA. "Legal Requirements" shall mean the federal and state laws, rules, and regulations pertaining to Customer's business.

BB. "Metavante Proprietary Materials and Information" shall mean the Metavante Software and all source code, object code, documentation (whether electronic, printed, written, or otherwise), working papers, non-customer data, programs, diagrams, models, drawings, flow charts, and research (whether in tangible or intangible form or in written or machine-readable form), and all techniques, processes, inventions, knowledge, know-how, trade secrets (whether in tangible or intangible form or in written or machine-readable form), developed by Metavante prior to or during the Term of this Agreement, and such other information relating to Metavante or the Metavante Software that Metavante identifies to Customer as proprietary or confidential at the time of disclosure.

CC. "Metavante Software" shall mean the software owned by Metavante and used to provide the Services.

DD. "Monthly Base Fee" shall mean the minimum monthly fees payable by Customer to Metavante as specifically set forth in the Services and Charges Schedule.

EE. "New Services" shall mean any services that are not included in the Initial Services but which, upon mutual agreement of the parties, are added to this Agreement. Upon such addition, New Services shall be included in the term "Services."

FF. "Performance Warranty" shall have the meaning set forth in Section 6.1.

GG. "Plan" shall have the meaning set forth in Section 15.1.

HH. "Privacy Regulations" shall mean the regulations promulgated under Section 504 of the Gramm-Leach-Bliley Act, Pub. L. 106-102, as such regulations may be amended from time to time.

II. "Professional Services" shall mean services provided by Metavante for Conversion, training, and consulting, and services provided by Metavante to review or implement New Services or enhancements to existing Services.

JJ. "Sensitive Customer Information" shall mean Customer Data with respect to a Consumer that is (a) such Consumer's name, address or telephone number, in conjunction with such Consumer's Social Security number, account number, credit or debit card number, or a personal identification number or password that would permit access to such Consumer's account or (b) any combination of components of information relating to such Consumer that would allow a person to log onto or access such Consumer's account, such as user name and password or password and account number.

KK. "Services" shall mean the services, functions, and responsibilities described in this Agreement to be performed by Metavante during the Term and shall include New Services that are agreed to by the parties in writing.

LL. "Service Levels" shall mean those service levels set forth in the Service Level Schedule.

MM. "Taxes" shall mean any manufacturers, sales, use, gross receipts, excise, personal property, or similar tax or duty assessed by any governmental or quasi-governmental authority upon or as a result of the execution or performance of any service pursuant to this Agreement or materials furnished with respect to this Agreement, except any income, franchise, privilege, or similar tax on or measured by Metavante's net income, capital stock, or net worth.

NN. "Term" shall mean the Initial Term and any extension thereof, unless this Agreement is earlier terminated in accordance with its provisions.

OO. "Termination Fee" shall have the meaning set forth on the Termination Fee Schedule.

PP. "Third Party" shall mean any Entity other than the parties or any Affiliates of the parties.

QQ. "User Manuals" shall mean the documentation provided by Metavante to Customer which describes the features and functionalities of the Services, as modified and updated by the customer bulletins distributed by Metavante from time to time.

Computation of Earnings Per Share

See Note 5. of Notes to Interim Consolidated Financial Statements for a reconciliation of basic and diluted earnings per share for the three-month period ending March 31, 2006.

CERTIFICATION

I, Michael M. Magee, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Independent Bank Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

INDEPENDENT BANK CORPORATION

Date: May 5, 2006

/s/ Michael M. Magee, Jr.

Michael M. Magee, Jr.
Chief Executive Officer

CERTIFICATION

I, Robert N. Shuster, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Independent Bank Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

INDEPENDENT BANK CORPORATION

Date: May 5, 2006

/s/ Robert N. Shuster
Robert N. Shuster
Chief Financial Officer

CERTIFICATE OF THE
CHIEF EXECUTIVE OFFICER OF
INDEPENDENT BANK CORPORATION

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350):

I, Michael M. Magee, Jr., Chief Executive Officer of Independent Bank Corporation, certify, to the best of my knowledge and belief, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350) that:

(1) The quarterly report on Form 10-Q for the quarterly period ended March 31, 2006, which this statement accompanies, fully complies with requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and;

(2) The information contained in this quarterly report on Form 10-Q for the quarterly period ended March 31, 2006, fairly presents, in all material respects, the financial condition and results of operations of Independent Bank Corporation.

INDEPENDENT BANK CORPORATION

Date: May 5, 2006

/s/ Michael M. Magee, Jr.

Michael M. Magee, Jr.
Chief Executive Officer

The signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Independent Bank Corporation and will be retained by Independent Bank Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE OF THE
CHIEF FINANCIAL OFFICER OF
INDEPENDENT BANK CORPORATION

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350):

I, Robert N. Shuster, Chief Financial Officer of Independent Bank Corporation, certify, to the best of my knowledge and belief, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350) that:

(1) The quarterly report on Form 10-Q for the quarterly period ended March 31, 2006, which this statement accompanies, fully complies with requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and;

(2) The information contained in this quarterly report on Form 10-Q for the quarterly period ended March 31, 2006, fairly presents, in all material respects, the financial condition and results of operations of Independent Bank Corporation.

INDEPENDENT BANK CORPORATION

Date: May 5, 2006

/s/ Robert N. Shuster

Robert N. Shuster
Chief Financial Officer

The signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Independent Bank Corporation and will be retained by Independent Bank Corporation and furnished to the Securities and Exchange Commission or its staff upon request.