SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

x Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2012 or

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

Commission file number 0-7818

INDEPENDENT BANK CORPORATION

(Exact name of Registrant as specified in its charter)

MICHIGAN	38-2032782
(State or other jurisdiction of incorporation)	(I.R.S. employer identification no.)
230 W. Main St., P.O. Box 491, Ionia, Michigan	48846
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (616) 527-5820

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

Common Stock, No Par Value	NASDAQ
(Title of class)	(Name of Exchange)
8.25% Cumulative Trust Preferred Securities	NASDAQ
(Title of class)	(Name of Exchange)

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company.

Large accelerated filer o Accelerated filer o Non-accelerated filer o Smaller reporting Company x

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

The aggregate market value of common stock held by non-affiliates of the Registrant as of June 30, 2012, was $20,699,847.

The number of shares outstanding of the Registrant's common stock as of March 12, 2013 was 9,424,996.

Documents incorporated by reference

Portions of our definitive proxy statement, and annual report, to be delivered to shareholders in connection with the April 23, 2013 Annual Meeting of Shareholders are incorporated by reference into Part I, Part II, Part III, and Part IV of this Form 10-K.

The Exhibit Index appears on Pages 42-44

FORWARD-LOOKING STATEMENTS

Discussions and statements in this Annual Report on Form 10-K that are not statements of historical fact, including, without limitation, statements that include terms such as "will," "may," "should," "believe," "expect," "forecast," "anticipate," "estimate," "project," "intend," "likely," "optimistic" and "plan," and statements about future or projected financial and operating results, plans, projections, objectives, expectations, and intentions and other statements that are not historical facts, are forward-looking statements. Forward-looking statements include, but are not limited to, descriptions of plans and objectives for future operations, products or services; projections of our future revenue, earnings or other measures of economic performance; forecasts of credit losses and other asset quality trends; predictions as to our bank's ability to maintain certain regulatory capital standards; our expectation that we will have sufficient cash on hand to meet expected obligations during 2013; and descriptions of steps we may take to improve our capital position. These forward-looking statements express our current expectations, forecasts of future events, or long-term goals and, by their nature, are subject to assumptions, risks, and uncertainties. Although we believe that the expectations, forecasts, and goals reflected in these forward-looking statements are reasonable, actual results could differ materially for a variety of reasons, including, among others:

- *our ability to effect a conversion of our outstanding preferred stock held by the U.S. Treasury into our common stock, exit the Troubled Asset Relief Program ("TARP") and otherwise implement our capital plan;*
- *the failure of assumptions underlying the establishment of and provisions made to our allowance for loan losses;*
- *the timing and pace of an economic recovery in Michigan and the United States in general, including regional and local real estate markets;*
- *the ability of our bank to remain well-capitalized;*
- *the failure of assumptions underlying our estimate of probable incurred losses from vehicle service contract payment plan counterparty contingencies, including our assumptions regarding future cancellations of vehicle service contracts, the value to us of collateral that may be available to recover funds due from our counterparties, and our ability to enforce the contractual obligations of our counterparties to pay amounts owing to us;*
- *further adverse developments in the vehicle service contract industry;*
- *potential limitations on our ability to access and rely on wholesale funding sources;*
- *the risk that sales of our common stock could trigger a reduction in the amount of net operating loss carryforwards that we may be able to utilize for income tax purposes;*
- *the continued services of our management team; and*
- *implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act or other new legislation, which may have significant effects on us and the financial services industry, the exact nature and extent of which cannot be determined at this time.*

This list provides examples of factors that could affect the results described by forward-looking statements contained in this Annual Report on Form 10-K, but the list is not intended to be all inclusive. The risk factors disclosed in Part I – Item 1A below include all known risks our management believes could materially affect the results described by forward-looking statements in this report. However, those risks may not be the only risks we face. Our results of operations, cash flows, financial position, and prospects could also be materially and adversely affected by additional factors that are not presently known to us, that we currently consider to be immaterial, or that develop after the date of this report. We cannot assure you that our future results will meet expectations. While we believe the forward-looking statements in this report are reasonable, you should not place undue reliance on any forward-looking statement. In addition, these statements speak only as of the date made. We do not undertake, and expressly disclaim, any obligation to update or alter any statements, whether as a result of new information, future events, or otherwise, except as required by applicable law.

PART I

ITEM 1. BUSINESS

Independent Bank Corporation was incorporated under the laws of the State of Michigan on September 17, 1973, for the purpose of becoming a bank holding company. We are registered under the Bank Holding Company Act of 1956, as amended, and own the outstanding stock of Independent Bank (the "bank") which is organized under the laws of the State of Michigan.

Aside from the stock of our bank, we have no other substantial assets. We conduct no business except for the collection of dividends from our bank and the payment of dividends to our shareholders and the payment of interest on subordinated debentures. Currently we are not paying any dividends on our common stock or preferred stock and are deferring interest on our subordinated debentures. Certain employee retirement plans (including employee stock ownership and deferred compensation plans) as well as health and other insurance programs have been established by us. The costs of these plans are borne by our subsidiaries.

We have no material patents, trademarks, licenses or franchises except the corporate franchise of our bank which permits it to engage in commercial banking pursuant to Michigan law.

Our bank's main office location is Ionia, Michigan and it had total loans (excluding loans held for sale) and total deposits of $1.419 billion and $1.780 billion, respectively, at December 31, 2012.

Our bank transacts business in the single industry of commercial banking. Most of our bank's offices provide full-service lobby and drive-thru services in the communities they serve. Automatic teller machines are also provided at most locations.

Our bank's activities cover all phases of banking, including checking and savings accounts, commercial lending, direct and indirect consumer financing, mortgage lending and safe deposit box services. Mepco Finance Corporation, a subsidiary of our bank, acquires and services payment plans used by consumers to purchase vehicle service contracts provided and administered by third parties. In addition, our bank offers title insurance services through a separate subsidiary and provides investment and insurance services through a third party agreement with Cetera Investment Services LLC. Our bank does not offer trust services. Our principal markets are the rural and suburban communities across Lower Michigan that are served by our bank's branch network. Our bank serves its markets through its main office and a total of 72 branches, 2 drive-thru facilities and 3 loan production offices.

Our bank competes with other commercial banks, savings banks, credit unions, mortgage banking companies, securities brokerage companies, insurance companies, and money market mutual funds. Many of these competitors have substantially greater resources than we do and offer certain services that we do not currently provide. Such competitors may also have greater lending limits than our bank. In addition, non-bank competitors are generally not subject to the extensive regulations applicable to us.

Price (the interest charged on loans and/or paid on deposits) remains a principal means of competition within the financial services industry. Our bank also competes on the basis of service and convenience in providing financial services.

The principal sources of revenue, on a consolidated basis, are interest and fees on loans, other interest income and non-interest income. The sources of revenue for the three most recent years are as follows:

	2012	2011	2010
Interest and fees on loans	57.5%	68.4%	64.5%
Other interest income	3.5	2.6	3.0
Non-interest income	39.0	29.0	32.5
	100.0%	100.0%	100.0%

As of December 31, 2012, we had 755 full-time employees and 179 part-time employees.

ITEM 1. BUSINESS (Continued)

Recent Developments

Since 2009, we have been focused on strengthening our capital base in the face of generally weak economic conditions. Our bank began to experience rising levels of non-performing loans and higher provisions for loan losses in 2006 as the Michigan economy experienced economic stress ahead of national trends. In response to these difficult market conditions and the significant losses that we incurred from 2008 through 2011 that reduced our capital, we have taken steps or initiated actions designed to increase our capital ratios, improve our operations and augment our liquidity.

In 2009, we retained financial and legal advisors to assist us in reviewing our capital alternatives. We also took steps at that time to preserve our capital, including discontinuing cash dividends on our common stock and exercising our right to defer all quarterly distributions on our outstanding trust preferred securities and the preferred stock we issued to the U.S. Department of the Treasury (the "Treasury") pursuant to the Troubled Asset Relief Program ("TARP"). In December 2009, the Board of Directors of our bank adopted resolutions requiring our bank to achieve certain minimum capital ratios. The minimum ratios established by our bank's Board are higher than the minimum ratios necessary to be considered well-capitalized under federal regulatory standards, which we considered prudent given our elevated levels of non-performing assets and the continuing economic stress in Michigan. Set forth below are the minimum capital ratios imposed by our bank's Board and the minimum ratios necessary to be considered well-capitalized under federal regulatory standards:

	Independent Bank - Actual as of December 31, 2012	Minimum Ratios Established by Our Board	Required to be Well-Capitalized
Total Capital to Risk-Weighted Assets	14.95%	11.00%	10.00%
Tier 1 Capital to Average Total Assets	8.26%	8.00%	5.00%

In January 2010, our Board of Directors adopted a capital restoration plan (the "Capital Plan") that documented our objectives and plans for meeting these ratios. The three primary initiatives of our Capital Plan were:

- the conversion of our 72,000 shares of Series A Fixed Rate Cumulative Perpetual Preferred Stock, with an original liquidation preference of $1,000 per share ("Series A Preferred Stock") issued to the Treasury under the Capital Purchase Program ("CPP") of TARP into shares of our common stock;
- an offer to exchange shares of our common stock for our outstanding trust preferred securities; and
- a public offering of our common stock for cash.

In anticipation of pursuing these capital initiatives, we engaged independent third parties to perform a review ("stress test") on our commercial and retail loan portfolios to confirm that the similar analyses we performed internally were reasonable and did not materially understate our projected loan losses. Based on the conclusions of these reviews, which were completed in January 2010, we determined that we did not need to modify our projections used for purposes of our Capital Plan.

To date, we have made progress on a number of initiatives to advance the Capital Plan:

- On January 29, 2010, we held a special shareholder meeting at which our shareholders approved (1) an increase in the number of shares of common stock we are authorized to issue from 60 million to 500 million, (2) the conversion of the preferred stock held by the Treasury into shares of our common stock, (3) the issuance of shares of our common stock in exchange for our outstanding trust preferred securities, and (4) an option exchange program pursuant to which our employees (excluding directors and certain executive officers) were able to exchange underwater options for new options at approximately a value-for-value exchange. This option exchange was completed in March 2010.

- On April 16, 2010, we closed an Exchange Agreement with the Treasury pursuant to which the Treasury exchanged $72 million in aggregate liquidation value of our Series A Preferred Stock, plus approximately $2.4 million in accrued but unpaid dividends on such shares, into 74,426 shares of our Series B Fixed Rate Cumulative Mandatorily Convertible Preferred Stock, with an original liquidation preference of $1,000 per share ("Series B Convertible Preferred Stock"). As part of this exchange, we also amended and restated the terms of the Warrant issued to the Treasury in December 2008 to purchase 346,154 shares of our common stock in order to adjust the initial exercise price of the Warrant to be equal to the conversion price applicable to the Series B Convertible Preferred Stock.

  The shares of Series B Convertible Preferred Stock are convertible into shares of our common stock. Subject to the receipt of applicable approvals, the Treasury has the right to convert the Series B Convertible Preferred Stock into our common stock at any time. We have the right to compel a conversion of the Series B Convertible Preferred Stock into our common stock at any time provided the following conditions are met:

  (1) we receive appropriate approvals from the Board of Governors of the Federal Reserve System (the "Federal Reserve");
  (2) at least $40 million aggregate liquidation amount of our trust preferred securities are exchanged for shares of our common stock;
  (3) we complete a new cash equity raise of not less than $100 million on terms acceptable to the Treasury in its sole discretion (other than with respect to the price offered per share); and
  (4) we make any required anti-dilution adjustments to the rate at which the Series B Convertible Preferred Stock is converted into our common stock.

- On June 23, 2010, we completed the exchange of an aggregate of 5,109,125 newly issued shares of our common stock for $41.4 million in aggregate liquidation amount of our outstanding trust preferred securities and $2.3 million of accrued and unpaid interest. This transaction satisfied one of the conditions to our ability to compel a conversion of the Series B Convertible Preferred Stock held by the Treasury.

- On August 31, 2010, we effected a reverse stock split of our issued and outstanding common stock. Pursuant to this reverse split, each 10 shares of our common stock issued and outstanding immediately prior to the reverse split was converted into 1 share of our common stock. We conducted this reverse split primarily as a means to maintain our share price above $1.00 per share in order to continue to meet Nasdaq listing standards. All share or per share information included in this Annual Report on Form 10-K has been retroactively restated to reflect the effects of the reverse split.

We have taken steps toward the advancement of the final phase of our Capital Plan, an offering of our common stock for cash, but have not commenced such offering. The offering has currently been delayed while we reevaluate our strategic alternatives in consultation with our financial advisors and the U.S. Treasury. In particular, we are evaluating the merits of a smaller capital raise with a goal of preserving the potential future use of our net deferred tax asset, which totaled approximately $65.1 million as of December 31, 2012, and on which we had established a full valuation allowance. As of December 31, 2012, we met both of the target capital ratios set forth in our Capital Plan.

In addition to the forgoing, on July 7, 2010 we executed an Investment Agreement and Registration Rights Agreement with Dutchess Opportunity Fund, II, LP ("Dutchess") for the sale of shares of our common stock. These agreements serve to establish an equity line facility as a contingent source of liquidity at the parent company level. Pursuant to the Investment Agreement, Dutchess committed to purchase up to $15.0 million of our common stock over a 36-month period ending November 1, 2013. We have the right, but no obligation, to draw on this equity line facility from time to time during such 36-month period by selling shares of our common stock to Dutchess. The sales price is at a 5% discount to the market price of our common stock at the time of the draw (as such market price is determined pursuant to the terms of the Investment Agreement). Through December 31, 2012, we have sold a total of 1.230 million shares (0.453 million shares, 0.433 million shares and 0.345 million shares during 2012, 2011 and 2010, respectively) of our common stock to Dutchess under this equity line for total net proceeds of approximately $3.2 million. As of December 31, 2012 we have shareholder approval to sell approximately 2.8 million additional shares under this equity line. Based on our closing stock price on December 31, 2012, additional funds available under the Investment Agreement totaled approximately $9.7 million at December 31, 2012.

On December 7, 2012 we sold 21 branches to another financial institution (the "Branch Sale"). The branches sold included six branch locations in the Battle Creek, Michigan market area and 15 branch locations in Northeast Michigan.

The Branch Sale resulted in the transfer of approximately $403.1 million of deposits in exchange for our receipt of a deposit premium of approximately $11.5 million. We also sold approximately $48.0 million of loans at a discount of 1.75% and premises and equipment totaling approximately $8.1 million. The Branch Sale also resulted in our transfer of $336.1 million of cash to the purchaser. We recorded a net gain on the Branch Sale of approximately $5.4 million. This gain is net of an allocation of $2.6 million of existing core deposit intangibles, a $2.5 million loss on the sale of premises and equipment, a $0.2 million loss on the sale of loans and $0.8 million in transaction and other related net costs.

During the third quarter of 2012 we adopted a plan to close or consolidate nine branch offices. Seven of the nine branch offices were closed in November 2012. The remaining two branch offices will be closed during the first half of 2013. As of year end 2012, six of the nine branches had been sold (or otherwise disposed).

On October 25, 2011, the respective Boards of Directors of the holding company and our bank entered into a Memorandum of Understanding (the "MOU") with the Federal Reserve and the Michigan Office of Financial and Insurance Regulation (the "OFIR"). The MOU largely duplicates certain of the provisions in the Board resolutions described above, but also has the following specific requirements:

- Submission of a joint revised capital plan by November 30, 2011 to maintain sufficient capital at the holding company on a consolidated basis and at the bank on a stand-alone basis;
- Submission of quarterly progress reports regarding disposition plans for any assets in excess of $1.0 million that are in ORE, are 90 days or more past due, are on our "watch list," or were adversely classified in our most recent examination;
- Enhanced reporting and monitoring at Mepco regarding risk management and the internal classification of assets; and
- Enhanced interest rate risk modeling practices.

We believe we have met all of the requirements of the MOU.

Supervision and Regulation

The following is a summary of certain statutes and regulations affecting us. This summary is qualified in its entirety by reference to the particular statutes and regulations. A change in applicable laws or regulations may have a material effect on us and our bank.

General

Financial institutions and their holding companies are extensively regulated under federal and state law. Consequently, our growth and earnings performance can be affected not only by management decisions and general and local economic conditions, but also by the statutes administered by, and the regulations and policies of, various governmental regulatory authorities. Those authorities include, but are not limited to, the Federal Reserve, the Federal Deposit Insurance Corporation (the "FDIC"), the OFIR, the Internal Revenue Service, and state taxing authorities. The effect of such statutes, regulations and policies and any changes thereto can be significant and cannot necessarily be predicted.

Federal and state laws and regulations generally applicable to financial institutions and their holding companies regulate, among other things, the scope of business, investments, reserves against deposits, capital levels, lending activities and practices, the nature and amount of collateral for loans, the establishment of branches, mergers, consolidations and dividends. The system of supervision and regulation applicable to us establishes a comprehensive framework for our operations and is intended primarily for the protection of the FDIC's deposit insurance funds, our depositors, and the public, rather than our shareholders.

Federal law and regulations establish supervisory standards applicable to the lending activities of our bank, including internal controls, credit underwriting, loan documentation and loan-to-value ratios for loans secured by real property.

Regulatory Developments

Emergency Economic Stabilization Act of 2008. On October 3, 2008, Congress enacted the Emergency Economic Stabilization Act of 2008 ("EESA"). The EESA enables the federal government, under terms and conditions developed by the Treasury, to insure troubled assets, including mortgage-backed securities, and collect premiums from participating financial institutions. The EESA includes, among other provisions: (a) the $700 billion Troubled Assets Relief Program (TARP), under which the Treasury is authorized to purchase, insure, hold, and sell a wide variety of financial instruments, particularly those that are based on or related to residential or commercial mortgages originated or issued on or before March 14, 2008; and (b) an increase in the amount of deposit insurance provided by the FDIC. Both of these specific provisions are discussed below.

Troubled Assets Relief Program (TARP). Under TARP, the Treasury authorized a voluntary Capital Purchase Program (CPP) to purchase senior preferred shares of qualifying financial institutions that elected to participate. Participating companies must adopt certain standards for executive compensation, including (a) prohibiting "golden parachute" payments (as defined in the EESA) to senior executive officers; (b) requiring recovery of any compensation paid to senior executive officers based on criteria that is later proven to be materially inaccurate; and (c) prohibiting incentive compensation that encourages unnecessary and excessive risks that threaten the value of the financial institution. The terms of the CPP also limit certain uses of capital by the issuer, including repurchases of company stock and increases in dividends.

On December 12, 2008, we participated in the CPP and issued $72 million in capital to the Treasury in the form of Series A Preferred Stock that paid cash dividends at the rate of 5% per annum through February 14, 2014, and 9% per annum thereafter. In addition, the Treasury received a Warrant to purchase 346,154 shares of our common stock at a price of $31.20 per share. As described above, on April 16, 2010, we closed on an exchange transaction with the Treasury in which the Treasury accepted our newly issued shares of Series B Convertible Preferred Stock in exchange for the entire $72 million in aggregate liquidation value of the shares of Series A Preferred Stock, plus the value of all accrued and unpaid dividends on such shares of Series A Preferred Stock (approximately $2.4 million). The shares of Series B Convertible Preferred Stock have an aggregate liquidation amount equal to $74,426,000.

With the exception of being convertible into shares of our common stock, the terms of the Series B Convertible Preferred Stock are substantially similar to the terms of the Series A Preferred Stock that were exchanged. The Series B Convertible Preferred Stock qualifies as Tier 1 regulatory capital, subject to limitations, and is entitled to cumulative dividends quarterly at a rate of 5% per annum through February 14, 2014, and 9% per annum thereafter. The Series B Convertible Preferred Stock is non-voting, other than class voting rights on certain matters that could adversely affect the Series B Convertible Preferred Stock. If dividends on the Series B Convertible Preferred Stock have not been paid for an aggregate of six quarterly dividend periods or more, whether consecutive or not, the holders of the Series B Convertible Preferred Stock, voting together with holders of any then outstanding voting parity stock, have the right to elect two additional directors at our next annual meeting of shareholders or at a special meeting of shareholders called for that purpose. These directors would be elected annually and serve until all accrued and unpaid dividends on the Series B Convertible Preferred Stock have been paid. Because we have deferred dividends on the Series B Convertible Preferred Stock for at least six quarterly dividend periods, the Treasury currently has the right to elect two directors to our board. At this time, in lieu of electing such directors, the Treasury requested us to allow (and we agreed) an observer to attend our Board of Directors meetings beginning in the third quarter of 2011. The Treasury continues to retain the right to elect two directors as described above.

The Treasury (and any subsequent holder of the shares) has the right to convert the Series B Convertible Preferred Stock into our common stock at any time, subject to the receipt of any applicable approvals. We have the right to compel a conversion of the Series B Convertible Preferred Stock into our common stock if the following conditions are met:

- we receive appropriate approvals from the Federal Reserve;
- at least $40 million aggregate liquidation amount of trust preferred securities have been exchanged for our common stock;
- we complete a new cash equity raise of not less than $100 million on terms acceptable to the Treasury in its sole discretion (other than with respect to the price offered per share); and
- we make any required anti-dilution adjustments to the rate at which the Series B Convertible Preferred Stock is converted into our common stock.

If converted by the Treasury (or any subsequent holder) or by us pursuant to either of the above-described conversion rights, each share of Series B Convertible Preferred Stock (liquidation amount of $1,000 per share) will convert into a number of shares of our common stock equal to a fraction, the numerator of which is $750 and the denominator of which is $7.234, referred to as the "conversion rate," provided that such conversion rate will be subject to certain anti-dilution adjustments. If converted by the holder or by us pursuant to either of the above-described conversion rights, as of December 31, 2012, the Series B Convertible Preferred Stock and accrued and unpaid dividends would have been convertible into approximately 10.7 million shares of our common stock. This conversion rate will be subject to certain anti-dilution adjustments that may result in a greater number of shares being issued to the holder of the Series B Convertible Preferred Stock.

Unless earlier converted by the Treasury (or any subsequent holder) or by us as described above, the Series B Convertible Preferred Stock will convert into shares of our common stock on a mandatory basis on April 16, 2017. In any such mandatory conversion, each share of Series B Convertible Preferred Stock (liquidation amount of $1,000 per share) will convert into a number of shares of our common stock equal to a fraction, the numerator of which is $1,000 and the denominator of which is the market price of our common stock at the time of such mandatory conversion (as such market price is determined pursuant to the terms of the Series B Convertible Preferred Stock).

At the time any shares of Series B Convertible Preferred Stock are converted into our common stock, we will be required to pay all accrued and unpaid dividends on the Series B Convertible Preferred Stock being converted in cash or, at our option, in shares of our common stock, in which case the number of shares to be issued will be equal to the amount of accrued and unpaid dividends to be paid in common stock divided by the market price of our common stock at the time of conversion (as such market price is determined pursuant to the terms of the Series B Convertible Preferred Stock). Accrued and unpaid dividends on the Series B Convertible Preferred Stock totaled approximately $10.7 million at December 31, 2012.

The maximum number of shares of our common stock that may be issued upon conversion of all Series B Convertible Preferred Stock (including any accrued dividends) is 14.4 million, unless we receive shareholder approval to issue a greater number of shares.

The Series B Convertible Preferred Stock may be redeemed by us, subject to the approval of the Federal Reserve, at any time, in an amount up to the cash proceeds (minimum of approximately $18.6 million) from qualifying equity offerings of common stock (plus any net increase to our retained earnings after the original issue date). If we exercise this right to redeem the Series B Convertible Preferred Stock, the redemption price will be the greater of (a) the $1,000 liquidation amount per share plus any accrued and unpaid dividends and (b) the product of the applicable conversion rate (as described above) and the average of the market prices per share of our common stock (as such market price is determined pursuant to the terms of the Series B Convertible Preferred Stock) over a 20 trading day period beginning on the trading day immediately after we give notice of redemption to the holder (plus any accrued and unpaid dividends). In any redemption, we must redeem at least 25% of the number of Series B Convertible Preferred Stock shares originally issued to the Treasury, unless fewer of such shares are then outstanding (in which case all of the Series B Convertible Preferred Stock must be redeemed). In addition to the terms of the Series B Preferred Stock discussed above, the UST updated its Frequently Asked Questions regarding the Capital Purchase Program (“CPP”) as of March 1, 2012 to permit any CPP participant to repay its investment, in part, subject to a minimum repayment of the greater of (i) 5% of the aggregate liquidation amount of the preferred stock issued to the UST or (ii) $100,000. Under this updated guidance, we could repay a minimum of approximately $3.7 million, subject to the approval of the Board of Governors of the Federal Reserve System, in a partial redemption of the Series B Preferred Stock.

In connection with such exchange transaction, we also amended and restated the terms of the Warrant issued to the Treasury in December 2008 to adjust the initial exercise price of the Warrant to be equal to the initial conversion price applicable to the Series B Convertible Preferred Stock described above.

Federal Deposit Insurance Coverage. The EESA temporarily raised the limit on federal deposit insurance coverage from $100,000 to $250,000 per depositor, and the Dodd-Frank Wall Street Reform and Consumer Protection Act passed in 2010 (the "Dodd-Frank Act") made this temporary increase in the insurance limit permanent. In October 2008, the FDIC also announced the Temporary Liquidity Guarantee Program. Under one component of this program, the Transaction Account Guarantee Program (TAGP), the FDIC temporarily provided unlimited coverage for non-interest bearing transaction accounts (as defined in the TAGP) for participating institutions that did not opt out. This temporary coverage expired on December 31, 2010; however, the Dodd-Frank Act extended protection similar to that provided under the TAGP through December 31, 2012.

Financial Stability Plan. On February 10, 2009, the Treasury announced the Financial Stability Plan ("FSP"), which is a comprehensive set of measures intended to shore up the U.S. financial system and earmarks the balance of the unused funds originally authorized under the EESA. The major elements of the FSP include: (i) a capital assistance program to invest in convertible preferred stock of certain qualifying institutions, (ii) a consumer and business lending initiative to fund new consumer loans, small business loans and commercial mortgage asset-backed securities issuances, (iii) a new public-private investment fund intended to leverage public and private capital with public financing to purchase up to $500 billion to $1 trillion of legacy "toxic assets" from financial institutions, and (iv) assistance for homeowners by providing up to $75 billion to reduce mortgage payments and interest rates and establishing loan modification guidelines for government and private programs.

American Recovery and Reinvestment Act of 2009. On February 17, 2009, Congress enacted the American Recovery and Reinvestment Act of 2009 ("ARRA"). In enacting the ARRA, Congress intended to provide a stimulus to the U.S. economy in light of the significant economic downturn. The ARRA includes federal tax cuts, expansion of unemployment benefits and other social welfare provisions, and numerous domestic spending efforts in education, healthcare and infrastructure. The ARRA also includes numerous non-economic recovery related items, including a limitation on executive compensation in federally-aided financial institutions, including banks that have received or will receive assistance under TARP.

Under the ARRA, a financial institution (including our bank) is subject to the following restrictions and standards throughout the period in which any obligation arising from financial assistance provided under TARP remains outstanding:

- Limits on compensation incentives for risk-taking by senior executive officers;
- Requirement of recovery of any compensation paid based on inaccurate financial information;
- Prohibition on "golden parachute payments" (as defined in the ARRA);
- Prohibition on compensation plans that would encourage manipulation of reported earnings to enhance the compensation of employees;
- Establishment of board compensation committees by publicly-registered TARP recipients comprised entirely of independent directors, for the purpose of reviewing employee compensation plans;
- Prohibition on bonuses, retention awards, and incentive compensation, except for payments of long-term restricted stock; and
- Limitation on luxury expenditures.

In addition, TARP recipients are required to permit a separate, non-binding shareholder vote to approve the compensation of executives. The chief executive officer and chief financial officer of each TARP recipient are required to provide a written certification of compliance with these standards to the SEC.

Homeowner Affordability and Stability Plan. On February 18, 2009, President Obama announced the Homeowner Affordability and Stability Plan ("HASP"). The HASP is intended to support a recovery in the housing market and ensure that workers can continue to pay off their mortgages through the following elements:

- Provide access to low-cost refinancing for responsible homeowners suffering from falling home prices;
- A $75 billion homeowner stability initiative to prevent foreclosure and help responsible families stay in their homes; and
- Support of low mortgage rates by strengthening confidence in Fannie Mae and Freddie Mac.

The Treasury has issued extensive guidance on the scope and mechanics of various components of HASP. We continue to monitor these developments and assess their potential impact on our business.

Dodd-Frank Act. On July 21, 2010, the President signed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) in law. This federal law includes the following:

- the creation of the Consumer Financial Protection Bureau with power to promulgate and, with respect to financial institutions with more than $10 billion in assets, enforce consumer protection laws;
- the creation of the Financial Stability Oversight Council chaired by the Secretary of the Treasury with authority to identify institutions and practices that might pose a systemic risk to the U.S. economy;
- provisions affecting corporate governance and executive compensation of all companies whose securities are registered with the SEC;
- a provision that broadens the base for FDIC insurance assessments and permanently increases FDIC deposit insurance to $250,000;
- a provision under which interchange fees for debit cards of issuers with at least $10 billion in assets are set by the Federal Reserve under a restrictive "reasonable and proportional cost" per transaction standard;
- a provision that requires bank regulators to set minimum capital levels for bank holding companies that are at least as strong as those required for their insured depository subsidiaries, subject to a grandfather clause for financial institutions with less than $15 billion in assets as of December 31, 2009; and
- new restrictions on how mortgage brokers and loan originators may be compensated.

The Dodd-Frank Act has had (and we expect it will continue to have) a significant impact on the banking industry, including our organization.

Future Legislation. Various other legislative and regulatory initiatives, including proposals to overhaul the banking regulatory system, are from time to time introduced in Congress and state legislatures, as well as regulatory agencies. Such future legislation regarding financial institutions may change banking statutes and our operating environment in substantial and unpredictable ways, and could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance depending on whether any such potential legislation is introduced and enacted. The nature and extent of future legislative and regulatory changes affecting financial institutions is very unpredictable. We cannot determine the ultimate effect that any such potential legislation, if enacted, would have upon our financial condition or results of operations.

Independent Bank Corporation

We are a bank holding company and, as such, are registered with, and subject to regulation by, the Federal Reserve under the Bank Holding Company Act, as amended (the "BHCA"). Under the BHCA, we are subject to periodic examination by the Federal Reserve and are required to file periodic reports of operations and such additional information as the Federal Reserve may require.

Federal Reserve policy historically has required bank holding companies to act as a source of strength to their bank subsidiaries and to commit capital and financial resources to support those subsidiaries. The Dodd-Frank Act codified this policy as a statutory requirement. Such support may be required by the Federal Reserve at times when we might otherwise determine not to provide it.

In addition, if the OFIR deems a bank's capital to be impaired, the OFIR may require a bank to restore its capital by special assessment upon a bank holding company, as the bank's sole shareholder. If the bank holding company failed to pay such assessment, the directors of that bank would be required, under Michigan law, to sell the shares of bank stock owned by the bank holding company to the highest bidder at either public or private auction and use the proceeds of the sale to restore the bank's capital.

Any capital loans by a bank holding company to a subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to a priority of payment.

Investments and Activities. In general, any direct or indirect acquisition by a bank holding company of any voting shares of any bank which would result in the bank holding company's direct or indirect ownership or control of more than 5% of any class of voting shares of such bank, and any merger or consolidation of the bank holding company with another bank holding company, will require the prior written approval of the Federal Reserve under the BHCA. In acting on such applications, the Federal Reserve must consider various statutory factors including the effect of the proposed transaction on competition in relevant geographic and product markets, and each party's financial condition, managerial resources, and record of performance under the Community Reinvestment Act.

In addition and subject to certain exceptions, the Change in the Bank Control Act ("Control Act") and regulations promulgated thereunder by the Federal Reserve, require any person acting directly or indirectly, or through or in concert with one or more persons, to give the Federal Reserve 60 days' written notice before acquiring control of a bank holding company. Transactions which are presumed to constitute the acquisition of control include the acquisition of any voting securities of a bank holding company having securities registered under Section 12 of the Securities Exchange Act of 1934, as amended, if, after the transaction, the acquiring person (or persons acting in concert) owns, controls or holds with power to vote 10% or more of any class of voting securities of the institution. The acquisition may not be consummated subsequent to such notice if the Federal Reserve issues a notice within 60 days, or within certain extensions of such period, disapproving the acquisition.

The merger or consolidation of an existing bank subsidiary of a bank holding company with another bank, or the acquisition by such a subsidiary of the assets of another bank, or the assumption of the deposit and other liabilities by such a subsidiary requires the prior written approval of the responsible Federal depository institution regulatory agency under the Bank Merger Act, based upon a consideration of statutory factors similar to those outlined above with respect to the BHCA. In addition, in certain cases an application to, and the prior approval of, the Federal Reserve under the BHCA and/or OFIR under Michigan banking laws, may be required.

With certain limited exceptions, the BHCA prohibits any bank holding company from engaging, either directly or indirectly through a subsidiary, in any activity other than managing or controlling banks unless the proposed non-banking activity is one that the Federal Reserve has determined to be so closely related to banking as to be a proper incident thereto. Under current Federal Reserve regulations, such permissible non-banking activities include such things as mortgage banking, equipment leasing, securities brokerage, and consumer and commercial finance company operations. Well-capitalized and well-managed bank holding companies may, however, engage *de novo* in certain types of non-banking activities without prior notice to, or approval of, the Federal Reserve, provided that written notice of the new activity is given to the Federal Reserve within 10 business days after the activity is commenced. If a bank holding company wishes to engage in a non-banking activity by acquiring a going concern, prior notice and/or prior approval will be required, depending upon the activities in which the company to be acquired is engaged, the size of the company to be acquired and the financial and managerial condition of the acquiring bank holding company.

Eligible bank holding companies that elect to operate as financial holding companies may engage in, or own shares in companies engaged in, a wider range of nonbanking activities, including securities and insurance activities and any other activity that the Federal Reserve, in consultation with the Treasury, determines by regulation or order is financial in nature, incidental to any such financial activity or complementary to any such financial activity and does not pose a substantial risk to the safety or soundness of depository institutions or the financial system generally. The BHCA generally does not place territorial restrictions on the domestic activities of non-bank subsidiaries of bank or financial holding companies. We have not applied for approval to operate as a financial holding company and have no current intention of doing so.

Capital Requirements. The Federal Reserve uses capital adequacy guidelines in its examination and regulation of bank holding companies. If capital falls below minimum guidelines, a bank holding company may, among other things, be denied approval to acquire or establish additional banks or non-bank businesses.

The Federal Reserve's capital guidelines establish the following minimum regulatory capital requirements for bank holding companies: (i) a leverage capital requirement expressed as a percentage of total assets, and (ii) a risk-based requirement expressed as a percentage of total risk-weighted assets. The leverage capital requirement consists of a minimum ratio of Tier 1 capital (which consists principally of shareholders' equity) to total assets of 3% for the most highly rated companies with minimum requirements of 4% to 5% for all others. The risk-based requirement consists of a minimum ratio of total capital to total risk-weighted assets of 8%, of which at least one-half must be Tier 1 capital.

The risk-based and leverage standards presently used by the Federal Reserve are minimum requirements, and higher capital levels will be required if warranted by the particular circumstances or risk profiles of individual banking organizations.

Included in our Tier 1 capital as of December 31, 2012, is $47.7 million of trust preferred securities (classified on our balance sheet as "Subordinated debentures"). The Federal Reserve has issued rules regarding trust preferred securities as a component of the Tier 1 capital of bank holding companies. The aggregate amount of trust preferred securities and certain other capital elements is 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. The provisions of the Dodd-Frank Act imposed additional limitations on the ability to include trust preferred securities as Tier 1 capital; however, these additional limitations do not apply to our outstanding trust preferred securities.

The federal bank regulatory agencies are required biennially to review risk-based capital standards to ensure that they adequately address interest rate risk, concentration of credit risk and risks from non-traditional activities.

On June 4, 2012, the Board of Governors of the Federal Reserve System issued Notices of Proposed Rulemaking (“NPR”) – Enhancements to the Regulatory Capital Requirements (the “Proposed New Capital Requirements”). These Proposed New Capital Requirements, if adopted as outlined in the NPR, would have a material impact on the banking industry, including our organization. In general the Proposed New Capital Requirements would significantly increase the need for Tier 1 common equity capital and substantially impact the calculation of risk-weighted assets.

Dividends. Most of our revenues are received in the form of dividends paid by our bank. Thus, our ability to pay dividends to our shareholders is indirectly limited by statutory restrictions on the ability of our bank to pay dividends, as discussed below. Further, in a policy statement, the Federal Reserve has expressed its view that a bank holding company experiencing earnings weaknesses should not pay cash dividends exceeding its net income or which can only be funded in ways that weaken the bank holding company's financial health, such as by borrowing. Additionally, the Federal Reserve possesses enforcement powers over bank holding companies and their non-bank subsidiaries to prevent or remedy actions that represent unsafe or unsound practices or violations of applicable statutes and regulations. Among these powers is the ability to proscribe the payment of dividends by banks and bank holding companies. The "prompt corrective action" provisions of federal law and regulation authorizes the Federal Reserve to restrict the amount of dividends that an insured bank can pay which fails to meet specified capital levels.

In addition to the restrictions on dividends imposed by the Federal Reserve, the Michigan Business Corporation Act provides that dividends may be legally declared or paid only if after the distribution, a corporation can pay its debts as they come due in the usual course of business and its total assets equal or exceed the sum of its liabilities plus the amount that would be needed to satisfy the preferential rights upon dissolution of any holders of preferred stock whose preferential rights are superior to those receiving the distribution.

Because we have suspended all dividends on the shares of the Series B Convertible Preferred Stock and all quarterly payments on our outstanding trust preferred securities, we are currently prohibited from paying any cash dividends on our common stock. In addition, in December of 2009, our Board of Directors adopted resolutions that prohibit us from paying any dividends on our common stock without, in each case, the prior written approval of the Federal Reserve and the OFIR.

Federal Securities Regulation. Our common stock is registered with the SEC under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended (the "Exchange Act"). We are therefore subject to the information, proxy solicitation, insider trading and other restrictions and requirements of the SEC under the Exchange Act.

Our Bank

General. Independent Bank is a Michigan banking corporation, is a member of the Federal Reserve System, and its deposit accounts are insured by the Deposit Insurance Fund ("DIF") of the FDIC. As a member of the Federal Reserve System and a Michigan chartered bank, our bank is subject to the examination, supervision, reporting and enforcement requirements of the Federal Reserve as its primary federal regulator and OFIR as the chartering authority for Michigan banks. These agencies and the federal and state laws applicable to our bank and its operations extensively regulate various aspects of the banking business including, among other things, permissible types and amounts of loans, investments and other activities, capital adequacy, branching, interest rates on loans and on deposits, the maintenance of non-interest bearing reserves on deposit accounts, and the safety and soundness of banking practices.

Deposit Insurance. As an FDIC-insured institution, our bank is required to pay deposit insurance premium assessments to the FDIC. Under the FDIC's risk-based assessment system for deposit insurance premiums, all insured depository institutions are placed into one of four categories (Risk Categories I, II, III, and IV), based primarily on their level of capital and supervisory evaluations.

Historically, assessment rates for deposit insurance premiums have been largely based on the risk category of the institution and the amount of its deposits. However, the Dodd-Frank Act passed in 2010 required the FDIC to establish rules setting insurance premium assessments based on an institution's total assets minus its tangible equity instead of deposits. On February 7, 2011, the FDIC adopted a final rule under which, effective for assessments for the second quarter of 2011 and payable at the end of September 2011, the initial base assessment rate for institutions in Risk Category I (generally, well-capitalized institutions with a CAMELS composite rating of 1 or 2) is set at an annual rate of between 5 and 9 basis points. The initial base assessment rate for institutions in Risk Categories II, III, and IV is set at annual rates of 14, 23, and 35 basis points, respectively, and the initial base assessment rate for institutions with at least $10 billion in assets and certain "highly complex institutions" is set at an annual rate of between 5 and 35 basis points. These initial base assessment rates are adjusted to determine an institution's final assessment rate based on its brokered deposits and unsecured debt. In addition, the rates are subject to a depository institution debt adjustment, which is meant to offset the benefit received by institutions that issue long-term, unsecured liabilities when those liabilities are held by other insured depository institutions. However, institutions may exclude from the unsecured debt amount used in calculating the depository institution debt adjustment an amount equal to no more than 3% of their Tier 1 capital. Total base assessment rates after adjustments, other than the depository institution debt adjustment, range from 2.5 to 9 basis points for Risk Category I, 9 to 24 basis points for Risk Category II, 18 to 33 basis points for Risk Category III, 30 to 45 basis points for Risk Category IV, and 2.5 to 45 basis points for institutions with at least $10 billion in assets and certain "highly complex institutions."

On December 15, 2010, the FDIC established 2.0% as the Designated Reserve Ratio ("DRR"), that is, the ratio of the DIF to insured deposits. The FDIC adopted a plan under which it will meet the statutory minimum DRR of 1.35% by September 30, 2020, the deadline imposed by the Dodd-Frank Act. The Dodd-Frank Act requires the FDIC to partially offset the effect of the increase in the DRR on institutions with assets less than $10 billion.

During the fourth quarter of 2009, we prepaid estimated quarterly deposit insurance premium assessments to the FDIC for periods through the fourth quarter of 2012. These estimated quarterly deposit insurance premium assessments were based on projected deposit balances over the assessment periods. The prepaid deposit insurance premium assessments totaled $9.4 million at December 31, 2012 and have been expensed over the assessment period (through the fourth quarter of 2012). The actual expense over the assessment periods was significantly lower than this prepaid amount due to various factors, including variances in actual deposit balances and the assessment base and rates used during each assessment period. We would expect to receive a return of the overpayment of our prepaid assessment from the FDIC during the second quarter of 2013.

In addition, in 2008, the bank elected to participate in the FDIC's Transaction Account Guarantee Program (TAGP), which required us to pay an additional assessment to the FDIC. Under the TAGP, funds in non-interest bearing transaction accounts, in interest-bearing transaction accounts with an interest rate of 0.25% or less (after June 30, 2010), and in Interest on Lawyers Trust Accounts (IOLTA) had a temporary unlimited guarantee from the FDIC. This temporary coverage expired on December 31, 2010. The Dodd-Frank Act extended protection similar to that provided under the TAGP through December 31, 2012 for only non-interest bearing transaction accounts. This coverage applied to all insured depository institutions, and there was no separate FDIC assessment for the insurance.

FICO Assessments. Our bank, as a member of the DIF, is subject to assessments to cover the payments on outstanding obligations of the Financing Corporation ("FICO"). FICO was created to finance the recapitalization of the Federal Savings and Loan Insurance Corporation, the predecessor to the FDIC's Savings Association Insurance Fund which was created to insure the deposits of thrift institutions and was merged with the Bank Insurance Fund into the newly formed DIF in 2006. From now until the maturity of the outstanding FICO obligations in 2019, DIF members will share the cost of the interest on the FICO bonds on a pro rata basis. It is estimated that FICO assessments during this period will be approximately 0.006% of average tangible assets.

OFIR Assessments. Michigan banks are required to pay supervisory fees to the OFIR to fund their operations. The amount of supervisory fees paid by a bank is based upon the bank's total assets.

Capital Requirements. The Federal Reserve has established the following minimum capital standards for state-chartered, FDIC-insured member banks, such as our bank: a leverage requirement consisting of a minimum ratio of Tier 1 capital to total assets of 3% for the most highly-rated banks with minimum requirements of 4% to 5% for all others, and a risk-based capital requirement consisting of a minimum ratio of total capital to total risk-weighted assets of 8%, at least one-half of which must be Tier 1 capital. Tier 1 capital consists principally of shareholders' equity. These capital requirements are minimum requirements. Higher capital levels will be required if warranted by the particular circumstances or risk profiles of individual institutions. For example, Federal Reserve regulations provide that higher capital may be required to take adequate account of, among other things, interest rate risk and the risks posed by concentrations of credit, nontraditional activities, or securities trading activities.

Federal law provides the federal banking regulators with broad power to take prompt corrective action to resolve the problems of undercapitalized institutions. The extent of the regulators' powers depends on whether the institution in question is "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," or "critically undercapitalized." Federal regulations define these capital categories as follows:

	Total Risk-Based Capital Ratio	**Tier 1 Risk-Based Capital Ratio**	**Leverage Ratio**
Well capitalized	10% or above	6% or above	5% or above
Adequately capitalized	8% or above	4% or above	4% or above
Undercapitalized	Less than 8%	Less than 4%	Less than 4%
Significantly undercapitalized	Less than 6%	Less than 3%	Less than 3%
Critically undercapitalized	--	--	A ratio of tangible equity to total assets of 2% or less

At December 31, 2012, our bank's ratios exceeded minimum requirements for the well-capitalized category. In December 2009, the Board of Directors of our bank adopted resolutions requiring our bank to achieve minimum capital ratios that are higher than the minimum requirements described in the Federal Reserve's capital guidelines. As of December 31, 2012 our bank has met all of the higher minimum capital ratios established by our Board of Directors. See "Recent Developments" above for more information.

Depending upon the capital category to which an institution is assigned, the regulators' corrective powers include: requiring the submission of a capital restoration plan; placing limits on asset growth and restrictions on activities; requiring the institution to issue additional capital stock (including additional voting stock) or to be acquired; restricting transactions with affiliates; restricting the interest rates the institution may pay on deposits; ordering a new election of directors of the institution; requiring that senior executive officers or directors be dismissed; prohibiting the institution from accepting deposits from correspondent banks; requiring the institution to divest certain subsidiaries; prohibiting the payment of principal or interest on subordinated debt; and ultimately, appointing a receiver for the institution.

In general, a depository institution may be reclassified to a lower category than is indicated by its capital levels if the appropriate federal depository institution regulatory agency determines the institution to be otherwise in an unsafe or unsound condition or to be engaged in an unsafe or unsound practice. This could include a failure by the institution, following receipt of a less-than-satisfactory rating on its most recent examination report, to correct the deficiency.

Dividends. Under Michigan law, banks are restricted as to the maximum amount of dividends they may pay on their common stock. Our bank may not pay dividends except out of its net income after deducting its losses and bad debts. A Michigan state bank may not declare or pay a dividend unless the bank will have a surplus amounting to at least 20% of its capital after the payment of the dividend.

As a member of the Federal Reserve System, our bank is required to obtain the prior approval of the Federal Reserve for the declaration or payment of a dividend if the total of all dividends declared in any year will exceed the total of (a) the bank's retained net income (as defined by federal regulation) for that year, *plus* (b) the bank's retained net income for the preceding two years.

Federal law also generally prohibits a depository institution from making any capital distribution (including payment of a dividend) or paying any management fee to its holding company if the depository institution would thereafter be undercapitalized. In addition, the Federal Reserve may prohibit the payment of dividends by a bank if such payment is determined, by reason of the financial condition of the bank, to be an unsafe and unsound banking practice or if the bank is in default of payment of any assessment due to the FDIC.

In addition to these restrictions, in December of 2009, the Board of Directors of our bank adopted resolutions that prohibit our bank from paying any dividends to our holding company without the prior written approval of the Federal Reserve and the OFIR. See "Recent Developments" above for more information.

Insider Transactions. Our bank is subject to certain restrictions imposed by the Federal Reserve Act on "covered transactions" with us or our subsidiaries, which include investments in our stock or other securities issued by us or our subsidiaries, the acceptance of our stock or other securities issued by us or our subsidiaries as collateral for loans, and extensions of credit to us or our subsidiaries. Certain limitations and reporting requirements are also placed on extensions of credit by our bank to the directors and officers of the Company, the bank, and the subsidiaries of the bank, to the principal shareholders of the Company, and to "related interests" of such directors, officers, and principal shareholders. In addition, federal law and regulations may affect the terms upon which any person becoming one of our directors or officers or a principal shareholder may obtain credit from banks with which our bank maintains a correspondent relationship.

Safety and Soundness Standards. Pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), the FDIC adopted guidelines to establish operational and managerial standards to promote the safety and soundness of federally insured depository institutions. The guidelines establish standards for internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, asset quality, and earnings.

Investment and Other Activities. Under federal law and regulations, FDIC-insured state banks are prohibited, subject to certain exceptions, from making or retaining equity investments of a type, or in an amount, that are not permissible for a national bank. FDICIA, as implemented by FDIC regulations, also prohibits FDIC-insured state banks and their subsidiaries, subject to certain exceptions, from engaging as a principal in any activity that is not permitted for a national bank or its subsidiary, respectively, unless the bank meets, and continues to meet, its minimum regulatory capital requirements and the bank's primary federal regulator determines the activity would not pose a significant risk to the DIF. Impermissible investments and activities must be otherwise divested or discontinued within certain time frames set by the bank's primary federal regulator in accordance with federal law. These restrictions are not currently expected to have a material impact on the operations of our bank.

Consumer Banking. Our bank's business includes making a variety of types of loans to individuals. In making these loans, our bank is subject to state usury and regulatory laws and to various federal statutes, including the privacy of consumer financial information provisions of the Gramm Leach-Bliley Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Real Estate Settlement Procedures Act, the Home Mortgage Disclosure Act, and the regulations promulgated under these statutes, which (among other things) prohibit discrimination, specify disclosures to be made to borrowers regarding credit and settlement costs, and regulate the mortgage loan servicing activities of our bank, including the maintenance and operation of escrow accounts and the transfer of mortgage loan servicing. In receiving deposits, our bank is subject to extensive regulation under state and federal law and regulations, including the Truth in Savings Act, the Expedited Funds Availability Act, the Bank Secrecy Act, the Electronic Funds Transfer Act, and the Federal Deposit Insurance Act. Violation of these laws could result in the imposition of significant damages and fines upon our bank and its directors and officers.

Branching Authority. Michigan banks, such as our bank, have the authority under Michigan law to establish branches anywhere in the State of Michigan, subject to receipt of all required regulatory approvals. Banks may establish interstate branch networks through acquisitions of other banks. The establishment of *de novo* interstate branches or the acquisition of individual branches of a bank in another state (rather than the acquisition of an out-of-state bank in its entirety) is allowed only if specifically authorized by state law.

Michigan permits both U.S. and non-U.S. banks to establish branch offices in Michigan. The Michigan Banking Code permits, in appropriate circumstances and with the approval of the OFIR (1) acquisition of Michigan banks by FDIC-insured banks or savings banks located in other states, (2) sale by a Michigan bank of branches to an FDIC-insured bank or savings bank located in a state in which a Michigan bank could purchase branches of the purchasing entity, (3) consolidation of Michigan banks and FDIC-insured banks or savings banks located in other states having laws permitting such consolidation, (4) establishment of branches in Michigan by FDIC-insured banks located in other states, the District of Columbia or U.S. territories or protectorates having laws permitting a Michigan bank to establish a branch in such jurisdiction, and (5) establishment by foreign banks of branches located in Michigan.

Mepco Finance Corporation

Our subsidiary, Mepco Finance Corporation, is engaged in the business of acquiring and servicing payment plans used by consumers throughout the United States who have purchased a vehicle service contract and choose to make monthly payments for their coverage. In the typical transaction, no interest or other finance charge is charged to these consumers. As a result, Mepco is generally not subject to regulation under consumer lending laws. However, Mepco is subject to various federal and state laws designed to protect consumers, including laws against unfair and deceptive trade practices and laws regulating Mepco's payment processing activities, such as the Electronic Funds Transfer Act.

Mepco purchases payment plans from companies (which we refer to as Mepco’s “counterparties”) that provide vehicle service contracts to consumers. The payment plans (which are classified as payment plan receivables in our consolidated statements of financial condition) permit a consumer to purchase a service contract by making installment payments, generally for a term of 12 to 24 months, to the sellers of those contracts (one of the “counterparties”). Mepco does not have recourse against the consumer for nonpayment of a payment plan, and therefore does not evaluate the creditworthiness of the individual customer. When consumers stop making payments or exercise their right to voluntarily cancel the contract, the remaining unpaid balance of the payment plan is normally recouped by Mepco from the counterparties that sold the contract and provided the coverage. The refund obligations of these counterparties are not fully secured. We record losses or charges in vehicle service contract counterparty contingencies expense, included in non-interest expenses, for estimated defaults by these counterparties in their obligations to Mepco.

Our annual reports on Forms 10-K, quarterly reports on Forms 10-Q, current reports on Forms 8-K, and all amendments to those reports are available free of charge through our website at www.IndependentBank.com as soon as reasonably practicable after filing with the SEC.

ITEM 1. BUSINESS -- STATISTICAL DISCLOSURE

I. (A) DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY;

(B) INTEREST RATES AND INTEREST DIFFERENTIAL

(C) INTEREST RATES AND DIFFERENTIAL

The information set forth in the tables captioned "Average Balances and Rates" and "Change in Net Interest Income" of our annual report, to be delivered to shareholders in connection with the April 23, 2013 Annual Meeting of Shareholders (filed as exhibit 13 to this report on Form 10-K), is incorporated herein by reference.

II. INVESTMENT PORTFOLIO

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

	2012	2011	2010
		(in thousands)	
Trading - Preferred stock	$ 110	$ 77	$ 32
Available for sale			
U.S agency residential mortgage-backed	$ 127,412	$ 94,206	$ 13,331
States and political subdivisions	39,051	27,317	31,259
U.S agency	30,667	25,017	--
Private label residential mortgage-backed	8,194	8,268	14,184
Trust preferred	3,089	2,636	9,090
Total	$ 208,413	$ 157,444	$ 67,864

(B) The following table sets forth contractual maturities of securities at December 31, 2012 and the weighted average yield of such securities:

	Maturing Within One Year		Maturing After One But Within Five Years		Maturing After Five But Within Ten Years		Maturing After Ten Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
				(dollars in thousands)				
Trading – Preferred stock							$ 110	0.00%
Tax equivalent adjustment for calculations of yield							$ --	
Available for sale								
U.S agency residential mortgage-backed	$ 314	3.92%	$ 94,892	1.08%	$ 28,155	1.85%	$ 4,051	2.17%
States and political subdivisions	1,055	4.56	6,560	3.95	12,727	3.68	18,709	4.21
U.S. agency	--		--		8,097	1.00	22,570	2.44
Private label residential mortgage-backed	--		74	5.96	3,523	4.22	4,597	5.37
Trust preferred	--		--		--		3,089	1.07
Total	$ 1,369	4.41%	$ 101,526	1.27%	$ 52,502	2.32%	$ 53,016	3.22%
Tax equivalent adjustment for calculations of yield	$ --		$ --		$ --		$ --	

The rates set forth in the tables above for obligations of state and political subdivisions have not been restated on a tax equivalent basis due to the current ne operating loss carryforward position and the deferred tax asset valuation allowance.

ITEM 1. BUSINESS -- STATISTICAL DISCLOSURE (Continued)
III. LOAN PORTFOLIO

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

	2012	2011	2010	2009	2008
			(in thousands)		
Loans held for sale	$ 50,779	$ 44,801	$ 50,098	$ 34,234	$ 27,603
Mortgage	527,340	590,876	658,679	749,298	839,496
Commercial	617,258	651,155	707,530	840,367	976,391
Installment	189,849	219,559	245,644	303,366	356,806
Payment plan receivables	84,692	115,018	201,263	406,341	286,836
Total Loans	$ 1,469,918	$ 1,621,409	$ 1,863,214	$ 2,333,606	$ 2,487,132

The loan portfolio is periodically and systematically reviewed, and the results of these reviews are reported to the Board of Directors of our bank. The purpose of these reviews is to assist in assuring proper loan documentation, to facilitate compliance with consumer protection laws and regulations, to provide for the early identification of potential problem loans (which enhances collection prospects) and to evaluate the adequacy of the allowance for loan losses.

(B) The following table sets forth scheduled loan repayments (excluding 1-4 family residential mortgages and installment loans) at December 31, 2012:

	Due Within One Year	Due After One But Within Five Years	Due After Five Years	Total
		(in thousands)		
Mortgage	$ 2	$ 140	$ 47,725	$ 47,867
Commercial	214,266	356,201	50,083	620,550
Payment plan receivables	31,714	52,978	--	84,692
Total	$ 245,982	$ 409,319	$ 97,808	$ 753,109

The following table sets forth loans due after one year which have predetermined (fixed) interest rates and/or adjustable (variable) interest rates at December 31, 2012:

	Fixed Rate	Variable Rate	Total
		(in thousands)	
Due after one but within five years	$ 298,575	$ 110,744	$ 409,319
Due after five years	42,623	55,185	97,808
Total	$ 341,198	$ 165,929	$ 507,127

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

	2012	2011	2010	2009	2008
			(in thousands)		
(a) Loans accounted for on a non-accrual basis (1, 2)	$ 32,929	$ 59,309	$ 66,652	$ 105,965	$ 122,639
(b) Aggregate amount of loans ninety days or more past due (excludes loans in (a) above)	7	574	928	3,940	2,626
(c) Loans not included above which are "troubled debt restructurings"as defined by accounting guidance	126,730	116,569	113,812	71,961	9,160
Total	$ 159,666	$ 176,452	$ 181,392	$ 181,866	$ 134,425

(1) The accrual of interest income is discontinued when a loan becomes 90 days past due and the borrower's capacity to repay the loan and collateral values appear insufficient. Non-accrual loans may be restored to accrual status when interest and principal payments are current and the loan appears otherwise collectible.

(2) Interest in the amount of $9,437,000 would have been earned in 2012 had loans in categories (a) and (c) remained at their original terms; however, only $6,264,000 was included in interest income for the year with respect to these loans.

Other loans of concern identified by the loan review department which are not included as non-performing in the table above were zero at December 31, 2012.

At December 31, 2012, there was no concentration of loans exceeding 10% of total loans which is not already disclosed as a category of loans in this section "Loan Portfolio" (Item III(A)).

There were no other interest-bearing assets at December 31, 2012, that would be required to be disclosed above (Item III(C)), if such assets were loans.

There were no foreign loans at December 31, 2012 and 2011. Total loans in 2010 and 2009 include $0.1 million and $1.7 million, respectively of payment plan receivables from customers domiciled in Canada. There were no other foreign loans outstanding prior to that time.

ITEM 1. BUSINESS -- STATISTICAL DISCLOSURE (Continued)
IV. SUMMARY OF LOAN LOSS EXPERIENCE

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

	2012		2011		2010	
			(dollars in thousands)			
Total loans outstanding at the end of the year (net of unearned fees)	$ 1,469,918		$ 1,621,409		$ 1,863,214	
Average total loans outstanding for the year (net of unearned fees)	$ 1,550,456		$ 1,711,948		$ 2,082,117	
	Loan Losses	Unfunded Commit-ments	Loan Losses	Unfunded Commit-ments	Loan Losses	Unfunded Commit-ments
Balance at beginning of year	$ 58,884	$ 1,286	$ 67,915	$ 1,322	$ 81,717	$ 1,858
Loans charged-off						
Mortgage	10,741		15,608		20,263	
Commercial	12,588		20,491		36,108	
Installment	4,009		5,439		7,726	
Payment plan receivables	70		186		82	
Total loans charged-off	27,408		41,724		64,179	
Recoveries of loans previously charged-off						
Mortgage	1,581		1,441		1,155	
Commercial	3,610		1,850		969	
Installment	1,311		1,451		1,475	
Payment plan receivables	20		5		13	
Total recoveries	6,522		4,747		3,612	
Net loans charged-off	20,886		36,977		60,567	
Reclassification to loans held for sale	610					
Additions (deductions) included in operations	6,887	(688)	27,946	(36)	46,765	(536)
Balance at end of year	$ 44,275	$ 598	$ 58,884	$ 1,286	$ 67,915	$ 1,322
Net loans charged-off as a percent of average loans outstanding (includes loans held for sale) for the year	1.35%		2.16%		2.91%	
Allowance for loan losses as a percent of loans outstanding (includes loans held for sale) at the end of the year	3.01		3.63		3.65	

ITEM 1. BUSINESS -- STATISTICAL DISCLOSURE (Continued)
IV. SUMMARY OF LOAN LOSS EXPERIENCE (Continued)

	2009		2008	
	(dollars in thousands)			
Total loans outstanding at the end of the year (net of unearned fees)	$ 2,333,606		$ 2,487,132	
Average total loans outstanding for the year (net of unearned fees)	$ 2,470,568		$ 2,569,368	
	Loan Losses	Unfunded Commit-ments	Loan Losses	Unfunded Commit-ments
Balance at beginning of year	$ 57,900	$ 2,144	$ 45,294	$ 1,936
Loans charged-off				
Mortgage	22,869		11,942	
Commercial	51,840		43,641	
Installment	7,562		6,364	
Payment plan receivables	25		49	
Total loans charged-off	82,296		61,996	
Recoveries of loans previously charged-off				
Mortgage	791		318	
Commercial	731		1,800	
Installment	1,271		1,340	
Payment plan receivables	2		31	
Total recoveries	2,795		3,489	
Net loans charged-off	79,501		58,507	
Additions (deductions) included in operations	103,318	(286)	71,113	208
Balance at end of year	$ 81,717	$ 1,858	$ 57,900	$ 2,144
Net loans charged-off as a percent of average loans outstanding (includes loans held for sale) for the year	3.22%		2.28%	
Allowance for loan losses as a percent of loans outstanding (includes loans held for sale) at the end of the year	3.50		2.33	

The allowance for loan losses reflected above is a valuation allowance in its entirety and the only allowance available to absorb probable incurred loan losses.

Further discussion of the provision and allowance for loan losses (a critical accounting policy) as well as non-performing loans, is presented in Management's Discussion and Analysis of Financial Condition and Results of Operations in our annual report, to be delivered to shareholders in connection with the April 23, 2013 Annual Meeting of Shareholders (filed as exhibit 13 to this report on Form 10-K), and is incorporated herein by reference.

(B) We have allocated the allowance for loan losses to provide for probable incurred losses within the categories of loans set forth in the table below. The amount of the allowance that is allocated and the ratio of loans within each category to total loans at December 31 follow:

	2012		2011		2010	
	Allowance Amount	Percent of Loans to Total Loans	Allowance Amount	Percent of Loans to Total Loans	Allowance Amount	Percent of Loans to Total Loans
	(dollars in thousands)					
Commercial	$ 11,402	42.2%	$ 18,183	40.2%	$ 23,836	38.0%
Mortgage	21,447	39.1	22,885	39.2	22,642	38.0
Installment	3,378	12.9	6,146	13.5	6,769	13.2
Payment plan receivables	144	5.8	197	7.1	389	10.8
Unallocated	7,904		11,473		14,279	
Total	$ 44,275	100.0%	$ 58,884	100.0%	$ 67,915	100.0%

	2009		2008	
	Allowance Amount	Percent of Loans to Total Loans	Allowance Amount	Percent of Loans to Total Loans
	(dollars in thousands)			
Commercial	$ 41,259	36.1%	$ 33,090	39.3%
Mortgage	18,434	33.5	8,729	34.9
Installment	6,404	13.0	4,264	14.3
Payment plan receivables	754	17.4	486	11.5
Unallocated	14,866		11,331	
Total	$ 81,717	100.0%	$ 57,900	100.0%

ITEM 1. BUSINESS -- STATISTICAL DISCLOSURE (Continued)

V. DEPOSITS

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

	2012		2011		2010	
	Average Balance	Rate	Average Balance	Rate	Average Balance	Rate
	(dollars in thousands)					
Non-interest bearing demand	$ 523,926		$ 467,305		$ 349,376	
Savings and NOW	1,060,882	0.17%	1,006,305	0.22%	1,089,992	0.26%
Time deposits	552,903	1.28	656,944	1.98	978,098	2.59
Total	$ 2,137,711	0.42%	$ 2,130,554	0.72%	$ 2,417,466	1.17%

The following table summarizes time deposits in amounts of $100,000 or more by time remaining until maturity at December 31, 2012:

	(in thousands)
Three months or less	$ 36,586
Over three through six months	30,734
Over six months through one year	29,376
Over one year	49,672
Total	$ 146,368

VI. RETURN ON EQUITY AND ASSETS

The ratio of net income (loss) to average shareholders' equity and to average total assets, and certain other ratios, for the years ended December 31 follow:

	2012	2011	2010	2009	2008
Net income (loss) as a percent of[1]					
Average common equity	68.29%	(68.44)%	(54.38)%	(90.72)%	(39.01)%
Average total assets	0.92	(1.02)	(0.75)	(3.17)	(2.88)
Dividends declared per share as a percent of diluted net income per share	0.00	0.00	0.00	NM	NM
Average shareholders' equity as a percent of average total assets	4.82	4.76	3.92	5.80	7.50

[1] These amounts are calculated using net income (loss) applicable to common stock.
NM – Not meaningful.

Additional performance ratios are set forth in Selected Consolidated Financial Data in our annual report, to be delivered to shareholders in connection with the April 23, 2013 Annual Meeting of Shareholders (filed as exhibit 13 to this report on Form 10-K), and is incorporated herein by reference. Any significant changes in the current trend of the above ratios are reviewed in Management's Discussion and Analysis of Financial Condition and Results of Operations in our annual report, to be delivered to shareholders in connection with the April 23, 2013 Annual Meeting of Shareholders (filed as exhibit 13 to this report on Form 10-K), and is incorporated herein by reference.

VII. SHORT-TERM BORROWINGS

Short-term borrowings are discussed in note 9 to the consolidated financial statements incorporated herein by reference to Item 8, Part II of this report.

ITEM 1A. RISK FACTORS

Our results of operations, financial condition, and business may be materially and adversely affected if we are unable to successfully implement our Capital Plan.

Our Capital Plan, which is described in more detail under “Business – Recent Developments” above, has a primary objective of achieving and thereafter maintaining certain minimum capital ratios required by resolutions adopted by our bank's Board of Directors in December 2009 (as subsequently amended). Since those resolutions were adopted, we have engaged in various transactions to help us achieve the minimum capital ratios set forth in the Capital Plan, which are also described under "Business – Recent Developments" above. As of December 31, 2012, our bank met both of the minimum capital ratios set forth in the resolutions. However, we have not fully implemented our Capital Plan.

The final initiative of our Capital Plan is a public offering of our common stock for cash. As discussed under "Business – Recent Developments" above, we initially anticipated conducting a new cash equity raise of not less than $100 million, which would allow us to exercise our right to compel a conversion of the Series B Convertible Preferred Stock held by the Treasury into shares of our common stock (subject to the satisfaction of certain other conditions, as described in "Business – Recent Developments" above). We are currently evaluating the merits of a smaller capital raise with a goal of preserving the potential future use of our net deferred tax asset, which totaled approximately $65.1 million as of December 31, 2012, and on which we have established a full valuation allowance. This evaluation will also take into account our ongoing operating results, as well as input from our financial advisors and the Treasury.

Whatever strategy we pursue to reach the objectives of the Capital Plan will involve risks and uncertainties. The successful implementation of our Capital Plan is, in many respects, largely out of our control as it primarily depends on factors such as our ability to raise new capital, which depends on factors such as the stability of the financial markets, other macro economic conditions, and investors’ perception of the ability of the Michigan economy to continue to recover from the recession. In addition, other risks, including each of those described in these "Risk Factors," could negatively affect our operating performance in significant ways, which would in turn have a negative impact on our ability to reach the goals set forth in our Capital Plan.

If we are unable to maintain the minimum capital ratios set forth in our Capital Plan, it would likely materially and adversely affect our business, financial condition, and the value of our securities. An inability to improve and maintain our capital position would make it very difficult for us to withstand losses as a result of economic difficulties in Michigan and other factors, as described elsewhere in this “Risk Factors” section. It is possible that our bank’s capital could fall below the levels necessary to remain well-capitalized under federal regulatory standards. In that case, our primary bank regulators may impose regulatory restrictions and requirements on us through a regulatory enforcement action. If our bank fails to remain well-capitalized under federal regulatory standards, it will be prohibited from accepting or renewing brokered deposits without the prior consent of the FDIC, which would likely have a material adverse impact on our business and financial condition. If our regulators take enforcement action against us, it would likely increase our expenses (due to additional costs associated with complying with such enforcement action) and could limit our business operations (due to restrictions imposed by the enforcement action). There could be other expenses associated with a deterioration of our capital, such as increased deposit insurance premiums payable to the FDIC.

If we do not remain well-capitalized, meet certain minimum capital levels or certain profitability requirements or if we incur a rapid decline in net worth we could lose our ability to sell and/or service loans to Fannie Mae or Freddie Mac. This could impact our ability to generate gains on the sale of loans and generate servicing income. A forced liquidation of our servicing portfolio could also impact the value that could be recovered on this asset. Fannie Mae has the most stringent eligibility requirements covering capital levels, profitability and decline in net worth. Fannie Mae requires seller/servicers to be well-capitalized. For the profitability requirement, we cannot record four or more consecutive quarterly losses and experience a 30% decline in net worth over the same period. Finally, our net worth cannot decline by more than 25% in one quarter or more than 40% over two consecutive quarters. The highest level of capital we are required to maintain is at least $2.5 million plus 0.25% of loans serviced for Freddie Mac.

Additional restrictions would make it increasingly difficult for us to withstand any future deterioration in economic conditions, any deterioration in our loan portfolio, or any additional charges related to estimated potential incurred losses for Mepco from vehicle service contract counterparty contingencies. We could then be required to engage in a sale or other transaction with a third party or our bank could be placed into receivership by bank regulators. Any such event could be expected to result in a loss of the entire value of our outstanding shares of common stock and it could also result in a loss of the entire value of our outstanding trust preferred securities and preferred stock.

We may not achieve results similar to our current financial projections.

In our annual report, to be delivered to shareholders in connection with the April 23, 2013 Annual Meeting of Shareholders (filed as exhibit 13 to this report on Form 10-K), we disclose certain information regarding our potential future financial performance, including our belief that our bank can remain above "well-capitalized" for regulatory purposes for the foreseeable future, even without additional capital, and maintain the bank regulatory capital ratios required by the Capital Plan. These projections and assumptions were based on information about circumstances and conditions existing as of the date of this Annual Report on Form 10-K. The projections are based on estimates and assumptions that are inherently uncertain and, though considered reasonable by us, are subject to significant business, economic, and competitive uncertainties and contingencies, all of which are difficult to predict and many of which are beyond our control. Accordingly, there can be no assurance that actual results will not be significantly different than the information disclosed. It is possible that our bank may not be able to remain well-capitalized as we work through asset quality issues and seek to return to consistent profitability. Any significant deterioration in or inability to improve our capital position would make it very difficult for us to withstand losses that we may incur and that may be increased or made more likely as a result of economic difficulties and other factors. We do not intend to update any such forward-looking information. Neither we nor any other person or entity assumes any responsibility for the accuracy or validity of these projections, as the projections are not, and should not be taken as, a guarantee of our future financial performance or condition.

We have credit risk inherent in our loan portfolios, and our allowance for loan losses may not be sufficient to cover actual loan losses.

Our loan customers may not repay their loans according to their respective terms, and the collateral securing the payment of these loans may be insufficient to cover any losses we may incur. We have experienced and may continue to experience significant credit losses which could have a material adverse effect on our operating results. We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. Non-performing loans amounted to $32.9 million and $59.9 million at December 31, 2012 and December 31, 2011, respectively. Our allowance coverage ratio of non-performing loans was 134.4% and 98.3% at December 31, 2012 and December 31, 2011, respectively. In determining the size of the allowance for loan losses, we rely on our experience and our evaluation of current economic conditions. If our assumptions or judgments prove to be incorrect, our current allowance for loan losses may not be sufficient to cover certain loan losses inherent in our loan portfolio, and adjustments may be necessary to account for different economic conditions or adverse developments in our loan portfolio. Material additions to our allowance would adversely impact our operating results.

Although we perform periodic internal testing of our loan portfolio to help ensure the adequacy of our allowance for loan losses, if the assumptions or judgments used in these analyses prove to be incorrect, our current allowance for loan losses may not be sufficient to cover loan losses inherent in our loan portfolio. Material additions to our allowance would adversely impact our operating results. In addition, federal and state regulators periodically review our allowance for loan losses and may require us to increase our provision for loan losses or recognize additional loan charge-offs, notwithstanding any internal analysis that has been performed. Any increase in our allowance for loan losses or loan charge-offs required by these regulatory agencies could have a material adverse effect on our results of operations and financial condition.

Our business has been and may continue to be adversely affected by conditions in the financial markets and economic conditions generally, and particularly by economic conditions in Michigan.

Our success depends to a great extent upon the general economic conditions in Michigan's Lower Peninsula. We have in general experienced a slowing economy in Michigan since 2001, although economic conditions in the state began to show signs of improvement during 2010 and generally these improvements have continued, albeit at a slower pace. Unlike larger banks that are more geographically diversified, we provide banking services to customers primarily in Michigan's lower peninsula. Our loan portfolio, the ability of the borrowers to repay these loans, and the value of the collateral securing these loans will be impacted by local economic conditions. The economic difficulties faced in Michigan have had and may continue to have many adverse consequences, including the following:

- Loan delinquencies may increase;
- Problem assets and foreclosures may increase;
- Demand for our products and services may decline; and
- Collateral for our loans may decline in value, in turn reducing customers' borrowing power and reducing the value of assets and collateral associated with existing loans.

Current market developments, particularly in real estate markets, may adversely affect our industry, business and results of operations.

Dramatic declines in the housing market in recent years, with lower home prices and increased foreclosures and unemployment, resulted in, and may continue to result in, significant write-downs of asset values by us and other financial institutions. These write-downs have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions and, in some cases, to fail.

Although we believe the Michigan economy started to show signs of stabilization beginning in 2010, it is possible conditions will not stabilize or recover at or even close to the pace expected.

Negative market developments in the future could negatively affect consumer confidence levels and may contribute to increases in delinquencies and default rates, which may impact our charge-offs and provisions for credit losses.

The assumptions we make in calculating estimated potential losses on vehicle service contract counterparty receivables for Mepco may be inaccurate, which could lead to vehicle service contract counterparty contingencies expense that is materially greater than the charges we have taken to date.

One of our subsidiaries, Mepco, is engaged in the business of acquiring and servicing payment plans for consumers who purchase vehicle service contracts and similar products. The receivables generated in this business involve a different, and generally higher, level of risk of delinquency or collection than generally associated with the loan portfolios of our bank. Upon cancellation of the payment plans acquired by Mepco (whether due to voluntary cancellation by the consumer or non-payment), the third party entities that provide the service contracts or other products to consumers (which we refer to as Mepco's "counterparties") become obligated to refund Mepco the unearned portion of the sales price previously funded by Mepco. These obligations of Mepco's counterparties are shown as "vehicle service contract counterparty receivables" in our Consolidated Statements of Financial Condition. At December 31, 2012, the aggregate amount of such obligations owing to Mepco by counterparties, net of write-downs and reserves made through the recognition of "vehicle service contract counterparty contingencies expense," totaled $18.4 million. This compares to a balance of $29.3 million and $37.3 million at December 31, 2011, and December 31, 2010, respectively.

In most cases, there is no collateral to secure the counterparties' refund obligations to Mepco, but Mepco has the contractual right to offset unpaid refund obligations against amounts Mepco would otherwise be obligated to fund to the counterparties. In addition, even when other collateral is involved, the refund obligations of these counterparties are not fully secured. Mepco incurs losses when it is unable to fully recover funds owing to it by counterparties upon cancellation of the underlying service contracts.

Historically, Mepco's counterparties generally fulfilled their obligations to Mepco to refund Mepco the amounts owed upon cancellation of the service contracts. However, events in the vehicle service contract industry starting in approximately 2009 significantly increased the size of these counterparty obligations. These events, which included allegations that several service contract providers violated telemarketing and other consumer protection laws, contributed to significantly higher cancellation rates for outstanding service contracts and significantly lower sales of new service contract products which, in turn, contributed to several of Mepco's counterparties either going out of business or defaulting on their obligations to Mepco. Although Mepco generally has recourse against more than one counterparty upon the cancellation of a service contract, Mepco has not historically had to enforce its rights against one counterparty (e.g., the administrator of a particular service contract that cancelled) based upon the default of a second counterparty (e.g., the seller of the service contract). As Mepco has begun to enforce these rights in recent years, certain of its counterparties are challenging their payment obligations to Mepco. Mepco is currently involved in litigation with several counterparties to enforce Mepco's rights to collect refunds owing from those counterparties. We expect we will need to initiate additional lawsuits against other counterparties that do not pay their obligations to Mepco.

In evaluating the collectability of these receivables, Mepco estimates probable incurred losses that Mepco expects to incur as a result of being unable to fully collect all amounts owing to Mepco. The aggregate amount of these probable incurred losses (shown as vehicle service contract counterparty contingencies expense in our Consolidated Statements of Operations) recorded in past years has grown from $0 in 2007, to $1.0 million in 2008, to $31.2 million in 2009, and declined to $18.6 million in 2010, $11.0 million in 2011, and $1.6 million in 2012.

The determination of these losses requires a significant amount of judgment because a number of factors can influence the amount of loss that we may ultimately incur. These factors include our estimate of future cancellations of vehicle service contracts (including cancellations that may result from a counterparty discontinuing its business operations), our evaluation of collateral that may be available to recover funds due from our counterparties, and the amount collected from counterparties in connection with their contractual obligations. We apply a rigorous process, based upon observable contract activity and past experience, to estimate probable incurred losses for our vehicle service contract counterparty contingencies, but there can be no assurance that our modeling process will successfully identify all such losses. Because of the uncertainty surrounding the numerous and complex assumptions made, actual losses could exceed the charges we have taken to date, and the additional losses we incur could be material.

Mepco has historically contributed a meaningful amount of profit to our consolidated results of operations, but we have shrunk the size of its business significantly since 2009 as a result of the events and risks referenced above.

For 2008 and 2007, Mepco had net income of $10.7 million and $5.5 million, respectively. With the counterparty losses experienced by Mepco since late 2009 (as referenced in the previous risk factor), Mepco reported net losses of $11.7 million in 2009 (which included a $16.7 million goodwill impairment charge), $1.4 million in 2010, and $4.8 million in 2011. While Mepco reported net income of $1.7 million in 2012, this is significantly less than its contribution to profit prior to 2009.

As a result of adverse events described above and unique risks within the vehicle service contract industry, we have made a concerted effort to significantly reduce the size and scope of Mepco's business. Net payment plan receivables have been reduced from $406.3 million (or approximately 13.7% of total assets) at December 31, 2009, to $201.3 million (or approximately 7.9% of total assets) at December 31, 2010, to $115.0 million (or approximately 5.0% of total assets) at December 31, 2011, to $84.7 million (or approximately 4.2% of total assets) at December 31, 2012. This represents a decline of almost 80% since 2009. We expect the amount of total payment plan receivables will decline only modestly during 2013.

This decline in payment plan receivables has had an adverse impact on our net interest income and net interest margin.

Even though the size of Mepco's business has been significantly reduced in recent years, it still presents unique market, operational, and internal control challenges and risks.

Mepco faces unique operational and internal control challenges due to the relatively rapid turnover of its portfolio and high volume of new payment plans. Mepco's business is highly specialized, and its results of operation depend largely on the continued services of its executives and other key employees familiar with its business. In addition, because activity in this market is conducted primarily through relationships with unaffiliated vehicle service contract direct marketers and administrators and because the customers are located nationwide, risk management and general supervisory oversight are generally more difficult than in our bank. The risk of third party fraud is also higher as a result of these factors. Acts of fraud are difficult to detect and deter, and we cannot assure investors that the risk management procedures and controls will prevent losses from fraudulent activity. Although we have an internal control system at Mepco, we may be exposed to the risk of material loss in this business.

Our operations may be adversely affected if we are unable to secure adequate funding. Our use of wholesale funding sources exposes us to liquidity risk and potential earnings volatility.

We utilize wholesale funding, including Federal Home Loan Bank borrowings and reciprocal and brokered deposits, to augment our core deposits to fund our business. As of December 31, 2012, our use of such wholesale funding sources amounted to approximately $65.5 million or 3.6% of total funding. Because wholesale funding sources are affected by general market conditions, the availability of funding from wholesale sources may be dependent on the confidence these parties have in our banking operations. The continued availability to us of these funding sources is uncertain and may be difficult for us to retain or replace at attractive rates as they mature. Our liquidity will be constrained if we are unable to renew our wholesale funding sources or if adequate financing is not available in the future at acceptable rates of interest or at all. We may not have sufficient liquidity to continue to fund new loans, and we may need to liquidate loans or other assets unexpectedly, in order to repay obligations as they mature.

The constraint on our liquidity would be exacerbated if we were to experience a reduction in our core deposits, and we cannot be sure we will be able to maintain our current level of core deposits. In particular, those deposits that are currently uninsured or those deposits that were in non-interest bearing transaction accounts and had unlimited deposit insurance under the FDIC Transaction Account Guarantee Program ("TAGP") only through December 31, 2012 (in accordance with provisions in the Dodd-Frank Act), may be particularly susceptible to outflow. At December 31, 2012, we had $107.8 million of uninsured deposits and an additional $175.8 million of deposits that were in non-interest bearing transaction accounts and fully insured through December 31, 2012 under the TAGP. A reduction in core deposits would increase our need to rely on wholesale funding sources, at a time when our ability to do so may be more restricted, as described above.

In addition, if we fail to remain "well-capitalized" under federal regulatory standards, we will be prohibited from accepting or renewing brokered deposits without the prior consent of the FDIC. As of December 31, 2012, we had brokered deposits of approximately $14.6 million. Approximately $11.4 million of these brokered deposits mature during the next 12 months. As a result, any such restrictions on our ability to access brokered deposits are likely to have a material adverse impact on our business and financial condition.

Moreover, we cannot be sure we will be able to maintain our current level of core deposits. Our deposit customers could move their deposits in reaction to media reports about bank failures in general or, particularly, if our financial condition were to deteriorate. A reduction in core deposits would increase our need to rely on wholesale funding sources, at a time when our ability to do so may be more restricted, as described above.

Our financial performance will be materially and adversely affected if we are unable to maintain our access to funding or if we are required to rely more heavily on more expensive funding sources. In such case, our net interest income and results of operations would be adversely affected.

Dividends being deferred on our outstanding trust preferred securities and our outstanding preferred stock are accumulating and are expected to continue to increase as we have no current plans to resume such dividend payments at any time in the near future.

We are currently deferring payment of quarterly dividends on our preferred stock held by the Treasury, which pays cumulative dividends quarterly at a rate of 5% per annum through February 14, 2014, and 9% per annum thereafter. In addition, we have exercised our right to defer all quarterly interest payments on the subordinated debentures we issued to our trust subsidiaries. As a result, all quarterly dividends on the related trust preferred securities are also being deferred. We may defer such interest payments for a total of 20 consecutive calendar quarters without causing an event of default under the documents governing these securities. After such period, we must pay all deferred interest and resume quarterly interest payments or we will be in default. Our right to continue to defer these interest payments without being in default of the related debt instruments will expire in late 2014.

We do not have any current plans to resume dividend payments on our outstanding trust preferred securities or our outstanding preferred stock. If and when either of such payments resume, however, the accrued amounts must be paid and made current.

We face uncertainty with respect to legislative efforts by the federal government to help stabilize the U.S. financial system, address problems that caused the recent crisis in the U.S. financial markets, or otherwise regulate the financial services industry.

Beginning in the fourth quarter of 2008, the federal government enacted new laws intended to strengthen and restore confidence in the U.S. financial system. See "Business—Regulatory Developments" above for additional information regarding these developments.

In addition, additional legislation or regulations may be adopted in the future that could adversely impact us. For example, on July 21, 2010, the President signed the Dodd-Frank Act into law, which included the creation of the Consumer Financial Protection Bureau with power to promulgate and, with respect to financial institutions with more than $10 billion in assets, enforce consumer protection laws; the creation of the Financial Stability Oversight Council chaired by the Secretary of the Treasury with authority to identify institutions and practices that might pose a systemic risk; provisions affecting corporate governance and executive compensation of all companies whose securities are registered with the Securities and Exchange Commission; a provision that broadens the base for FDIC insurance assessments and permanently increases FDIC deposit insurance to $250,000; a provision under which interchange fees for debit cards of issuers with at least $10 billion in assets are set by the Federal Reserve under a restrictive "reasonable and proportional cost" per transaction standard; a provision that requires bank regulators to set minimum capital levels for bank holding companies that are as strong as those required for their insured depository subsidiaries, subject to a grandfather clause for financial institutions with less than $15 billion in assets as of December 31, 2009; and new restrictions on how mortgage brokers and loan originators may be compensated. Although a number of the regulations required by the Dodd-Frank Act have been issued, many of the new requirements have not yet been implemented and will likely be subject to implementing regulations over the course of several years. As these provisions continue to be implemented, we expect they may impact our business operations and may negatively affect our earnings and financial condition by affecting our ability to offer certain products or earn certain fees and by exposing us to increased compliance and other costs. At this time, it is difficult to assess the full impact of the Dodd-Frank Act on our business. This legislation as well as other similar federal initiatives could have a material adverse impact on our business.

In addition, on June 4, 2012, the Federal Reserve proposed new regulatory capital requirements for financial institutions. These new capital requirements, if adopted as outlined in the proposals issued by the Federal Reserve, would have a material impact on the banking industry, including our organization. In general, the proposed new rules would significantly increase the need for Tier 1 common equity capital and substantially impact the calculation of risk-weighted assets.

We have credit risk inherent in our securities portfolio.

We maintain diversified securities portfolios, which include obligations of the Treasury and government-sponsored agencies as well as securities issued by states and political subdivisions, mortgage-backed securities, and asset-backed securities. We also invest in capital securities, which include preferred stocks and trust preferred securities. We seek to limit credit losses in our securities portfolios by generally purchasing only highly rated securities (rated "AA" or higher by a major debt rating agency) or by conducting significant due diligence on the issuer for unrated securities. However, gross unrealized losses on securities available for sale in our portfolio totaled approximately $2.6 million as of December 31, 2012 (compared to approximately $5.2 million as of December 31, 2011). We believe these unrealized losses are temporary in nature and are expected to be recovered within a reasonable time period as we believe we have the ability to hold the securities to maturity or until such time as the unrealized losses reverse. However, we evaluate securities available for sale for other than temporary impairment (OTTI) at least quarterly and more frequently when economic or market concerns warrant such evaluation. Those evaluations may result in OTTI charges to our earnings. In addition to these impairment charges, we may, in the future, experience additional losses in our securities portfolio which may result in charges that could materially adversely affect our results of operations.

Our mortgage-banking revenues are susceptible to substantial variations dependent largely upon factors that we do not control, such as market interest rates.

A portion of our revenues are derived from gains on mortgage loans. We realized net gains of $17.3 million on mortgage loans during 2012 compared to $9.3 million during 2011. These net gains primarily depend on the volume of loans we sell, which in turn depends on our ability to originate real estate mortgage loans and the demand for fixed-rate obligations and other loans that are outside of our established interest-rate risk parameters. Net gains on mortgage loans are also dependent upon economic and competitive factors as well as our ability to effectively manage exposure to changes in interest rates. Consequently, they can often be a volatile part of our overall revenues.

Fluctuations in interest rates could reduce our profitability.

We realize income primarily from the difference between interest earned on loans and investments and the interest paid on deposits and borrowings. Our interest income and interest expense are affected by general economic conditions and by the policies of regulatory authorities. While we have taken measures intended to manage the risks of operating in a changing interest rate environment, there can be no assurance that these measures will be effective in avoiding undue interest rate risk. We expect that we will periodically experience “gaps” in the interest rate sensitivities of our assets and liabilities, meaning that either our interest-bearing liabilities will be more sensitive to changes in market interest rates than our interest-earning assets, or vice versa. In either event, if market interest rates should move contrary to our position, this “gap” will work against us, and our earnings may be negatively affected.

We are unable to predict fluctuations of market interest rates, which are affected by, among other factors, changes in the following:

- inflation or deflation rates;
- levels of business activity;
- recession;
- unemployment levels;
- money supply;
- domestic or foreign events; and
- instability in domestic and foreign financial markets.

We rely heavily on our management team, and the unexpected loss of key managers may adversely affect our operations and the ability to implement our Capital Plan and business strategies.

The continuity of our operations is influenced strongly by our ability to attract and to retain senior management experienced in banking and financial services. Our ability to retain executive officers and the current management teams of each of our lines of business will continue to be important to successful implementation of our Capital Plan and our strategies. We do not have employment or non-compete agreements with any of our executives or other key employees. In addition, we face restrictions on our ability to compensate our executives as a result of our participation in the CPP under TARP. Many of our competitors do not face these same restrictions. The unexpected loss of services of any key management personnel, or the inability to recruit and retain qualified personnel in the future, could have a material adverse effect on our business and financial results.

Competition with other financial institutions could adversely affect our profitability.

We face vigorous competition from banks and other financial institutions, including savings banks, finance companies, and credit unions. A number of these banks and other financial institutions have substantially greater resources and lending limits, larger branch systems, and a wider array of banking services. To a limited extent, we also compete with other providers of financial services, such as money market mutual funds, brokerage firms, consumer finance companies, and insurance companies, which are not subject to the same degree of regulation as that imposed on bank holding companies. As a result, these non-bank competitors may have an advantage over us in providing certain services, and this competition may reduce or limit our margins on banking services, reduce our market share, and adversely affect our results of operations and financial condition.

We will face challenges in our ability to achieve future growth in the near term.

Our current capital position has prevented us from pursuing any meaningful growth initiatives, and we have taken actions to shrink our balance sheet, including closing a total of 7 branches in 2012 and the sale of an additional 21 branches. Our current focus, as discussed elsewhere in this Annual Report on Form 10-K and in our annual report to shareholders included as Exhibit 13 to this Annual Report on Form 10-K, is to strengthen our capital base, as opposed to pursuing growth.

We operate in a highly regulated environment and may be adversely affected by changes in federal and local laws and regulations.

We are generally subject to extensive regulation, supervision, and examination by federal and state banking authorities. The burden of regulatory compliance has increased under current legislation and banking regulations and is likely to continue to have a significant impact on the financial services industry. Recent legislative and regulatory changes as well as changes in regulatory enforcement policies and capital adequacy guidelines are likely to increase our cost of doing business. In addition, future legislative or regulatory changes could have a substantial impact on us. Additional legislation and regulations may be enacted or adopted in the future that could significantly affect our powers, authority, and operations; increase our costs of doing business; and, as a result, give an advantage to our competitors who may not be subject to similar legislative and regulatory requirements. Further, regulators have significant discretion and power to prevent or remedy unsafe or unsound practices or violations of laws by banks and bank holding companies in the performance of their supervisory and enforcement duties. The exercise of regulatory power may have a negative impact on our results of operations and financial condition.

Increases in FDIC insurance premiums may have a material adverse effect on our earnings.

As an FDIC-insured institution, we are required to pay deposit insurance premium assessments to the FDIC. Due to higher levels of bank failures beginning in 2008, the FDIC has taken numerous steps to restore reserve ratios of the deposit insurance fund. Our deposit insurance expense increased substantially in 2009 compared to prior periods, reflecting higher rates and a special assessment of $1.4 million in the second quarter of 2009. This industry-wide special assessment was equal to 5 basis points on our total assets less our Tier 1 capital.

Since April 1, 2011, banks have been charged FDIC insurance premiums based on net assets (defined as the quarter to date average daily total assets less the quarter to date average daily Tier 1 capital) rather than based on average domestic deposits. Initial base assessment rates vary from 0.05% to 0.35% of net assets and may be adjusted between negative 0.025% and positive 0.10% for an unsecured debt adjustment and a brokered deposit adjustment. This new FDIC assessment system has resulted in a decline in our deposit insurance premiums from $6.8 million in 2010 to $3.5 million in 2011 to $3.3 million in 2012. However, if our financial condition worsens and our Tier 1 capital deteriorates, our deposit insurance expense may increase. The amount of deposit insurance that we are required to pay is also subject to factors outside of our control, including bank failures and regulatory initiatives. Such increases may adversely affect our results of operations.

Initiatives we may take to fully implement our Capital Plan could be highly dilutive to our existing common shareholders.

Our Capital Plan contemplates capital raising initiatives that involve the issuance of a significant number of shares of our common stock, as described under "Business – Recent Developments" above. While we are currently re-evaluating the best strategy to implement our Capital Plan, any pursuit of these capital raising initiatives is likely to be highly dilutive to our existing common shareholders and their voting power. The market price of our common stock could decline as a result of the dilutive effect of the capital raising transactions we may enter into or the perception that such transactions could occur.

It is possible the Treasury or one or more private investors could end up owning a significant percentage of our stock and have the ability to exert significant influence over our management and operations.

One of the primary capital raising initiatives set forth in our Capital Plan consists of the conversion of the preferred stock held by the Treasury into shares of our common stock. As described under "Business – Recent Developments" above, the Series B Convertible Preferred Stock currently held by the Treasury is convertible into shares of our common stock. Any such conversion is likely to result in the Treasury owning a significant percentage of our outstanding common stock, perhaps over 50%.

Except with respect to certain designated matters, the Treasury has agreed to vote all shares of our common stock acquired upon conversion of the Series B Convertible Preferred Stock or upon exercise of the amended and restated Warrant that are beneficially owned by it and its controlled affiliates in the same proportion (for, against, or abstain) as all other shares of our common stock are voted. The "designated matters" are (i) the election and removal of our directors, (ii) the approval of any merger, consolidation or similar transaction that requires the approval of our shareholders, (iii) the approval of a sale of all or substantially all of our assets or property, (iv) the approval of our dissolution, (v) the approval of any issuance of any of our securities on which our shareholders are entitled to vote, (vi) the approval of any amendment to our organizational documents on which our shareholders are entitled to vote, and (vii) the approval of any other matters reasonably incidental to the foregoing as determined by the Treasury.

It is also possible that one or more investors, other than the Treasury, could end up as the owner of a significant portion of our common stock. This could occur, for example, if the Treasury transfers shares of the Series B Convertible Preferred Stock it holds or, upon conversion of such stock, transfers to a third party the common stock issued upon conversion. It also could occur if one or more large investors make a significant investment in any offering of our capital stock that we undertake.

Subject to the voting limitations applicable to the Treasury and its controlled affiliates described above, any such significant shareholder could exercise significant influence on matters submitted to our shareholders for approval, including the election of directors. In addition, having a significant shareholder could make future transactions more difficult or even impossible to complete without the support of such shareholder, whose interests may not coincide with interests of smaller shareholders. These possibilities could have an adverse effect on the market price of our common stock.

In addition to the foregoing, the Series B Convertible Preferred Stock we issued to the Treasury contains a provision providing that, if dividends on the preferred stock have not been paid for an aggregate of six quarterly dividend periods or more, whether consecutive or not, the holders of the preferred stock have the right to elect two additional directors at our next annual meeting of shareholders or at a special meeting of shareholders called for that purpose. These directors would be elected annually and serve until all accrued and unpaid dividends on the Series B Convertible Preferred Stock have been paid. Because we have deferred dividends on the Series B Convertible Preferred Stock for at least six quarterly dividend periods, the Treasury currently has the right to elect two directors to our board. At this time, in lieu of electing such directors, the Treasury requested us to allow (and we agreed) an observer to attend our Board of Directors meetings beginning in the third quarter of 2011. The Treasury continues to retain the right to elect two directors as described above.

An offering of our common stock could trigger an ownership change under federal tax law that will negatively affect our ability to utilize net operating loss carryforwards and other deferred tax assets in the future.

As of December 31, 2012, we had federal net operating loss carryforwards of approximately $111.9 million. Under federal tax law, our ability to utilize this carryforward and other deferred tax assets is limited if we are deemed to experience a change of ownership pursuant to Section 382 of the Internal Revenue Code. This would result in our loss of the benefit of these deferred tax assets. Please see the more detailed discussion of these tax rules under "Results of Operations - Income Taxes" in our annual report to shareholders included as Exhibit 13 to this Annual Report on Form 10-K.

The trading price of our common stock may be subject to continued significant fluctuations and volatility.

The market price of our common stock could be subject to significant fluctuations due to, among other things:

- actual or anticipated quarterly fluctuations in our operating and financial results, particularly if such results vary from the expectations of management, securities analysts, and investors, including with respect to further loan losses or vehicle service contract counterparty contingencies expenses we may incur;
- announcements regarding significant transactions in which we may engage, including the initiatives that are part of our Capital Plan;
- market assessments regarding such transactions, including the timing, terms, and likelihood of success of any offering of our common stock;
- developments relating to litigation or other proceedings that involve us;
- changes or perceived changes in our operations or business prospects;
- legislative or regulatory changes affecting our industry generally or our businesses and operations;
- the failure of general market and economic conditions to stabilize and recover, particularly with respect to economic conditions in Michigan, and the pace of any such stabilization and recovery;
- the possible delisting of our common stock from Nasdaq or perceptions regarding the likelihood of such delisting;
- the operating and share price performance of companies that investors consider to be comparable to us;
- future offerings by us of debt, preferred stock, or trust preferred securities, each of which would be senior to our common stock upon liquidation and for purposes of dividend distributions;
- actions of our current shareholders, including future sales of common stock by existing shareholders and our directors and executive officers; and
- other changes in U.S. or global financial markets, economies, and market conditions, such as interest or foreign exchange rates, stock, commodity, credit or asset valuations or volatility.

Stock markets in general and our common stock in particular, have experienced significant volatility since October 2007 and continue to experience significant price and volume volatility. As a result, the market price of our common stock may continue to be subject to similar market fluctuations that may or may not be related to our operating performance or prospects. Increased volatility could result in a decline in the market price of our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We and our bank operate a total of 89 facilities in Michigan and 1 facility in Chicago, Illinois. The individual properties are not materially significant to us or our bank's business or to the consolidated financial statements.

With the exception of the potential remodeling of certain facilities to provide for the efficient use of work space or to maintain an appropriate appearance, each property is considered reasonably adequate for current and anticipated needs.

ITEM 3. LEGAL PROCEEDINGS

We are involved in various litigation matters in the ordinary course of business. At the present time, we do not believe any of these matters will have a significant impact on our consolidated financial position or results of operations. The aggregate amount we have accrued for losses we consider probable as a result of these litigation matters is immaterial. However, because of the inherent uncertainty of outcomes from any litigation matter, we believe it is reasonably possible we may incur losses in addition to the amounts we have accrued. At this time, we estimate the maximum amount of additional losses that are reasonably possible is approximately $0.4 million. However, because of a number of factors, including the fact that certain of these litigation matters are still in their early stages and involve claims for which, at this point, we believe have little to no merit, this maximum amount may change in the future.

The litigation matters described in the preceding paragraph primarily include claims that have been brought against us for damages, but do not include litigation matters where we seek to collect amounts owed to us by third parties (such as litigation initiated to collect delinquent loans or vehicle service contract counterparty receivables). These excluded, collection-related matters may involve claims or counterclaims by the opposing party or parties, but we have excluded such matters from the disclosure contained in the preceding paragraph in all cases where we believe the possibility of us paying damages to any opposing party is remote. Risks associated with the likelihood that we will not collect the full amount owed to us, net of reserves, are disclosed elsewhere in this report.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ADDITIONAL ITEM - EXECUTIVE OFFICERS

Our executive officers are appointed annually by our Board of Directors at the meeting of Directors preceding the Annual Meeting of Shareholders. There are no family relationships among these officers and/or our Directors nor any arrangement or understanding between any officer and any other person pursuant to which the officer was elected.

The following sets forth certain information with respect to our executive officers at February 25, 2013.

Name (Age)	Position	First elected as an executive officer
William B. Kessel (48)	President, Chief Executive Officer and Director (1)	2004
Michael M. Magee, Jr. (57)	Executive Chairman of the Board of Directors and Director (2)	1993
Robert N. Shuster (55)	Executive Vice President and Chief Financial Officer	1999
Stefanie M. Kimball (53)	Executive Vice President and Chief Risk Officer	2007
David C. Reglin (53)	Executive Vice President, Retail Banking	1998
Mark L. Collins (55)	Executive Vice President, General Counsel (3)	2009
Dennis J. Mack (51)	Executive Vice President and Chief Lending Officer (4)	2012
Richard E. Butler (61)	Senior Vice President, Operations	1998
Peter R. Graves (55)	Senior Vice President, Chief Information Officer	1999
James J. Twarozynski (47)	Senior Vice President, Controller	2002

(1) Mr. Kessel assumed the role of President as of April 1, 2011, and assumed the roles of CEO and director starting January 1, 2013. Prior to being appointed President, Mr. Kessel was Executive Vice President and COO.

(2) As part of a senior management succession plan, Mr. Magee retired from the role of President as of April 1, 2011, and from the role of CEO as of January 1, 2013.

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

(4) Prior to being named Executive Vice President and Chief Lending Officer in 2012, Mr. Mack was a Senior Vice President and commercial credit officer since 2009 and a Senior Vice President at Comerica Incorporated since 2001.

PART II.

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

The information set forth under the caption "Quarterly Summary" in our annual report, to be delivered to shareholders in connection with the April 23, 2013 Annual Meeting of Shareholders (filed as exhibit 13 to this report on Form 10-K), is incorporated herein by reference.

ITEM 6. SELECTED FINANCIAL DATA

The information set forth under the caption "Selected Consolidated Financial Data" in our annual report, to be delivered to shareholders in connection with the April 23, 2013 Annual Meeting of Shareholders (filed as exhibit 13 to this report on Form 10-K), is incorporated herein by reference.

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

The information set forth under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our annual report, to be delivered to shareholders in connection with the April 23, 2013 Annual Meeting of Shareholders (filed as exhibit 13 to this report on Form 10-K), is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the caption "Asset/liability management" in our annual report, to be delivered to shareholders in connection with the April 23, 2013 Annual Meeting of Shareholders (filed as exhibit 13 to this report on Form 10-K), is incorporated herein by reference.

PART II.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following consolidated financial statements and the independent auditor's report are set forth in our annual report, to be delivered to shareholders in connection with the April 23, 2013 Annual Meeting of Shareholders (filed as exhibit 13 to this report on Form 10-K), and is incorporated herein by reference.

Report of Independent Registered Public Accounting Firm

Consolidated Statements of Financial Condition at December 31, 2012 and 2011

Consolidated Statements of Operations for the years ended December 31, 2012, 2011 and 2010

Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2012, 2011 and 2010

Consolidated Statements of Shareholders' Equity for the years ended December 31, 2012, 2011 and 2010

Consolidated Statements of Cash Flows for the years ended December 31, 2012, 2011 and 2010

Notes to Consolidated Financial Statements

The supplementary data required by this item set forth under the caption "Quarterly Financial Data" in our annual report, to be delivered to shareholders in connection with the April 23, 2013 Annual Meeting of Shareholders (filed as exhibit 13 to this report on Form 10-K), is incorporated herein by reference.

The portions of our annual report, to be delivered to shareholders in connection with the April 23, 2013 Annual Meeting of Shareholders (filed as exhibit 13 to this report on Form 10-K), which are not specifically incorporated by reference as part of this Form 10-K are not deemed to be a part of this report.

PART II.

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

None

ITEM 9A. CONTROLS AND PROCEDURES

1. Evaluation of Disclosure Controls and Procedures. With the participation of management, our chief executive officer and chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a – 15e and 15d – 15e) as of the year ended December 31, 2012 (the "Evaluation Date"), have concluded that, as of such date, our disclosure controls and procedures were effective.

2. Internal Control Over Financial Reporting.
The management of Independent Bank Corporation is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system was designed to provide reasonable assurance to us and the board of directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

We assessed the effectiveness of our internal control over financial reporting as of December 31, 2012. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control — Integrated Framework.* Based on our assessment, management has concluded that as of December 31, 2012, the Company's internal control over financial reporting was effective 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.

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2012, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Our annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in our annual report.

/s/William B. Kessel.	/s/Robert N. Shuster
President and	Executive Vice President
Chief Executive Officer	and Chief Financial Officer

March 13, 2013

PART II.

ITEM 9B. OTHER INFORMATION

None.

PART III.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

DIRECTORS - The information with respect to our Directors, set forth under the captions "Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" in our definitive proxy statement, to be delivered to shareholders in connection with the April 23, 2013 Annual Meeting of Shareholders, is incorporated herein by reference.

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

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

CORPORATE GOVERNANCE – Information relating to certain functions and the composition of our board committees, set forth under the caption "Board Committees and Functions" in our definitive proxy statement, to be delivered to shareholders in connection with the April 23, 2013 Annual Meeting of Shareholders, is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information set forth under the captions "Executive Compensation," "Director Compensation," and “Compensation Committee Interlocks and Insider Participation” in our definitive proxy statement, to be delivered to shareholders in connection with the April 23, 2013 Annual Meeting of Shareholders, is incorporated herein by reference.

PART III.

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

The information set forth under the captions "Voting Securities and Record Date", "Election of Directors" and "Securities Ownership of Management" in our definitive proxy statement, to be delivered to shareholders in connection with the April 23, 2013 Annual Meeting of Shareholders, is incorporated herein by reference.

We maintain certain equity compensation plans under which our common stock is authorized for issuance to employees and directors, including our Deferred Compensation and Stock Purchase Plan for Non-employee Directors and Long-Term Incentive Plan.

The following sets forth certain information regarding our equity compensation plans as of December 31, 2012.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	275,933	$ 4.46	142,178
Equity compensation plan not approved by security holders	None		306,740

The equity compensation plan not approved by security holders referenced above is our Deferred Compensation and Stock Purchase Plan for Non-employee Directors. This plan allows our non-employee directors to defer payment of all or a part of their director fees and to receive shares of common stock in lieu of cash for these fees. Under the plan, each non-employee director may elect to participate in a Current Stock Purchase Account, a Deferred Cash Investment Account, or a Deferred Stock Account. A Current Stock Purchase Account is credited with shares of our common stock having a fair market value equal to the fees otherwise payable. A Deferred Cash Investment Account is credited with an amount equal to the fees deferred and on each quarterly credit date with an appreciation factor that may not exceed the prime rate of interest charged by our Bank. A Deferred Stock Account is credited with the amount of fees deferred and converted into stock units based on the fair market value of our common stock at the time of the deferral. Amounts in the Deferred Stock Account are credited with cash dividends and other distributions on our common stock. Fees credited to a Deferred Cash Investment Account or a Deferred Stock Account are deferred for income tax purposes. This plan does not provide for distributions of amounts deferred prior to a participant's termination as a non-employee director. Participants may generally elect either a lump sum or installment distributions.

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

The information set forth under the captions "Transactions Involving Management" and "Determination of Independence of Board Members" in our definitive proxy statement, to be delivered to shareholders in connection with the April 23, 2013 Annual Meeting of Shareholders, is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information set forth under the caption "Disclosure of Fees Paid to our Independent Auditors" in our definitive proxy statement, to be delivered to shareholders in connection with the April 23, 2013 Annual Meeting of Shareholders, is incorporated herein by reference.

PART IV.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial Statements
All of our financial statements are incorporated herein by reference as set forth in the annual report to be delivered to shareholders in connection with the April 23, 2013 Annual Meeting of Shareholders (filed as exhibit 13 to this report on Form 10-K.)

2. Exhibits (Numbered in accordance with Item 601 of Regulation S-K)
The Exhibit Index is located on the final three pages of this report on Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) 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, dated March 13, 2013.

INDEPENDENT BANK CORPORATION

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

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

William B. Kessel, President and Chief Executive Officer (Principal Executive Officer)	/s/William B. Kessel	March 13, 2013
Robert N. Shuster, Executive Vice President and Chief Financial Officer (Principal Financial Officer)	/s/Robert N. Shuster	March 13, 2013
James J. Twarozynski, Senior Vice President and Controller (Principal Accounting Officer)	/s/James J. Twarozynski	March 13, 2013
Michael M. Magee, Jr., Executive Chairman and Director	/s/Michael M. Magee Jr.	March 13, 2013
William J. Boer, Director	/s/William J. Boer	March 12, 2013
Donna J. Banks, Director	/s/Donna J. Banks	March 13, 2013
Jeffrey A. Bratsburg, Director	/s/Jeffrey A. Bratsburg	March 7, 2013
Stephen L. Gulis, Jr., Director	/s/Stephen L. Gulis, Jr.	March 13, 2013
Terry L. Haske, Director	/s/Terry L. Haske	March 7, 2013
Robert L. Hetzler, Director	/s/Robert L. Hetzler	March 6, 2013
William B. Kessel, Director	/s/William B. Kessel	March 13, 2013
James E. McCarty, Director	/s/James E. McCarty	March 13, 2013
Charles A. Palmer, Director	/s/Charles A. Palmer	March 4, 2013
Charles C. Van Loan, Director	/s/Charles C. Van Loan	March 13, 2013

EXHIBIT INDEX

Exhibit number and description

EXHIBITS FILED HEREWITH

13	Annual report, relating to the April 23, 2013 Annual Meeting of Shareholders. This annual report will be delivered to our shareholders in compliance with Rule 14(a)-3 of the Securities Exchange Act of 1934, as amended.
21	List of Subsidiaries.
23	Consent of Independent Registered Public Accounting Firm (Crowe Horwath LLP).
24	Power of Attorney (included on page 41).
31.1	Certificate of the Chief Executive Officer of Independent Bank Corporation pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certificate of the Chief Financial Officer of Independent Bank Corporation pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certificate of the Chief Executive Officer of Independent Bank Corporation pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certificate of the Chief Financial Officer of Independent Bank Corporation pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Certification of Chief Executive Officer pursuant to Section 111(b)(4) of the Emergency Economic Stabilization Act of 2008.
99.2	Certification of Chief Financial Officer pursuant to Section 111(b)(4) of the Emergency Economic Stabilization Act of 2008.
101.INS	Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

EXHIBITS INCORPORATED BY REFERENCE

3.1	Restated Articles of Incorporation, conformed through May 12, 2009 (incorporated herein by reference to Exhibit 3.1 to our Form S-4 Registration Statement dated January 27, 2010, filed under registration No. 333-164546).
3.1(a)	Amendment to Article III of the Articles of Incorporation (incorporated herein by reference to Exhibit 99.1 to our current report on Form 8-K dated February 1, 2010 and filed February 3, 2010).
3.1(b)	Amendment to Article III of the Articles of Incorporation (incorporated herein by reference to Exhibit 3.1 to our current report on Form 8-K dated April 9, 2010 and filed April 9, 2010).
3.1(c)	Certificate of Designations for Fixed Rate Cumulative Mandatorily Convertible Preferred Stock, Series B, filed as an amendment to the Articles of Incorporation (incorporated herein by reference to Exhibit 3.1 to our current report on Form 8-K dated April 16, 2010 and filed April 21, 2010).
3.1(d)	Amendment to Article III of the Articles of Incorporation (incorporated herein by reference to Exhibit 3.1 to our current report on Form 8-K dated August 31, 2010 and filed August 31, 2010).
3.1(e)	Certificate of Designations for Series C Junior Participating Preferred Stock, filed as an amendment to the Articles of Incorporation (incorporated herein by reference to Exhibit 4.2 to our Registration Statement on Form 8-A dated November 15, 2011 and filed November 15, 2011).
3.2	Amended and Restated Bylaws, conformed through December 8, 2008 (incorporated herein by reference to Exhibit 3.2 to our current report on Form 8-K dated December 8, 2008 and filed on December 12, 2008).
4.1	Certificate of Trust of IBC Capital Finance II dated February 26, 2003 (incorporated herein by reference to Exhibit 4.1 to our report on Form 10-Q for the quarter ended March 31, 2003).
4.2	Amended and Restated Trust Agreement of IBC Capital Finance II dated March 19, 2003 (incorporated herein by reference to Exhibit 4.2 to our report on Form 10-Q for the quarter ended March 31, 2003).
4.3	Preferred Securities Certificate of IBC Capital Finance II dated March 19, 2003 (incorporated herein by reference to Exhibit 4.3 to our report on Form 10-Q for the quarter ended March 31, 2003).
4.4	Preferred Securities Guarantee Agreement dated March 19, 2003 (incorporated herein by reference to Exhibit 4.4 to our report on Form 10-Q for the quarter ended March 31, 2003).

EXHIBIT INDEX (Continued)

4.5	Agreement as to Expenses and Liabilities dated March 19, 2003 (incorporated herein by reference to Exhibit 4.5 to our report on Form 10-Q for the quarter ended March 31, 2003).
4.6	Indenture dated March 19, 2003 (incorporated herein by reference to Exhibit 4.6 to our report on Form 10-Q for the quarter ended March 31, 2003).
4.7	First Supplemental Indenture of Independent Bank Corporation issued to IBC Capital Finance II dated as of April 1, 2010 (incorporated herein by reference to Exhibit 4.4 to our Form S-4/A Registration Statement dated April 5, 2010, filed under registration No. 333-164546).
4.8	8.25% Junior Subordinated Debenture of Independent Bank Corporation dated March 19, 2003 (incorporated herein by reference to Exhibit 4.6 to our report on Form 10-Q for the quarter ended March 31, 2003).
4.9	Cancellation Direction and Release between Independent Bank Corporation, IBC Capital Finance II and U.S. Bank National Association dated as of June 23, 2010 and related Irrevocable Stock Power (incorporated herein by reference to Exhibit 4.9 to our Form S-1 Registration Statement dated July 8, 2010, filed under registration No. 333-168032).
4.10	Form of Certificate for the Fixed Rate Cumulative Perpetual Preferred Stock, Series A (incorporated herein by reference to Exhibit 4.1 to our current report on Form 8-K dated December 8, 2008 and filed on December 12, 2008).
4.11	Warrant dated December 12, 2008 to purchase shares of Common Stock of Independent Bank Corporation (incorporated herein by reference to Exhibit 4.2 to our current report on Form 8-K dated December 8, 2008 and filed on December 12, 2008).
4.12	Certificate for the Fixed Rate Cumulative Mandatorily Convertible Preferred Stock, Series B (incorporated herein by reference to Exhibit 4.1 to our current report on Form 8-K dated April 16, 2010 and filed April 21, 2010).
4.13	Amended and Restated Warrant dated April 16, 2010 to purchase shares of Common Stock of Independent Bank Corporation (incorporated herein by reference to Exhibit 4.2 to our current report on Form 8-K dated April 16, 2010 and filed April 21, 2010).
10.1*	Deferred Benefit Plan for Directors (incorporated herein by reference to Exhibit 10(C) to our report on Form 10-K for the year ended December 31, 1984).
10.2	The form of Indemnity Agreement approved by our shareholders at its April 19, 1988 Annual Meeting, as executed with all of the Directors of the Registrant (incorporated herein by reference to Exhibit 10(F) to our report on Form 10-K for the year ended December 31, 1988).
10.3*	Non-Employee Director Stock Option Plan, as amended, approved by our shareholders at its April 15, 1997 Annual Meeting (incorporated herein by reference to Exhibit 4 to our Form S-8 Registration Statement dated July 28, 1997, filed under registration No. 333-32269).
10.4*	Employee Stock Option Plan, as amended, approved by our shareholders at its April 17, 2000 Annual Meeting (incorporated herein by reference to Exhibit 4 to our Form S-8 Registration Statement dated October 8, 2000, filed under registration No. 333-47352).
10.5	The form of Management Continuity Agreement as executed with executive officers and certain senior managers (incorporated herein by reference to Exhibit 10 to our report on Form 10-K for the year ended December 31, 1998).
10.6	Letter Agreement, dated as of December 12, 2008, between Independent Bank Corporation and the United States Department of the Treasury, and the Securities Purchase Agreement—Standard Terms attached thereto (incorporated herein by reference to Exhibit 10.1 to our current report on Form 8-K dated December 8, 2008 and filed on December 12, 2008).
10.7	Form of Letter Agreement executed by each of Michael M. Magee, Jr., Robert N. Shuster, William B. Kessel, Stefanie M. Kimball, and David C. Reglin (incorporated herein by reference to Exhibit 10.2 to our current report on Form 8-K dated December 8, 2008 and filed on December 12, 2008).
10.8	Form of waiver executed by each of Michael M. Magee, Jr., Robert N. Shuster, William B. Kessel, Stefanie M. Kimball, and David C. Reglin (incorporated herein by reference to Exhibit 10.3 to our current report on Form 8-K dated December 8, 2008 and filed on December 12, 2008).
10.9	Exchange Agreement, dated April 2, 2010, between Independent Bank Corporation and the United States Department of the Treasury (incorporated herein by reference to Exhibit 10.1 to our current report on Form 8-K dated April 2, 2010 and filed on April 2, 2010).

EXHIBIT INDEX (Continued)

10.10	Form of waiver agreement executed by, among other employees, Michael M. Magee (President and Chief Executive Officer), William B. Kessel (Executive Vice President and Chief Operating Officer), Robert N. Shuster (Executive Vice President and Chief Financial Officer), David C. Reglin (Executive Vice President for Retail Banking), Stefanie M. Kimball (Executive Vice President and Chief Lending Officer), and Mark L. Collins (Executive Vice President and General Counsel) (incorporated herein by reference to Exhibit 10.1 to our current report on Form 8-K dated April 16, 2010 and filed on April 21, 2010).
10.11	Technology Outsourcing Renewal Agreement, dated as of April 1, 2006, between Independent Bank Corporation and Metavante Corporation (incorporated herein by reference to Exhibit 10 to our report on Form 10-Q for the quarter ended March 31, 2006).
10.12	Amendment to Technology Outsourcing Renewal Agreement, dated as of July 8, 2010, between Independent Bank Corporation and Metavante Corporation (incorporated herein by reference to Exhibit 10.1 to our current report on Form 8-K dated July 22, 2010 and filed on July 27, 2010).
10.13*	Long-Term Incentive Plan, as amended through April 26, 2011 (incorporated herein by reference to Appendix A to our proxy statement filed on Schedule 14A on March 17, 2011).
10.14*	Amended and Restated Deferred Compensation and Stock Purchase Plan for Nonemployee Directors, as amended through March 8, 2011 (incorporated herein by reference to Exhibit 10.2 to our annual report on Form 10-K filed March 10, 2011).
10.15*	First Amendment to Amended and Restated Deferred Compensation and Stock Purchase Plan for Nonemployee Directors, effective March 1, 2012 (incorporated herein by reference to Exhibit 10.1 to our annual report on Form 10-K filed March 13, 2012).
10.16	Purchase and Assumption Agreement, dated May 23, 2012, between Independent Bank and Chemical Bank (incorporated herein by reference to Exhibit 10.1 to our current report on Form 8-K filed May 30, 2012).
10.17*	Form of Restricted Stock Unit Grant Agreement as executed with certain executive officers (incorporated herein by reference to Exhibit 10.2 to our quarterly report on Form 10-Q filed May 9, 2011).

* Represents a compensation plan.

Exhibit 13

CONTENTS

Section	Page number
Selected Consolidated Financial Data	6
Management's Discussion and Analysis	7
Report of Independent Registered Public Accounting Firm	39
Consolidated Financial Statements	40
Notes to Consolidated Financial Statements	45
Quarterly Data	111

SELECTED CONSOLIDATED FINANCIAL DATA

	At or for the Year Ended December 31,				
	2012	2011	2010	2009	2008
	(Dollars in thousands, except per share amounts)				
SUMMARY OF OPERATIONS					
Interest income	$ 99,398	$ 114,762	$ 148,851	$ 189,056	$ 203,736
Interest expense	13,143	20,193	37,198	50,533	73,587
Net interest income	86,255	94,569	111,653	138,523	130,149
Provision for loan losses	6,887	27,946	46,765	103,318	71,113
Net gains (losses) on securities	887	(511)	1,177	3,744	(14,961)
Gain on extinguishment of debt	-	-	18,066	-	-
Net gain on branch sale	5,402	-	-	-	-
Other non-interest income	57,276	47,424	52,570	56,057	45,510
Non-interest expenses	116,735	133,948	155,000	188,443	178,186
Income (loss) before income tax	26,198	(20,412)	(18,299)	(93,437)	(88,601)
Income tax expense (benefit)	-	(212)	(1,590)	(3,210)	3,063
Net income (loss)	$ 26,198	$ (20,200)	$ (16,709)	$ (90,227)	$ (91,664)
Preferred dividends	4,347	4,157	4,095	4,301	215
Net income (loss) applicable to common stock	$ 21,851	$ (24,357)	$ (20,804)	$ (94,528)	$ (91,879)
PER COMMON SHARE DATA(1)					
Net income (loss) per common share					
Basic	$ 2.51	$ (2.94)	$ (4.09)	$ (39.60)	$ (39.98)
Diluted	0.80	(2.94)	(4.09)	(39.60)	(39.98)
Cash dividends declared	0.00	0.00	0.00	0.30	1.40
Book value	5.58	2.68	5.52	16.94	54.93
SELECTED BALANCES					
Assets	$ 2,023,867	$ 2,307,406	$ 2,535,248	$ 2,965,364	$ 2,956,245
Loans	1,419,139	1,576,608	1,813,116	2,299,372	2,459,529
Allowance for loan losses	44,275	58,884	67,915	81,717	57,900
Deposits	1,779,537	2,086,125	2,251,838	2,565,768	2,066,479
Shareholders' equity	134,975	102,627	119,085	109,861	194,877
Long-term debt - FHLB advances	17,622	33,384	71,022	94,382	314,214
Subordinated debentures	50,175	50,175	50,175	92,888	92,888
SELECTED RATIOS					
Net interest income to average interest earning assets	4.01%	4.42%	4.36%	5.00%	4.48%
Net income (loss) to (2)					
Average common equity	68.29	(68.44)	(54.38)	(90.72)	(39.01)
Average assets	0.92	(1.02)	(0.75)	(3.17)	(2.88)
Average shareholders' equity to average assets	4.82	4.76	3.92	5.80	7.50
Tier 1 capital to average assets	8.08	6.25	6.35	5.27	8.61
Non-performing loans to Portfolio Loans	2.32	3.80	3.73	4.78	5.09

(1) Per share data has been adjusted for a 1 for 10 reverse stock split in 2010.
(2) These amounts are calculated using net income (loss) applicable to common stock.

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

Discussions and statements in this report that are not statements of historical fact, including, without limitation, statements that include terms such as "will," "may," "should," "believe," "expect," "forecast," "anticipate," "estimate," "project," "intend," "likely," "optimistic" and "plan," and statements about future or projected financial and operating results, plans, projections, objectives, expectations, and intentions and other statements that are not historical facts, are forward-looking statements. Forward-looking statements include, but are not limited to, descriptions of plans and objectives for future operations, products or services; projections of our future revenue, earnings or other measures of economic performance; forecasts of credit losses and other asset quality trends; predictions as to our Bank's ability to maintain certain regulatory capital standards; our expectation that we will have sufficient cash on hand to meet expected obligations during 2013; and descriptions of steps we may take to further improve our capital position. These forward-looking statements express our current expectations, forecasts of future events, or long-term goals and, by their nature, are subject to assumptions, risks, and uncertainties. Although we believe that the expectations, forecasts, and goals reflected in these forward-looking statements are reasonable, actual results could differ materially for a variety of reasons, including, among others:

- *our ability to effect a conversion of our outstanding preferred stock held by the U.S. Treasury into our common stock, exit the Troubled Asset Relief Program ("TARP") and otherwise implement our capital plan;*
- *the failure of assumptions underlying the establishment of and provisions made to our allowance for loan losses;*
- *the timing and pace of an economic recovery in Michigan and the United States in general, including regional and local real estate markets;*
- *the ability of our Bank to remain well-capitalized;*
- *the failure of assumptions underlying our estimate of probable incurred losses from vehicle service contract payment plan counterparty contingencies, including our assumptions regarding future cancellations of vehicle service contracts, the value to us of collateral that may be available to recover funds due from our counterparties, and our ability to enforce the contractual obligations of our counterparties to pay amounts owing to us;*
- *further adverse developments in the vehicle service contract industry;*
- *potential limitations on our ability to access and rely on wholesale funding sources;*
- *the risk that sales of our common stock could trigger a reduction in the amount of net operating loss carryforwards that we may be able to utilize for income tax purposes;*
- *the continued services of our management team; and*
- *implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act or other new legislation, which may have significant effects on us and the financial services industry, the exact nature and extent of which cannot be fully determined at this time.*

This list provides examples of factors that could affect the results described by forward-looking statements contained in this report, but the list is not intended to be all inclusive. The risk factors disclosed in Part I – Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2012, as updated by any new or modified risk factors disclosed in Part II – Item 1A of any subsequently filed Quarterly Report on Form 10-Q, include all known risks our management believes could materially affect the results described by forward-looking statements in this report. However, those risks may not be the only risks we face. Our results of operations, cash flows, financial position, and prospects could also be materially and adversely affected by additional factors that are not presently known to us, that we currently consider to be immaterial, or that develop after the date of this report. We cannot assure you that our future results will meet expectations. While we believe the forward-looking statements in this report are reasonable, you should not place undue reliance on any forward-looking statement. In addition, these statements speak only as of the date made. We do not undertake, and expressly disclaim, any obligation to update or alter any statements, whether as a result of new information, future events, or otherwise, except as required by applicable law.

The following section presents additional information to assess the financial condition and results of operations of Independent Bank Corporation ("IBC") and its subsidiaries. This section should be read in conjunction with the consolidated financial statements and the supplemental financial data contained elsewhere in this annual report. We also encourage you to read our Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission ("SEC"). That report includes a list of risk factors that you should consider in connection with any decision to buy or sell our securities.

Introduction. Our success depends to a great extent upon the economic conditions in Michigan's Lower Peninsula. We have in general experienced a difficult economy in Michigan since 2001, although economic conditions in the state began to show signs of improvement during 2010 and generally these improvements have continued into 2012, albeit at a slower pace.

We provide banking services to customers located primarily in Michigan's Lower Peninsula. Our loan portfolio, the ability of the borrowers to repay these loans and the value of the collateral securing these loans has been and will be impacted by local economic conditions. The weaker economic conditions faced in Michigan have had and may continue to have adverse consequences as described below in "Portfolio Loans and asset quality." However, since early- to mid-2009, we have generally seen a decline in non-performing loans and a declining level of provision for loan losses.

In response to these difficult market conditions and the significant losses that we incurred from 2008 through 2011 that reduced our capital, we have taken steps or initiated actions designed to increase our capital ratios, improve our operations and augment our liquidity as described in more detail below.

On May 23, 2012 we executed a definitive agreement to sell 21 branches to another financial institution (the "Branch Sale"). The branches sold included 6 branch locations in the Battle Creek, Michigan market area and 15 branch locations in Northeast Michigan. The Branch Sale closed on December 7, 2012 and resulted in the transfer of approximately $403.1 million of deposits in exchange for our receipt of a deposit premium of approximately $11.5 million. We also sold approximately $48.0 million of loans at a discount of 1.75% and premises and equipment totaling approximately $8.1 million. The Branch Sale also resulted in our transfer of $336.1 million of cash to the purchaser. We recorded a net gain on the Branch Sale of approximately $5.4 million. This gain is net of an allocation of $2.6 million of existing core deposit intangibles, a $2.5 million loss on the sale of premises and equipment, a $0.2 million loss on the sale of loans and $0.8 million in transaction and other related net costs.

At the present time, based on our current forecasts and expectations, we believe that our Bank can remain above "well-capitalized" for regulatory purposes for the foreseeable future, even without additional capital, primarily because of our reduction in total assets, our significantly improved capital ratios and our return to profitability during 2012, as well as our forecast for future profitability. This forecast of future profitability is susceptible to significant variations, particularly if the Michigan economy were to deteriorate and credit costs were to be higher than anticipated or if we incur any significant future losses at Mepco Finance Corporation ("Mepco") related to the collection of vehicle service contract counterparty receivables (see "Non-interest expense").

In July 2010, Congress passed and the President signed into law the "Dodd-Frank Wall Street Reform and Consumer Protection Act" (the "Dodd-Frank Act"). The Dodd-Frank Act includes the creation of the new Consumer Financial Protection Bureau with power to promulgate and enforce consumer protection laws; the creation of the Financial Stability Oversight Council chaired by the Secretary of the Treasury with authority to identify institutions and practices that might pose a systemic risk; provisions affecting corporate governance and executive compensation of all companies whose securities are registered with the SEC; a provision that broadened the base for Federal Deposit Insurance Corporation ("FDIC") insurance assessments; a provision under which interchange fees for debit cards are set by the Federal Reserve Bank ("FRB") under a restrictive "reasonable and proportional cost" per transaction standard; a provision that requires bank regulators to set minimum capital levels for bank holding companies that are as strong as those required for their insured depository subsidiaries, subject to a grandfather clause for financial institutions with less than $15 billion in assets as of December 31, 2009; and new restrictions on how mortgage brokers and loan originators may be compensated. Certain provisions of the Dodd-Frank Act only apply to institutions with more than $10 billion in assets. The Dodd-Frank Act has had (and we expect it will continue to have) a significant impact on the banking industry, including our organization.

On June 4, 2012, the Board of Governors of the Federal Reserve System issued Notices of Proposed Rulemaking ("NPR") – Enhancements to the Regulatory Capital Requirements (the "Proposed New Capital Requirements"). These Proposed New Capital Requirements, if adopted as outlined in the NPR, would have a material impact on the banking industry, including our organization. In general the Proposed New Capital Requirements would significantly increase the need for Tier 1 common equity capital and substantially impact the calculation of risk-weighted assets. See "Liquidity and Capital Resources."

It is against this backdrop that we discuss our results of operations and financial condition in 2012 as compared to earlier periods.

RESULTS OF OPERATIONS

Summary. We recorded net income applicable to common stock of $21.9 million, or $0.80 per diluted share, in 2012, as compared to net losses applicable to common stock of $24.4 million, or $2.94 per share, in 2011 and $20.8 million, or $4.09 per share in 2010. The improvement in 2012 results as compared to 2011 primarily reflects decreases in the provision for loan losses and non-interest expenses and an increase in non-interest income that were partially offset by a decrease in net interest income. The increased loss in 2011 as compared to 2010 is primarily because 2010 included an $18.1 million gain on the extinguishment of debt. Excluding this gain on the extinguishment of debt, 2011 results improved as compared to 2010, which primarily reflects decreases in the provision for loan losses and non-interest expenses that were partially offset by a decrease in net interest income and non-interest income. Per share data has been adjusted for a 1-for-10 reverse stock split completed in 2010.

KEY PERFORMANCE RATIOS

	Year Ended December 31,		
	2012	2011	2010
Net income (loss) to			
Average common equity	68.29%	(68.44)%	(54.38)%
Average assets	0.92	(1.02)	(0.75)
Net income (loss) per share			
Basic	$ 2.51	$ (2.94)	$ (4.09)
Diluted	0.80	(2.94)	(4.09)

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 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 and cost of funding our 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.

Net interest income totaled $86.3 million during 2012, compared to $94.6 million and $111.7 million during 2011 and 2010, respectively. The decrease in 2012 compared to 2011 reflects a decline in net interest income as a percent of average interest-earning assets (the "net interest margin") to 4.01% during 2012, from 4.42% in 2011. The net interest margin decreased due primarily to a change in asset mix, as higher yielding loans declined and lower yielding interest-bearing cash balances and short-term investments increased. The adverse impact of the lower net interest margin was slightly offset by a modest increase in average interest-earning assets, which rose to $2.15 billion during 2012 compared to $2.14 billion in 2011. The increase in average interest-earning assets primarily reflects a rise in securities available for sale and overnight interest bearing balances at the FRB that were partially offset by a decline in loans.

The decrease in net interest income in 2011 compared to 2010 reflects a significant decline in our average interest-earning assets that was partially offset by a slight increase in our net interest margin. The net interest margin increased to 4.42% in 2011, as compared to 4.36% in 2010. This increase was primarily due to a reduction in funding costs (due principally to a reduction in higher costing brokered certificates of deposit [“Brokered CDs”]) and an increase in non-interest bearing deposits that was partially offset by a decline in the weighted average yield on average interest-earning assets (due principally to a decline in loans).

The general reduction in average interest-earning assets over the past several years reflects our strategy to preserve our regulatory capital levels by reducing loan balances that have higher risk weightings for regulatory capital purposes. In addition, due to the challenges facing Mepco (see “Noninterest expense”), we significantly reduced the balance of payment plan receivables over the past three years. These payment plan receivables are the highest yielding segment of our loan portfolio, with an average yield of approximately 13% to 14%. Finally, interest rates have been at extremely low levels over the past three years due primarily to the FRB’s monetary policies and their efforts to stimulate the U.S. economy. The combination of these two items (a very low interest rate environment and a decrease in average loan balances) has had (and is expected to continue to have) an adverse impact on our interest income and net interest income. In addition, the Branch Sale is also expected to adversely impact our net interest income in 2013 as compared to prior periods.

Our net interest income is also impacted by our level of non-accrual loans. Average non-accrual loans totaled $45.5 million, $57.0 million and $86.4 million in 2012, 2011 and 2010, respectively.

AVERAGE BALANCES AND RATES

	2012			2011			2010		
	Average Balance	Interest	Rate	Average Balance	Interest	Rate	Average Balance	Interest	Rate
	(Dollars in thousands)								
ASSETS(1)									
Taxable loans	$ 1,543,592	$ 93,494	6.06%	$ 1,704,057	$ 110,242	6.47%	$ 2,072,586	$ 141,876	6.85%
Tax-exempt loans(2)	6,864	286	4.17	7,891	332	4.21	9,531	406	4.26
Taxable securities	216,355	2,934	1.36	62,315	1,422	2.28	82,127	3,052	3.72
Tax-exempt securities(2)	26,111	1,044	4.00	29,615	1,219	4.12	45,223	1,932	4.27
Cash - interest bearing	337,311	858	0.25	312,576	792	0.25	324,065	824	0.25
Other investments	20,645	782	3.79	22,084	755	3.42	26,526	761	2.87
Interest earning assets	2,150,878	99,398	4.62	2,138,538	114,762	5.36	2,560,058	148,851	5.81
Cash and due from banks	53,926			53,098			50,739		
Other assets, net	159,925			188,583			167,873		
Total assets	$ 2,364,729			$ 2,380,219			$ 2,778,670		
LIABILITIES									
Savings and interest-bearing checking	$ 1,060,882	1,830	0.17	$ 1,006,305	2,263	0.22	$ 1,089,992	2,829	0.26
Time deposits	552,903	7,083	1.28	656,944	12,994	1.98	978,098	25,335	2.59
Other borrowings	72,240	4,230	5.86	92,879	4,936	5.31	198,030	9,034	4.56
Interest bearing liabilities	1,686,025	13,143	0.78	1,756,128	20,193	1.15	2,266,120	37,198	1.64
Non-interest bearing deposits	523,926			467,305			349,376		
Other liabilities	40,719			43,378			54,183		
Shareholders’ equity	114,059			113,408			108,991		
Total liabilities and shareholders’ equity	$ 2,364,729			$ 2,380,219			$ 2,778,670		
Net interest income		$ 86,255			$ 94,569			$ 111,653	
Net interest income as a percent of average interest earning assets			4.01%			4.42%			4.36%

(1) All domestic.
(2) Interest on tax-exempt loans and securities is not presented on a fully tax equivalent basis due to the current net operating loss carryforward position and the deferred tax asset valuation allowance.

CHANGE IN NET INTEREST INCOME

	2012 compared to 2011			2011 compared to 2010		
	Volume	Rate	Net	Volume	Rate	Net
	(In thousands)					
Increase (decrease) in interest income(1, 2)						
Taxable loans	$ (9,986)	$ (6,762)	$ (16,748)	$ (24,169)	$ (7,465)	$ (31,634)
Tax-exempt loans(3)	(43)	(3)	(46)	(69)	(5)	(74)
Taxable securities	2,290	(778)	1,512	(627)	(1,003)	(1,630)
Tax-exempt securities(3)	(141)	(34)	(175)	(645)	(68)	(713)
Cash - interest bearing	66	-	66	(32)	-	(32)
Other investments	(51)	78	27	(139)	133	(6)
Total interest income	(7,865)	(7,499)	(15,364)	(25,681)	(8,408)	(34,089)
Increase (decrease) in interest expense(1)						
Savings and interest bearing checking	117	(550)	(433)	(207)	(359)	(566)
Time deposits	(1,833)	(4,078)	(5,911)	(7,175)	(5,166)	(12,341)
Other borrowings	(1,173)	467	(706)	(5,401)	1,303	(4,098)
Total interest expense	(2,889)	(4,161)	(7,050)	(12,783)	(4,222)	(17,005)
Net interest income	$ (4,976)	$ (3,338)	$ (8,314)	$ (12,898)	$ (4,186)	$ (17,084)

(1) The change in interest due to changes in both balance and rate has been allocated to change due to balance and change due to rate in proportion to the relationship of the absolute dollar amounts of change in each.
(2) All domestic.
(3) Interest on tax-exempt loans and securities is not presented on a fully tax equivalent basis due to the current net operating loss carryforward position and the deferred tax asset valuation allowance.

COMPOSITION OF AVERAGE INTEREST EARNING ASSETS AND INTEREST BEARING LIABILITIES

	Year Ended December 31,		
	2012	2011	2010
As a percent of average interest earning assets			
Loans (1)	72.1%	80.1%	81.3%
Other interest earning assets	27.9	19.9	18.7
Average interest earning assets	100.0%	100.0%	100.0%
Savings and NOW	49.3%	47.1%	42.6%
Time deposits	25.0	25.7	22.2
Brokered CDs	0.7	5.0	16.0
Other borrowings and long-term debt	3.4	4.3	7.7
Average interest bearing liabilities	78.4%	82.1%	88.5%
Earning asset ratio	91.0%	89.8%	92.1%
Free-funds ratio (2)	21.6	17.9	11.5

(1) All domestic.
(2) Average interest earning assets less average interest bearing liabilities.

Provision for loan losses. The provision for loan losses was $6.9 million during 2012 compared to $27.9 million and $46.8 million during 2011 and 2010, respectively. 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 loan 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. The decrease in the provision for loan losses over the past two years primarily reflects reduced levels of loan defaults, non-performing loans, lower total loan balances and a decline in loan net charge-offs. See "Portfolio Loans and asset quality" for a discussion of the various components of the allowance for loan losses and their impact on the provision for loan losses.

Non-interest income. Non-interest income is a significant element in assessing our results of operations. We regard net gains on mortgage loans as a core recurring source of revenue but they are quite cyclical and thus can be volatile. We regard net gains (losses) on securities as a "non-operating" component of non-interest income.

Non-interest income totaled $63.6 million during 2012 compared to $46.9 million and $71.8 million during 2011 and 2010, respectively. 2012 included a $5.4 million net gain on the Branch Sale and 2010 included an $18.1 million gain on the extinguishment of debt.

NON-INTEREST INCOME

	Year Ended December 31,		
	2012	2011	2010
		(In thousands)	
Service charges on deposit accounts	$ 17,887	$ 18,306	$ 21,511
Interchange income	9,188	9,091	8,257
Net gains (losses) on assets			
Mortgage loans	17,323	9,262	12,330
Securities	1,226	249	1,639
Other than temporary impairment loss on securities:			
Total impairment loss	(339)	(760)	(462)
Loss recognized in other comprehensive loss	-	-	-
Net impairment loss recognized in earnings	(339)	(760)	(462)
Mortgage loan servicing	166	(2,011)	(523)
Investment and insurance commissions	2,146	2,050	1,889
Bank owned life insurance	1,622	1,878	1,917
Title insurance fees	1,963	1,465	2,037
(Increase)/decrease in fair value of U.S. Treasury warrant	(285)	1,137	393
Net gain on branch sale	5,402	-	-
Gain on extinguishment of debt	-	-	18,066
Other	7,266	6,246	4,759
Total non-interest income	$ 63,565	$ 46,913	$ 71,813

Service charges on deposit accounts totaled $17.9 million during 2012, compared to $18.3 million and $21.5 million during 2011 and 2010, respectively. The decrease in such service charges over the past two years principally relates to a decline in NSF occurrences and related NSF fees. We believe the decline in NSF occurrences is due to our customers managing their finances more closely in order to reduce NSF activity and avoid the associated fees because of the current challenging economic conditions as well as due to the impact of recent legislation on such fees. In late 2009, the FRB adopted rules that required a written opt-in from customers before a bank can assess overdraft fees on ATM or debit card transactions. These rules were effective for new customers on July 1, 2010 and for existing customers on August 15, 2010. This legislation has had an adverse impact on our level of service charges on deposit accounts. We also expect the Branch Sale to result in lower service charges on deposit accounts in 2013.

Interchange income increased to $9.2 million in 2012 compared to $9.1 million in 2011 and $8.3 million in 2010. The growth in interchange income primarily reflects an increase in debit card transaction volumes and PIN-based interchange fees. As described earlier, the Dodd-Frank Act includes a provision under which interchange fees for debit cards are set by the FRB under a restrictive "reasonable and proportional cost" per transaction standard. On June 29, 2011 the FRB issued final rules (that were effective October 1, 2011) on interchange fees for debit cards. Overall, these final rules established price caps for debit card interchange fees that were approximately 50% lower than previous averages. However, debit card issuers with less than $10 billion in assets (like us) are exempt from this rule. On a long-term basis, it is not clear how competitive market factors may impact debit card issuers who are exempt from the rule. However, we are beginning to see some reduction in interchange income due to certain transaction routing changes, particularly at large merchants. In addition, we also expect the Branch Sale to result in lower interchange income in 2013.

We realized net gains of $17.3 million on mortgage loans during 2012, compared to $9.3 million and $12.3 million during 2011 and 2010 respectively. The volume of loans sold is dependent upon our ability to originate mortgage loans as well as the demand for fixed-rate obligations and other loans that we choose to not put into portfolio because of our established interest-rate risk parameters. (See "Portfolio Loans and asset quality.") Net gains on mortgage loans are also dependent upon economic and competitive factors as well as our ability to effectively manage exposure to changes in interest rates and thus can often be a volatile part of our overall revenues.

The increase in net gains in 2012 is due to growth in mortgage loan sales (and origination) volume spurred by record low interest rates as well as changes in qualification criteria in the secondary market that permitted the refinance of certain high loan-to-value mortgages. In addition, the Loan Sales Margin (as described below) increased substantially in 2012. The decrease in net gains in 2011 compared to 2010 relates primarily to a decline in mortgage loan sales (and origination) volume. Although mortgage loan interest rates declined during the last half of 2011, refinance activity was somewhat moderate as many borrowers had already refinanced in earlier periods (and the interest rate differential between the rate at which they refinanced earlier and the then current interest rates was not that significant). Also, many borrowers were unable to refinance because of negative equity in their homes, more stringent underwriting criteria required by the secondary mortgage market, or other credit-related impediments. Additionally, new tax credits for first-time home buyers during early 2010 also spurred home sales and hence mortgage loan origination volume during that period.

MORTGAGE LOAN ACTIVITY

	Year Ended December 31,		
	2012	**2011**	**2010**
	(Dollars in thousands)		
Mortgage loans originated	$ 538,717	$ 399,062	$ 516,335
Mortgage loans sold	510,488	383,493	480,566
Mortgage loans sold with servicing rights released	83,296	81,196	77,080
Net gains on the sale of mortgage loans	17,323	9,262	12,330
Net gains as a percent of mortgage loans sold ("Loan Sales Margin")	3.39%	2.42%	2.57%
Fair value adjustments included in the Loan Sales Margin	0.28	(0.01)	0.10

Net gains as a percentage of mortgage loans sold (our "Loan Sales Margin") are impacted by several factors including competition and the manner in which the loan is sold (with servicing rights retained or released). Our decision to sell or retain mortgage loan servicing rights is primarily influenced by an evaluation of the price being paid for mortgage loan servicing by outside third parties compared to our calculation of the economic value of retaining such servicing. The sale of mortgage loan servicing rights may result in declines in mortgage loan servicing income in future periods. Gains on mortgage loans were also impacted by recording fair value accounting adjustments. Excluding the aforementioned accounting adjustments, the Loan Sales Margin would have been 3.11% in 2012, 2.43% in 2011 and 2.47% in 2010. The improved Loan Sales Margin in 2012 (as compared to 2011 and 2010) was generally due to more favorable competitive conditions including wider primary-to-secondary market pricing spreads.

We generated securities net gains of $1.2 million in 2012 and $0.2 million and $1.6 million in 2011 and 2010, respectively. The 2012 securities net gains were primarily due to the sale of residential mortgage-backed securities. The 2011 securities net gains were primarily due to the sale of a U.S. Treasury security and residential mortgage-backed securities. The 2010 securities net gains were primarily due to the sale of municipal securities and residential mortgage-backed securities.

We also recorded net impairment losses of $0.3 million, $0.8 million and $0.5 million in 2012, 2011 and 2010, respectively, related to other than temporary impairment of securities available for sale. These impairment charges primarily related to private label residential mortgage-backed securities.

GAINS AND LOSSES ON SECURITIES

	Year Ended December 31,			
	Proceeds	Gains	Losses(1)	Net
	(In thousands)			
2012	$ 37,176	$ 1,226	$ 339	$ 887
2011	70,322	324	835	(511)
2010	96,648	1,882	705	1,177

(1) Losses in 2012, 2011 and 2010 include $0.3 million, $0.8 million and $0.5 million, respectively, of other than temporary impairment charges.

Mortgage loan servicing generated net earnings of $0.2 million in 2012 compared to a net expense of $2.0 million and $0.5 million in 2011 and 2010, respectively. These yearly comparative variances are primarily due to changes in the valuation allowance on capitalized mortgage loan servicing rights and the level of amortization of this asset. The period end valuation allowance is based on the valuation of the mortgage loan servicing portfolio and the amortization is primarily impacted by prepayment activity. In particular, higher mortgage loan refinance activity in 2012 and 2010 resulted in increased actual prepayment rates and amortization levels. In 2011, falling mortgage loan interest rates resulted in an increase in expected future prepayment rates and therefore an increase in the valuation allowance.

CAPITALIZED MORTGAGE LOAN SERVICING RIGHTS

	2012	2011	2010
	(In thousands)		
Balance at January 1,	$ 11,229	$ 14,661	$ 15,273
Originated servicing rights capitalized	4,006	2,967	4,158
Amortization	(4,679)	(3,065)	(3,862)
(Increase)/decrease in valuation allowance	457	(3,334)	(908)
Balance at December 31,	$ 11,013	$ 11,229	$ 14,661
Valuation allowance at December 31,	$ 6,087	$ 6,544	$ 3,210

At December 31, 2012, we were servicing approximately $1.75 billion in mortgage loans for others on which servicing rights have been capitalized. This servicing portfolio had a weighted average coupon rate of 4.81% and a weighted average service fee of approximately 25.4 basis points. Remaining capitalized mortgage loan servicing rights at December 31, 2012 totaled $11.0 million, representing approximately 63 basis points on the related amount of mortgage loans serviced for others. The capitalized mortgage loan servicing had an estimated fair market value of $11.4 million at December 31, 2012.

Investment and insurance commissions totaled $2.1 million, $2.1 million and $1.9 million in 2012, 2011 and 2010, respectively. The increase in 2011 as compared to 2010 is primarily due to a higher volume of sales of these products. These higher sales principally reflect our efforts to expand this business. We would expect these commissions to decline in 2013 due to the Branch Sale.

We earned $1.6 million, $1.9 million and $1.9 million in 2012, 2011 and 2010, respectively, on our separate account bank owned life insurance, principally as a result of increases in cash surrender value. Our separate account is primarily invested in agency mortgage-backed securities and managed by PIMCO. The crediting rate (on which the earnings are based) reflects the performance of the separate account. The reduced earnings in 2012 primarily reflect lower yields on agency mortgage-backed securities. The total cash surrender value of our bank owned life insurance was $50.9 million and $49.3 million at December 31, 2012 and 2011, respectively.

Title insurance fees totaled $2.0 million in 2012, $1.5 million in 2011 and $2.0 million in 2010. The fluctuation in title insurance fees is primarily a function of the level of mortgage loans that we originated.

Changes in the fair value of the amended warrant issued to the U.S. Department of the Treasury ("UST") in April 2010 are recorded as a component of non-interest income. The fair value of this amended warrant is included in accrued expenses and other liabilities. (See "Liquidity and capital resources.") Two significant inputs in our valuation model for the amended warrant are our common stock price and the probability percentage of triggering anti-dilution provisions in this instrument related to certain equity transactions. The fair value of the amended warrant increased in 2012 due primarily to an increase in our common stock price. The fair value of the amended warrant declined in 2011 and 2010 due primarily to decreases in the aforementioned two inputs.

In the fourth quarter of 2012, we recorded a $5.4 million gain on the Branch Sale as described in the "Introduction" section above.

In the second quarter of 2010, we recorded an $18.1 million gain on the extinguishment of debt (net of $1.0 million in expenses and $1.2 million to write off previously capitalized issue costs). On June 23, 2010, we exchanged 5.1 million shares of our common stock (having a fair value of approximately $23.5 million on the date of the exchange) for $41.4 million in liquidation amount of trust preferred securities and $2.3 million of accrued and unpaid interest on such securities.

Other non-interest income totaled $7.3 million, $6.2 million and $4.8 million in 2012, 2011 and 2010, respectively. The overall variations in other non-interest income are primarily due to the impact of our participation in a private mortgage reinsurance captive and changes in rental income. We generated income of $0.2 million in 2012 and incurred losses of $0.2 million and $0.9 million in 2011 and 2010, respectively, related to our private mortgage reinsurance captive participation. The improved performance of our private mortgage reinsurance captive during the past two years reflects a decline in mortgage loan defaults and lower private mortgage insurance claims. Rental income totaled $1.7 million, $1.4 million and $0.5 million in 2012, 2011 and 2010 respectively. The increases in 2012 and 2011 over 2010 primarily reflect additional rental income generated on Other Real Estate ("ORE") properties. In addition, during 2012 we generated $0.1 million of gains on the sale of fixed assets and a $0.1 million increase in ATM fees.

Non-interest expense. Non-interest expense is an important component of our results of operations. We strive to efficiently manage our cost structure and management is focused on a number of initiatives to reduce and contain non-interest expenses.

Non-interest expense totaled $116.7 million in 2012, $133.9 million in 2011, and $155.0 million in 2010. The decline in non-interest expense is primarily due to decreases in loan and collection costs, occupancy and furniture, fixtures and equipment expenses, net losses on ORE and repossessed assets, credit card and bank service fees, vehicle service contract counterparty contingencies, and other non-interest expenses. We expect several categories of non-interest expense, such as compensation and employee benefits, occupancy, furniture, fixtures and equipment, FDIC deposit insurance, communications and amortization of intangible assets to be lower in 2013 as a result of the Branch Sale.

NON-INTEREST EXPENSE

	Year ended December 31,		
	2012	2011	2010
		(In thousands)	
Compensation	$ 39,002	$ 39,835	$ 40,827
Performance-based compensation	5,672	1,449	1,803
Payroll taxes and employee benefits	9,309	9,200	9,081
Compensation and employee benefits	53,983	50,484	51,711
Occupancy, net	10,104	11,183	11,016
Loan and collection	9,965	12,414	15,323
Data processing	8,009	8,208	8,303
Furniture, fixtures and equipment	5,043	5,535	6,540
Legal and professional	4,175	3,941	4,100
FDIC deposit insurance	3,306	3,507	6,805
Communications	3,269	3,552	4,138
Net losses on other real estate and repossessed assets	2,854	5,824	9,722
Advertising	2,494	2,503	2,712
Credit card and bank service fees	2,091	3,656	5,790
Interchange expense	1,799	1,543	1,251
Vehicle service contract counterparty contingencies	1,629	11,048	18,633
Supplies	1,281	1,571	1,630
Provision for loss reimbursement on sold loans	1,112	1,993	215
Amortization of intangible assets	1,065	1,371	1,280
Write down of property and equipment held for sale	860	-	-
Recoveries related to unfunded lending commitments	(688)	(36)	(536)
Other	4,384	5,651	6,367
Total non-interest expense	$ 116,735	$ 133,948	$ 155,000

The increase in total compensation and employee benefits is primarily due to a rise in performance-based compensation.

Compensation expense, which is primarily salaries, has declined over the past two years due principally to staffing decreases associated with our cost reduction initiatives. 2012 average total full time equivalent employee levels fell by 7.8% compared to 2011 and by 12.0% compared to 2010. Partially offsetting this decrease was the reclassification of certain amounts paid to mortgage loan officers from performance-based compensation to compensation expense. This reclassification was due to the restructuring of the mortgage loan officers' compensation arrangements due to regulatory changes. This reclassification increased compensation expense by $0.6 million in each of 2012 and 2011 as compared to 2010 and decreased performance-based compensation by a like amount.

The increase in performance based compensation during 2012 reflects our improved financial results. This resulted in the restoration of certain employee incentive programs, including the accrual of incentive based compensation (except for named executive officers who are not eligible for such compensation because we are still a TARP participant) and the accrual for an employee stock ownership plan contribution. In 2011 and 2010 no employee stock ownership plan contribution was made and no bonuses were paid. In addition, during 2012, 2011 and 2010, we eliminated the match of employees' 401(k) plan contributions.

We maintain performance-based compensation plans. In addition to commissions and cash incentive awards, such plans include an employee stock ownership plan and a long-term equity based incentive plan. The amount of expense recognized in 2012, 2011 and 2010 for share-based awards under our long-term equity based incentive plan was $0.3 million, $0.9 million and $0.5 million, respectively. In 2012 and 2011, there were new grants of restricted stock units, stock options and salary stock. There were not any grants of new awards in 2010.

Payroll taxes and employee benefits expense have increased slightly during the past two years. The $0.1 million increase in 2012 as compared to 2011 is due primarily to higher payroll taxes associated with the rise in performance-based compensation. The $0.1 million increase in 2011 as compared to 2010 was due primarily to a rise in health insurance costs.

Occupancy expenses, net, totaled $10.1 million, $11.2 million and $11.0 million in 2012, 2011 and 2010, respectively. The decline in 2012 was due primarily to lower snow removal and utilities costs which reflect an unseasonably warm winter in Michigan that year as well as a reduction in the number of branch offices due to the consolidation or closing of certain locations. The slight increase in 2011 compared to 2010 was primarily due to higher snow removal and utilities expenses that year.

Loan and collection expenses primarily reflect costs related to the management and collection of non-performing loans and other problem credits. The expenses have declined significantly during the past two years primarily due to decreases in non-performing loans, new loan defaults and commercial watch credits. 2012, 2011 and 2010 also included $0.5 million, $1.3 million and $0.8 million, respectively, of collection related costs at Mepco primarily associated with the acquisition and management of collateral securing receivables from vehicle service contract counterparties.

Data processing expenses totaled $8.0 million, $8.2 million, and $8.3 million in 2012, 2011 and 2010, respectively. The decline since 2010 is due primarily to vendor contract changes associated with our cost reduction initiatives as well as due to the overall smaller size of the organization. These cost reductions were partially offset by higher software amortization expenses primarily related to a new core processing system that was implemented at Mepco in April 2011.

Furniture, fixtures and equipment expense declined by $0.5 million in 2012 and declined by $1.0 million in 2011 from the prior year. These declines are due primarily to our cost reduction initiatives, including the closing or consolidation of certain branch offices. We have restricted new capital expenditures and certain fixed assets have become fully depreciated and were not replaced leading to the decreases in this expense category.

Legal and professional fees have remained relatively consistent over the past three years although some of the components of this expense have changed. In 2012, legal expenses declined as compared to 2011, primarily due to lower costs at Mepco because of reduced collection activities. However, this decline was more than offset due to approximately $1.0 million of professional fees at the Bank associated with a consulting firm that was engaged to assist us in identifying and implementing revenue enhancement, expense reduction and process improvement initiatives. In 2011, legal expenses rose as compared to 2010, primarily due to higher costs at Mepco because of increased collection activities. However, this increase was more than offset due to a decline in professional fees (primarily investment banking) related to various capital initiatives pursued during 2010.

FDIC deposit insurance expense declined in 2012 and 2011 compared to 2010, principally reflecting a decrease in deposit balances (primarily Brokered CDs) during 2011 as well as a new rate structure implemented by the FDIC and effective beginning in the second quarter of 2011. The new rate structure has a lower assessment rate but is based on total assets as compared to the prior structure that was based primarily on total deposits but had a higher assessment rate.

Communications expense declined by $0.3 million and by $0.6 million in 2012 and 2011, respectively, from each prior year. These declines are primarily due to changes in mailing costs at Mepco that reflect a reduction in the volume of payment plan receivables and a decrease in telephone and data line expenses due to the renegotiation of some supplier contracts in mid-2010.

Net losses on ORE and repossessed assets primarily represent the loss on the sale or additional write downs on these assets subsequent to the transfer of the asset from our loan portfolio. This transfer occurs at the time we acquire the collateral that secured the loan. At the time of acquisition, the ORE or repossessed asset is valued at fair value, less estimated costs to sell, which becomes the new basis for the asset. Any write-downs at the time of acquisition are charged to the allowance for loan losses. Net losses on ORE and repossessed assets have declined significantly over the past two years. This reduced net loss primarily reflects lower levels of ORE as well as improved stability of real estate prices, with some markets even experiencing modest price increases. However, foreclosed properties generally continue to have somewhat distressed valuations.

Total advertising expense declined in 2012 and 2011 compared to the 2010 level due primarily to reductions in deposit account acquisition expenses (principally direct mail costs and new account gifts). This decrease is consistent with our overall cost reduction initiatives.

The decline in credit card and bank service fees is primarily due to a decrease in the number of payment plans being administered by Mepco. In addition, in the third quarter of 2012, Mepco entered into a new contract with a different vendor for credit card processing services that has a significantly lower fee structure.

Interchange expense primarily represents fees paid to our core information systems processor and debit card licensor (VISA) related to debit card and ATM transactions. The level of this expense in each period reflects both the type and volume of such transactions.

We record estimated incurred losses associated with Mepco’s vehicle service contract payment plans in our provision for loan losses and establish a related allowance for loan losses. (See “Portfolio Loans and asset quality.”) We record estimated incurred losses associated with defaults by Mepco’s counterparties as “vehicle service contract counterparty contingencies expense,” which is included in non-interest expenses in our Consolidated Statements of Operations. Such expenses totaled $1.6 million, $11.0 million and $18.6 million in 2012, 2011 and 2010, respectively.

Our estimate of probable incurred losses from vehicle service contract counterparty contingencies requires a significant amount of judgment because a number of factors can influence the amount of loss that we may ultimately incur. These factors include our estimate of future cancellations of vehicle service contracts, our evaluation of collateral that may be available to recover funds due from our counterparties, and our assessment of the amount that may ultimately be collected from counterparties in connection with their contractual obligations. We apply a rigorous process, based upon historical payment plan activity and past experience, to estimate probable incurred losses and quantify the necessary reserves for our vehicle service contract counterparty contingencies, but there can be no assurance that our modeling process will successfully identify all such losses.

Upon the cancellation of a service contract and the completion of the billing process to the counterparties for amounts due to Mepco, there is a decrease in the amount of “payment plan receivables” and an increase in the amount of “vehicle service contract counterparty receivables” until such time as the amount due from the counterparty is collected. These amounts represent funds due to Mepco from its counterparties for cancelled service contracts. At December 31, 2012, the aggregate amount of such obligations owing to Mepco by counterparties, net of write-downs and reserves made through the recognition of vehicle service contract counterparty contingency expense, totaled $18.4 million. This compares to a balance of $29.3 million at December 31, 2011. The decline in such receivables during 2012 is due primarily to the receipt (in September 2012) of assets (cash and real estate) from the bankruptcy estate of a former counterparty. In addition, see Note #11 to the Consolidated Financial Statements included within this report for more information about Mepco's business, certain risks and difficulties we currently face with respect to that business, and reserves we have established (through vehicle service contract counterparty contingencies expense) for losses related to the business.

We believe our assumptions regarding the collection of vehicle service contract counterparty receivables are reasonable, and we based them on our good faith judgments using data currently available. We also believe the current amount of reserves we have established and the vehicle service contract counterparty contingencies expense that we have recorded are appropriate given our estimate of probable incurred losses at the applicable Statement of Financial Condition date. However, because of the uncertainty surrounding the numerous and complex assumptions made, actual losses could exceed the charges we have taken to date.

The above described events have had and may continue to have an adverse impact on Mepco. We face continued risk with respect to certain counterparties defaulting in their contractual obligations to Mepco which could result in additional charges for losses if these counterparties go out of business. Further, Mepco has incurred and will likely continue to incur elevated legal and collection expenses, in general, in dealing with these matters. In particular, Mepco has had to initiate litigation against certain counterparties, including one of the respective third party insurers, to collect amounts owed to Mepco as a result of those parties' dispute of their contractual obligations to Mepco. Net payment plan receivables declined to $84.7 million (or approximately 4.2% of total assets) at December 31, 2012 from $115.0 million (or approximately 5.0% of total assets) at December 31, 2011 due primarily to a planned reduction in such balances. This decline in payment plan receivables has adversely impacted our net interest income.

Supplies expense has declined over the past three years consistent with our cost reduction initiatives and the smaller size of the organization.

The provision for loss reimbursement on sold loans represents our estimate of incurred losses related to mortgage loans that we have sold to investors (primarily Fannie Mae and Freddie Mac). Since we sell mortgage loans without recourse, loss reimbursements only occur in those instances where we have breached a representation or warranty or other contractual requirement related to the loan sale. Historically, loss reimbursements on mortgage loans sold without recourse were very rare. In 2009, we had only one actual loss reimbursement (for $0.06 million). Prior to 2009, we had years in which we incurred no such loss reimbursements. However, our loss reimbursements increased to $0.2 million in 2010 and to $0.5 million and $1.2 million in 2011 and 2012, respectively, as over the past two years Fannie Mae and Freddie Mac, in particular, have been doing more reviews of mortgage loans where they have incurred or expect to incur a loss and have been more aggressive in pursuing loss reimbursements from the sellers of such mortgage loans. Although we are successful in the vast majority of cases where file reviews are conducted on mortgage loans that we have sold to investors and actual loss reimbursements remain relatively modest, the levels of such file reviews and loss reimbursement requests have increased. As a result, we have established a reserve (which totaled $1.4 million and $1.5 million at December 31, 2012 and 2011, respectively) for loss reimbursements on sold mortgage loans. This reserve is included in accrued expenses and other liabilities in our Consolidated Statement of Financial Condition. This reserve is based on an analysis of mortgage loans that we have sold which are further categorized by delinquency status, loan to value, and year of origination. The calculation includes factors such as probability of default, probability of loss reimbursement (breach of representation or warranty) and estimated loss severity. While we believe that the amounts we have accrued for incurred losses on sold loans are appropriate given these analyses, future losses could exceed our current estimate.

The amortization of intangible assets primarily relates to branch acquisitions and the amortization of the deposit customer relationship value, including core deposit value, which was acquired in connection with those acquisitions. We had remaining unamortized intangible assets of $4.0 million and $7.6 million at December 31, 2012 and 2011, respectively. In addition to scheduled amortization, unamortized intangible assets also declined by $2.6 million in 2012 due to the allocation of existing core deposit intangibles to deposits associated with the Branch Sale. See Note #7 to the Consolidated Financial Statements for a schedule of future amortization of intangible assets.

During the third quarter of 2012 we adopted a plan to close or consolidate nine branch offices. Seven of the nine branch offices were closed in November 2012. The remaining two branch offices will be closed during the first half of 2013. We recorded a $0.9 million write-down of property and equipment in the third quarter of 2012 based on the expected disposal price of these branch offices. As of year end 2012, six of the nine branch offices had been sold (or otherwise disposed).

The changes in costs (recoveries) related to unfunded lending commitments are primarily impacted by changes in the amounts of such commitments to originate portfolio loans as well as (for commercial loan commitments) the grade (pursuant to our loan rating system) of such commitments.

Other non-interest expenses totaled $4.4 million in 2012, compared to $5.7 million in 2011, and $6.4 million in 2010. The lower level of these expenses in 2012, as compared to 2011, principally reflects the first quarter 2012 reversal of a previously established accrual at Mepco that was determined to no longer be necessary. The lower level of these expenses in 2011, as compared to 2010, is due primarily to the latter year including a $0.5 million charge for certain litigation matters.

We are subject to an industry-specific tax (the Michigan Business Tax ["MBT"]), which is based on net capital. The MBT is recorded in other non-interest expenses. Our MBT expense was $0.2 million in 2012 and $0.1 million in each of 2011 and 2010.

Income tax benefit. We recorded no income tax expense or benefit in 2012, as compared to an income tax benefit of $0.2 million and $1.6 million in 2011 and 2010, respectively. A change in the deferred tax asset valuation allowance of $(8.7) million, $9.4 million and $5.7 million in 2012, 2011, and 2010, respectively, completely or largely offset the effect of pre-tax income or losses. The 2012, 2011 and 2010 valuation allowances are net of none, $0.6 million and $1.4 million, respectively, of allocations of deferred taxes on accumulated other comprehensive income (loss).

We assess the need for a valuation allowance against our deferred tax assets periodically. The realization of our deferred tax assets is largely dependent upon future taxable income and future reversals of existing taxable temporary differences. In assessing the need for a valuation allowance, we consider all positive and negative evidence, including anticipated operating results, scheduled reversals of deferred tax liabilities and tax planning strategies. In 2008, we first established a valuation allowance against the majority of our net deferred tax assets due to a number of factors, including our declining operating performance at that time, overall negative trends in the banking industry and our expectation that our operating results would continue to be negatively affected by the overall economic environment. During 2011, 2010 and 2009, we concluded that we needed to continue to carry a valuation allowance based on similar factors. This resulted in a valuation allowance against our entire net deferred tax asset except for, in 2010, certain state deferred tax assets at Mepco that were expected to be recovered based on Mepco's individual earnings. However, during 2011, due to a second year of losses at Mepco and remaining uncertainty regarding certain vehicle service contract counterparty receivables, we concluded that a valuation allowance against the $0.8 million of Mepco's deferred state tax assets was also needed.

During 2012, we returned to profitability and recorded four consecutive quarters of positive earnings. Despite these improved results, at December 31, 2012, we have concluded that a valuation allowance against our entire net deferred tax asset is still necessary. We believe additional evidence of sustained future profitability is required (particularly in light of the significant contribution of gains on mortgage loans to our 2012 results) in order to conclude that it is more likely than not that we can realize our net deferred tax asset. The valuation allowance against our deferred tax assets totaled $65.1 million and $75.2 million at December 31, 2012 and 2011, respectively. This valuation allowance may be reversed to income in future periods to the extent that the related deferred tax assets are realized or the valuation allowance is otherwise no longer required. In making such judgments, significant weight will be given to evidence that can be objectively verified. We will analyze changes in near-term market conditions and consider both positive and negative evidence as well as other factors which may impact future operating results in making any decision to adjust this valuation allowance.

Certain of the capital initiatives described below under "Liquidity and capital resources" may trigger an ownership change that would negatively affect our ability to utilize our net operating loss carryforwards and other deferred tax assets in the future. If such an ownership change were to occur, we may suffer higher-than-anticipated tax expense, and consequently lower net income and cash flow, in those future years. As of December 31, 2012, we had federal loss carryforwards of approximately $112.2 million (which includes $0.3 million of federal capital loss carryforwards). Companies are subject to a change of ownership test under Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"), that, if met, would limit the annual utilization of tax losses and credits carrying forward from pre-change of ownership periods, as well as the ability to use certain unrealized built-in losses. Generally, under Section 382, the yearly limitation on our ability to utilize such deductions will be equal to the product of the applicable long-term tax exempt rate (presently 2.83%) and the sum of the values of our common shares and of our outstanding convertible preferred stock, immediately before the ownership change. In addition to limits on the use of net operating loss carryforwards, our ability to utilize deductions related to bad debts and other losses for up to a five-year period following such an ownership change would also be limited under Section 382, to the extent that such deductions reflect a net loss that was "built-in" to our assets immediately prior to the ownership change. We are presently seeking to limit the size of any future equity offering in order to avoid triggering any Section 382 limitations.

Since we currently have a valuation allowance intended to fully offset these net operating loss carryforwards and most other deferred tax assets, we do not expect these tax rules to cause a material impact to our net income or loss in the near term.

Our actual federal income tax expense (benefit) is different than the amount computed by applying our statutory federal income tax rate to our pre-tax income (loss) primarily due to tax-exempt interest income and tax-exempt income from the increase in the cash surrender value on life insurance, as well as the impact of the change in the deferred tax asset valuation allowance.

Income tax expense (benefit) in the Consolidated Statements of Operations also includes income taxes in a variety of other states due primarily to Mepco's operations. The amounts of such state income taxes were an expense (benefit) of zero, $0.7 million and ($0.1) million in 2012, 2011 and 2010, respectively.

Business segments. Our reportable segments are based upon legal entities. We currently have two reportable segments: Independent Bank and Mepco. These business segments are also differentiated based on the products and services provided. We evaluate performance based principally on net income (loss) of the respective reportable segments.

The following table presents net income (loss) by business segment.

BUSINESS SEGMENTS

	Year ended December 31,		
	2012	2011	2010
		(In thousands)	
Independent Bank	$ 28,260	$ (12,768)	$ (27,049)
Mepco	1,710	(4,849)	(1,388)
Other (1)	(3,677)	(2,488)	11,823
Elimination	(95)	(95)	(95)
Net loss	$ 26,198	$ (20,200)	$ (16,709)

(1) Includes amounts relating to our parent company and certain insignificant operations. 2010 includes parent company's $18.1 million gain on extinguishment of debt.

The significant improvement in the results of operations of the Bank in 2012 compared to 2011 and 2010 is primarily due to a lower provision for loan losses, an increase in non-interest income and a decrease in non-interest expenses that were partially offset by a decline in net interest income. (See "Provision for loan losses," "Portfolio Loans and asset quality," "Net interest income," "Non-interest income," and "Non-interest expense.")

The changes in Mepco's results are due primarily to changes in the level of vehicle service counterparty contingencies expense (see "Non-interest expense") as well as changes in its level of net interest income. All of Mepco's funding is provided by its parent company (Independent Bank) through an intercompany loan (that is eliminated in consolidation). The rate on this intercompany loan is based on the Prime Rate (currently 3.25%). Mepco might not be able to obtain such favorable funding costs on its own in the open market.

The change in "Other" in the Business Segments table above (increased loss of $1.2 million) in 2012 as compared to 2011 is due primarily to the change in the fair value of the amended warrant issued to the UST (see "Non-interest income"). The significant change in this category in 2011 as compared to 2010 is due primarily to the $18.1 million gain on the extinguishment of debt that was recorded at the parent company in the second quarter of 2010. In addition, interest expense at the parent company declined after June 2010 due to the exchange of $41.4 million in liquidation amount of trust preferred securities for common stock on June 23, 2010.

FINANCIAL CONDITION

Summary. Our total assets declined to $2.02 billion at December 31, 2012 compared to $2.31 billion at December 31, 2011. The decline in total assets primarily reflects decreases in cash and cash equivalents, loans, and property and equipment that were partially offset by an increase in securities available for sale. The Branch Sale was the primary reason for the decline in total assets. Total loans, excluding loans held for sale ("Portfolio Loans") decreased $157.5 million, or 10.0%, in 2012 as every category of loans declined. The decline in Portfolio Loans reflects our efforts to preserve regulatory capital ratios as well as the aforementioned Branch Sale. Total deposits decreased by $306.6 million in 2012 due to the Branch Sale. Excluding the impact of the Branch Sale, deposits would have increased by $96.5 million during 2012.

Securities. We maintain diversified securities portfolios, which include obligations of U.S. government-sponsored agencies, securities issued by states and political subdivisions, residential mortgage-backed securities 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. Except as discussed below, we believe that the unrealized losses on securities available for sale are temporary in nature and are expected to be recovered within a reasonable time period. We 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 available for sale increased during 2012 due primarily to the purchase of U.S. government-sponsored agency residential mortgage-backed securities and U.S. government-sponsored agency term notes. The securities were purchased to utilize some of the funds generated from the continued decline in Portfolio Loans. (See "Liquidity and capital resources.")

Our portfolio of available-for-sale securities is reviewed quarterly for impairment in value. In performing this review, management considers (1) the length of time and extent that fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, (3) the impact of changes in market interest rates on the market value of the security and (4) an assessment of whether we intend to sell, or it is more likely than not that we will be required to sell a security in an unrealized loss position before recovery of its amortized cost basis. For securities that do not meet these recovery criteria, the amount of impairment recognized in earnings is limited to the amount related to credit losses, while impairment related to other factors is recognized in other comprehensive income or loss.

We recorded net impairment losses related to other than temporary impairment on securities available for sale of $0.3 million, $0.8 million, and $0.5 million in 2012, 2011, and 2010, respectively. These impairment charges primarily relate to private label residential mortgage-backed securities. In these instances we believe that the decline in value is directly due to matters other than changes in interest rates, are not expected to be recovered within a reasonable timeframe based upon available information and are therefore other than temporary in nature. (See "Non-interest income" and "Asset/liability management.")

SECURITIES

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(In thousands)			
Securities available for sale				
December 31, 2012	$ 208,929	$ 2,070	$ 2,586	$ 208,413
December 31, 2011	161,023	1,575	5,154	157,444

Portfolio Loans and asset quality. In addition to the communities served by our Bank branch network, our principal lending markets also include nearby communities and metropolitan areas. Subject to established underwriting criteria, we also historically participated in commercial lending transactions with certain non-affiliated banks and also purchased mortgage loans from third-party originators. Currently, we are not engaging in any new commercial loan participations with non-affiliated banks or purchasing any mortgage loans from third party originators, although we may consider new commercial loan participations in 2013.

The senior management and board of directors of our Bank retain authority and responsibility for credit decisions and we have adopted uniform underwriting standards. Our loan committee structure and the loan review process attempt to provide requisite controls and promote compliance with such established underwriting standards. However, there can be no assurance that our 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 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.")

LOAN PORTFOLIO COMPOSITION

	December 31,	
	2012	2011
	(In thousands)	
Real estate(1)		
Residential first mortgages	$ 468,636	$ 530,969
Residential home equity and other junior mortgages	121,235	150,127
Construction and land development	56,183	59,136
Other(2)	434,336	446,980
Commercial	132,904	150,633
Consumer	117,077	119,106
Payment plan receivables	84,692	115,018
Agricultural	4,076	4,639
Total loans	$ 1,419,139	$ 1,576,608

(1) Includes both residential and non-residential commercial loans secured by real estate.
(2) Includes loans secured by multi-family residential and non-farm, non-residential property.

Future growth of overall Portfolio Loans is dependent upon a number of competitive and economic factors. Although economic conditions have generally improved in Michigan over the past three years, overall loan demand has remained somewhat subdued, reflecting still somewhat weak economic conditions in the State. Further, it is our desire to reduce certain loan categories in order to preserve our regulatory capital ratios or for risk management reasons. For example, construction and land development loans have been declining as the result of our effort to shrink this portion of our Portfolio Loans due to an economic climate that is still relatively difficult for real estate development, particularly residential real estate. In addition, payment plan receivables have declined as we seek to reduce Mepco's vehicle service contract payment plan business. Further declines in Portfolio Loans may continue to adversely impact our future net interest income.

NON-PERFORMING ASSETS [1]

	December 31,		
	2012	2011	2010
	(Dollars in thousands)		
Non-accrual loans	$ 32,929	$ 59,309	$ 66,652
Loans 90 days or more past due and still accruing interest	7	574	928
Total non-performing loans	32,936	59,883	67,580
Other real estate and repossessed assets	26,133	34,042	39,413
Total non-performing assets	$ 59,069	$ 93,925	$ 106,993
As a percent of Portfolio Loans			
Non-performing loans	2.32%	3.80%	3.73%
Allowance for loan losses	3.12	3.73	3.75
Non-performing assets to total assets	2.92	4.07	4.22
Allowance for loan losses as a percent of non-performing loans	134.43	98.33	100.50

(1) Excludes loans classified as “troubled debt restructured” that are not past due and vehicle service contract counterparty receivables, net.

TROUBLED DEBT RESTRUCTURINGS (“TDR”)

	December 31, 2012		
	Commercial	Retail	Total
	(In thousands)		
Performing TDR’s	$ 40,753	$ 85,977	$ 126,730
Non-performing TDR’s(1)	7,756	9,177(2)	16,933
Total	$ 48,509	$ 95,154	$ 143,663

	December 31, 2011		
	Commercial	Retail	Total
	(In thousands)		
Performing TDR’s	$ 29,799	$ 86,770	$ 116,569
Non-performing TDR’s(1)	14,567	14,081(2)	28,648
Total	$ 44,366	$ 100,851	$ 145,217

(1) Included in non-performing assets table above.
(2) Also includes loans on non-accrual at the time of modification until six payments are received on a timely basis.

Non-performing loans declined by $26.9 million, or 45.0%, in 2012 and by $7.7 million, or 11.4%, in 2011 due principally to declines in non-performing commercial loans and residential mortgage loans. These declines primarily reflect reduced levels of new loan defaults as well as loan net charge-offs, pay-offs, negotiated transactions, and the migration of loans into ORE. Non-performing commercial loans relate largely to delinquencies caused by cash-flow difficulties encountered by owners of income-producing properties (due to higher vacancy rates and/or lower rental rates). Non-performing residential mortgage loans are primarily due to delinquencies reflecting both still challenging economic conditions and somewhat soft real estate values in parts of Michigan and in certain markets where we have mortgage loans secured by resort properties (see Note #4 to the Consolidated Financial Statements). Non-performing loans exclude performing loans that are classified as troubled debt restructurings (“TDRs”). Performing TDRs totaled $126.7 million, or 8.93% of total Portfolio Loans, and $116.6 million, or 7.39% of total Portfolio Loans, at December 31, 2012 and 2011, respectively. The increase in the amount of performing TDRs in 2012 primarily reflects an increase in commercial loan TDR’s.

ORE and repossessed assets totaled $26.1 million at December 31, 2012, compared to $34.0 million at December 31, 2011. This decrease is primarily the result of sales and write-downs of ORE being in excess of the migration of non-performing loans secured by real estate into ORE as the foreclosure process is completed and any redemption period expires.

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

ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES

	December 31,		
	2012	2011	2010
		(In thousands)	
Specific allocations	$ 21,009	$ 22,299	$ 24,925
Other adversely rated commercial loans	2,419	4,430	8,168
Historical loss allocations	12,943	20,682	20,543
Additional allocations based on subjective factors	7,904	11,473	14,279
Total	$ 44,275	$ 58,884	$ 67,915

Some loans will not be repaid in full. Therefore, an allowance for loan losses (“AFLL”) is maintained at a level which represents our best estimate of losses incurred. In determining the AFLL 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 commercial 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 and/or the general terms of the loan portfolios.

The first AFLL element (specific allocations) reflects our estimate of probable incurred losses based upon our systematic review of specific loans. These estimates are based upon a number of factors, such as payment history, financial condition of the borrower, discounted collateral exposure and discounted cash flow analysis. Impaired commercial, mortgage and installment loans are allocated allowance amounts using this first element. The second AFLL element (other adversely rated commercial loans) reflects the application of our commercial loan rating system. This rating system is similar to those employed by state and federal banking regulators. Commercial loans that are rated below a certain predetermined classification are assigned a loss allocation factor for each loan classification category that is based upon a historical analysis of both the probability of default and the expected loss rate (“loss given default”). The lower the rating assigned to a loan or category, the greater the allocation percentage that is applied. The third AFLL element (historical loss allocations) is determined by assigning allocations to higher rated (“non-watch credit”) commercial loans using a probability of default and loss given default similar to the second AFLL element and to homogenous mortgage and installment loan groups based upon borrower credit score and portfolio segment. For homogenous mortgage and installment loans a probability of default for each homogenous pool is calculated by way of credit score migration. Historical loss data for each homogenous pool coupled with the associated probability of default is utilized to calculate an expected loss allocation rate. The fourth AFLL element (additional allocations based on subjective factors) 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 this fourth element, including local and general economic business factors and trends, portfolio concentrations and changes in the size, mix and the general terms of the overall loan portfolio.

Increases in the AFLL are recorded by a provision for loan losses charged to expense. Although we periodically allocate portions of the AFLL to specific loans and loan portfolios, the entire AFLL is available for incurred losses. We generally charge-off commercial, homogenous residential mortgage, and installment loans and payment plan receivables when they are deemed uncollectible or reach a predetermined number of days past due based on product, industry practice and other factors. Collection efforts may continue and recoveries may occur after a loan is charged against the allowance.

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.

Mepco's allowance for losses is determined in a similar manner as discussed above, and primarily takes into account historical loss experience and other subjective factors deemed relevant to Mepco's payment plan business. Estimated incurred losses associated with Mepco's outstanding vehicle service contract payment plans are included in the provision for loan losses. Mepco recorded credits of $0.008 million and $0.03 million for its provision for loan losses in 2012 and 2011, respectively, due primarily to significant declines ($30.3 million, or 26.4%, and $86.2 million, or 42.9%, in 2012 and 2011, respectively) in the balance of payment plan receivables. Mepco's allowance for loan losses totaled $0.2 million at both December 31, 2012 and 2011, respectively. Mepco has established procedures for vehicle service contract payment plan servicing, administration and collections, including the timely cancellation of the vehicle service contract, in order to protect our position in the event of payment default or voluntary cancellation by the customer. Mepco has also established procedures to attempt to prevent and detect fraud since the payment plan origination activities and initial customer contacts are done entirely through unrelated third parties (vehicle service contract administrators and sellers or automobile dealerships). However, 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. The estimated incurred losses described in this paragraph should be distinguished from the possible losses we may incur from counterparties failing to pay their obligations to Mepco. (See Note #11 to the Consolidated Financial Statements included within this report.)

The AFLL was $44.3 million, or 3.12% of total Portfolio Loans at December 31, 2012 compared to $58.9 million, or 3.73% of total Portfolio Loans at December 31, 2011. All four of the components of the AFLL outlined above declined in 2012 as compared to 2011. The AFLL related to specific loans decreased $1.3 million in 2012 because of a decline in loss allocations on individual commercial loans due primarily to a decline in the balance of such loans. The AFLL related to other adversely rated commercial loans decreased $2.0 million in 2012 primarily due to a decrease in the balance of such loans included in this component to $52.8 million at December 31, 2012 from $83.0 million at December 31, 2011. The allowance for loan losses related to historical losses decreased $7.7 million in 2012 due to lower adjustments for delinquent loans, declines in loan balances and net charge-offs, as well as a refinement in the calculation methodology for this component of the AFLL that was implemented in the third quarter of 2012. This refinement now uses borrower credit scores and a migration analysis to estimate a probability of default as described above. The AFLL related to subjective factors decreased $3.6 million in 2012 primarily due to the improvement of various economic indicators used in computing this portion of the allowance as well as an overall reduction in total Portfolio Loans.

During 2011 three of the four components of the AFLL decreased as compared to 2010. The AFLL related to specific loans decreased due primarily to a decline in loss allocations on individual commercial and mortgage credits. The AFLL related to other adversely rated commercial loans decreased due to a decrease in the balance of such loans. The AFLL related to historical losses increased slightly due to an increase in historical loss rates used in this calculation, which was largely offset by declines in loan balances. Finally, the AFLL related to subjective factors decreased primarily due to the improvement of various economic indicators used in computing this portion of the allowance as well as an overall reduction in total Portfolio Loans.

ALLOWANCE FOR LOSSES ON LOANS AND UNFUNDED COMMITMENTS

	2012		2011		2010	
	Loan Losses	Unfunded Commitments	Loan Losses	Unfunded Commitments	Loan Losses	Unfunded Commitments
			(Dollars in thousands)			
Balance at beginning of year	$ 58,884	$ 1,286	$ 67,915	$ 1,322	$ 81,717	$ 1,858
Additions (deductions)						
Provision for loan losses	6,887	-	27,946	-	46,765	-
Recoveries credited to allowance	6,522	-	4,747	-	3,612	-
Loans charged against the allowance	(27,408)	-	(41,724)	-	(64,179)	-
Reclassification to loans held for sale	(610)	-	-	-	-	-
Additions (deductions) included in non-interest expense	-	(688)	-	(36)	-	(536)
Balance at end of year	$ 44,275	$ 598	$ 58,884	$ 1,286	$ 67,915	$ 1,322
Net loans charged against the allowance to average Portfolio Loans	1.46%		2.20%		2.97%	

The ratio of loan net charge-offs to average loans was 1.46% in 2012 (or $20.9 million) compared to 2.20% in 2011 (or $37.0 million). The decline in loan net charge-offs primarily reflects decreases of $9.7 million for commercial loans and $5.0 million for residential mortgage loans. These decreases in loan net charge-offs primarily reflect reduced levels of non-performing loans and some stabilization in collateral liquidation values.

Deposits and borrowings. Historically, the loyalty of our customer base has allowed us to price deposits competitively, contributing to a net interest margin that compares favorably to our peers. However, we still face a significant amount of competition for deposits within many of the markets served by our branch network, which limits our ability to materially increase deposits without adversely impacting the weighted-average cost of core deposits.

To attract new core deposits, we have implemented a direct mail account acquisition program as well as branch staff sales training. Our new account acquisition initiatives have historically generated increases in customer relationships. Over the past three to four 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. We view long-term core deposit growth as an important objective. Core deposits generally provide a more stable and lower cost source of funds than alternative sources such as short-term borrowings. (See “Liquidity and capital resources.”)

Deposits totaled $1.78 billion and $2.09 billion at December 31, 2012 and 2011, respectively. The $306.6 million decline in deposits in 2012 is due to the Branch Sale. Excluding the Branch Sale, total deposits would have increased by $96.5 million. Reciprocal deposits totaled $33.2 million and $28.5 million at December 31, 2012 and 2011, respectively. These deposits represent demand, money market and time deposits from our customers that have been placed through Promontory Interfinancial Network’s Insured Cash Sweep® service and Certificate of Deposit Account Registry Service®. These services allow our customers to access multi-million dollar FDIC deposit insurance on deposit balances greater than the standard FDIC insurance maximum. With the expiration of the Transaction Account Guarantee Program (“TAGP”) on December 31, 2012, we may see an increase in reciprocal deposits during 2013.

We cannot be sure that we will be able to maintain our current level of core deposits. In particular, those deposits that are currently uninsured or those deposits that were in non-interest bearing transaction accounts and had unlimited deposit insurance under the TAGP only through December 31, 2012 (in accordance with provisions in the Dodd-Frank Act), may be particularly susceptible to outflow. At December 31, 2012 we had $107.8 million of uninsured deposits and an additional $175.8 million of deposits that were in non-interest bearing transaction accounts and fully insured only through December 31, 2012 under the TAGP. A reduction in core deposits would likely increase our need to rely on wholesale funding sources.

During the fourth quarter of 2009 we prepaid our estimated quarterly deposit insurance premium assessments to the FDIC for periods through the fourth quarter of 2012. These estimated quarterly deposit insurance premium assessments were based on projected deposit balances over the assessment periods. The prepaid deposit insurance premium assessments totaled $9.4 million and $12.6 million at December 31, 2012 and December 31, 2011, respectively. The actual expense over the assessment periods was significantly lower than this prepaid amount due to various factors including variances in the estimated compared to the actual assessment base and rates used during each assessment period. We would expect to receive a return of the overpayment of our prepaid assessment from the FDIC during the second quarter of 2013.

We have also implemented strategies that incorporate using federal funds purchased, other borrowings and Brokered CDs to fund a portion of our 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

	December 31,					
	2012			2011		
	Amount	Average Maturity	Rate	Amount	Average Maturity	Rate
	(Dollars in thousands)					
Brokered CDs(1)	$ 14,591	0.6 years	1.70%	$ 13,771	1.2 years	3.15%
Fixed-rate FHLB advances(1)	17,622	4.5 years	6.38	30,384	3.3 years	3.99
Variable-rate FHLB advances(1)	-			3,000	2.3 years	0.51
Total	$ 32,213	2.7 years	4.26%	$ 47,155	2.6 years	3.52%

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

Other borrowings, comprised primarily of advances from the Federal Home Loan Bank (the "FHLB"), totaled $17.6 million at December 31, 2012, compared to $33.4 million at December 31, 2011. The $15.8 million decrease in other borrowed funds reflects reduced borrowings from the FHLB.

As described above, we utilize wholesale funding, including FHLB borrowings and Brokered CDs to augment our core deposits and fund a portion of our assets. At December 31, 2012, our use of such wholesale funding sources (including reciprocal deposits) amounted to approximately $65.5 million, or 3.6% of total funding (deposits and total borrowings, excluding subordinated debentures). Because wholesale funding sources are affected by general market conditions, the availability of such funding may be dependent on the confidence these sources have in our financial condition and operations. The continued availability to us of these funding sources is not certain, and Brokered CDs may be difficult for us to retain or replace at attractive rates as they mature. Our liquidity may be constrained if we are unable to renew our wholesale funding sources or if adequate financing is not available in the future at acceptable rates of interest or at all.

Our financial performance could also be affected if we are unable to maintain our access to funding sources or if we are required to rely more heavily on more expensive funding sources. In such case, our net interest income and results of operations could be adversely affected.

We historically employed derivative financial instruments to manage our exposure to changes in interest rates. We discontinued the active use of derivative financial instruments during 2008, in part; because we could no longer get unsecured credit from our derivatives counterparties. At December 31, 2012, we had remaining interest-rate swaps with an aggregate notional amount of $10.0 million.

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 maintaining adequate levels of liquid assets (primarily funds on deposit with the FRB and certain investment securities) as well as developing access to a variety of borrowing sources to supplement our deposit gathering activities and provide funds for purchasing investment securities or originating Portfolio Loans as well as to be able to respond to unforeseen liquidity needs.

Our primary sources of funds include our deposit base, secured advances from the FHLB, a federal funds purchased borrowing facility with another commercial bank, and access to the capital markets (for Brokered CDs).

At December 31, 2012 we had $285.4 million of time deposits that mature in the next twelve months. Historically, a majority of these maturing time deposits are renewed by our customers. Additionally $1.36 billion of our deposits at December 31, 2012 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 (excluding the Branch Sale) or have been stable over time as a result of our marketing and promotional activities. However, there can be no assurance that historical patterns of renewing time deposits or overall growth or stability 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 change in our financial metrics (for example, credit quality or regulatory capital ratios). Our liquidity management also includes periodic monitoring that measures quick assets (defined generally as short-term assets with maturities less than 30 days and loans held for sale) to total assets; short-term liability dependence and basic surplus (defined as quick assets compared to short-term liabilities). Policy limits have been established for our various liquidity measurements and are monitored on a monthly basis. In addition, we also prepare cash flow forecasts that include a variety of different scenarios.

We believe that we currently have adequate liquidity despite the reduction (due to the Branch Sale) in our cash and cash equivalents during 2012, because of our portfolio of securities available for sale, our access to secured advances from the FHLB, our ability to issue Brokered CDs and our improved financial metrics.

As described in greater detail below, we are deferring interest on our subordinated debentures and are not currently paying any dividends on our preferred or common stock. Interest on the subordinated debentures can continue to be deferred until the fourth quarter of 2014. Thus, the only use of cash at the parent company at the present time is for operating expenses. Because of the past losses that our Bank has experienced and the Bank’s regulatory requirements, we do not anticipate that the Bank will be able to pay any dividends up to the parent company for at least through the second quarter of 2013. As a result, the only substantial near term source of cash to our parent company is under an equity line facility that is described below. We believe that the available cash and cash equivalents on hand as well as access to the equity line facility provide sufficient liquidity at the parent company to meet its operating expenses until the fourth quarter of 2014 (at which point the parent company can no longer defer interest on its subordinated debentures).

In the normal course of business, we enter into certain contractual obligations. Such obligations include requirements to make future payments on debt and lease arrangements and service contracts. The table below summarizes our significant contractual obligations at December 31, 2012.

CONTRACTUAL COMMITMENTS(1)

	1 Year or Less	1-3 Years	3-5 Years	After 5 Years	Total
			(In thousands)		
Time deposit maturities	$ 285,433	$ 101,583	$ 31,169	$ 743	$ 418,928
Other borrowings	441	5,232	4,108	7,841	17,622
Subordinated debentures	-	-	-	50,175	50,175
Operating lease obligations	1,211	1,974	1,821	2,527	7,533
Purchase obligations(2)	1,639	2,185	-	-	3,824
Total	$ 288,724	$ 110,974	$ 37,098	$ 61,286	$ 498,082

(1) Excludes approximately $0.8 million of accrued tax and interest relative to uncertain tax benefits due to the high degree of uncertainty as to when, or if, those amounts would be paid.
(2) Includes contracts with a minimum annual payment of $1.0 million and are not cancellable within one year.

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. Our capital structure currently includes cumulative trust preferred securities and cumulative convertible preferred stock.

CAPITALIZATION

	December 31, 2012	December 31, 2011
	(In thousands)	
Subordinated debentures	$ 50,175	$ 50,175
Amount not qualifying as regulatory capital	(1,507)	(1,507)
Amount qualifying as regulatory capital	48,668	48,668
Shareholders' equity		
Preferred stock	84,204	79,857
Common stock	251,237	248,950
Accumulated deficit	(192,408)	(214,259)
Accumulated other comprehensive loss	(8,058)	(11,921)
Total shareholders' equity	134,975	102,627
Total capitalization	$ 183,643	$ 151,295

We have four special purpose entities that originally issued $90.1 million of cumulative trust preferred securities. On June 23, 2010, we issued 5.1 million shares of our common stock (having a fair value of approximately $23.5 million on the date of the exchange) in exchange for $41.4 million in liquidation amount of trust preferred securities and $2.3 million of accrued and unpaid interest on such securities. As a result, at December 31, 2012 and 2011, $48.7 million of cumulative trust preferred securities remained outstanding. These special purpose entities issued common securities and provided cash to our parent company that in turn, issued subordinated debentures to these special purpose entities equal to the trust preferred securities and common securities. The subordinated debentures represent the sole asset of the special purpose entities. The common securities and subordinated debentures are included in our Consolidated Statements of Financial Condition.

The Federal Reserve Board has issued rules regarding trust preferred securities as a component of the Tier 1 capital of bank holding companies. The aggregate amount of trust preferred securities (and certain other capital elements) are 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 can be included in Tier 2 capital, subject to restrictions. At the parent company, $47.7 million of these securities qualified as Tier 1 capital at December 31, 2012. Although the Dodd-Frank Act further limited Tier 1 treatment for trust preferred securities, those new limits did not apply to our outstanding trust preferred securities.

The Proposed New Capital Requirements described above, if adopted, would have a significant impact on our capital requirements, and include provisions that would eventually eliminate trust preferred securities as Tier 1 capital.

In December 2008, we issued 72,000 shares of Series A, Fixed Rate Cumulative Perpetual Preferred Stock, with an original liquidation preference of $1,000 per share (“Series A Preferred Stock”), and a warrant to purchase 346,154 shares (at $31.20 per share) of our common stock (“Original Warrant”) to the UST in return for $72.0 million under the TARP Capital Purchase Program. Of the total proceeds, $68.4 million was originally allocated to the Series A Preferred Stock and $3.6 million was allocated to the Original Warrant (included in capital surplus) based on the relative fair value of each. The $3.6 million discount on the Series A Preferred Stock was being accreted using an effective yield method over five years. The accretion had been recorded as part of the Series A Preferred Stock dividend.

On April 16, 2010, we exchanged the Series A Preferred Stock (including accumulated but unpaid dividends) for 74,426 shares of our Series B Fixed Rate Cumulative Mandatorily Convertible Preferred Stock, with an original liquidation preference of $1,000 per share (“Series B Preferred Stock”). As part of the terms of the exchange agreement, we also agreed to amend and restate the terms of the Original Warrant and issued an Amended and Restated Warrant to purchase 346,154 shares of our common stock at an exercise price of $7.234 per share and expiring on December 12, 2018. The Series B Preferred Stock and the Amended Warrant were issued in a private placement exempt from registration pursuant to Section 4(2) of the Securities Act of 1933. We did not receive any cash proceeds from the issuance of the Series B Preferred Stock or the Amended Warrant. In general, the terms of the Series B Preferred Stock are substantially similar to the terms of the Series A Preferred Stock that was held by the UST, except that the Series B Preferred Stock is convertible into our common stock. See Note #12 to the Consolidated Financial Statements included within this report for additional information about the terms of the Series B Preferred Stock and the Amended and Restated Warrant.

Shareholders’ equity applicable to common stock increased to $50.8 million at December 31, 2012 from $22.8 million at December 31, 2011 due primarily to our net income during 2012 as well as due to the issuance of common stock and a reduction in our accumulated other comprehensive loss. Our tangible common equity (“TCE”) totaled $46.8 million and $15.2 million, respectively, at those same dates. Our ratio of TCE to tangible assets was 2.32% at December 31, 2012 compared to 0.66% at December 31, 2011. Although our Bank’s regulatory capital ratios are now at levels significantly above “well capitalized” standards, because of the past losses that we have incurred and our still somewhat elevated levels of non-performing loans and other real estate, we have taken the following actions to maintain and further improve our regulatory capital ratios and preserve liquidity at our parent company level:

- *Eliminated the cash dividend on our common stock*: Beginning in November 2009, we eliminated the $0.10 per share quarterly cash dividend on our common stock.

- *Deferred dividends on our preferred stock*: Beginning in December 2009, we suspended payment of quarterly dividends on the preferred stock held by the UST. The cash dividends payable to the UST on the Series B Preferred Stock amount to approximately $4.3 million per year until December of 2013, at which time they would increase to approximately $7.7 million per year. Accrued and unpaid dividends were $10.7 million at December 31, 2012.

- *Deferred dividends on our subordinated debentures*: Beginning in December 2009, we exercised our right to defer all quarterly interest payments on the subordinated debentures we issued to our trust subsidiaries. As a result, all quarterly dividends on the related trust preferred securities were also deferred. Based on current dividend rates, the cash dividends on all outstanding trust preferred securities as of December 31, 2012, amount to approximately $2.3 million per year. Accrued and unpaid dividends on trust preferred securities at December 31, 2012 and 2011, were $6.6 million and $4.4 million, respectively.

- *Exchanged the Series A Preferred Stock held by the UST for Series B Preferred Stock*: In April 2010, we completed the exchange of Series A Preferred Stock held by the UST (plus accrued and unpaid dividends on such stock) for new shares of convertible Series B Preferred Stock, as described above.

- *Exchanged certain trust preferred securities for our common stock:* In June 2010, we completed the issuance of 5.1 million shares of our common stock in exchange for $41.4 million in liquidation amount of trust preferred securities and $2.3 million of accrued and unpaid interest on such securities.

- *Branch Sale:* As described earlier, on December 7, 2012, we completed the Branch Sale. This transaction significantly increased our regulatory capital ratios.

Many of these actions have preserved cash at our parent company as we do not expect our Bank to be able to pay any cash dividends in the near term. Dividends from the Bank are restricted by federal and state law and are further restricted by the board resolutions adopted in December 2009 (as subsequently amended) and by the Memorandum of Understanding ("MOU") described in Note #21 to the Consolidated Financial Statements included within this report. In particular, those resolutions and the MOU prohibit the Bank from paying any dividends to the parent company without the prior written approval of the FRB and the Michigan Office of Financial and Insurance Regulation ("OFIR"). Also see "Regulatory development" below.

Our parent company is also currently prohibited from paying any dividends on our common stock or the convertible preferred stock held by the UST or any distributions on our trust preferred securities. Although there are no specific regulations restricting dividend payments by bank holding companies (other than state corporate laws) the FRB, our primary federal regulator, has issued a policy statement on cash dividend payments. The FRB's view is that: "an organization experiencing earnings weaknesses or other financial pressures should not maintain a level of cash dividends that exceeds its net income, that is inconsistent with the organization's capital position, or that can only be funded in ways that may weaken the organization's financial health." Moreover, the resolutions adopted by our Board in 2009 and the MOU referenced above specifically prohibit the parent company from paying any dividends on our common stock or the preferred stock held by the UST or any distributions on our trust preferred securities without, in each case, the prior written approval of the FRB and the OFIR.

Payment of dividends and distributions on the outstanding common stock, convertible preferred stock, and trust preferred securities is also restricted and governed by the terms of those instruments, as follows:

The terms of the subordinated debentures and trust indentures (the "Indentures") related to our trust preferred securities allow us to defer payment of interest at any time or from time to time for up to 20 consecutive quarters provided no event of default (as defined in the Indentures) has occurred and is continuing. We are not in default with respect to the Indentures, and the deferral of interest does not constitute an event of default under the Indentures. While we defer the payment of interest, we will continue to accrue the interest expense owed at the applicable interest rate. Upon the expiration of the deferral, all accrued and unpaid interest is due and payable. During the deferral period on the Indentures, we may not declare or pay any dividends or distributions on, or redeem, purchase, acquire or make a liquidation payment with respect to, any of our capital stock.

So long as any shares of the Series B Preferred Stock remain outstanding, unless all accrued and unpaid dividends for all prior dividend periods have been paid or are contemporaneously declared and paid in full, (a) no dividend may be paid or declared on our common stock or other junior stock, other than a dividend payable solely in common stock and other than certain dividends or distributions of rights in connection with a shareholders' rights plan; and (b) with limited exceptions, neither we nor any of our subsidiaries may purchase, redeem or otherwise acquire for consideration any shares of our common stock or other junior stock unless we have paid in full all accrued dividends on the Series B Preferred Stock for all prior dividend periods.

We do not have any current plans to resume interest payments on our outstanding trust preferred securities or dividend payments on the outstanding shares of any convertible preferred stock or common stock. We do not know if or when any such payments will resume. However, as described in Note #21 to the Consolidated Financial Statements included within this report, our Board adopted a Joint Revised Capital Plan (the "Capital Plan") in November 2011 (as subsequently amended in February 2012). The primary objective of our Capital Plan is to achieve and thereafter maintain the minimum capital ratios required by the December 2009 board resolutions referenced above (as subsequently amended).

As of December 31, 2012, our Bank continued to meet the requirements to be considered “well-capitalized” under federal regulatory standards and has now also achieved both of the two minimum capital ratios established by our Board (that are higher than the ratios required in order to be considered “well-capitalized” under federal standards). The Board imposed these higher ratios in order to ensure that we have sufficient capital to withstand potential future losses based on our elevated level of non-performing assets and given certain other risks and uncertainties we face. Set forth below are the actual capital ratios of our Bank as of December 31, 2012, the minimum capital ratios imposed by the board resolutions, and the minimum ratios necessary to be considered “well-capitalized” under federal regulatory standards.

Regulatory Capital Ratios	Independent Bank Actual at December 31, 2012	Minimum Ratios Established by our Board	Required to be Well-Capitalized
Tier 1 capital to average total assets	8.26%	8.00%	5.00%
Total capital to risk-weighted assets	14.95	11.00	10.00

The Capital Plan included projections that reflected forecasted financial data through 2014. At the present time, based on these forecasts and our expectations, we believe that our Bank can remain above the minimum capital ratios established by our Board. These forecasts are susceptible to significant variations, particularly if the Michigan economy were to deteriorate and credit costs were to be higher than anticipated or if we incur any significant future losses at Mepco related to the collection of vehicle service contract counterparty receivables (see “Non-interest expense”). Because of such uncertainties, it is possible that our Bank may not be able to remain above the minimum capital ratios established by our Board.

In addition to the measures outlined in the Capital Plan, on July 7, 2010 we executed an Investment Agreement and Registration Rights Agreement with Dutchess Opportunity Fund, II, LP (“Dutchess”) for the sale of shares of our common stock. These agreements serve to establish an equity line facility as a contingent source of liquidity at the parent company level. Pursuant to the Investment Agreement, Dutchess committed to purchase up to $15.0 million of our common stock over a 36-month period ending November 1, 2013. We have the right, but no obligation, to draw on this equity line facility from time to time during such 36-month period by selling shares of our common stock to Dutchess. The sales price is at a 5% discount to the market price of our common stock at the time of the draw (as such market price is determined pursuant to the terms of the Investment Agreement). Through 2012, we sold a total of 1,230,481 shares (including 452,507 shares during 2012) of our common stock to Dutchess under this equity line for total net proceeds of approximately $3.2 million. At the present time, we have shareholder approval to sell approximately 2.8 million additional shares under this equity line.

Our bank holding company and our bank subsidiary both remain “well capitalized” (as defined by banking regulations) at December 31, 2012.

Bank Capital Ratios

	December 31,		Minimum Ratio for Adequately Capitalized Institutions	Minimum Ratio for Well Capitalized Institutions
	2012	2011		
Tier 1 capital to average assets	8.26%	6.77%	4.00%	5.00%
Tier 1 risk-based capital	13.67	10.13	4.00	6.00
Total risk-based capital	14.95	11.41	8.00	10.00

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 our statement of financial condition in a manner that is consistent with our mission to maintain profitable financial leverage within established risk parameters. We evaluate various opportunities and alternate asset/liability management 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 asset/liability 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 at least quarterly to our board of directors.

We employ simulation analyses to monitor our interest-rate risk profile and evaluate potential changes in our 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 Statement of Financial Condition. 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.

CHANGES IN MARKET VALUE OF PORTFOLIO EQUITY AND NET INTEREST INCOME

Change in Interest Rates	Market Value of Portfolio Equity(1)	Percent Change	Net Interest Income(2)	Percent Change
	(Dollars in thousands)			
December 31, 2012				
200 basis point rise	$ 262,100	24.81%	$ 81,200	6.01%
100 basis point rise	240,000	14.29	78,600	2.61
Base-rate scenario	210,000	-	76,600	-
100 basis point decline	180,400	(14.10)	75,500	(1.44)
December 31, 2011				
200 basis point rise	$ 277,500	26.08%	$ 91,200	6.17%
100 basis point rise	252,200	14.58	88,200	2.68
Base-rate scenario	220,100	-	85,900	-
100 basis point decline	181,700	(17.45)	85,000	(1.05)

(1) Simulation analyses calculate the change in the net present value of our assets and liabilities, including debt and related financial derivative instruments, under parallel shifts in interest rates by discounting the estimated future cash flows using a market-based discount rate. Cash flow estimates incorporate anticipated changes in prepayment speeds and other embedded options.

(2) Simulation analyses calculate the change in net interest income under immediate parallel shifts in interest rates over the next twelve months, based upon a static Statement of Financial Condition, which includes debt and related financial derivative instruments, and do not consider loan fees.

Accounting Standards Update. See Note #1 to the Consolidated Financial Statements included elsewhere in this report for details on recently issued accounting pronouncements and their impact on our financial statements.

Regulatory development. On October 25, 2011, the respective Boards of Directors of the Company and the Bank entered into an MOU with the FRB and OFIR. The MOU largely duplicates certain of the provisions in the Board resolutions described above, but also has the following specific requirements:

- Submission of a joint revised capital plan by November 30, 2011 to maintain sufficient capital at the Company on a consolidated basis and at the Bank on a stand-alone basis;
- Submission of quarterly progress reports regarding disposition plans for any assets in excess of $1.0 million that are in ORE, are 90 days or more past due, are on our “watch list,” or were adversely classified in our most recent examination;
- Enhanced reporting and monitoring at Mepco regarding risk management and the internal classification of assets; and
- Enhanced interest rate risk modeling practices.

We believe that we have met, and continue to satisfy, all of the requirements of the MOU.

FAIR VALUATION OF FINANCIAL INSTRUMENTS

Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) topic 820 - “Fair Value Measurements and Disclosures” (“FASB ASC topic 820”) defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

We utilize fair value measurements to record fair value adjustments to certain financial instruments and to determine fair value disclosures. FASB ASC topic 820 differentiates between those assets and liabilities required to be carried at fair value at every reporting period (“recurring”) and those assets and liabilities that are only required to be adjusted to fair value under certain circumstances (“nonrecurring”). Trading securities, securities available-for-sale, loans held for sale, and derivatives are financial instruments recorded at fair value on a recurring basis. Additionally, from time to time, we may be required to record at fair value other financial assets on a nonrecurring basis, such as loans held for investment, capitalized mortgage loan servicing rights and certain other assets. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets. See Note #22 to the Consolidated Financial Statements for a complete discussion on our use of fair valuation of financial instruments and the related measurement techniques.

LITIGATION MATTERS

We are involved in various litigation matters in the ordinary course of business. At the present time, we do not believe any of these matters will have a significant impact on our consolidated financial position or results of operations. The aggregate amount we have accrued for losses we consider probable as a result of these litigation matters is immaterial. However, because of the inherent uncertainty of outcomes from any litigation matter, we believe it is reasonably possible we may incur losses in addition to the amounts we have accrued. At this time, we estimate the maximum amount of additional losses that are reasonably possible is approximately $0.4 million. However, because of a number of factors, including the fact that certain of these litigation matters are still in their early stages and involve claims for which, at this point, we believe have little to no merit, this maximum amount may change in the future.

The litigation matters described in the preceding paragraph primarily include claims that have been brought against us for damages, but do not include litigation matters where we seek to collect amounts owed to us by third parties (such as litigation initiated to collect delinquent loans or vehicle service contract counterparty receivables). These excluded, collection-related matters may involve claims or counterclaims by the opposing party or parties, but we have excluded such matters from the disclosure contained in the preceding paragraph in all cases where we believe the possibility of us paying damages to any opposing party is remote. Risks associated with the likelihood that we will not collect the full amount owed to us, net of reserves, are disclosed elsewhere in this report.

CRITICAL ACCOUNTING POLICIES

Our accounting and reporting policies are in accordance with accounting principles generally accepted in 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 mortgage loan servicing rights, vehicle service contract payment plan counterparty contingencies, and income taxes 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. On January 12, 2009 the FASB issued ASC 325-40-65-1 (formerly Staff Position No. EITF 99-20-1 — “Amendments to the Impairment Guidance of EITF Issue No. 99-20.”) This standard has been applicable to our financial statements since December 31, 2008. In particular, this standard struck the language that required the use of market participant assumptions about future cash flows from previous guidance. This change now permits the use of reasonable management judgment about whether it is probable that all previously projected cash flows will not be collected in determining other than temporary impairment. Our assessment process resulted in recording net other than temporary impairment charges on securities of $0.3 million, $0.8 million and $0.5 million in 2012, 2011 and 2010, respectively. 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. Prices for investment securities are largely provided by a pricing service. These prices consider benchmark yields, reported trades, broker / dealer quotes and issuer spreads. Furthermore, prices for mortgage-backed securities consider: TBA prices, monthly payment information and collateral performance. At December 31, 2012 the cost basis of our investment securities classified as available for sale exceeded their estimated fair value at that same date by $0.5 million (compared to $3.6 million at December 31, 2011). This amount is included in the accumulated other comprehensive loss section of shareholders’ equity.

Our methodology for determining the allowance and related provision for loan losses is described above in “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 probable incurred losses 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 probable incurred losses 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 recorded in prior periods.

At December 31, 2012 and 2011 we had approximately $11.0 million and $11.2 million, respectively, of mortgage loan servicing rights capitalized on our Consolidated Statements of Financial Condition. There are several critical assumptions involved in establishing the value of this asset including estimated future prepayment speeds on the underlying mortgage loans, the interest rate used to discount the net cash flows from the 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 mortgage loans. We believe the assumptions that we utilize in our valuation are reasonable based upon accepted industry practices for valuing mortgage loan servicing rights and represent neither the most conservative or aggressive assumptions. We recorded a decrease in the valuation allowance on capitalized mortgage loan servicing rights of $0.5 million in 2012 as compared to increases of $3.3 million and $0.9 million in 2011 and 2010, respectively.

Mepco purchases payment plans from companies (which we refer to as Mepco's "counterparties") that provide vehicle service contracts and similar products to consumers. The payment plans (which are classified as payment plan receivables in our Consolidated Statements of Financial Condition) permit a consumer to purchase a service contract by making installment payments, generally for a term of 12 to 24 months, to the sellers of those contracts (one of the "counterparties"). Mepco does not have recourse against the consumer for nonpayment of a payment plan and therefore does not evaluate the creditworthiness of the individual customer. When consumers stop making payments or exercise their right to voluntarily cancel the contract, the remaining unpaid balance of the payment plan is normally recouped by Mepco from the counterparties that sold the contract and provided the coverage. The refund obligations of these counterparties are not fully secured. We record losses in vehicle service contract counterparty contingencies expense, included in non-interest expenses, for estimated defaults by these counterparties in their obligations to Mepco. These losses (which totaled $1.6 million, $11.0 million and $18.6 million in 2012, 2011 and 2010, respectively) are titled "vehicle service contract counterparty contingencies" in our Consolidated Statements of Operations. This area of accounting requires a significant amount of judgment because a number of factors can influence the amount of loss that we may ultimately incur. These factors include our estimate of future cancellations of vehicle service contracts, our evaluation of collateral that may be available to recover funds due from our counterparties, and our assessment of the amount that may ultimately be collected from counterparties in connection with their contractual obligations. We apply a rigorous process, based upon historical payment plan activity and past experience, to estimate probable incurred losses and quantify the necessary reserves for our vehicle service contract counterparty contingencies, but there can be no assurance that our modeling process will successfully identify all such losses. As a result, we could record future losses associated with vehicle service contract counterparty contingencies that may be materially different than the levels that we recorded in prior periods.

Our accounting for income taxes involves the valuation of deferred tax assets and liabilities primarily associated with net operating loss carryforwards and differences in the timing of the recognition of revenues and expenses for financial reporting and tax purposes. At December 31, 2012 we had gross deferred tax assets of $69.7 million, gross deferred tax liabilities of $4.5 million and a valuation allowance of $65.1 million. We are required to assess whether a valuation allowance should be established against our deferred tax assets based on the consideration of all available evidence using a "more likely than not" standard. In 2008, we first established a valuation allowance against substantially all of our net deferred tax assets due to a number of factors, including our then declining operating performance, overall negative trends in the banking industry and our expectation that our operating results would continue to be negatively affected by the overall economic environment. During 2011, 2010 and 2009, we concluded that we needed to continue to carry a valuation allowance based on similar factors. During 2012, we returned to profitability and recorded four consecutive quarters of positive earnings. Despite these improved results, at December 31, 2012, we have concluded that a valuation allowance against our entire net deferred tax asset is still necessary. We believe additional evidence of sustained future profitability is required (particularly in light of the significant contribution of gains on mortgage loans to our 2012 results) in order to conclude that it is more likely than not that we can realize our net deferred tax asset. This valuation allowance may be reversed to income in future periods to the extent that the related deferred tax assets are realized or the valuation allowance is otherwise no longer required. In making such judgments, significant weight will be given to evidence that can be objectively verified. We will analyze changes in near-term market conditions and consider both positive and negative evidence as well as other factors which may impact future operating results in making any decision to adjust this valuation allowance. In addition, changes in tax laws and changes in tax rates as well as our future level of earnings can impact the ultimate realization of our net deferred tax asset as well as the valuation allowance that we have established.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Independent Bank Corporation
Ionia, Michigan

We have audited the accompanying consolidated statements of financial condition of Independent Bank Corporation ("the Company") as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity and cash flows for each of the three years in the period ended December 31, 2012. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2012 and 2011, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

Crowe Horwath LLP

Grand Rapids, Michigan
March 13, 2013

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	December 31,	
	2012	2011
	(In thousands, except share amounts)	
ASSETS		
Cash and due from banks	$ 55,487	$ 62,777
Interest bearing deposits	124,295	278,331
Cash and Cash Equivalents	179,782	341,108
Trading securities	110	77
Securities available for sale	208,413	157,444
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	20,838	20,828
Loans held for sale, carried at fair value	47,487	44,801
Loans held for sale, carried at lower of cost or fair value	3,292	-
Loans		
Commercial	617,258	651,155
Mortgage	527,340	590,876
Installment	189,849	219,559
Payment plan receivables	84,692	115,018
Total Loans	1,419,139	1,576,608
Allowance for loan losses	(44,275)	(58,884)
Net Loans	1,374,864	1,517,724
Other real estate and repossessed assets	26,133	34,042
Property and equipment, net	47,016	62,548
Bank-owned life insurance	50,890	49,271
Other intangibles	3,975	7,609
Capitalized mortgage loan servicing rights	11,013	11,229
Prepaid FDIC deposit insurance assessment	9,448	12,609
Vehicle service contract counterparty receivables, net	18,449	29,298
Accrued income and other assets	22,157	18,818
Total Assets	$ 2,023,867	$ 2,307,406
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Non-interest bearing	$ 488,126	$ 497,718
Savings and interest-bearing checking	871,238	1,019,603
Reciprocal	33,242	28,508
Retail time	372,340	526,525
Brokered time	14,591	13,771
Total Deposits	1,779,537	2,086,125
Other borrowings	17,625	33,387
Subordinated debentures	50,175	50,175
Vehicle service contract counterparty payables	7,725	6,633
Accrued expenses and other liabilities	33,830	28,459
Total Liabilities	1,888,892	2,204,779
Commitments and contingent liabilities		
Shareholders' Equity		
Convertible preferred stock, no par value, 200,000 shares authorized; 74,426 shares issued and outstanding at December 31, 2012 and 2011; liquidation preference: $85,150 at December 31, 2012 and $81,023 at December 31, 2011	84,204	79,857
Common stock, no par value, 500,000,000 shares authorized; issued and outstanding: 9,093,732 shares at December 31, 2012 and 8,491,526 shares at December 31, 2011.	251,237	248,950
Accumulated deficit	(192,408)	(214,259)
Accumulated other comprehensive loss	(8,058)	(11,921)
Total Shareholders' Equity	134,975	102,627
Total Liabilities and Shareholders' Equity	$ 2,023,867	$ 2,307,406

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2012	2011	2010
	(In thousands, except per share amounts)		
INTEREST INCOME			
Interest and fees on loans	$ 93,780	$ 110,574	$ 142,282
Interest on securities			
Taxable	2,934	1,422	3,052
Tax-exempt	1,044	1,219	1,932
Other investments	1,640	1,547	1,585
Total Interest Income	99,398	114,762	148,851
INTEREST EXPENSE			
Deposits	8,913	15,257	28,164
Other borrowings	4,230	4,936	9,034
Total Interest Expense	13,143	20,193	37,198
Net Interest Income	86,255	94,569	111,653
Provision for loan losses	6,887	27,946	46,765
Net Interest Income After Provision for Loan Losses	79,368	66,623	64,888
NON-INTEREST INCOME			
Service charges on deposit accounts	17,887	18,306	21,511
Interchange income	9,188	9,091	8,257
Net gains (losses) on assets			
Mortgage loans	17,323	9,262	12,330
Securities	1,226	249	1,639
Other than temporary impairment loss on securities			
Total impairment loss	(339)	(760)	(462)
Loss recognized in other comprehensive loss	-	-	-
Net impairment loss recognized in earnings	(339)	(760)	(462)
Mortgage loan servicing	166	(2,011)	(523)
Title insurance fees	1,963	1,465	2,037
(Increase) decrease in fair value of U.S. Treasury warrant	(285)	1,137	393
Gain on extinguishment of debt	-	-	18,066
Net gain on branch sale	5,402	-	-
Other	11,034	10,174	8,565
Total Non-interest Income	63,565	46,913	71,813
NON-INTEREST EXPENSE			
Compensation and employee benefits	53,983	50,484	51,711
Occupancy, net	10,104	11,183	11,016
Loan and collection	9,965	12,414	15,323
Data processing	8,009	8,208	8,303
Furniture, fixtures and equipment	5,043	5,535	6,540
Legal and professional	4,175	3,941	4,100
FDIC deposit insurance	3,306	3,507	6,805
Communications	3,269	3,552	4,138
Net losses on other real estate and repossessed assets	2,854	5,824	9,722
Advertising	2,494	2,503	2,712
Credit card and bank service fees	2,091	3,656	5,790
Interchange expense	1,799	1,543	1,251
Vehicle service contract counterparty contingencies	1,629	11,048	18,633
Provision for loss reimbursement on sold loans	1,112	1,993	215
Write-down of property and equipment held for sale	860	-	-
Recoveries related to unfunded lending commitments	(688)	(36)	(536)
Other	6,730	8,593	9,277
Total Non-interest Expense	116,735	133,948	155,000
Income (Loss) Before Income Tax	26,198	(20,412)	(18,299)
Income tax benefit	-	(212)	(1,590)
Net Income (Loss)	$ 26,198	$ (20,200)	$ (16,709)
Preferred stock dividends and discount accretion	4,347	4,157	4,095
Net Income (Loss) Applicable to Common Stock	$ 21,851	$ (24,357)	$ (20,804)
Net income (loss) per common share			
Basic	$ 2.51	$ (2.94)	$ (4.09)
Diluted	$ 0.80	$ (2.94)	$ (4.09)
Cash dividends declared per common share	$ -	$ -	$ -

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year Ended December 31,		
	2012	2011	2010
		(In thousands)	
Net income (loss)	$ 26,198	$ (20,200)	$ (16,709)
Other comprehensive income (loss), before tax		.	
Available for sale securities			
Unrealized gain (loss) arising during period	2,757	(287)	949
Change in unrealized losses for which a portion of other than temporary impairment has been recognized in earnings	1,160	600	2,700
Reclassification adjustment for other than temporary impairment included in earnings	339	760	462
Reclassification adjustments for (gains) included in earnings	(1,193)	(204)	(1,661)
Unrealized gains recognized in other comprehensive income on available for sale securities	3,063	869	2,450
Income tax expense	-	304	858
Unrealized gains recognized in other comprehensive income on available for sale securities, net of tax	3,063	565	1,592
Derivative instruments			
Unrealized loss arising during period	(127)	(482)	(1,345)
Reclassification adjustment for expense recognized in earnings	491	799	1,659
Reclassification adjustment for accretion on settled derivatives	436	659	1,173
Unrealized gains recognized in other comprehensive income on derivative instruments	800	976	1,487
Income tax expense	-	342	520
Unrealized gains recognized in other comprehensive income on derivative instruments, net of tax	800	634	967
Other comprehensive income	3,863	1,199	2,559
Comprehensive income (loss)	$ 30,061	$ (19,001)	$ (14,150)

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Preferred Stock	Common Stock	Capital Surplus	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
			(In thousands)			
Balances at December 31, 2009	$ 69,157	$ 2,386	$ 223,095	$ (169,098)	$ (15,679)	$ 109,861
Net loss for 2010	-	-	-	(16,709)	-	(16,709)
Reclassification upon removal of par value on common stock	-	223,095	(223,095)	-	-	-
Dividends on Preferred, 5%	2,658	-	-	(3,734)	-	(1,076)
Retirement of Series A preferred stock	(69,364)	-	-	-	-	(69,364)
Retirement of common stock warrants	-	(3,579)	-	-	-	(3,579)
Issuance of Series B preferred stock	72,888	-	-	-	-	72,888
Issuance of 5,454,669 shares of common stock	-	23,963	-	-	-	23,963
Share based compensation	-	542	-	-	-	542
Accretion of preferred stock discount	361	-	-	(361)	-	-
Other comprehensive income	-	-	-	-	2,559	2,559
Balances at December 31, 2010	75,700	246,407	-	(189,902)	(13,120)	119,085
Net loss for 2011	-	-	-	(20,200)	-	(20,200)
Dividends on Preferred, 5%	3,939	-	-	(3,939)	-	-
Issuance of 432,797 shares of common stock	-	1,335	-	-	-	1,335
Share based compensation (issuance of 198,246 shares of common stock)	-	1,208	-	-	-	1,208
Accretion of preferred stock discount	218	-	-	(218)	-	-
Other comprehensive income	-	-	-	-	1,199	1,199
Balances at December 31, 2011	79,857	248,950	-	(214,259)	(11,921)	102,627
Net income for 2012	-	-	-	26,198	-	26,198
Dividends on Preferred, 5%	4,128	-	-	(4,128)	-	-
Issuance of 454,842 shares of common stock	-	1,418	-	-	-	1,418
Share based compensation (issuance of 147,364 shares of common stock)	-	869	-	-	-	869
Accretion of preferred stock discount	219	-	-	(219)	-	-
Other comprehensive income	-	-	-	-	3,863	3,863
Balances at December 31, 2012	$ 84,204	$ 251,237	$ -	$ (192,408)	$ (8,058)	$ 134,975

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2012	2011	2010
		(In thousands)	
Net Income (Loss)	$ 26,198	$ (20,200)	$ (16,709)
ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO NET CASH FROM (USED IN) OPERATING ACTIVITIES			
Proceeds from sales of loans held for sale	527,371	391,253	493,272
Disbursements for loans held for sale	(512,734)	(376,694)	(496,806)
Provision for loan losses	6,887	27,946	46,765
Deferred federal income tax expense (benefit)	-	201	(1,533)
Deferred loan fees	(392)	(449)	420
Depreciation, amortization of intangible assets and premiums and accretion of discounts on securities and loans	(4,718)	(11,301)	(27,720)
Write-down of property and equipment held for sale	860	-	-
Net gains on mortgage loans	(17,323)	(9,262)	(12,330)
Net gains on securities	(1,226)	(249)	(1,639)
Securities impairment recognized in earnings	339	760	462
Net losses on other real estate and repossessed assets	2,854	5,824	9,722
Vehicle service contract counterparty contingencies	1,629	11,048	18,633
Share based compensation	869	1,208	542
Net (gain) loss on sale of property and equipment	(148)	(2)	162
Net gain on branch sale	(5,402)	-	-
Gain on extinguishment of debt	-	-	(18,066)
(Increase) decrease in accrued income and other assets	(2,277)	16,874	397
Increase (decrease) in accrued expenses and other liabilities	6,606	(1,551)	1,928
Total Adjustments	3,195	55,606	14,209
Net Cash From (Used in) Operating Activities	29,393	35,406	(2,500)
CASH FLOW FROM (USED IN) INVESTING ACTIVITIES			
Proceeds from the sale of securities available for sale	37,176	70,322	96,648
Proceeds from the maturity of securities available for sale	83,190	3,983	44,170
Principal payments received on securities available for sale	23,765	9,282	14,137
Purchases of securities available for sale	(192,726)	(173,186)	(55,150)
Redemption of Federal Home Loan Bank stock	-	2,397	2,247
Redemption of Federal Reserve Bank stock	334	405	1,977
Net decrease in portfolio loans (loans originated, net of principal payments)	90,952	196,558	347,574
Net cash paid for branch sale	(339,995)	-	-
Proceeds from the collection of vehicle service contract counterparty receivables	7,413	1,613	15,863
Proceeds from the sale of other real estate and repossessed assets	19,331	18,638	20,455
Proceeds from the sale of property and equipment	1,958	224	166
Capital expenditures	(5,293)	(2,779)	(4,757)
Net Cash From (Used in) Investing Activities	(273,895)	127,457	483,330
CASH FLOW FROM (USED IN) FINANCING ACTIVITIES			
Net increase (decrease) in total deposits	96,428	(165,713)	(313,930)
Net decrease in other borrowings	-	(7)	(36,791)
Proceeds from Federal Home Loan Bank advances	12,000	31,000	33,000
Payments of Federal Home Loan Bank advances	(27,762)	(68,638)	(56,359)
Net increase (decrease) in vehicle service contract counterparty payables	1,092	(5,106)	(9,570)
Proceeds from issuance of common stock	1,418	1,335	463
Extinguishment of debt, net	-	-	(1,005)
Net Cash From (Used in) Financing Activities	83,176	(207,129)	(384,192)
Net Increase (Decrease) in Cash and Cash Equivalents	(161,326)	(44,266)	96,638
Cash and Cash Equivalents at Beginning of Year	341,108	385,374	288,736
Cash and Cash Equivalents at End of Year	$ 179,782	$ 341,108	$ 385,374
Cash paid during the year for			
Interest	$ 11,052	$ 18,729	$ 38,095
Income taxes	292	59	513
Transfers to other real estate and repossessed assets	14,276	19,091	38,056
Transfer of payment plan receivables to vehicle service contract counterparty receivables	1,469	8,874	77,457
Transfers to loans held for sale	47,954	-	-
Transfers to property and equipment held for sale	13,033	-	-
Transfers to deposits held for sale	403,089	-	-
Issuance of common stock in exchange for subordinated debentures	-	-	23,502
Subordinated debentures exchanged for common stock	-	-	42,713
Retirement of Series A Preferred Stock	-	-	69,364
Retirement of common stock warrants	-	-	3,579
Issuance of Series B Preferred Stock	-	-	72,888
Issuance of common stock warrants	-	-	1,704

See accompanying notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ACCOUNTING POLICIES

The accounting and reporting policies and practices of Independent Bank Corporation and subsidiaries conform to accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. Our critical accounting policies include the assessment for other than temporary impairment ("OTTI") on investment securities, the determination of the allowance for loan losses, the determination of vehicle service contract counterparty contingencies, the valuation of originated mortgage loan servicing rights and the valuation of deferred tax assets. We are required to make material estimates and assumptions that are particularly susceptible to changes in the near term as we prepare the consolidated financial statements and report amounts for each of these items. Actual results may vary from these estimates.

Our Bank subsidiary transacts business in the single industry of commercial banking. Our Bank's activities cover traditional phases of commercial banking, including checking and savings accounts, commercial lending, direct and indirect consumer financing and mortgage lending. Our principal markets are the rural and suburban communities across Lower Michigan that are served by our Bank's branches and loan production offices. We also purchase payment plans from companies (which we refer to as "counterparties") that provide vehicle service contracts and similar products to consumers, through our wholly owned subsidiary, Mepco Finance Corporation ("Mepco"). At December 31, 2012, 76.1% of our Bank's loan portfolio was secured by real estate.

PRINCIPLES OF CONSOLIDATION — The consolidated financial statements include the accounts of Independent Bank Corporation and its subsidiaries. The income, expenses, assets and liabilities of the subsidiaries are included in the respective accounts of the consolidated financial statements, after elimination of all material intercompany accounts and transactions.

STATEMENTS OF CASH FLOWS — For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, interest bearing deposits and federal funds sold. Generally, federal funds are sold for one-day periods. We report net cash flows for customer loan and deposit transactions, for short-term borrowings and for vehicle service contract counterparty payables.

INTEREST BEARING DEPOSITS — Interest bearing deposits consist of overnight deposits with the Federal Reserve Bank ("FRB").

LOANS HELD FOR SALE — Loans held for sale are primarily carried at fair value at December 31, 2012 and 2011. Fair value adjustments as well as realized gains and losses, are recorded in current earnings. Certain loans held for sale at December 31, 2012 relating to our branch sale [see note #27] are carried at the lower of cost or market.

MORTGAGE LOAN SERVICING RIGHTS — We recognize as separate assets the rights to service mortgage loans for others. The fair value of originated mortgage loan servicing rights has been determined based upon fair value indications for similar servicing. The mortgage loan servicing rights are amortized in proportion to and over the period of estimated net loan servicing income. We assess mortgage loan servicing rights for impairment based on the fair value of those rights. For purposes of measuring impairment, the characteristics used include interest rate, term and type. Amortization of and changes in the impairment reserve on originated mortgage loan servicing rights are included in mortgage loan servicing in the Consolidated Statements of Operations. The fair values of mortgage loan servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses. Mortgage loan servicing income is recorded for fees earned for servicing loans previously sold. The fees are generally based on a contractual percentage of the outstanding principal and are recorded as income when earned. Mortgage loan servicing fees, excluding amortization of and changes in the impairment reserve on originated mortgage loan servicing rights, totaled $4.4 million, $4.4 million and $4.2 million for the years ended December 31, 2012, 2011 and 2010, respectively. Late fees and ancillary fees related to loan servicing are not material.

TRANSFERS OF FINANCIAL ASSETS — Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from us, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and we do not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

SECURITIES — We classify our securities as trading, held to maturity or available for sale. Trading securities are bought and held principally for the purpose of selling them in the near term and are reported at fair value with realized and unrealized gains and losses included in earnings. Securities held to maturity represent those securities for which we have the positive intent and ability to hold until maturity and are reported at cost, adjusted for amortization of premiums and accretion of discounts computed on the level-yield method. We did not have any securities held to maturity at December 31, 2012 and 2011. Securities available for sale represent those securities not classified as trading or held to maturity and are reported at fair value with unrealized gains and losses, net of applicable income taxes reported in other comprehensive income (loss).

We evaluate securities for OTTI at least on a quarterly basis and more frequently when economic or market conditions warrant such an evaluation. In performing this evaluation management considers (1) the length of time and extent that fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, (3) the impact of changes in market interest rates on the market value of the security and (4) an assessment of whether we intend to sell, or it is more likely than not that we will be required to sell a security in an unrealized loss position before recovery of its amortized cost basis. For securities that do not meet the aforementioned recovery criteria, the amount of impairment recognized in earnings is limited to the amount related to credit losses, while impairment related to other factors is recognized in other comprehensive income or loss. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

Gains and losses realized on the sale of securities available for sale are determined using the specific identification method and are recognized on a trade-date basis. Premiums and discounts are recognized in interest income computed on the level-yield method.

LOAN REVENUE RECOGNITION — Interest on loans is accrued based on the principal amounts outstanding. In general the accrual of interest income is discontinued when a loan becomes 90 days past due for commercial loans and installment loans and when a loan misses four consecutive payments for mortgage loans and the borrower’s capacity to repay the loan and collateral values appear insufficient for each loan class. However, loans may be placed on non-accrual status regardless of whether or not such loans are considered past due if, in management’s opinion, the borrower is unable to meet payment obligations as they become due or as required by regulatory provisions. All interest accrued but not received for all loans placed on non-accrual is reversed from interest income. Payments on such loans are generally applied to the principal balance until qualifying to be returned to accrual status. A non-accrual loan may be restored to accrual status when interest and principal payments are current and the loan appears otherwise collectible. Delinquency status for all classes in the commercial and installment loan segments is based on the actual number of days past due as required by the contractual terms of the loan agreement while delinquency status for mortgage loan segment classes is based on the number of payments past due.

Certain loan fees and direct loan origination costs are deferred and recognized as an adjustment of yield generally over the contractual life of the related loan. Fees received in connection with loan commitments are deferred until the loan is advanced and are then recognized generally over the contractual life of the loan as an adjustment of yield. Fees on commitments that expire unused are recognized at expiration. Fees received for letters of credit are recognized as revenue over the life of the commitment.

PAYMENT PLAN RECEIVABLE REVENUE RECOGNITION — Payment plan receivables are acquired by our Mepco segment at a discount and reported net of this discount in the Consolidated Statements of Financial Condition. This discount is accreted into interest and fees on loans over the life of the receivable computed on a level-yield method. All classes of payment plan receivables that have been canceled and are 90 days or more past due as required by the contractual terms of the payment plan are classified as non-accrual.

ALLOWANCE FOR LOAN LOSSES — Portfolios are disaggregated into segments for purposes of determining the allowance for loan losses (“AFLL”) which include commercial, mortgage and installment loans and payment plan receivables. These segments are further disaggregated into classes for purposes of monitoring and assessing credit quality based on certain risk characteristics. Classes within the commercial loan segment include (i) income producing – real estate, (ii) land, land development and construction – real estate and (iii) commercial and industrial. Classes within the mortgage loan segment include (i) 1-4 family, (ii) resort lending, (iii) home equity line of credit – 1st lien and (iv) home equity line of credit 2nd lien. Classes within the installment loan segment include (i) home equity installment – 1st lien, (ii) home equity installment – 2nd lien, (iii) loans not secured by real estate and (iv) other. Classes within the payment plan receivables segment include (i) full refund, (ii) partial refund and (iii) other. Commercial loans are subject to adverse market conditions which may impact the borrower’s ability to make repayment on the loan or could cause a decline in the value of the collateral that secures the loan. Mortgage and installment loans and payment plan receivables are subject to adverse employment conditions in the local economy which could increase default rates. In addition, mortgage loans and real estate based installment loans are subject to adverse market conditions which could cause a decline in the value of collateral that secures the loan. For an analysis of the AFLL by portfolio segment and credit quality information by class, see Note #4.

Some loans will not be repaid in full. Therefore, an AFLL is maintained at a level which represents our best estimate of losses incurred. 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 commercial loans, (iii) allocations based principally on historical loan loss experience, and (iv) additional allocations based on subjective factors, including local and general economic business factors and trends, portfolio concentrations and changes in the size and/or the general terms of the loan portfolios.

The first AFLL element (specific allocations) reflects our estimate of probable incurred 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, discounted collateral exposure and discounted cash flow analysis. Impaired commercial, mortgage and installment loans are allocated allowance amounts using this first element. The second AFLL element (other adversely rated commercial loans) reflects the application of our loan rating system. This rating system is similar to those employed by state and federal banking regulators. Commercial loans that are rated below a certain predetermined classification are assigned a loss allocation factor for each loan classification category that is based upon a historical analysis of both the probability of default and the expected loss rate (“loss given default”). The lower the rating assigned to a loan or category, the greater the allocation percentage that is applied. The third AFLL element (historical loss allocations) is determined by assigning allocations to higher rated (“non-watch credit”) commercial loans using a probability of default and loss given default similar to the second AFLL element and to homogenous mortgage and installment loan groups based upon borrower credit score and portfolio segment. For homogenous mortgage and installment loans a probability of default for each homogenous pool is calculated by way of credit score migration. Historical loss data for each homogenous pool coupled with the associated probability of default is utilized to calculate an expected loss allocation rate. The fourth AFLL element (additional allocations based on subjective factors) 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 this fourth element, including local and general economic business factors and trends, portfolio concentrations and changes in the size, mix and the general terms of the overall loan portfolio.

Increases in the AFLL are recorded by a provision for loan losses charged to expense. Although we periodically allocate portions of the AFLL to specific loans and loan portfolios, the entire AFLL is available for incurred losses. We generally charge-off commercial, homogenous residential mortgage and installment loans and payment plan receivables when they are deemed uncollectible or reach a predetermined number of days past due based on loan product, industry practice and other factors. Collection efforts may continue and recoveries may occur after a loan is charged against the AFLL.

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.

A loan is impaired when full payment under the loan terms is not expected. Generally, those loans included in each commercial loan class that are rated substandard, classified as non-performing or were classified as non-performing in the preceding quarter are evaluated for impairment. Those loans included in each mortgage loan or installment class whose terms have been modified and considered a troubled debt restructuring are also impaired. Loans which have been modified resulting in a concession, and which the borrower is experiencing financial difficulties, are considered troubled debt restructurings (“TDR”) and classified as impaired. We measure our investment in an impaired loan based on one of three methods: the loan’s observable market price, the fair value of the collateral or the present value of expected future cash flows discounted at the loan’s effective interest rate. Large groups of smaller balance homogeneous loans, such as those loans included in each installment and mortgage loan class and each payment plan receivable class are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures. TDR loans are measured at the present value of estimated future cash flows using the loan’s effective interest rate at inception of the loan. If a TDR is considered to be a collateral dependent loan, the loan is reported net, at the fair value of collateral.

PROPERTY AND EQUIPMENT — Property and equipment is stated at cost less accumulated depreciation and amortization. Depreciation and amortization is computed using both straight-line and accelerated methods over the estimated useful lives of the related assets. Buildings are generally depreciated over a period not exceeding 39 years and equipment is generally depreciated over periods not exceeding 7 years. Leasehold improvements are depreciated over the shorter of their estimated useful life or lease period.

BANK OWNED LIFE INSURANCE — We have purchased a group flexible premium non-participating variable life insurance contract on approximately 270 salaried employees in order to recover the cost of providing certain employee benefits. Bank owned life insurance is recorded at its cash surrender value or the amount that can be currently realized.

OTHER REAL ESTATE AND REPOSSESSED ASSETS — Other real estate at the time of acquisition is recorded at fair value, less estimated costs to sell, which becomes the property’s new basis. Fair value is typically determined by a third party appraisal of the property. Any write-downs at date of acquisition are charged to the allowance for loan losses. Expense incurred in maintaining assets and subsequent write-downs to reflect declines in value and gains or losses on the sale of other real estate are recorded in the Consolidated Statements of Operations. Non-real estate repossessed assets are treated in a similar manner.

OTHER INTANGIBLE ASSETS — Other intangible assets consist of core deposits. They are initially measured at fair value and then are amortized on both straight-line and accelerated methods over their estimated useful lives, which range from 10 to 15 years.

VEHICLE SERVICE CONTRACT COUNTERPARTY RECEIVABLES, NET — These amounts represent funds due to Mepco from its counterparties for cancelled service contracts. Upon the cancellation of a service contract and the completion of the billing process to the counterparties for amounts due to Mepco, there is a decrease in the amount of “payment plan receivables” and an increase in the amount of “vehicle service contract counterparty receivables” until such time as the amount due from the counterparty is collected.

INCOME TAXES — We employ the asset and liability method of accounting for income taxes. This method establishes deferred tax assets and liabilities for the temporary differences between the financial reporting basis and the tax basis of our assets and liabilities at tax rates expected to be in effect when such amounts are realized or settled. Under this method, the effect of a change in tax rates is recognized in the period that includes the enactment date. The deferred tax asset is subject to a valuation allowance for that portion of the asset for which it is more likely than not that it will not be realized.

A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination.

We recognize interest and/or penalties related to income tax matters in income tax expense.

We file a consolidated federal income tax return. Intercompany tax liabilities are settled as if each subsidiary filed a separate return.

VEHICLE SERVICE CONTRACT COUNTERPARTY PAYABLES — Vehicle service contract counterparty payables represent amounts owed to insurance companies or other counterparties for vehicle service contract payment plans purchased by us. The vehicle service contract counterparty payable becomes due in accordance with the terms of the specific contract between Mepco and the counterparty. Typically these terms require payment after Mepco has received one or two payments from the consumer on the payment plan receivable.

COMMITMENTS TO EXTEND CREDIT AND RELATED FINANCIAL INSTRUMENTS — Financial instruments may include commitments to extend credit and standby letters of credit. Financial instruments involve varying degrees of credit and interest-rate risk in excess of amounts reflected in the Consolidated Statements of Financial Condition. Exposure to credit risk in the event of non-performance by the counterparties to the financial instruments for loan commitments to extend credit and letters of credit is represented by the contractual amounts of those instruments. In general, we use a similar methodology to estimate our liability for these off-balance sheet credit exposures as we do for our allowance for loan losses. For commercial related commitments, we estimate liability using our loan rating system and for mortgage and installment commitments we estimate liability principally upon historical loss experience. Our estimated liability for off balance sheet commitments is included in accrued expenses and other liabilities in our Consolidated Statements of Financial Condition and any charge or recovery is recorded in non-interest expenses in our Consolidated Statements of Operations.

DERIVATIVE FINANCIAL INSTRUMENTS — We record derivatives on our Consolidated Statement of Financial Condition 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.

At the inception of the derivative we designate the derivative as one of three types based on our intention and belief as to likely effectiveness as a hedge. These three types are (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (“Fair Value Hedge”), (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (“Cash Flow Hedge”), or (3) an instrument with no hedging designation. For a Fair Value Hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item, are recognized in current earnings as fair values change. We currently do not have any Fair Value Hedges. For a Cash Flow Hedge, the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. For both types of hedges, changes in the fair value of derivatives that are not highly effective in hedging the changes in fair value or expected cash flows of the hedged item are recognized immediately in current earnings. Changes in the fair value of derivatives that do not qualify for hedge accounting are recorded currently in earnings.

Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest expense. Net cash settlements on derivatives that do not qualify for hedge accounting are reported in non-interest income. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged.

We formally document the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. This documentation includes linking fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. We also assess, both at the hedge’s inception and on an ongoing basis, whether the derivative instruments that are used are highly effective in offsetting changes in fair values or cash flows of the hedged items. We discontinue hedge accounting when it is determined that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative is settled or terminates, a hedged forecasted transaction is no longer probable, a hedged firm commitment is no longer firm, or treatment of the derivative as a hedge is no longer appropriate or intended.

When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded currently in earnings. When a fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis adjustment is amortized or accreted over the remaining life of the asset or liability. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, gains or losses that were accumulated in other comprehensive income are amortized into earnings over the same periods which the hedged transactions will affect earnings.

COMPREHENSIVE INCOME (LOSS) — Comprehensive income (loss) consists of net income (loss), unrealized gains and losses on securities available for sale and derivative instruments classified as cash flow hedges.

INCOME (LOSS) PER COMMON SHARE — Basic income (loss) and diluted (loss) per common share are computed by dividing net income applicable to common stock by the weighted average number of common shares outstanding during the period and participating share awards. All outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends are considered participating securities for this calculation. For diluted income per common share, net income is divided by the weighted average number of common shares outstanding during the period plus the dilutive effects of the assumed conversion of convertible preferred stock, assumed exercise of common stock warrants, assumed exercise of stock options, restricted stock units and stock units for a deferred compensation plan for non-employee directors. For any period in which a loss is recorded, dividends on convertible preferred stock are not added back in the diluted per share calculation and the assumed conversion of convertible preferred stock, assumed exercise of common stock warrants, assumed exercise of stock options, restricted stock units and stock units for a deferred compensation plan for non-employee directors would have an anti-dilutive impact on the loss per share and thus are ignored in the diluted per share calculation.

SHARE BASED COMPENSATION — Cost is recognized for stock options and non-vested share awards issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of our common stock at the date of grant is used for non-vested share awards. Cost is recognized over the required service period, generally defined as the vesting period. Cost is also recognized for salary stock issued to employees and stock issued to non-employee directors. These shares vest immediately and cost is recognized during the period they are issued.

COMMON STOCK — At December 31, 2012, 0.1 million shares of common stock were reserved for issuance under the dividend reinvestment plan, 0.1 million shares of common stock were reserved for issuance under our long-term incentive plans and 2.8 million shares of common stock were reserved for issuance under an equity line agreement.

RECLASSIFICATION — Certain amounts in the 2011 and 2010 consolidated financial statements have been reclassified to conform to the 2012 presentation.

ADOPTION OF NEW ACCOUNTING STANDARDS — In May 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2011-04, “Fair Value Measurement (Topic 820), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs”. This ASU amended guidance that will result in common fair value measurement and disclosure requirements between U.S. GAAP and International Financial Reporting Standards (“IFRS”). Under the amended guidance, entities are required to expand disclosure for fair value instruments categorized within Level 3 of the fair value hierarchy to include (1) the valuation processes used; and (2) a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs for recurring fair value measurements and the interrelationships between those unobservable inputs, if any. They are also required to disclose the categorization by level of the fair value hierarchy for items that are not measured at fair value in the Consolidated Statement of Financial Condition but for which the fair value is required to be disclosed (e.g. portfolio loans). This amended guidance became effective for us at January 1, 2012. The effect of adopting this standard did not have a material impact on our consolidated operating results or financial condition, but the additional disclosures are included in Notes #22 and #23.

In June 2011, the FASB issued ASU 2011-05, “Comprehensive Income (Topic 220)”. This ASU amended guidance on the presentation requirements for comprehensive income. The amended guidance requires an entity to present total comprehensive income, the components of net income and the components of other comprehensive income on the face of the financial statements, either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amended guidance did not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. This amended guidance became effective for us at January 1, 2012 and was applied retrospectively. The effect of adopting this standard did not have a material impact on our consolidated operating results or financial condition, but we have included separate Consolidated Statements of Comprehensive Income (Loss) immediately following our Consolidated Statements of Operations in our Consolidated Financial Statements.

NOTE 2 – RESTRICTIONS ON CASH AND DUE FROM BANKS

Our Bank is required to maintain reserve balances in the form of vault cash and non-interest earning balances with the FRB. The average reserve balances to be maintained during 2012 and 2011 were $26.1 million and $23.9 million, respectively. We do not maintain compensating balances with correspondent banks. We are also required to maintain reserve balances related to our Visa debit card operations and merchant payment processing operations. These balances are held at unrelated financial institutions and totaled $2.5 million and $2.1 million at December 31, 2012 and 2011, respectively.

NOTE 3 – SECURITIES

Securities available for sale consist of the following at December 31:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
		(In thousands)		
2012				
U.S. agency	$ 30,620	$ 70	$ 23	$ 30,667
U.S. agency residential mortgage-backed	126,151	1,264	3	127,412
Private label residential mortgage-backed	9,070	-	876	8,194
Obligations of states and political subdivisions	38,384	736	69	39,051
Trust preferred	4,704	-	1,615	3,089
Total	$ 208,929	$ 2,070	$ 2,586	$ 208,413
2011				
U.S. agency	$ 24,980	$ 58	$ 21	$ 25,017
U.S. agency residential mortgage-backed	93,415	1,007	216	94,206
Private label residential mortgage-backed	11,066	-	2,798	8,268
Obligations of states and political subdivisions	26,865	510	58	27,317
Trust preferred	4,697	-	2,061	2,636
Total	$ 161,023	$ 1,575	$ 5,154	$ 157,444

Total OTTI recognized in accumulated other comprehensive loss for securities available for sale was $0.3 million and $1.1 million at December 31, 2012 and 2011, respectively.

Our investments' gross unrealized losses and fair values aggregated by investment type and length of time that individual securities have been at a continuous unrealized loss position, at December 31 follows:

	Less Than Twelve Months		Twelve Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
2012						
U.S. agency	$ 8,097	$ 23	$ -	$ -	$ 8,097	$ 23
U.S. agency residential mortgage-backed	-	-	457	3	457	3
Private label residential mortgage-backed	-	-	8,192	876	8,192	876
Obligations of states and political subdivisions	7,384	69	-	-	7,384	69
Trust preferred	-	-	3,089	1,615	3,089	1,615
Total	$ 15,481	$ 92	$ 11,738	$ 2,494	$ 27,219	$ 2,586
2011						
U.S. agency	$ 9,974	$ 21	$ -	$ -	$ 9,974	$ 21
U.S. agency residential mortgage-backed	42,500	216	-	-	42,500	216
Private label residential mortgage-backed	163	90	8,102	2,708	8,265	2,798
Obligations of states and political subdivisions	-	-	1,729	58	1,729	58
Trust preferred	591	1,218	2,045	843	2,636	2,061
Total	$ 53,228	$ 1,545	$ 11,876	$ 3,609	$ 65,104	$ 5,154

Our portfolio of available-for-sale securities is reviewed quarterly for impairment in value. In performing this review management considers (1) the length of time and extent that fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, (3) the impact of changes in market interest rates on the market value of the security and (4) an assessment of whether we intend to sell, or it is more likely than not that we will be required to sell a security in an unrealized loss position before recovery of its amortized cost basis. For securities that do not meet the aforementioned recovery criteria, the amount of impairment recognized in earnings is limited to the amount related to credit losses, while impairment related to other factors is recognized in other comprehensive income or loss.

U.S. Agency and U.S. Agency residential mortgage-backed securities — at December 31, 2012 we had two U.S. Agency and one U.S. Agency residential mortgage-backed securities whose fair market value is less than amortized cost. The unrealized losses are largely attributed to modest credit spread widening on certain issues. As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no declines are deemed to be other than temporary.

Private label residential mortgage backed securities — at December 31, 2012 we had eight securities whose fair value is less than amortized cost. Two of the issues are rated by a major rating agency as investment grade while four are below investment grade and two are split rated. Three of these bonds have impairment in excess of 10% and all of these holdings have been impaired for more than 12 months.

The unrealized losses are largely attributable to credit spread widening on these securities since their acquisition. Prices for these bonds did improve notably during 2012 due in part to the Federal Reserve Bank's third round of quantitative easing and improving fundamentals in the housing market. The underlying loans within these securities include Jumbo (74%) and Alt A (26%) at December 31, 2012.

	December 31,			
	2012		2011	
	Fair Value	Net Unrealized Gain (Loss)	Fair Value	Net Unrealized Gain (Loss)
	(In thousands)			
Private label residential mortgage-backed				
Jumbo	$ 6,041	$ (594)	$ 6,454	$ (1,937)
Alt-A	2,153	(282)	1,814	(861)

Seven of the private label residential mortgage-backed transactions have geographic concentrations in California, ranging from 22% to 58% of the collateral pool. Typical exposure levels to California (median exposure is 47%) are consistent with overall market collateral characteristics. Three transactions have modest exposure to Florida, ranging from 5% to 7% and one transaction has modest exposure to Nevada (5%). The underlying collateral pools do not have meaningful exposure to Arizona, Michigan or Ohio. None of the issues involve subprime mortgage collateral. Thus the impact of this market segment is only indirect, in that it has impacted liquidity and pricing in general for private label residential mortgage-backed securities. The majority of transactions are backed by fully amortizing loans. However, six transactions have concentrations in loans that pay interest only for a specified period of time and will fully amortize thereafter ranging from 31% to 94% (at origination date). The structure of the residential mortgage securities portfolio provides protection to credit losses. The portfolio primarily consists of senior securities as demonstrated by the following: super senior (22%), senior (41%), senior support (25%) and mezzanine (12%). The mezzanine class is from a seasoned transaction (100 months) with a significant level of subordination (8.23%). Except for the additional discussion below relating to other than temporary impairment, each private label residential mortgage-backed security has sufficient credit enhancement via subordination to reasonably assure full realization of book value. This assertion is based on a transaction level review of the portfolio.

Individual security reviews include: external credit ratings, forecasted weighted average life, recent prepayment speeds, underwriting characteristics of the underlying collateral, the structure of the securitization and the credit performance of the underlying collateral. The review of underwriting characteristics considers: average loan size, type of loan (fixed or ARM), vintage, rate, FICO, loan-to-value, scheduled amortization, occupancy, purpose, geographic mix and loan documentation. The review of the securitization structure focuses on the priority of cash flows to the bond, the priority of the bond relative to the realization of credit losses and the level of subordination available to absorb credit losses. The review of credit performance includes: current period as well as cumulative realized losses; the level of severe payment problems, which includes other real estate (ORE), foreclosures, bankruptcy and 90 day delinquencies; and the level of less severe payment problems, which consists of 30 and 60 day delinquencies.

All of these securities are receiving some principal and interest payments. Most of these transactions are passthrough structures, receiving pro rata principal and interest payments from a dedicated collateral pool for loans that are performing. The nonreceipt of interest cash flows is not expected and thus not presently considered in our discounted cash flow methodology discussed below.

In addition to the review discussed above, all private label residential mortgage-backed securities are reviewed for OTTI utilizing a cash flow projection. The cash flow analysis forecasts cash flow from the underlying loans in each transaction and then applies these cash flows to the bonds in the securitization. The cash flows from the underlying loans consider contractual payment terms (scheduled amortization), prepayments, defaults and severity of loss given default. The analysis uses dynamic assumptions for prepayments, defaults and loss severity. Near term prepayment assumptions are based on recently observed prepayment rates. More weight is given to longer term historic performance (12 months). In some cases, recently observed prepayment rates are lower than historic norms due to the absence of new jumbo loan issuances. This loan market is heavily dependent upon securitization for funding, and new securitization transactions have been minimal. Our model projections anticipate that prepayment rates gradually revert to historical levels. For seasoned ARM transactions, normalized prepayment rates range from 12% to 20% CPR which is at the lower end of historically observed speeds for seasoned ARM collateral. For fixed rate collateral (one transaction), the prepayment speeds are projected to remain stable.

Default assumptions are largely based on the volume of existing real-estate owned, pending foreclosures and severe delinquencies. Other considerations include the quality of loan underwriting, recent default experience, realized loss performance and the volume of less severe delinquencies. Default levels generally are projected to remain elevated or increase for a period of time sufficient to address the level of distressed loans in the transaction. Our projections expect defaults to then decline, generally beginning in year three. Current loss severity assumptions are based on recent observations when meaningful data is available. Loss severity is expected to remain elevated for the next 18 months. Severity is expected to decline beginning in year two due to improving overall economic conditions, improving real estate prices and a reduced inventory of foreclosed properties on the market. Except for three securities discussed in further detail below (all three are currently below investment grade), our cash flow analysis forecasts complete recovery of our cost basis for each reviewed security.

At December 31, 2012 three below investment grade private label residential mortgage-backed securities with fair values of $3.3 million, $1.8 million and $0.1 million, respectively and unrealized losses of $0.4 million, $0.1 million and $0.01 million, respectively (amortized cost of $3.8 million, $1.9 million and $0.1 million, respectively) had losses that were considered other than temporary.

The underlying loans in the first transaction are 30 year fixed rate jumbos with an average FICO of 744 and an average loan-to-value ratio of 72%. The loans backing this transaction were originated in 2007 and this is our only security backed by 2007 vintage loans. We believe that this vintage is a key differentiating factor between this security and the others in our portfolio that do not have unrealized losses that are considered OTTI. The bond is a senior security that is receiving principal and interest payments similar to principal reductions in the underlying collateral. The cash flow analysis described above calculated $0.722 million of credit related OTTI as of December 31, 2012 and was recognized in our Consolidated Statements of Operations ($0.247 million, $0.213 million and $0.197 million during the years ended December 31, 2012, 2011 and 2010, respectively). The remaining non-credit related unrealized loss was attributed to other factors and is reflected in other comprehensive income (loss) during those same periods.

The underlying loans in the second transaction are 30 year hybrid ARM Alt-A with an average FICO of 717 and an average loan-to-value ratio of 78%. The loans backing this transaction were originated in 2005. The bond is a super senior security that is receiving principal and interest payments similar to principal reductions in the underlying collateral. The cash flow analysis described above calculated $0.457 million of credit related OTTI as of December 31, 2012 and was recognized in our Consolidated Statements of Operations ($0.032 million and $0.425 million during the years ended December 31, 2012 and 2011, respectively). The remaining non-credit related unrealized loss was attributed to other factors and is reflected in other comprehensive income (loss) during those same periods.

The underlying loans in the third transaction are 30 year hybrid ARM jumbos with an average FICO of 738 and an average loan-to-value ratio of 57%. The loans backing this transaction were originated in 2005. The bond is a senior support security that is receiving principal and interest payments similar to principal reductions in the underlying collateral. The cash flow analysis described above calculated credit related OTTI of $0.380 million as of December 31, 2012 and was recognized in our Consolidated Statements of Operations ($0.060 million, $0.122 million and $0.198 million during the years ended December 31, 2012, 2011 and 2010, respectively). The remaining non-credit related unrealized loss was attributed to other factors and is reflected in other comprehensive income (loss) during those same periods.

As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no other declines discussed above are deemed to be other than temporary.

Obligations of states and political subdivisions — at December 31, 2012 we had seven municipal securities whose fair value is less than amortized cost. The unrealized losses are largely attributed to widening of market spreads. Six of the impaired securities are rated by a major rating agency as investment grade. The non rated security has a periodic internal credit review according to established procedures. As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no declines are deemed to be other than temporary.

Trust preferred securities — at December 31, 2012 we had four securities whose fair value is less than amortized cost. All of our trust preferred securities are single issue securities issued by a trust subsidiary of a bank holding company. The pricing of trust preferred securities over the past several years has suffered from credit spread widening fueled by uncertainty regarding potential losses of financial companies and repricing risk related to these hybrid capital securities.

One of the four securities is rated by two major rating agencies as investment grade, while one is rated below investment grade by two major rating agencies and the other two are non-rated. The non-rated issues are relatively small banks and were never rated. The issuers of these non-rated trust preferred securities, which had a total amortized cost of $2.8 million and total fair value of $1.5 million as of December 31, 2012, continue to have satisfactory credit metrics and one continues to make interest payments. One non-rated issue began deferring dividend payments in the fourth quarter of 2011 apparently due to an increase in non-performing assets. Nevertheless, this issuer continues to have satisfactory capital measures and interim profitability. Subsequent to year end an unsolicited offer to purchase this security at substantially its amortized cost was made and it was then sold.

An additional trust preferred security was written down to zero as of December 31, 2010, including a $0.067 million credit related OTTI charge in the first quarter of 2010.

	December 31,			
	2012		2011	
	Fair Value	Net Unrealized Gain (Loss)	Fair Value	Net Unrealized Gain (Loss)
	(In thousands)			
Trust preferred securities				
Rated issues	$ 1,581	$ (316)	$ 1,405	$ (484)
Unrated issues - no OTTI	1,508	(1,299)	1,231	(1,577)

As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no declines are deemed to be other than temporary.

During 2012, 2011 and 2010 we recorded in earnings OTTI charges on securities available for sale of $0.3 million, $0.8 million and $0.5 million respectively.

A rollforward of credit losses recognized in earnings on securities available for sale for the years ending December 31 follow:

	2012	2011	2010
		(In thousands)	
Balance at beginning of year	$ 1,470	$ 710	$ 248
Additions to credit losses on securities for which no previous OTTI was recognized	-	425	198
Increases to credit losses on securities for which OTTI was previously recognized	339	335	264
Total	$ 1,809	$ 1,470	$ 710

The amortized cost and fair value of securities available for sale at December 31, 2012, by contractual maturity, follow. The actual maturity may differ from the contractual maturity because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(In thousands)	
Maturing within one year	$ 1,040	$ 1,055
Maturing after one year but within five years	6,374	6,560
Maturing after five years but within ten years	20,583	20,824
Maturing after ten years	45,711	44,368
	73,708	72,807
U.S. agency residential mortgage-backed	126,151	127,412
Private label residential mortgage-backed	9,070	8,194
Total	$ 208,929	$ 208,413

A summary of proceeds from the sale of securities available for sale and gains and losses follows:

	Proceeds	Realized Gains	Losses(1)
		(In thousands)	
2012	$ 37,176	$ 1,193	$ -
2011	70,322	279	75
2010	96,648	1,882	221

(1) Losses in 2012, 2011 and 2010 exclude $0.3 million, $0.8 million and $0.5 million, respectively of other than temporary impairment.

During 2012, 2011 and 2010 our trading securities consisted of various preferred stocks. During each of those years we recognized gains (losses) on trading securities of $0.03 million, $0.04 million and $(0.02) million, respectively, that are included in net gains (losses) on securities in the Consolidated Statements of Operations. Of these amounts, $0.03 million and $0.04 million relates to gains (losses) recognized on trading securities still held at December 31, 2012 and 2011, respectively.

Securities with a book value of $23.1 million and $12.6 million at December 31, 2012 and 2011, respectively, were pledged to secure borrowings, public deposits and for other purposes as required by law. There were no investment obligations of state and political subdivisions that were payable from or secured by the same source of revenue or taxing authority that exceeded 10% of consolidated shareholders’ equity at December 31, 2012 or 2011.

NOTE 4 – LOANS AND PAYMENT PLAN RECEIVABLES

Our loan portfolios at December 31 follow:

	2012	2011
	(In thousands)	
Real estate(1)		
Residential first mortgages	$ 468,636	$ 530,969
Residential home equity and other junior mortgages	121,235	150,127
Construction and land development	56,183	59,136
Other(2)	434,336	446,980
Commercial	132,904	150,633
Consumer	117,077	119,106
Payment plan receivables	84,692	115,018
Agricultural	4,076	4,639
Total loans	$ 1,419,139	$ 1,576,608

(1) Includes both residential and non-residential commercial loans secured by real estate.
(2) Includes loans secured by multi-family residential and non-farm, non-residential property.

Loans are presented net of deferred loan fees (costs) of $(0.2) million at December 31, 2012 and $0.1 million at December 31, 2011. Payment plan receivables totaling $90.8 million and $122.7 million at December 31, 2012 and 2011, respectively, are presented net of unamortized discount of $6.2 million and $7.9 million at December 31, 2012 and 2011, respectively. These payment plan receivables had effective yields of 15% at both December 31, 2012 and 2011. These receivables have various due dates through December, 2014.

An analysis of the allowance for loan losses by portfolio segment for the years ended December 31 follows:

	Commercial	Mortgage	Installment	Payment Plan Receivables	Unallocated	Total
			(In thousands)			
2012						
Balance at beginning of period	$ 18,183	$ 22,885	$ 6,146	$ 197	$ 11,473	$ 58,884
Additions (deductions)						
Provision for loan losses	2,351	7,778	15	(3)	(3,254)	6,887
Recoveries credited to allowance	3,610	1,581	1,311	20	-	6,522
Loans charged against the allowance	(12,588)	(10,741)	(4,009)	(70)	-	(27,408)
Reclassification to loans held for sale	(154)	(56)	(85)	-	(315)	(610)
Balance at end of period	$ 11,402	$ 21,447	$ 3,378	$ 144	$ 7,904	$ 44,275
2011						
Balance at beginning of period	$ 23,836	$ 22,642	$ 6,769	$ 389	$ 14,279	$ 67,915
Additions (deductions)						
Provision for loan losses	12,988	14,410	3,365	(11)	(2,806)	27,946
Recoveries credited to allowance	1,850	1,441	1,451	5	-	4,747
Loans charged against the allowance	(20,491)	(15,608)	(5,439)	(186)	-	(41,724)
Balance at end of period	$ 18,183	$ 22,885	$ 6,146	$ 197	$ 11,473	$ 58,884
2010						
Balance at beginning of period	$ 41,259	$ 18,434	$ 6,404	$ 754	$ 14,866	$ 81,717
Additions (deductions)						
Provision for loan losses	17,716	23,316	6,616	(296)	(587)	46,765
Recoveries credited to allowance	969	1,155	1,475	13	-	3,612
Loans charged against the allowance	(36,108)	(20,263)	(7,726)	(82)	-	(64,179)
Balance at end of period	$ 23,836	$ 22,642	$ 6,769	$ 389	$ 14,279	$ 67,915

Allowance for loan losses and recorded investment in loans by portfolio segment at December 31 follows:

	Commercial	Mortgage	Installment	Payment Plan Receivables	Unallocated	Total
			(In thousands)			
2012						
Allowance for loan losses:						
Individually evaluated for impairment	$ 6,558	$ 12,869	$ 1,582	$ -	$ -	$ 21,009
Collectively evaluated for impairment	4,844	8,578	1,796	144	7,904	23,266
Total ending allowance balance	$ 11,402	$ 21,447	$ 3,378	$ 144	$ 7,904	$ 44,275
Loans						
Individually evaluated for impairment	$ 55,634	$ 88,028	$ 7,505	$ -		$ 151,167
Collectively evaluated for impairment	563,316	441,703	183,090	84,692		1,272,801
Total loans recorded investment	618,950	529,731	190,595	84,692		1,423,968
Accrued interest included in recorded investment	1,692	2,391	746	-		4,829
Total loans	$ 617,258	$ 527,340	$ 189,849	$ 84,692		$ 1,419,139
2011						
Allowance for loan losses:						
Individually evaluated for impairment	$ 10,252	$ 10,285	$ 1,762	$ -	$ -	$ 22,299
Collectively evaluated for impairment	7,931	12,600	4,384	197	11,473	36,585
Total ending allowance balance	$ 18,183	$ 22,885	$ 6,146	$ 197	$ 11,473	$ 58,884
Loans						
Individually evaluated for impairment	$ 58,674	$ 93,702	$ 7,554	$ -		$ 159,930
Collectively evaluated for impairment	594,665	499,919	212,907	115,018		1,422,509
Total loans recorded investment	653,339	593,621	220,461	115,018		1,582,439
Accrued interest included in recorded investment	2,184	2,745	902	-		5,831
Total loans	$ 651,155	$ 590,876	$ 219,559	$ 115,018		$ 1,576,608

Non-performing loans at December 31 follows:

	2012	2011
	(In thousands)	
Non-accrual loans	$ 32,929	$ 59,309
Loans 90 days or more past due and still accruing interest	7	574
Total non-performing loans	$ 32,936	$ 59,883

Non performing loans include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. If these loans had continued to accrue interest in accordance with their original terms, approximately $2.3 million, $3.2 million, and $5.0 million of interest income would have been recognized in 2012, 2011 and 2010, respectively. Interest income recorded on these loans was approximately $0.1 million in each of the years ended 2012, 2011 and 2010, respectively.

Non performing loans by class as of December 31 follows:

	90+ and Still Accruing	Non-Accrual	Total Non-Performing Loans
		(In thousands)	
2012			
Commercial			
Income producing - real estate	$ -	$ 5,611	$ 5,611
Land, land development and construction - real estate	-	4,062	4,062
Commercial and industrial	-	5,080	5,080
Mortgage			
1-4 family	7	9,654	9,661
Resort lending	-	4,861	4,861
Home equity line of credit - 1st lien	-	529	529
Home equity line of credit - 2nd lien	-	685	685
Installment			
Home equity installment - 1st lien	-	1,278	1,278
Home equity installment - 2nd lien	-	675	675
Loans not secured by real estate	-	390	390
Other	-	-	-
Payment plan receivables			
Full refund	-	57	57
Partial refund	-	38	38
Other	-	9	9
Total recorded investment	$ 7	$ 32,929	$ 32,936
Accrued interest included in recorded investment	$ -	$ -	$ -
2011			
Commercial			
Income producing - real estate	$ 490	$ 13,788	$ 14,278
Land, land development and construction - real estate	43	6,990	7,033
Commercial and industrial	-	7,984	7,984
Mortgage			
1-4 family	54	15,929	15,983
Resort lending	-	8,819	8,819
Home equity line of credit - 1st lien	-	523	523
Home equity line of credit - 2nd lien	-	889	889
Installment			
Home equity installment - 1st lien	-	1,542	1,542
Home equity installment - 2nd lien	-	1,023	1,023
Loans not secured by real estate	-	880	880
Other	-	4	4
Payment plan receivables			
Full refund	-	491	491
Partial refund	-	424	424
Other	-	23	23
Total recorded investment	$ 587	$ 59,309	$ 59,896
Accrued interest included in recorded investment	$ 13	$ -	$ 13

An aging analysis of loans by class at December 31 follows:

	Loans Past Due				Loans not Past Due	Total Loans
	30-59 days	60-89 days	90+ days	Total		
	(In thousands)					
2012						
Commercial						
Income producing - real estate	$ 3,734	$ 609	$ 2,826	$ 7,169	$ 215,623	$ 222,792
Land, land development and construction - real estate	336	-	1,176	1,512	41,750	43,262
Commercial and industrial	2,522	654	1,913	5,089	347,807	352,896
Mortgage						
1-4 family	4,429	1,115	9,661	15,205	279,132	294,337
Resort lending	748	370	4,861	5,979	164,414	170,393
Home equity line of credit - 1st lien	453	51	529	1,033	18,003	19,036
Home equity line of credit - 2nd lien	442	32	685	1,159	44,806	45,965
Installment						
Home equity installment - 1st lien	599	140	1,278	2,017	30,368	32,385
Home equity installment - 2nd lien	430	125	675	1,230	38,956	40,186
Loans not secured by real estate	899	259	390	1,548	113,751	115,299
Other	24	12	-	36	2,689	2,725
Payment plan receivables						
Full refund	2,249	552	57	2,858	77,335	80,193
Partial refund	112	46	38	196	4,119	4,315
Other	3	6	9	18	166	184
Total recorded investment	$ 16,980	$ 3,971	$ 24,098	$ 45,049	$ 1,378,919	$ 1,423,968
Accrued interest included in recorded investment	$ 146	$ 43	$ -	$ 189	$ 4,640	$ 4,829
2011						
Commercial						
Income producing - real estate	$ 1,701	$ 937	$ 6,408	$ 9,046	$ 264,620	$ 273,666
Land, land development and construction - real estate	487	66	2,720	3,273	51,453	54,726
Commercial and industrial	1,861	1,132	3,516	6,509	318,438	324,947
Mortgage						
1-4 family	3,507	1,418	15,983	20,908	294,771	315,679
Resort lending	2,129	932	8,819	11,880	184,943	196,823
Home equity line of credit - 1st lien	96	196	523	815	24,705	25,520
Home equity line of credit - 2nd lien	506	159	889	1,554	54,045	55,599
Installment						
Home equity installment - 1st lien	757	264	1,542	2,563	41,239	43,802
Home equity installment - 2nd lien	676	365	1,023	2,064	51,224	53,288
Loans not secured by real estate	1,173	463	880	2,516	117,661	120,177
Other	36	10	4	50	3,144	3,194
Payment plan receivables						
Full refund	2,943	951	491	4,385	99,284	103,669
Partial refund	380	200	424	1,004	9,918	10,922
Other	23	24	23	70	357	427
Total recorded investment	$ 16,275	$ 7,117	$ 43,245	$ 66,637	$ 1,515,802	$ 1,582,439
Accrued interest included in recorded investment	$ 160	$ 105	$ 13	$ 278	$ 5,553	$ 5,831

Impaired loans are as follows:

	2012	2011
	(In thousands)	
Impaired loans with no allocated allowance		
TDR	$ 25,501	$ 26,945
Non - TDR	418	423
Impaired loans with an allocated allowance		
TDR - allowance based on collateral	16,231	20,142
TDR - allowance based on present value cash flow	101,931	98,130
Non - TDR - allowance based on collateral	6,580	13,773
Non - TDR - allowance based on present value cash flow	-	-
Total impaired loans	$ 150,661	$ 159,413
Amount of allowance for loan losses allocated		
TDR - allowance based on collateral	$ 5,060	$ 6,004
TDR - allowance based on present value cash flow	14,462	12,048
Non - TDR - allowance based on collateral	1,487	4,247
Non - TDR - allowance based on present value cash flow	-	-
Total amount of allowance for loan losses allocated	$ 21,009	$ 22,299

Impaired loans by class as of December 31 are as follows (1):

	2012			2011		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(In thousands)					
With no related allowance recorded:						
Commercial						
Income producing - real estate	$ 4,050	$ 4,672	$ -	$ 4,626	$ 6,386	$ -
Land, land development & construction-real estate	3,304	3,294	-	219	243	-
Commercial and industrial	2,611	2,592	-	3,593	3,677	-
Mortgage						
1-4 family	5,666	7,921	-	6,975	9,242	-
Resort lending	5,383	5,539	-	7,156	7,680	-
Home equity line of credit - 1st lien	15	31	-	-	-	-
Home equity line of credit - 2nd lien	43	118	-	134	211	-
Installment						
Home equity installment - 1st lien	2,027	2,219	-	2,100	2,196	-
Home equity installment - 2nd lien	2,278	2,278	-	1,987	1,987	-
Loans not secured by real estate	610	681	-	637	688	-
Other	20	20	-	24	24	-
	26,007	29,365	-	27,451	32,334	-
With an allowance recorded:						
Commercial						
Income producing - real estate	20,628	24,250	1,822	22,781	29,400	3,642
Land, land development & construction-real estate	8,808	11,971	1,986	12,362	14,055	3,633
Commercial and industrial	16,233	18,564	2,750	15,093	18,357	2,977
Mortgage						
1-4 family	58,494	60,497	8,518	61,214	63,464	7,716
Resort lending	18,380	18,621	4,321	18,159	19,351	2,534
Home equity line of credit - 1st lien	47	46	30	64	73	35
Home equity line of credit - 2nd lien	-	-	-	-	-	-
Installment						
Home equity installment - 1st lien	1,215	1,240	610	1,232	1,293	660
Home equity installment - 2nd lien	1,161	1,174	930	1,421	1,458	1,062
Loans not secured by real estate	194	194	42	153	156	40
Other	-	-	-	-	-	-
	125,160	136,557	21,009	132,479	147,607	22,299
Total						
Commercial						
Income producing - real estate	24,678	28,922	1,822	27,407	35,786	3,642
Land, land development & construction-real estate	12,112	15,265	1,986	12,581	14,298	3,633
Commercial and industrial	18,844	21,156	2,750	18,686	22,034	2,977
Mortgage						
1-4 family	64,160	68,418	8,518	68,189	72,706	7,716
Resort lending	23,763	24,160	4,321	25,315	27,031	2,534
Home equity line of credit - 1st lien	62	77	30	64	73	35
Home equity line of credit - 2nd lien	43	118	-	134	211	-
Installment						
Home equity installment - 1st lien	3,242	3,459	610	3,332	3,489	660
Home equity installment - 2nd lien	3,439	3,452	930	3,408	3,445	1,062
Loans not secured by real estate	804	875	42	790	844	40
Other	20	20	-	24	24	-
Total	$ 151,167	$ 165,922	$ 21,009	$ 159,930	$ 179,941	$ 22,299
Accrued interest included in recorded investment	$ 506			$ 517		

(1) There were no impaired payment plan receivables at December 31, 2012 or 2011.

Average recorded investment in and interest income earned on impaired loans by class for the years ended December 31 follows:

	2012		2011	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(In thousands)			
With no related allowance recorded:				
Commercial				
Income producing - real estate	$ 2,981	$ 166	$ 3,170	$ 170
Land, land development & construction-real estate	2,549	150	613	35
Commercial and industrial	3,526	246	2,874	70
Mortgage				
1-4 family	6,952	239	8,566	299
Resort lending	6,148	220	7,751	330
Home equity line of credit - 1st lien	10	-	-	-
Home equity line of credit - 2nd lien	62	3	118	4
Installment				
Home equity installment - 1st lien	1,961	97	1,955	96
Home equity installment - 2nd lien	2,093	111	2,014	93
Loans not secured by real estate	549	30	598	31
Other	22	2	15	2
	26,853	1,264	27,674	1,130
With an allowance recorded:				
Commercial				
Income producing - real estate	23,508	571	18,812	117
Land, land development & construction-real estate	10,305	183	9,828	114
Commercial and industrial	17,828	467	11,501	352
Mortgage				
1-4 family	59,533	2,613	62,811	2,692
Resort lending	18,360	780	21,750	734
Home equity line of credit - 1st lien	55	2	32	2
Home equity line of credit - 2nd lien	19	-	9	-
Installment				
Home equity installment - 1st lien	1,432	50	1,408	60
Home equity installment - 2nd lien	1,325	51	1,466	66
Loans not secured by real estate	221	10	168	6
Other	-	-	-	-
	132,586	4,727	127,785	4,143
Total				
Commercial				
Income producing - real estate	26,489	737	21,982	287
Land, land development & construction-real estate	12,854	333	10,441	149
Commercial and industrial	21,354	713	14,375	422
Mortgage				
1-4 family	66,485	2,852	71,377	2,991
Resort lending	24,508	1,000	29,501	1,064
Home equity line of credit - 1st lien	65	2	32	2
Home equity line of credit - 2nd lien	81	3	127	4
Installment				
Home equity installment - 1st lien	3,393	147	3,363	156
Home equity installment - 2nd lien	3,418	162	3,480	159
Loans not secured by real estate	770	40	766	37
Other	22	2	15	2
Total	$ 159,439	$ 5,991	$ 155,459	$ 5,273

(1) There were no impaired payment plan receivables during the years ending December 31, 2012 and 2011.

Our average investment in impaired loans was approximately $159.4 million, $155.5 million and $168.0 million in 2012, 2011 and 2010, respectively. Cash receipts on impaired loans on non-accrual status are generally applied to the principal balance. Interest income recognized on impaired loans was approximately $6.0 million, $5.3 million and $5.7 million in 2012, 2011 and 2010, respectively of which the majority of these amounts were received in cash.

Troubled debt restructurings at December 31 follow:

	2012		
	Commercial	Retail	Total
		(In thousands)	
Performing TDR's	$ 40,753	$ 85,977	$ 126,730
Non-performing TDR's(1)	7,756	9,177(2)	16,933
Total	$ 48,509	$ 95,154	$ 143,663

	2011		
	Commercial	Retail	Total
		(In thousands)	
Performing TDR's	$ 29,799	$ 86,770	$ 116,569
Non-performing TDR's(1)	14,567	14,081(2)	28,648
Total	$ 44,366	$ 100,851	$ 145,217

(1) Included in non-performing loans table above.
(2) Also includes loans on non-accrual at the time of modification until six payments are received on a timely basis.

We have allocated $19.5 million and $18.1 million of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2012 and 2011, respectively. We have committed to lend additional amounts totaling up to $0.02 million and zero as of December 31, 2012 and 2011, respectively, to customers with outstanding loans that are classified as troubled debt restructurings.

During the year ending December 31, 2012, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans generally included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan.

Modifications involving a reduction of the stated interest rate of the loan have generally been for periods ranging from 9 months to 60 months but have extended to as much as 480 months in certain circumstances. Modifications involving an extension of the maturity date have generally been for periods ranging from 1 month to 60 months but have extended to as much as 472 months in certain circumstances.

Loans that have been classified as troubled debt restructurings during the years ended December 31 follows:

	Number of Contracts	Pre-modification Recorded Balance	Post-modification Recorded Balance
2012		(Dollars in thousands)	
Commercial			
Income producing - real estate	20	$ 9,464	$ 8,568
Land, land development & construction-real estate	9	4,800	4,858
Commercial and industrial	50	9,951	7,905
Mortgage			
1-4 family	66	8,900	8,488
Resort lending	31	7,750	7,514
Home equity line of credit - 1st lien	1	15	-
Home equity line of credit - 2nd lien	-	-	-
Installment			
Home equity installment - 1st lien	18	666	632
Home equity installment - 2nd lien	24	784	768
Loans not secured by real estate	13	325	304
Other	-	-	-
Total	232	$ 42,655	$ 39,037
2011			
Commercial			
Income producing - real estate	42	$ 21,061	$ 17,679
Land, land development & construction-real estate	20	10,801	7,464
Commercial and industrial	64	11,133	10,649
Mortgage			
1-4 family	73	9,933	9,423
Resort lending	33	8,893	8,749
Home equity line of credit - 1st lien	2	69	64
Home equity line of credit - 2nd lien	1	23	18
Installment			
Home equity installment - 1st lien	21	678	618
Home equity installment - 2nd lien	16	535	514
Loans not secured by real estate	26	455	442
Other	-	-	-
Total	298	$ 63,581	$ 55,620

The troubled debt restructurings described above increased the allowance for loan losses by $1.6 million and $3.4 million during the years ended December 31, 2012 and 2011, respectively and resulted in charge offs of $1.0 million and $4.7 million during the years ended December 31, 2012 and 2011, respectively.

Loans that have been classified as troubled debt restructured during the past twelve months and that have subsequently defaulted during the years ended December 31 follows:

	Number of Contracts	Recorded Balance
2012	(Dollars in thousands)	
Commercial		
Income producing - real estate	2	$ 827
Land, land development & construction-real estate	-	-
Commercial and industrial	5	230
Mortgage		
1-4 family	2	148
Resort lending	4	887
Home equity line of credit - 1st lien	-	-
Home equity line of credit - 2nd lien	-	-
Installment		
Home equity installment - 1st lien	2	234
Home equity installment - 2nd lien	1	20
Loans not secured by real estate	-	-
Other	-	-
	16	$ 2,346
2011		
Commercial		
Income producing - real estate	7	$ 3,604
Land, land development & construction-real estate	4	3,036
Commercial and industrial	2	492
Mortgage		
1-4 family	10	1,191
Resort lending	6	1,311
Home equity line of credit - 1st lien	-	-
Home equity line of credit - 2nd lien	-	-
Installment		
Home equity installment - 1st lien	1	19
Home equity installment - 2nd lien	5	301
Loans not secured by real estate	-	-
Other	-	-
	35	$ 9,954

A loan is considered to be in payment default generally once it is 90 days contractually past due under the modified terms for commercial loans and installment loans and when four consecutive payments are missed for mortgage loans.

The troubled debt restructurings that subsequently defaulted described above increased the allowance for loan losses by $0.3 million and $1.9 million during the years ended December 31, 2012 and 2011, respectively and resulted in charge offs of $0.8 million and $1.8 million during the years ended December 31, 2012 and 2011, respectively.

The terms of certain other loans were modified during the years ending December 31, 2012 and 2011 that did not meet the definition of a troubled debt restructuring. The modification of these loans could have included modification of the terms of a loan to borrowers who were not experiencing financial difficulties or a delay in a payment that was considered to be insignificant.

In order to determine whether a borrower is experiencing financial difficulty, we perform an evaluation of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under our internal underwriting policy.

Credit Quality Indicators – As part of our on on-going monitoring of the credit quality of our loan portfolios, we track certain credit quality indicators including (a) weighted-average risk grade of commercial loans, (b) the level of classified commercial loans (c) credit scores of mortgage and installment loan borrowers (d) investment grade of certain counterparties for payment plan receivables and (e) delinquency history and non-performing loans.

For commercial loans we use a loan rating system that is similar to those employed by state and federal banking regulators. Loans are graded on a scale of 1 to 12. A description of the general characteristics of the ratings follows:

Rating 1 through 6: These loans are generally referred to as our "non-watch" commercial credits that include very high or exceptional credit fundamentals through acceptable credit fundamentals.

Rating 7 and 8: These loans are generally referred to as our "watch" commercial credits. This rating includes loans to borrowers that exhibit potential credit weakness or downward trends. If not checked or cured these trends could weaken our asset or credit position. While potentially weak, no loss of principle or interest is envisioned with these ratings.

Rating 9: These loans are generally referred to as our "substandard accruing" commercial credits. This rating includes loans to borrowers that exhibit a well-defined weakness where payment default is probable and loss is possible if deficiencies are not corrected. Generally, loans with this rating are considered collectible as to both principle and interest primarily due to collateral coverage.

Rating 10 and 11: These loans are generally referred to as our "substandard - non-accrual" and "doubtful" commercial credits. This rating includes loans to borrowers with weaknesses that make collection of debt in full, on the basis of current facts, conditions and values at best questionable and at worst improbable. All of these loans are placed in non-accrual.

Rating 12: These loans are generally referred to as our "loss" commercial credits. This rating includes loans to borrowers that are deemed incapable of repayment and are charged-off.

The following table summarizes loan ratings by loan class for our commercial loan segment at December 31:

	Commercial				
	Non-watch 1-6	Watch 7-8	Substandard Accrual 9	Non-Accrual 10-11	Total
			(In thousands)		
2012					
Income producing - real estate	$ 183,530	$ 27,096	$ 6,555	$ 5,611	$ 222,792
Land, land development and construction - real estate	32,784	3,457	2,959	4,062	43,262
Commercial and industrial	307,566	26,954	13,296	5,080	352,896
Total	$ 523,880	$ 57,507	$ 22,810	$ 14,753	$ 618,950
Accrued interest included in total	$ 1,417	$ 163	$ 112	$ -	$ 1,692
2011					
Income producing - real estate	$ 201,655	$ 52,438	$ 5,785	$ 13,788	$ 273,666
Land, land development and construction - real estate	33,515	9,421	4,800	6,990	54,726
Commercial and industrial	275,245	27,783	13,935	7,984	324,947
Total	$ 510,415	$ 89,642	$ 24,520	$ 28,762	$ 653,339
Accrued interest included in total	$ 1,677	$ 381	$ 126	$ -	$ 2,184

For each of our mortgage and installment segment classes we generally monitor credit quality based on the credit scores of the borrowers. These credit scores are generally updated at least annually. The following table summarizes credit scores by loan class for our mortgage and installment loan segments at December 31:

	Mortgage (1)				
	1-4 Family	Resort Lending	Home Equity 1st Lien	Home Equity 2nd Lien	Total
			(In thousands)		
2012					
800 and above	$ 19,638	$ 15,430	$ 3,031	$ 5,515	$ 43,614
750-799	62,419	67,094	4,758	12,783	147,054
700-749	59,594	41,860	3,293	9,177	113,924
650-699	57,584	17,685	2,309	7,987	85,565
600-649	31,465	12,317	3,311	4,775	51,868
550-599	27,739	7,887	964	2,754	39,344
500-549	20,243	1,212	656	1,997	24,108
Under 500	9,470	1,637	456	789	12,352
Unknown	6,185	5,271	258	188	11,902
Total	$ 294,337	$ 170,393	$ 19,036	$ 45,965	$ 529,731
Accrued interest included in total	$ 1,319	$ 750	$ 91	$ 231	$ 2,391
2011					
800 and above	$ 26,509	$ 17,345	$ 4,062	$ 6,317	$ 54,233
750-799	63,746	76,381	8,058	16,892	165,077
700-749	55,047	53,210	4,280	12,131	124,668
650-699	54,579	21,579	2,854	7,909	86,921
600-649	40,977	12,750	2,485	5,066	61,278
550-599	29,732	10,698	1,547	3,466	45,443
500-549	28,573	3,716	1,615	2,758	36,662
Under 500	12,434	565	539	886	14,424
Unknown	4,082	579	80	174	4,915
Total	$ 315,679	$ 196,823	$ 25,520	$ 55,599	$ 593,621
Accrued interest included in total	$ 1,404	$ 928	$ 123	$ 290	$ 2,745

	Installment(1)				
	Home Equity 1st Lien	Home Equity 2nd Lien	Loans not Secured by Real Estate	Other	Total
	(In thousands)				
2012					
800 and above	$ 3,909	$ 3,265	$ 19,293	$ 38	$ 26,505
750-799	7,394	11,300	43,740	462	62,896
700-749	4,884	8,826	24,267	786	38,763
650-699	5,925	7,164	13,758	710	27,557
600-649	4,360	4,214	6,442	367	15,383
550-599	3,226	2,716	3,428	188	9,558
500-549	1,722	1,403	2,154	114	5,393
Under 500	760	1,195	895	42	2,892
Unknown	205	103	1,322	18	1,648
Total	$ 32,385	$ 40,186	$ 115,299	$ 2,725	$ 190,595
Accrued interest included in total	$ 137	$ 157	$ 429	$ 23	$ 746
2011					
800 and above	$ 5,466	$ 5,047	$ 18,245	$ 70	$ 28,828
750-799	11,651	16,475	41,501	572	70,199
700-749	6,899	10,693	23,174	883	41,649
650-699	7,144	8,407	15,646	673	31,870
600-649	4,943	5,412	7,599	434	18,388
550-599	3,435	3,221	4,573	270	11,499
500-549	3,021	3,145	3,011	183	9,360
Under 500	1,160	854	1,391	50	3,455
Unknown	83	34	5,037	59	5,213
Total	$ 43,802	$ 53,288	$ 120,177	$ 3,194	$ 220,461
Accrued interest included in total	$ 176	$ 208	$ 489	$ 29	$ 902

(1) Credit scores have been updated within the last twelve months.

Mepco is a wholly-owned subsidiary of our Bank that operates a vehicle service contract payment plan business throughout the United States. See note #11 for more information about Mepco's business. As of December 31, 2012, approximately 94.7% of Mepco's outstanding payment plan receivables relate to programs in which a third party insurer or risk retention group is obligated to pay Mepco the full refund owing upon cancellation of the related service contract (including with respect to both the portion funded to the service contract seller and the portion funded to the administrator). These receivables are shown as "Full Refund" in the table below. Another approximately 5.1% of Mepco's outstanding payment plan receivables as of December 31, 2012, relate to programs in which a third party insurer or risk retention group is obligated to pay Mepco the refund owing upon cancellation only with respect to the unearned portion previously funded by Mepco to the administrator (but not to the service contract seller). These receivables are shown as "Partial Refund" in the table below. The balance of Mepco's outstanding payment plan receivables relate to programs in which there is no insurer or risk retention group that has any contractual liability to Mepco for any portion of the refund amount. These receivables are shown as "Other" in the table below. For each class of our payment plan receivables we monitor credit ratings of the counterparties as we evaluate the credit quality of this portfolio.

Although Mepco has contractual recourse against various counterparties for refunds owing upon cancellation of vehicle service contracts, please see note #11 regarding certain risks and difficulties associated with collecting these refunds.

The following table summarizes credit ratings by class of payment plan receivable at December 31:

	Payment Plan Receivables			
	Full Refund	Partial Refund	Other	Total
	(In thousands)			
2012				
AM Best rating				
A+	$ -	$ -	$ 110	$ 110
A	24,825	3,916	-	28,741
A-	19,310	399	-	19,709
B+	56	-	-	56
B	-	-	-	-
Not rated	36,002	-	74	36,076
Total	$ 80,193	$ 4,315	$ 184	$ 84,692
2011				
AM Best rating				
A+	$ -	$ 118	$ 7	$ 125
A	32,461	165	269	32,895
A-	27,056	10,639	-	37,695
B+	1,390	-	-	1,390
B	-	-	-	-
Not rated	42,762	-	151	42,913
Total	$ 103,669	$ 10,922	$ 427	$ 115,018

Mortgage loans serviced for others are not reported as assets. The principal balances of these loans at year end are as follows:

	2012	2011
	(In thousands)	
Mortgage loans serviced for :		
Fannie Mae	$ 948,588	$ 895,510
Freddie Mac	805,447	882,401
Other	123	154
Total	$ 1,754,158	$ 1,778,065

Custodial escrow balances maintained in connection with mortgage loans serviced for others totaled $31.2 million and $26.5 million, at December 31, 2012 and 2011, respectively.

If we do not remain “Well Capitalized” (see note #21), meet certain minimum capital levels or certain profitability requirements or if we incur a rapid decline in net worth we could lose our ability to sell and/or service loans to these investors. This could impact our ability to generate gains on the sale of loans and generate servicing income. A forced liquidation of our servicing portfolio could also impact the value that could be recovered on this asset. Fannie Mae has the most stringent eligibility requirements covering capital levels, profitability and decline in net worth. Fannie Mae requires seller/servicers to be “Well Capitalized.” For the profitability requirement, we cannot record four or more consecutive quarterly losses and experience a 30% decline in net worth over the same period. Finally, our net worth cannot decline by more than 25% in one quarter or more than 40% over two consecutive quarters. The highest level of capital we are required to maintain is at least $2.5 million plus 0.25% of loans serviced for Freddie Mac.

An analysis of capitalized mortgage loan servicing rights for the years ended December 31 follows:

	2012	2011	2010
		(In thousands)	
Balance at beginning of year	$ 11,229	$ 14,661	$ 15,273
Originated servicing rights capitalized	4,006	2,967	4,158
Amortization	(4,679)	(3,065)	(3,862)
Change in valuation allowance	457	(3,334)	(908)
Balance at end of year	$ 11,013	$ 11,229	$ 14,661
Valuation allowance	$ 6,087	$ 6,544	$ 3,210
Loans sold and serviced that have had servicing rights capitalized	$ 1,751,960	$ 1,774,952	$ 1,764,317

The fair value of capitalized mortgage loan servicing rights was $11.4 million and $11.5 million at December 31, 2012 and 2011, respectively. Fair value was determined using an average coupon rate of 4.81%, average servicing fee of 0.254%, average discount rate of 11.02% and an average PSA rate of 250 for December 31, 2012; and an average coupon rate of 5.20%, average servicing fee of 0.256%, average discount rate of 10.65% and an average PSA rate of 278 for December 31, 2011.

NOTE 5 – OTHER REAL ESTATE OWNED

During 2012 and 2011 we foreclosed on certain loans secured by real estate and transferred approximately $14.3 million and $18.6 million to other real estate in each of those years, respectively. At the time of acquisition amounts were charged-off against the allowance for loan losses to bring the carrying amount of these properties to their estimated fair values, less estimated costs to sell. During 2012 and 2011 we sold other real estate with book balances of approximately $18.2 million and $17.7 million, respectively. Gains or losses on the sale of other real estate are included in non-interest expense on the Consolidated Statements of Operations.

We periodically review our real estate owned properties and establish valuation allowances on these properties if values have declined since the date of acquisition. An analysis of our valuation allowance for other real estate owned follows:

	2012	2011	2010
		(In thousands)	
Balance at beginning of year	$ 14,655	$ 10,876	$ 6,498
Additions charged to expense	3,769	6,563	6,883
Direct write-downs upon sale	(12,466)	(2,784)	(2,505)
Balance at end of year	$ 5,958	$ 14,655	$ 10,876

Other real estate and repossessed assets totaling $26.1 million and $34.0 million at December 31, 2012 and 2011, respectively are presented net of valuation allowance.

NOTE 6 – PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31 follows:

	2012	2011
	(In thousands)	
Land	$ 14,614	$ 19,250
Buildings	56,835	70,168
Equipment	72,378	78,269
	143,827	167,687
Accumulated depreciation and amortization	(96,811)	(105,139)
Property and equipment, net	$ 47,016	$ 62,548

Depreciation expense was $7.6 million, $8.4 million and $8.7 million in 2012, 2011 and 2010, respectively.

NOTE 7 – INTANGIBLE ASSETS

Intangible assets, net of amortization, at December 31 follows:

	2012		2011	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(In thousands)			
Amortized intangible assets - core deposits	$ 23,703	$ 19,728	$ 31,326	$ 23,717

Intangible amortization expense was $1.1 million, $1.4 million and $1.3 million in 2012, 2011 and 2010, respectively.

A summary of estimated core deposit intangible amortization at December 31, 2012, follows:

	(In thousands)
2013	$ 813
2014	536
2015	347
2016	347
2017	346
2018 and thereafter	1,586
Total	$ 3,975

On December 7, 2012 we sold 21 branches to another financial institution (see note #27). The branches sold included six branch locations in the Battle Creek, Michigan market area and 15 branch locations in Northeast Michigan. As a result of this branch sale $7.6 million gross carrying amount and $5.1 million accumulated amortization (net recorded balance of $2.6 million) of intangible assets related to customers and deposits associated with these 21 branches were recorded as a reduction to the net gain on branch sale in our Consolidated Statement of Operations.

NOTE 8 – DEPOSITS

A summary of interest expense on deposits for the years ended December 31 follows:

	2012	2011	2010
		(In thousands)	
Savings and interest bearing checking	$ 1,830	$ 2,263	$ 2,829
Time deposits under $100,000	4,838	10,349	22,204
Time deposits of $100,000 or more	2,245	2,645	3,131
Total	$ 8,913	$ 15,257	$ 28,164

Aggregate time deposits in denominations of $100,000 or more amounted to $146.4 million and $188.6 million at December 31, 2012 and 2011, respectively.

A summary of the maturity of time deposits at December 31, 2012, follows:

	(In thousands)
2013	$ 285,433
2014	74,529
2015	27,054
2016	19,986
2017	11,183
2018 and thereafter	743
Total	$ 418,928

Time deposits acquired through broker relationships totaled $14.6 million and $13.8 million at December 31, 2012 and 2011, respectively.

Reciprocal deposits totaled $33.2 million and $28.5 million at December 31, 2012 and 2011, respectively. These deposits represent demand, money market and time deposits from our customers that have been placed through Promontory Interfinancial Network's Insured Cash Sweep® service and Certificate of Deposit Account Registry Service®. These services allow our customers to access multi-million dollar FDIC deposit insurance on deposit balances greater than the standard FDIC insurance maximum.

A summary of reciprocal deposits at December 31 follows:

	2012	2011
	(In thousands)	
Demand	$ 545	$ -
Money market	700	-
Time	31,997	28,508
Total	$ 33,242	$ 28,508

NOTE 9 – OTHER BORROWINGS

A summary of other borrowings at December 31 follows:

	2012	2011
	(In thousands)	
Advances from the Federal Home Loan Bank	$ 17,622	$ 33,384
Other	3	3
Total	$ 17,625	$ 33,387

Advances from the Federal Home Loan Bank ("FHLB") are secured by unencumbered qualifying mortgage and home equity loans with a market value equal to at least 136% to 200%, respectively of outstanding advances, as well as certain agency mortgage backed securities. Advances are also secured by FHLB stock that we own. As of December 31, 2012, we had unused borrowing capacity with the FHLB (subject to the FHLB's credit requirements and policies) of $156.7 million. Interest expense on advances amounted to $1.2 million, $1.4 million and $1.9 million for the years ended December 31, 2012, 2011 and 2010, respectively. During 2012, 2011 and 2010 FHLB advances totaling $3.0 million, $33.0 million and $25.0 million, respectively were terminated with no realized gain or loss.

As a member of the FHLB, we must own FHLB stock equal to the greater of 1.0% of the unpaid principal balance of residential mortgage loans or 5.0% of our outstanding advances. At December 31, 2012, we were in compliance with the FHLB stock ownership requirements.

The maturity dates and weighted average interest rates of FHLB advances at December 31 follow:

	2012		2011	
	Amount	Rate	Amount	Rate
	(Dollars in thousands)			
Fixed-rate advances				
2012			$ 12,354	0.50%
2014	$ 4,240	5.73%	4,240	5.73
2016	2,413	6.55	2,505	6.55
2017	1,429	7.04	1,478	7.04
2018 and thereafter	9,540	6.53	9,807	6.53
Total fixed-rate advances	17,622	6.38	30,384	3.99
Variable-rate advances - 2014	-		3,000	0.51
Total advances	$ 17,622	6.38%	$ 33,384	3.68%

A summary of repayments of FHLB Advances at December 31, 2012, follows:

	(In thousands)
2013	$ 441
2014	4,717
2015	515
2016	2,521
2017	1,587
2018 and thereafter	7,841
Total	$ 17,622

We had no repurchase agreements outstanding at December 31, 2012 or 2011. Repurchase agreements averaged $30.7 million during 2010. These securities were being held by the counterparty to the repurchase agreement. The maximum amount outstanding at any month end during 2010 was $35.0 million. Interest expense on repurchase agreements totaled $1.4 million for the year ended 2010. No repurchase agreements were prepaid during 2010.

We had no borrowings outstanding with the FRB during the years ended or at December 31, 2012, 2011 or 2010. We had unused borrowing capacity with the FRB (subject to the FRB's credit requirements and policies) of $9.5 million at December 31, 2012. Collateral for FRB borrowings are certain securities available for sale.

Assets, including securities available for sale and loans, pledged to secure other borrowings totaled $365.5 million at December 31, 2012.

NOTE 10 – SUBORDINATED DEBENTURES

We have formed various special purpose entities (the "trusts") for the purpose of issuing trust preferred securities in either public or pooled offerings or in private placements. Independent Bank Corporation owns all of the common stock of each trust and has issued subordinated debentures to each trust in exchange for all of the proceeds from the issuance of the common stock and the trust preferred securities. Trust preferred securities totaling $47.7 million and $38.2 million at December 31, 2012 and 2011, respectively, qualified as Tier 1 regulatory capital and the remaining amount qualified as Tier 2 regulatory capital.

These trusts are not consolidated with Independent Bank Corporation and accordingly, we report the common securities of the trusts held by us in other assets and the subordinated debentures that we have issued to the trusts in the liability section of our Consolidated Statements of Financial Condition.

Summary information regarding subordinated debentures as of December 31 follows:

Entity Name	Issue Date	2012 Subordinated Debentures	2012 Trust Preferred Securities Issued	2012 Common Stock Issued
			(In thousands)	
IBC Capital Finance II	March 2003	$ 9,452	$ 9,168	$ 284
IBC Capital Finance III	May 2007	12,372	12,000	372
IBC Capital Finance IV	September 2007	20,619	20,000	619
Midwest Guaranty Trust I	November 2002	7,732	7,500	232
		$ 50,175	$ 48,668	$ 1,507

Entity Name	Issue Date	2011 Subordinated Debentures	2011 Trust Preferred Securities Issued	2011 Common Stock Issued
			(In thousands)	
IBC Capital Finance II	March 2003	$ 9,452	$ 9,168	$ 284
IBC Capital Finance III	May 2007	12,372	12,000	372
IBC Capital Finance IV	September 2007	20,619	20,000	619
Midwest Guaranty Trust I	November 2002	7,732	7,500	232
		$ 50,175	$ 48,668	$ 1,507

Other key terms for the subordinated debentures and trust preferred securities that were outstanding at December 31, 2012 follow:

Entity Name	Maturity Date	Interest Rate	First Permitted Redemption Date
IBC Capital Finance II	March 31, 2033	8.25% fixed	March 31, 2008
IBC Capital Finance III	July 30, 2037	3 month LIBOR plus 1.60%	July 30, 2012
IBC Capital Finance IV	September 15, 2037	3 month LIBOR plus 2.85%	September 15, 2012
Midwest Guaranty Trust I	November 7, 2032	3 month LIBOR plus 3.45%	November 7, 2007

In 2010, we commenced an offer to exchange up to 18.0 million newly issued shares of our common stock for properly tendered and accepted trust preferred securities issued by IBC Capital Finance II, IBC Capital Finance III, IBC Capital Finance IV, and Midwest Guaranty Trust I (the “Exchange Offer”). The Exchange Offer expired on June 22, 2010. We accepted for exchange 1,657,255 shares ($41.4 million aggregate liquidation amount) of the trust preferred securities issued by IBC Capital Finance II, which were validly tendered and not withdrawn as of the expiration date for the Exchange Offer. No shares of the trust preferred securities issued by IBC Capital Finance III, IBC Capital Finance IV, or Midwest Guaranty Trust I were tendered.

We issued 5,109,125 shares of common stock at a price of $4.60 per share in exchange for the validly tendered trust preferred securities issued by IBC Capital Finance II (including $2.3 million of accrued and unpaid interest) and recorded a gain of $18.1 million which is included in our Consolidated Statements of Operations as “Gain on extinguishment of debt”. This gain was net of expenses paid totaling approximately $1.0 million for dealer-manager fees, legal fees, accounting fees and other related costs as well as the pro rata write off of previously capitalized issue costs of $1.2 million.

In the fourth quarter of 2009 we elected to defer distributions (payment of interest) on each of the subordinated debentures and trust preferred securities and continued to defer these distributions through December 31, 2012. The subordinated debentures and trust preferred securities are cumulative and have a feature that permits us to defer distributions (payment of interest) from time to time for a period not to exceed 20 consecutive quarters. While we defer the payment of interest, we will continue to accrue the interest expense owed at the applicable interest rate. Upon the expiration of the deferral, all accrued and unpaid interest is due and payable. At December 31, 2012 and 2011 we had $6.6 million and $4.4 million of accrued and unpaid interest. We have the right to redeem the subordinated debentures and trust preferred securities (at par) in whole or in part from time to time on or after the first permitted redemption date specified above or upon the occurrence of specific events defined within the trust indenture agreements. Issuance costs have been capitalized and are being amortized on a straight-line basis over a period not exceeding 30 years and are included in interest expense in the Consolidated Statements of Operations. Distributions (payment of interest) on the trust preferred securities are also included in interest expense in the Consolidated Statements of Operations.

NOTE 11 – COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of business, we enter into financial instruments with off-balance sheet risk to meet the financing needs of customers or to reduce exposure to fluctuations in interest rates. These financial instruments may include commitments to extend credit and standby letters of credit. Financial instruments involve varying degrees of credit and interest-rate risk in excess of amounts reflected in the Consolidated Statements of Financial Condition. Exposure to credit risk in the event of non-performance by the counterparties to the financial instruments for loan commitments to extend credit and standby letters of credit is represented by the contractual amounts of those instruments. We do not, however, anticipate material losses as a result of these financial instruments.

A summary of financial instruments with off-balance sheet risk at December 31 follows:

	2012	2011
	(In thousands)	
Financial instruments whose risk is represented by contract amounts		
Commitments to extend credit	$ 144,890	$ 139,183
Standby letters of credit	4,568	11,188

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and generally require payment of a fee. Since commitments may expire without being drawn upon, the commitment amounts do not represent future cash requirements. Commitments are issued subject to similar underwriting standards, including collateral requirements, as are generally involved in the extension of credit facilities.

Standby letters of credit are written conditional commitments issued to guarantee the performance of a customer to a third party. The credit risk involved in such transactions is essentially the same as that involved in extending loan facilities and, accordingly, standby letters of credit are issued subject to similar underwriting standards, including collateral requirements, as are generally involved in the extension of credit facilities. The majority of the standby letters of credit are to corporations, have variable rates that range from 2.5% to 6.3% and mature through 2015.

We are involved in various litigation matters in the ordinary course of business. At the present time, we do not believe any of these matters will have a significant impact on our consolidated financial position or results of operations. The aggregate amount we have accrued for losses we consider probable as a result of these litigation matters is immaterial. However, because of the inherent uncertainty of outcomes from any litigation matter, we believe it is reasonably possible we may incur losses in addition to the amounts we have accrued. At this time, we estimate the maximum amount of additional losses that are reasonably possible is approximately $0.4 million. However, because of a number of factors, including the fact that certain of these litigation matters are still in their early stages and involve claims for which, at this point, we believe have little to no merit, this maximum amount may change in the future.

The litigation matters described in the preceding paragraph primarily include claims that have been brought against us for damages, but do not include litigation matters where we seek to collect amounts owed to us by third parties (such as litigation initiated to collect delinquent loans or vehicle service contract counterparty receivables). These excluded, collection-related matters may involve claims or counterclaims by the opposing party or parties, but we have excluded such matters from the disclosure contained in the preceding paragraph in all cases where we believe the possibility of us paying damages to any opposing party is remote. Risks associated with the likelihood that we will not collect the full amount owed to us, net of reserves, are disclosed elsewhere in this report.

Our Mepco segment conducts its payment plan business activities across the United States. Mepco acquires the payment plans from companies (which we refer to as Mepco's "counterparties") at a discount from the face amount of the payment plan. Each payment plan (which are classified as payment plan receivables in our Consolidated Statements of Financial Condition) permits a consumer to purchase a vehicle service contract by making installment payments, generally for a term of 12 to 24 months, to the sellers of those contracts (one of the "counterparties"). Mepco thereafter collects the payments from consumers. In acquiring the payment plan, Mepco generally funds a portion of the cost to the seller of the service contract and a portion of the cost to the administrator of the service contract. The administrator, in turn, pays the necessary contractual liability insurance policy ("CLIP") premium to the insurer or risk retention group.

Consumers are allowed to voluntarily cancel the service contract at any time and are generally entitled to receive a refund from the administrator of the unearned portion of the service contract at the time of cancellation. As a result, while Mepco does not owe any refund to the consumer, it also does not have any recourse against the consumer for nonpayment of a payment plan and therefore does not evaluate the creditworthiness of the individual consumer. If a consumer stops making payments on a payment plan or exercises the right to voluntarily cancel the service contract, the service contract seller and administrator are each obligated to refund to Mepco the amount necessary to make Mepco whole as a result of its funding of the service contract. In addition, the insurer or risk retention group that issued the CLIP for the service contract often guarantees all or a portion of the refund to Mepco. See Note #4 above for a breakdown of Mepco's payment plan receivables by the level of recourse Mepco has against various counterparties.

Upon the cancellation of a service contract and the completion of the billing process to the counterparties for amounts due to Mepco, there is a decrease in the amount of "payment plan receivables" and an increase in the amount of "vehicle service contract counterparty receivables" until such time as the amount due from the counterparty is collected. These amounts represent funds due to Mepco from its counterparties for cancelled service contracts. At December 31, 2012, the aggregate amount of such obligations owing to Mepco by counterparties, net of write-downs and reserves made through the recognition of vehicle service contract counterparty contingencies expense, totaled $18.4 million. This compares to a balance of $29.3 million at December 31, 2011. The decline in such receivables during 2012 is due primarily to the receipt (in September 2012) of assets (cash and real estate) from the bankruptcy estate of a former counterparty. Mepco is currently in the process of working to recover the remaining balance of the receivables, including through liquidation of collateral and litigation against counterparties.

In some cases, Mepco requires collateral or guaranties by the principals of the counterparties to secure these refund obligations; however, this is generally only the case when no rated insurance company is involved to guarantee the repayment obligation of the seller and administrator counterparties. In most cases, there is no collateral to secure the counterparties' refund obligations to Mepco, but Mepco has the contractual right to offset unpaid refund obligations against amounts Mepco would otherwise be obligated to fund to the counterparties. In addition, even when collateral is involved, the refund obligations of these counterparties are not fully secured. Mepco incurs losses when it is unable to fully recover funds owing to it by counterparties upon cancellation of the underlying service contracts. The sudden failure of one of Mepco's major counterparties (an insurance company, administrator, or seller/dealer) could expose us to significant losses.

When counterparties do not honor their contractual obligations to Mepco to repay advanced funds, we recognize estimated losses. Mepco pursues collection (including commencing legal action if necessary) of funds due to it under its various contracts with counterparties. Mepco has had to initiate litigation against certain counterparties, including one of the third party insurers, to collect amounts owed to Mepco as a result of those parties' dispute of their contractual obligations to Mepco. For 2012, 2011 and 2010 non-interest expenses include $1.6 million, $11.0 million, and $18.6 million, respectively, of charges related to estimated losses for vehicle service contract counterparty contingencies. These charges are being classified in non-interest expense because they are associated with a default or potential default of a contractual obligation under our counterparty contracts as opposed to loss on the administration of the payment plan itself.

Our estimate of probable incurred losses from vehicle service contract counterparty contingencies requires a significant amount of judgment because a number of factors can influence the amount of loss that we may ultimately incur. These factors include our estimate of future cancellations of vehicle service contracts, our evaluation of collateral that may be available to recover funds due from our counterparties, and our assessment of the amount that may ultimately be collected from counterparties in connection with their contractual obligations. We apply a rigorous process, based upon historical payment plan activity and past experience, to estimate probable incurred losses and quantify the necessary reserves for our vehicle service contract counterparty contingencies, but there can be no assurance that our modeling process will successfully identify all such losses.

We believe our assumptions regarding the collection of vehicle service contract counterparty receivables are reasonable, and we based them on our good faith judgments using data currently available. We also believe the current amount of reserves we have established and the vehicle service contract counterparty contingencies expense that we have recorded are appropriate given our estimate of probable incurred losses at the applicable Statement of Financial Condition date. However, because of the uncertainty surrounding the numerous and complex assumptions made, actual losses could exceed the charges we have taken to date.

An analysis of our vehicle service contract counterparty receivable, net follows:

	2012	2011	2010
		(In thousands)	
Balance at beginning of year, net of reserve	$ 29,298	$ 37,270	$ 5,419
Transfers in from payment plan receivables	1,469	8,874	77,457
Reserves established and charge-offs recorded to expense	(1,629)	(11,048)	(18,633)
Transferred to (from) contingency reserves	(108)	(1,015)	(11,110)
Cash received	(7,413)	(1,613)	(15,863)
Collateral received (other real estate and repossessed assets) in partial satisfaction of debt	(3,168)	(3,170)	-
Balance at end of year, net of reserve	$ 18,449	$ 29,298	$ 37,270
Reserve at end of year	$ 2,000	$ 32,450	$ 24,600

An analysis of our vehicle service contract counterparty reserve follows:

	2012	2011	2010
		(In thousands)	
Balance at beginning of year	$ 32,570	$ 25,735	$ 22,100
Additions charged to expense	1,629	11,048	18,633
Charge-offs	(32,187)	(4,213)	(14,998)
Balance at end of year	$ 2,012	$ 32,570	$ 25,735
Reserves recorded in VSC counterparty receivables, net	$ 2,000	$ 32,450	$ 24,600
Reserves recorded in other liabilities	12	120	1,135
Total at end of year	$ 2,012	$ 32,570	$ 25,735

NOTE 12 – SHAREHOLDERS' EQUITY AND INCOME (LOSS) PER COMMON SHARE

On January 29, 2010, we held a special shareholders' meeting at which our shareholders approved an amendment to our Articles of Incorporation to increase the number of shares of common stock we are authorized to issue from 60 million to 500 million. They also approved the issuance of our common stock in exchange for certain of our trust preferred securities and in exchange for the shares of our preferred stock held by the U.S. Department of the Treasury ("UST").

On April 2, 2010, we entered into an exchange agreement with the UST pursuant to which the UST agreed to exchange all 72,000 shares of our Series A Fixed Rate Cumulative Perpetual Preferred Stock, with an original liquidation preference of $1,000 per share ("Series A Preferred Stock"), beneficially owned and held by the UST, plus accrued and unpaid dividends on such Series A Preferred Stock, for shares of our Series B Fixed Rate Cumulative Mandatorily Convertible Preferred Stock, with an original liquidation preference of $1,000 per share ("Series B Preferred Stock"). As part of the terms of the exchange agreement, we also agreed to amend and restate the terms of the warrant, dated December 12, 2008, issued to the UST to purchase 346,154 shares of our common stock.

On April 16, 2010, we closed the transactions described in the exchange agreement and we issued to the UST (1) 74,426 shares of our Series B Preferred Stock and (2) an Amended and Restated Warrant to purchase 346,154 shares of our common stock at an exercise price of $7.234 per share and expiring on December 12, 2018 (the "Amended Warrant") for all of the 72,000 shares of Series A Preferred Stock and the original warrant that had been issued to the UST in December 2008 pursuant to the TARP Capital Purchase Program, plus approximately $2.4 million in accrued dividends on such Series A Preferred Stock.

With the exception of being convertible into shares of our common stock, the terms of the Series B Preferred Stock are substantially similar to the terms of the Series A Preferred Stock that was exchanged. The Series B Preferred Stock qualifies as Tier 1 regulatory capital and pays cumulative dividends quarterly at a rate of 5% per annum through February 14, 2014, and at a rate of 9% per annum thereafter. The Series B Preferred Stock is non-voting, other than class voting rights on certain matters that could adversely affect the Series B Preferred Stock. If dividends on the Series B Preferred Stock have not been paid for an aggregate of six quarterly dividend periods or more, whether consecutive or not, the holders of the Series B Preferred Stock, voting together with holders of any then outstanding voting parity stock, have the right to elect two additional directors at our next annual meeting of shareholders or at a special meeting of shareholders called for that purpose. These directors would be elected annually and serve until all accrued and unpaid dividends on the Series B Preferred Stock have been paid. Beginning in December of 2009, we suspended payment of quarterly dividends. The cash dividends payable to the UST amount to approximately $4.3 million per year until December of 2013, at which time they would increase to approximately $7.7 million per year. Accrued and unpaid dividends were $10.7 million ($144 per share) at December 31, 2012. Because we have deferred dividends on the Series B Preferred Stock for at least six quarterly dividend periods, the UST currently has the right to elect two directors to our board. At this time, in lieu of electing such directors, the UST requested us to allow (and we have allowed) an observer to attend our Board of Directors meetings beginning in the third quarter of 2011. The UST continues to retain the right to elect two directors as described above.

Under the terms of the Series B Preferred Stock, UST (and any subsequent holder of the Series B Preferred Stock) has the right to convert the Series B Preferred Stock into our common stock at any time. In addition, we have the right to compel a conversion of the Series B Preferred Stock into common stock, subject to the following conditions:

(i) we shall have received all appropriate approvals from the Board of Governors of the Federal Reserve System;
(ii) we shall have issued our common stock in exchange for at least $40 million aggregate original liquidation amount of the trust preferred securities issued by the Company's trust subsidiaries, IBC Capital Finance II, IBC Capital Finance III, IBC Capital Finance IV, and Midwest Guaranty Trust I;
(iii) we shall have closed one or more transactions (on terms reasonably acceptable to the UST, other than the price per share of common stock) in which investors, other than the UST, have collectively provided a minimum aggregate amount of $100 million in cash proceeds to us in exchange for our common stock; and
(iv) we shall have made the anti-dilution adjustments to the Series B Preferred Stock, if any, required by the terms of the Series B Preferred Stock.

If converted by the holder or by us pursuant to either of the above-described conversion rights, each share of Series B Preferred Stock (liquidation amount of $1,000 per share) will convert into a number of shares of our common stock equal to a fraction, the numerator of which is $750 and the denominator of which is $7.234, which was the market price of our common stock at the time the exchange agreement was signed (as such market price was determined pursuant to the terms of the Series B Preferred Stock), referred to as the “conversion rate.” This conversion rate is subject to certain anti-dilution adjustments that may result in a greater number of shares being issued to the holder of the Series B Preferred Stock. If converted by the holder or by us pursuant to either of the above-described conversion rights, as of December 31, 2012, the Series B Preferred Stock and accrued and unpaid dividends would have been convertible into approximately 10.7 million shares of our common stock.

Unless earlier converted by the holder or by us as described above, the Series B Preferred Stock will convert into shares of our common stock on a mandatory basis on the seventh anniversary (April 16, 2017) of the issuance of the Series B Preferred Stock. In any such mandatory conversion, each share of Series B Preferred Stock (liquidation amount of $1,000 per share) will convert into a number of shares of our common stock equal to a fraction, the numerator of which is $1,000 and the denominator of which is the market price of our common stock at the time of such mandatory conversion (as such market price is determined pursuant to the terms of the Series B Preferred Stock).

At the time any Series B Preferred Stock are converted into our common stock, we will be required to pay all accrued and unpaid dividends on the Series B Preferred Stock being converted in cash or, at our option, in shares of our common stock, in which case the number of shares to be issued will be equal to the amount of accrued and unpaid dividends to be paid in common stock divided by the market value of our common stock at the time of conversion (as such market price is determined pursuant to the terms of the Series B Preferred Stock). Accrued and unpaid dividends on the Series B Preferred Stock totaled $10.7 million (approximately $144 per share of Series B Preferred Stock) and $6.6 million (approximately $89 per share of Series B Preferred Stock) at December 31, 2012 and 2011, respectively. These amounts are recorded in Convertible Preferred Stock on the Consolidated Statements of Financial Condition.

The maximum number of shares of our common stock that may be issued upon conversion of all shares of the Series B Preferred Stock and any accrued dividends on Series B Preferred Stock is 14.4 million, unless we receive shareholder approval to issue a greater number of shares.

The Series B Preferred Stock may be redeemed by us, subject to the approval of the Board of Governors of the Federal Reserve System, at any time, in an amount up to the cash proceeds (minimum of approximately $18.6 million) from qualifying equity offerings of common stock (plus any net increase to our retained earnings after the original issue date). If we exercise this right to redeem the Series B Preferred Stock, the redemption price will be the greater of (a) the $1,000 liquidation amount per share plus any accrued and unpaid dividends and (b) the product of the applicable Conversion Rate (as described above) and the average of the market prices per share of our common stock (as such market price is determined pursuant to the terms of the Series B Preferred Stock) over a 20 trading day period beginning on the trading day immediately after we give notice of redemption to the holder (plus any accrued and unpaid dividends). In any redemption, we must redeem at least 25% of the number of Series B Preferred Stock shares originally issued to the UST, unless fewer of such shares are then outstanding (in which case all of the Series B Preferred Stock must be redeemed). In addition to the terms of the Series B Preferred Stock discussed above, the UST updated its Frequently Asked Questions regarding the Capital Purchase Program (“CPP”) as of March 1, 2012 to permit any CPP participant to repay its investment, in part, subject to a minimum repayment of the greater of (i) 5% of the aggregate liquidation amount of the preferred stock issued to the UST or (ii) $100,000. Under this updated guidance, we could repay a minimum of approximately $3.7 million, subject to the approval of the Board of Governors of the Federal Reserve System, in a partial redemption of the Series B Preferred Stock.

On July 7, 2010 we executed an Investment Agreement and Registration Rights Agreement with Dutchess Opportunity Fund, II, LP (“Dutchess”) for the sale of shares of our common stock. These agreements serve to establish an equity line facility as a contingent source of liquidity at the parent company level. Pursuant to the Investment Agreement, Dutchess committed to purchase up to $15.0 million of our common stock over a 36-month period ending November 1, 2013. We have the right, but no obligation, to draw on this equity line facility from time to time during such 36-month period by selling shares of our common stock to Dutchess. The sales price is at a 5% discount to the market price of our common stock at the time of the draw (as such market price is determined pursuant to the terms of the Investment Agreement). Through 2012, we have sold a total of 1.230 million shares (0.453 million shares, 0.433 million shares and 0.345 million shares during 2012, 2011 and 2010, respectively) of our common stock to Dutchess under this equity line for total net proceeds of approximately $3.2 million. At the present time, we have shareholder approval to sell approximately 2.8 million additional shares under this equity line. Based on our closing stock price on December 31, 2012, additional funds available under the Investment Agreement totaled approximately $9.7 million at December 31, 2012.

On November 15, 2011, we entered into a Tax Benefits Preservation Plan (the "Preservation Plan") with our stock transfer agent, American Stock Transfer & Trust Company. Our Board of Directors adopted the Preservation Plan in an effort to protect the value to our shareholders of our ability to use deferred tax assets such as net operating loss carry forwards to reduce potential future federal income tax obligations. Under federal tax rules, this value could be lost in the event we experienced an "ownership change," as defined in Section 382 of the federal Internal Revenue Code. The Preservation Plan attempts to protect this value by reducing the likelihood that we will experience such an ownership change by discouraging any person who is not already a 5% shareholder from becoming a 5% shareholder (with certain limited exceptions).

On November 15, 2011, our Board of Directors declared a dividend of one preferred share purchase right (a "Right") for each outstanding share of our common stock under the terms of the Preservation Plan. The dividend is payable to the holders of common stock outstanding as of the close of business on November 15, 2011 or outstanding at any time thereafter but before the earlier of a "Distribution Date" and the date the Preservation Plan terminates. Each Right entitles the registered holder to purchase from us 1/1000 of a share of our Series C Junior Participating Preferred Stock, no par value per share ("Series C Preferred Stock"). Each 1/1000 of a share of Series C Preferred Stock has economic and voting terms similar to those of one whole share of common stock. The Rights are not exercisable and generally do not become exercisable until a person or group has acquired, subject to certain exceptions and conditions, beneficial ownership of 4.99% or more of the outstanding shares of common stock. At that time, each Right will generally entitle its holder to purchase securities of the Company at a discount of 50% to the current market price of the common stock. However, the Rights owned by the person acquiring beneficial ownership of 4.99% or more of the outstanding shares of common stock would automatically be void. The significant dilution that would result is expected to deter any person from acquiring beneficial ownership of 4.99% or more and thereby triggering the Rights.

To date, none of the Rights have been exercised or have become exercisable because no unpermitted 4.99% or more change in the beneficial ownership of the outstanding common stock has occurred. The Rights will generally expire on the earlier to occur of the close of business on November 15, 2016 and certain other events described in the Preservation Plan, including such date as our Board of Directors determines that the Preservation Plan is no longer necessary for its intended purposes.

Effective as of April 9, 2010, we amended our articles of incorporation to delete any reference to par value with respect to our common stock, which previously had a par value of $1.00 per share. The amendment was approved by our Board on April 6, 2010, pursuant to the authority granted it under Sections 301a and 611(2) of the Michigan Business Corporation Act. As a result, we reclassified all amounts in capital surplus to common stock on our Consolidated Statements of Financial Condition.

On April 27, 2010, at our annual meeting of shareholders, our shareholders approved an amendment to our Articles of Incorporation that allowed us to affect a 1-for-10 reverse stock split. We affected this reverse stock split on August 31, 2010. All common share and per share amounts have been adjusted to reflect the reverse stock split.

A reconciliation of basic and diluted net income (loss) per common share for the years ended December 31 follows:

	2012	2011	2010
	(In thousands, except per share amounts)		
Net income (loss) applicable to common stock	$ 21,851	$ (24,357)	$ (20,804)
Convertible preferred stock dividends	4,347	-	-
Net income (loss) applicable to common stock for calculation of diluted earnings per share (1) (2)	$ 26,198	$ (24,357)	$ (20,804)
Weighted average shares outstanding	8,709	8,277	5,090
Effect of convertible preferred stock	23,892	61,281	36,371
Restricted stock units	216	122	-
Stock units for deferred compensation plan for non-employee directors	66	7	7
Effect of stock options	2	-	-
Weighted average shares outstanding for calculation of diluted earnings per share (1)	32,885	69,687	41,468
Net income (loss) per common share			
Basic (2)	$ 2.51	$ (2.94)	$ (4.09)
Diluted	$ 0.80	$ (2.94)	$ (4.09)

(1) For any period in which a loss is recorded, dividends on convertible preferred stock are not added back in the diluted per common share calculation. For any period in which a loss is recorded, the assumed conversion of convertible preferred stock, assumed exercise of common stock warrants, assumed exercise of stock options, restricted stock units and stock units for a deferred compensation plan for non-employee directors would have an anti-dilutive impact on the net loss per common share and thus are ignored in the diluted per common share calculation.

(2) Basic net income (loss) per common share includes weighted average common shares outstanding during the period and participating share awards.

Weighted average stock options outstanding that were not considered in computing diluted net income (loss) per common share because they were anti-dilutive totaled 0.1 million, 0.1 million and 0.1 million for 2012, 2011 and 2010, respectively. The warrant to purchase 346,154 shares of our common stock was also not considered in computing the diluted income (loss) per common share in 2012, 2011 and 2010 as it was anti-dilutive.

NOTE 13 – INCOME TAX

The composition of income tax expense (benefit) for the years ended December 31 follows:

	2012	2011	2010
		(In thousands)	
Current	$ -	$ (413)	$ (57)
Deferred	-	(646)	(1,533)
Establishment of valuation allowance	-	847	-
Income tax benefit	$ -	$ (212)	$ (1,590)

The deferred income tax benefit of $0.6 million and $1.5 million during 2011 and 2010 is primarily attributed to the affects of pretax other comprehensive income (loss).

A reconciliation of income tax benefit to the amount computed by applying the statutory federal income tax rate of 35% in each year presented to the income (loss) before income tax for the years ended December 31 follows:

	2012	2011	2010
		(In thousands)	
Statutory rate applied to income (loss) before income tax	$ 9,169	$ (7,144)	$ (6,405)
Net change in valuation allowance	(8,730)	9,369	5,672
Bank owned life insurance	(568)	(657)	(671)
Tax-exempt income	(453)	(521)	(800)
Share-based compensation	258	-	-
U.S. Treasury warrant	100	(398)	(138)
Non-deductible meals, entertainment and memberships	55	50	36
Trust preferred securities exchange costs	-	-	352
Other, net	169	(911)	364
Income tax benefit	$ -	$ (212)	$ (1,590)

Generally, the amount of income tax expense or benefit allocated to operations is determined without regard to the tax effects of other categories of income or loss, such as other comprehensive income (loss). However, an exception to the general rule is provided when, in the presence of a valuation allowance against deferred tax assets, there is a pretax loss from operations and pretax income from other categories in the current year. In such instances, income from other categories must offset the current loss from operations, the tax benefit of such offset being reflected in operations. In 2011 and 2010, pretax other comprehensive income of $1.8 million and $3.9 million, respectively, reduced our valuation allowance and resulted in a benefit of $0.6 million and $1.4 million being allocated to the loss from operations.

We assess the need for a valuation allowance against our deferred tax assets periodically. The realization of our deferred tax assets is largely dependent upon future taxable income and future reversals of existing taxable temporary differences. In assessing the need for a valuation allowance, we consider all positive and negative evidence, including anticipated operating results, scheduled reversals of deferred tax liabilities and tax planning strategies. In 2008, we first established a valuation allowance against substantially all of our net deferred tax assets due to a number of factors, including our then declining operating performance, overall negative trends in the banking industry and our expectation that our operating results would continue to be negatively affected by the overall economic environment. During 2011, 2010 and 2009, we concluded that we needed to continue to carry a valuation allowance based on similar factors. As a result we recorded additional valuation allowances of $9.4 million and $5.7 million during 2011 and 2010, respectively. This resulted in a valuation allowance against our entire net deferred tax asset except for, in 2010 certain state deferred tax assets at Mepco that were expected to be recovered based on Mepco’s individual earnings. However, at December 31, 2011, due to a second year of losses at Mepco and remaining uncertainty regarding certain vehicle service contract counterparty receivables, we concluded that a valuation allowance against the $0.8 million of Mepco’s deferred state tax assets was also needed. During 2012, we returned to profitability and recorded four consecutive quarters of positive earnings. Despite these improved results, at December 31, 2012, we have concluded that the valuation allowance of $65.1 million against our net deferred tax asset is still necessary. We believe additional evidence of sustained future profitability is required (particularly in light of the significant contribution of gains on mortgage loans to our 2012 results) in order to conclude that it is more likely than not that we can realize our net deferred tax asset. This valuation allowance may be reversed to income in future periods to the extent that the related deferred tax assets are realized or the valuation allowance is otherwise no longer required. In making such judgments, significant weight will be given to evidence that can be objectively verified. We will analyze changes in near-term market conditions and consider both positive and negative evidence as well as other factors which may impact future operating results in making any decision to adjust this valuation allowance. In addition, changes in tax laws and changes in tax rates as well as our future level of earnings can impact the ultimate realization of our net deferred tax asset as well as the valuation allowance that we have established.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31 follow:

	2012	2011
	(In thousands)	
Deferred tax assets		
Loss carryforwards	$ 39,593	$ 25,686
Allowance for loan losses	15,502	20,616
Fixed assets	2,664	3,109
Alternative minimum tax credit carry forward	2,577	2,577
Purchase premiums, net	2,413	4,416
Valuation allowance on other real estate owned	2,085	5,129
Share based payments	817	1,006
Vehicle service contract counterparty contingency reserve	765	12,377
Unrealized loss on trading securities	591	603
Other than temporary impairment charge on securities available for sale	507	427
Deferred compensation	512	482
Loss reimbursement on sold loans reserve	501	524
Non accrual loan interest income	325	443
Unrealized loss on derivative financial instruments	259	539
Reserve for unfunded lending commitments	209	450
Unrealized loss on securities available for sale	181	1,252
Mepco claims expense	-	546
Other	162	112
Gross deferred tax assets	69,663	80,294
Valuation allowance	(65,117)	(75,199)
Total net deferred tax assets	4,546	5,095
Deferred tax liabilities		
Mortgage servicing rights	3,855	3,930
Deferred loan fees	373	356
Federal Home Loan Bank stock	318	318
Unrealized gain on loans held for sale	-	491
Gross deferred tax liabilities	4,546	5,095
Net deferred tax assets	$ -	$ -

At December 31, 2012, we had $0.3 million of federal capital loss carryforwards that expire in 2014 and federal net operating loss (“NOL”) carryforwards of approximately $111.9 million which, if not used against taxable income, will expire as follows:

	(In thousands)
2017	$ 3,437
2018	189
2022	194
2023	359
2029	25,467
2030	26,254
2031	17,170
2032	38,865
Total	$ 111,935

The use of $4.2 million of NOL carryforwards in the total above, which were acquired through the acquisitions of two financial institutions are limited to $3.3 million per year as the result of a change in control as defined in the Internal Revenue Code. In addition, we had a minor amount of state NOL carryforwards in certain states where Mepco operates.

Changes in unrecognized tax benefits for the year ended December 31 follows:

	2012	2011	2010
		(In thousands)	
Balance at beginning of year	$ 2,139	$ 2,393	$ 1,981
Additions based on tax positions related to the current year	15	23	445
Reductions due to the statute of limitations	(56)	(277)	(33)
Reductions due to settlements	(227)	-	-
Balance at end of year	$ 1,871	$ 2,139	$ 2,393

If recognized, the entire amount of unrecognized tax benefits, net of $0.4 million of federal tax on state benefits, would affect our effective tax rate. We do not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next twelve months. No amounts were expensed for interest and penalties for the years ended December 31, 2012, 2011 and 2010. No amounts were accrued for interest and penalties at December 31, 2012, 2011 or 2010. At December 31, 2012, U.S. Federal tax years 2009 through the present remain open to examination.

NOTE 14 – SHARE BASED COMPENSATION

We maintain share based payment plans that include a non-employee director stock purchase plan and a long-term incentive plan that permits the issuance of share based compensation, including stock options and non-vested share awards. The long-term incentive plan, which is shareholder approved, permits the grant of additional share based awards for up to 0.1 million shares of common stock as of December 31, 2012. The non-employee director stock purchase plan permits the grant of additional share based payments for up to 0.3 million shares of common stock as of December 31, 2012. Share based awards and payments are measured at fair value at the date of grant and are expensed over the requisite service period. Common shares issued upon exercise of stock options come from currently authorized but unissued shares.

During the first quarter of 2012 our president’s annual salary was increased by $0.03 million, effective January 1, 2012. One half of this increase is currently being paid in the form of common stock (also referred to as “salary stock”). During the first quarter of 2011, pursuant to a management transition plan, our chief executive officer’s annual salary was increased by $0.2 million effective January 1, 2011 through December 31, 2012. This increase was paid entirely in the form of salary stock. These shares were issued each pay period and vested immediately.

During the third quarter of 2012, we issued 0.22 million restricted stock units to six of our executive officers. These restricted stock units do not vest for a minimum of three years and until we repay in full our obligations related to the Troubled Asset Relief Program (“TARP”). During the first quarter of 2011, we issued 0.14 million restricted stock units to five of our executive officers. These restricted stock units do not vest for a minimum of two years and until we repay in full our obligations related to the TARP.

During 2012 and 2011, pursuant to our performance-based compensation plans we granted 0.1 million stock options in each period to certain officers, none of whom is a named executive officer. The stock options have an exercise price equal to the market value on the date of grant, vest ratably over a three year period and expire 10 years from date of grant. We use the Black Scholes option pricing model to measure compensation cost for stock options. We also estimate expected forfeitures over the vesting period.

Beginning in the second quarter of 2011 our directors elected to receive their quarterly cash retainer fees for the balance of 2011 and 2012 in the form of common stock (either on a current basis or on a deferred basis pursuant to the non-employee director stock purchase plan referenced above). Shares equal in value to each director's quarterly cash retainer were issued each quarter and vested immediately. We have issued 0.21 million shares and 0.14 million shares to directors during 2012 and 2011, respectively and expensed their value during those same periods.

During the first quarter of 2010, we completed a stock option exchange program under which eligible employees were able to exchange certain stock options for a lesser amount of new stock options. Pursuant to this stock option exchange program, 0.05 million stock options were exchanged for 0.01 million new stock options. The new stock options granted have an exercise price equal to the market value on the date of grant, generally vest over a one year period and have the same expiration dates as the options exchanged which ranged from 1.2 years to 7.2 years. The new options had a value substantially equal to the value of the options exchanged.

We use the Black-Scholes option pricing model to measure compensation cost for stock options and use the market value of the common stock on the date of grant to measure compensation cost for non-vested share awards. We also estimate expected forfeitures over the vesting period.

Total compensation expense recognized for stock option grants, non-vested common stock grants, restricted stock unit grants and salary stock was $0.4 million, $0.9 million and $0.5 million in 2012, 2011 and 2010, respectively. The corresponding tax benefit relating to this expense was zero for each period. Total expense recognized for non-employee director share based payments was $0.4 million in 2012 and $0.3 million in 2011. The corresponding tax benefit relating to this expense was zero for each period. No expense was incurred for non-employee director share based payments in 2010.

A summary of outstanding stock option grants and related transactions follows:

	Number of Shares	Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregated Intrinsic Value (In thousands)
Outstanding at January 1, 2012	180,862	$ 7.98		
Granted	116,900	2.73		
Exercised	(2,335)	1.92		
Forfeited	(13,999)	1.92		
Expired	(5,495)	90.66		
Outstanding at December 31, 2012	275,933	$ 4.46	8.36	$ 284
Vested and expected to vest at December 31, 2012	257,602	$ 4.60	8.29	$ 266
Exercisable at December 31, 2012	83,477	$ 9.20	6.40	$ 74

A summary of outstanding non-vested stock and related transactions follows:

	Number of Shares	Weighted-Average Grant Date Fair Value
Outstanding at January 1, 2012	165,045	$ 17.90
Granted	221,147	2.78
Vested	(6,214)	141.85
Forfeited	(4,562)	78.23
Outstanding at December 31, 2012	375,416	$ 6.21

A summary of the weighted-average assumptions used in the Black-Scholes option pricing model for grants of stock options follows:

	2012	2011	2010
Expected dividend yield	0.74%	1.04%	0.33%
Risk-free interest rate	0.88	1.91	2.10
Expected life (in years)	6.00	6.00	4.60
Expected volatility	100.01%	94.72%	91.77%
Per share weighted-average grant date fair value	$ 2.04	$ 1.37	$ 4.97

The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant. The expected life was obtained using a simplified method that, in general, averaged the vesting term and original contractual term of the stock option. This method was used as relevant historical data of actual exercise activity was not available. The expected volatility was based on historical volatility of our common stock.

At December 31, 2012, the total expected compensation cost related to non vested stock options, restricted stock and restricted stock units not yet recognized was $1.2 million. The weighted-average period over which this amount will be recognized is 2.7 years.

Certain information regarding options exercised during the periods ending December 31 follows:

	2012	2011	2010
		(In thousands)	
Intrinsic value	$ 3	$ -	$ -
Cash proceeds received	$ 4	$ -	$ -
Tax benefit realized	$ -	$ -	$ -

NOTE 15 – BENEFIT PLANS

We maintain 401(k) and employee stock ownership plans covering substantially all of our full-time employees. We have historically matched employee contributions to the 401(k) plan up to a maximum of 3% of participating employees' eligible wages. The match of employee contributions was zero in 2012, 2011 and 2010. Contributions to the employee stock ownership plan are determined annually and require approval of our Board of Directors. The maximum contribution is 6% of employees' eligible wages. Contributions to the employee stock ownership plan were 3% for 2012 and zero for 2011 and 2010. Amounts expensed for these retirement plans was $1.0 million in 2012 and zero in 2011 and 2010.

Our officers participate in various performance-based compensation plans. Amounts expensed for all incentive plans totaled $4.0 million, $1.1 million and $0.6 million, in 2012, 2011 and 2010, respectively.

We also provide certain health care and life insurance programs to substantially all full-time employees. Amounts expensed for these programs totaled $4.9 million, $5.0 million and $4.7 million in 2012, 2011 and 2010 respectively. These insurance programs are also available to retired employees at their own expense.

NOTE 16 – DERIVATIVE FINANCIAL INSTRUMENTS

We are required to record derivatives on our Consolidated Statements of Financial Condition 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.

Our derivative financial instruments according to the type of hedge in which they are designated at December 31 follow:

	2012		
	Notional Amount	Average Maturity (Years)	Fair Value
	(Dollars in thousands)		
Cash flow hedge - pay-fixed interest-rate swap agreements	$ 10,000	2.0	$ (739)
No hedge designation			
Rate-lock mortgage loan commitments	$ 40,221	0.1	$ 1,368
Mandatory commitments to sell mortgage loans	88,325	0.1	(122)
Amended Warrant	2,504	6.0	(459)
Total	$ 131,050	0.2	$ 787

	2011		
	Notional Amount	Average Maturity (Years)	Fair Value
	(Dollars in thousands)		
Cash flow hedge - pay-fixed interest-rate swap agreements	$ 20,000	1.7	$ (1,103)
No hedge designation			
Rate-lock mortgage loan commitments	$ 32,689	0.1	$ 857
Mandatory commitments to sell mortgage loans	75,960	0.1	(606)
Amended Warrant	2,504	7.0	(174)
Total	$ 111,153	0.3	$ 77

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. 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 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 includes one pay-fixed interest-rate swap.

Through certain special purposes entities (see note #10) we issued trust preferred securities as part of our capital management strategy. Certain of these trust preferred securities are variable rate which exposes us to variability in cash flows. To mitigate our exposure to fluctuations in cash flows resulting from changes in interest rates, on approximately $20.0 million of variable rate trust preferred securities, we entered into a pay-fixed interest-rate swap agreement in September, 2007. During the fourth quarter of 2009 we elected to defer payment of interest on this variable rate trust preferred security. As a result, this pay-fixed interest rate swap was transferred to a no hedge designation and the $1.6 million unrealized loss which was included as a component of accumulated other comprehensive loss at the time of the transfer was reclassified into earnings through September, 2012, which was the remaining life of this pay-fixed swap. During the second quarter of 2010 we terminated this pay-fixed swap and the unrealized loss continued to be reclassified into earnings over the remaining original life of the pay-fixed swap.

Pay-fixed interest-rate swaps convert the variable-rate cash flows on debt obligations to fixed-rates. Under interest-rate cap agreements, we received cash if interest rates rose above a predetermined level. As a result, we effectively had variable-rate debt with an established maximum rate. We paid an upfront premium on interest rate caps which was recognized in earnings in the same period in which the hedged item affected earnings. Unrecognized premiums from interest rate caps were zero at December 31, 2012 and 2011, respectively. Our last interest rate cap expired in July, 2011.

It is anticipated that $0.4 million of unrealized losses on Cash Flow Hedges at December 31, 2012, will be reclassified into earnings over the next twelve months. The maximum term of any Cash Flow Hedge at December 31, 2012 is 2.0 years.

Certain financial derivative instruments have not been designated as hedges. The fair value of these derivative financial instruments has been recorded on our Consolidated Statements of Financial Condition and is adjusted on an ongoing basis to reflect their then current fair value. The changes in fair value of derivative financial instruments not designated as hedges are recognized in earnings.

In the ordinary course of business, we enter into rate-lock mortgage loan commitments with customers (“Rate Lock Commitments”). These commitments expose us to interest rate risk. We also enter into mandatory commitments to sell 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 mortgage loans. We obtain market prices on Mandatory Commitments and Rate Lock Commitments. Net gains on the sale of mortgage loans, as well as net income (loss) may be more volatile as a result of these derivative instruments, which are not designated as hedges.

During 2010, we entered into an amended and restated warrant with the UST that would allow them to purchase our common stock at a fixed price (see note #12). Because of certain anti-dilution features included in the Amended Warrant, it is not considered to be indexed to our common stock and is therefore accounted for as a derivative instrument and recorded as a liability. Any change in value of the Amended Warrant is recorded in other income in our Consolidated Statements of Operations.

The following tables illustrate the impact that the derivative financial instruments discussed above have on individual line items in the Consolidated Statements of Financial Condition for the periods presented:

Fair Values of Derivative Instruments

	Asset Derivatives				Liability Derivatives			
	December 31,				December 31,			
	2012		2011		2012		2011	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
	(In thousands)							
Derivatives designated as hedging instruments								
Pay-fixed interest rate swap agreements		$ -		$ -	Other liabilities	$ 739	Other liabilities	$ 1,103
Total		-		-		739		1,103
Derivatives not designated as hedging instruments								
Rate-lock mortgage loan commitments	Other assets	1,368	Other assets	857		-		-
Mandatory commitments to sell mortgage loans		-		-	Other liabilities	122		606
Amended Warrant		-		-	Other liabilities	459	Other liabilities	174
Total		1,368		857		581		780
Total derivatives		$ 1,368		$ 857		$ 1,320		$ 1,883

The effect of derivative financial instruments on the Consolidated Statements of Operations follows:

	Year Ended December 31,										
	Gain (Loss) Recognized in Other Comprehensive Income (Loss) (Effective Portion)			Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income (Effective Portion)	Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income (Effective Portion)			Location of Gain (Loss) Recognized in Income (1)	Gain (Loss) Recognized in Income(1)		
	2012	2011	2010		2012	2011	2010		2012	2011	2010
	(In thousands)										
Cash Flow Hedges											
Pay-fixed interest rate swap agreements	$ (127)	$ (512)	$ (1,525)	Interest expense	$ (927)	$ (1,443)	$ (2,742)	Interest expense	$ -	$ -	$ -
Interest-rate cap agreements	-	30	180	Interest expense	-	(15)	(90)	Interest expense	-	-	2
Total	$ (127)	$ (482)	$ (1,345)		$ (927)	$ (1,458)	$ (2,832)		$ -	$ -	$ 2
No hedge designation											
Pay-fixed interest rate swap agreements								Interest expense	$ -	$ -	$ 409
Rate-lock mortgage loan commitments								Mortgage loan gains	511	457	183
Mandatory commitments to sell mortgage loans								Mortgage loan gains	484	(1,981)	660
Amended Warrant								Decrease in fair value of U.S. Treasury warrant	(285)	1,137	393
Total									$ 710	$ (387)	$ 1,645

(1) For cash flow hedges, this location and amount refers to the ineffective portion.

NOTE 17 – RELATED PARTY TRANSACTIONS

Certain of our directors and executive officers, including companies in which they are officers or have significant ownership, were loan and deposit customers during 2012 and 2011.

A summary of loans to directors and executive officers whose borrowing relationship exceeds $60,000, and to entities in which they own a 10% or more voting interest for the years ended December 31 follows:

	2012	2011
	(In thousands)	
Balance at beginning of year	$ 214	$ 271
New loans and advances	-	203
Repayments	(6)	(260)
Balance at end of year	$ 208	$ 214

Deposits held by us for directors and executive officers totaled $0.8 million and $1.0 million respectively at December 31, 2012 and 2011.

NOTE 18 – OTHER NON-INTEREST EXPENSES

Other non-interest expenses for the years ended December 31 follow:

	2012	2011	2010
		(In thousands)	
Supplies	$ 1,281	$ 1,571	$ 1,630
Amortization of intangible assets	1,065	1,371	1,280
Other	4,384	5,651	6,367
Total other non-interest expense	$ 6,730	$ 8,593	$ 9,277

NOTE 19 – LEASES

We have non-cancelable operating leases for certain office facilities, some of which include renewal options and escalation clauses.

A summary of future minimum lease payments under non-cancelable operating leases at December 31, 2012, follows:

	(In thousands)
2013	$ 1,211
2014	1,020
2015	954
2016	925
2017	896
2018 and thereafter	2,527
Total	$ 7,533

Rental expense on operating leases totaled $1.2 million, $1.4 million and $1.3 million in 2012, 2011 and 2010, respectively.

NOTE 20 – CONCENTRATIONS OF CREDIT RISK

Credit risk is the risk to earnings and capital arising from an obligor's failure to meet the terms of any contract with our organization, or otherwise fail to perform as agreed. Credit risk can occur outside of our traditional lending activities and can exist in any activity where success depends on counterparty, issuer or borrower performance. Concentrations of credit risk (whether on- or off-balance sheet) arising from financial instruments can exist in relation to individual borrowers or groups of borrowers, certain types of collateral, certain types of industries or certain geographic regions. Credit risk associated with these concentrations could arise when a significant amount of loans or other financial instruments, related by similar characteristics, are simultaneously impacted by changes in economic or other conditions that cause their probability of repayment or other type of settlement to be adversely affected. Our major concentrations of credit risk arise by collateral type and by industry. The significant concentrations by collateral type at December 31, 2012 include $589.9 million of loans secured by residential real estate and $56.2 million of construction and development loans. In addition, we have a concentration of credit within the vehicle service contract industry. At December 31, 2012, we had $84.7 million of payment plan receivables. Our recourse for nonpayment of these payment plan receivables is against our counterparties operating within the vehicle service contract industry.

Additionally, within our commercial real estate and commercial loan portfolio we had significant standard industry classification concentrations in the following categories as of December 31, 2012: Lessors of Nonresidential Real Estate ($275.5 million); Lessors of Residential Real Estate ($78.9 million); Construction General Contractors and Land Development ($52.1 million); and Health Care and Social Assistance ($41.2 million). A geographic concentration arises because we primarily conduct our lending activities in the State of Michigan.

Our concentration of credit within the vehicle service contract industry relates to the business operated by our subsidiary, Mepco. This business and certain risks associated with this business are described in note #11 above. In addition, see note #4 above for a breakdown of Mepco's payment plan receivables by the level of recourse Mepco has against various counterparties. Mepco monitors counterparty concentrations in order to attempt to manage our exposure for contractual obligations from its counterparties. In addition, even where an insurance company or risk retention group does not have a guarantee obligation to Mepco, the failure of the insurance company or risk retention group could result in a mass cancellation of the vehicle service contracts (and the related payment plans) insured by such entity. Such a mass cancellation would trigger and accelerate the contractual obligations of the counterparties that did have such obligations to Mepco. The counterparty concentration levels are managed based on the AM Best rating and statutory surplus level for an insurance company and on other factors including financial evaluation, collateral, funding holdbacks, guarantees, and distribution of concentrations for vehicle service contract administrators and vehicle service contract sellers/dealers.

The five largest concentrations by insurance company, risk retention group or other party backing the service contract represents approximately 29.3%, 22.2%, 21.6%, 19.9% and 4.5%, respectively, of Mepco's payment plan receivables at December 31, 2012. These companies have provided the insurance coverage for the vehicle service contracts underlying the payment plan receivables; however, these companies are not all obligated to Mepco for the repayment of the payment plan receivables upon cancellation of the underlying vehicle service contracts and payment plans. Mepco has varying levels of recourse against such companies. Still, the failure of any insurer backing service contracts related to Mepco's payment plan receivables could have an adverse effect on Mepco's collection of those receivables.

The top five vehicle service contract sellers from which Mepco purchases payment plans represent approximately 15.4%, 15.1%, 14.0%, 13.7% and 9.6%, respectively of Mepco's payment plan receivables at December 31, 2012. See note #11 for additional information on Mepco counterparties.

NOTE 21 – REGULATORY MATTERS

Capital guidelines adopted by Federal and State regulatory agencies and restrictions imposed by law limit the amount of cash dividends our Bank can pay to us. Under these guidelines, the amount of dividends that may be paid in any calendar year is limited to the Bank's current year's net profits, combined with the retained net profits of the preceding two years. It is not our intent to have dividends paid in amounts which would reduce the capital of our Bank to levels below those which we consider prudent and in accordance with guidelines of regulatory authorities.

In December 2009, the Board of Directors of Independent Bank Corporation adopted resolutions (as subsequently amended) that impose the following restrictions:

- We will not pay dividends on our outstanding common stock or the outstanding preferred stock held by the UST and we will not pay distributions on our outstanding trust preferred securities without, in each case, the prior written approval of the Federal Reserve Board ("FRB") and the Michigan Office of Financial and Insurance Regulation ("OFIR");
- We will not incur or guarantee any additional indebtedness without the prior approval of the FRB;
- We will not repurchase or redeem any of our common stock without the prior approval of the FRB; and
- We will not rescind or materially modify any of these limitations without notice to the FRB and the OFIR.

In December 2009, the Board of Directors of Independent Bank adopted resolutions (as subsequently amended) designed to enhance certain aspects of the Bank's performance and, most importantly, to improve the Bank's capital position. These resolutions require the following:

- The adoption by the Bank of a capital restoration plan designed to help the Bank achieve the minimum capital ratios established by the Bank's Board of Directors as described below;
- The enhancement of the Bank's documentation of the rationale for discounts applied to collateral valuations on impaired loans and improved support for the identification, tracking, and reporting of loans classified as TDR's;
- The adoption of certain changes and enhancements to our liquidity monitoring and contingency planning and our interest rate risk management practices;
- Additional reporting to the Bank's Board of Directors regarding initiatives and plans pursued by management to improve the Bank's risk management practices;
- Prior approval of the FRB and the OFIR for any dividends or distributions to be paid by the Bank to Independent Bank Corporation; and
- Notice to the FRB and the OFIR of any rescission of or material modification to any of these resolutions.

The substance of all of the resolutions described above was developed in conjunction with discussions held with the FRB and the OFIR. Based on those discussions, we acted proactively to adopt the resolutions described above to address those areas of the Bank's financial condition and operations that we believed most required our focus at that time.

On October 25, 2011, the respective Boards of Directors of the Company and the Bank entered into a Memorandum of Understanding ("MOU") with the FRB and OFIR. The MOU largely duplicates certain of the provisions in the Board resolutions described above, but also has the following specific requirements:

- Submission of a joint revised capital plan (the "Capital Plan") by November 30, 2011 to maintain sufficient capital at the Company on a consolidated basis and at the Bank on a stand-alone basis;
- Submission of quarterly progress reports regarding disposition plans for any assets in excess of $1.0 million that are in ORE, are 90 days or more past due, are on our "watch list", or were adversely classified in our most recent examination;
- Enhanced reporting and monitoring at Mepco regarding risk management and the internal classification of assets; and
- Enhanced interest rate risk modeling practices.

We believe that we have met, and continue to satisfy, all of the requirements of the MOU.

We are also subject to various regulatory capital requirements. The prompt corrective action regulations establish quantitative measures to ensure capital adequacy and require minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets and Tier 1 capital to average assets. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly discretionary, actions by regulators that could have a material effect on our consolidated financial statements. Under capital adequacy guidelines, we must meet specific capital requirements that involve quantitative measures as well as qualitative judgments by the regulators. The most recent regulatory filings as of December 31, 2012 and 2011 categorized our Bank as well capitalized. Management is not aware of any conditions or events that would have changed the most recent FDIC categorization.

Our actual capital amounts and ratios at December 31 follow:

	Actual		Minimum for Adequately Capitalized Institutions		Minimum for Well-Capitalized Institutions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
2012						
Total capital to risk-weighted assets						
Consolidated	$ 204,663	14.71%	$ 111,268	8.00%	NA	NA
Independent Bank	207,553	14.95	111,063	8.00	$ 138,829	10.00%
Tier 1 capital to risk-weighted assets						
Consolidated	$ 185,948	13.37%	$ 55,634	4.00%	NA	NA
Independent Bank	189,777	13.67	55,531	4.00	$ 83,297	6.00%
Tier 1 capital to average assets						
Consolidated	$ 185,948	8.08%	$ 92,026	4.00%	NA	NA
Independent Bank	189,777	8.26	91,919	4.00	$ 114,899	5.00%
2011						
Total capital to risk-weighted assets						
Consolidated	$ 174,547	11.31%	$ 123,470	8.00%	NA	NA
Independent Bank	175,868	11.41	123,254	8.00	$ 154,068	10.00%
Tier 1 capital to risk-weighted assets						
Consolidated	$ 144,265	9.35%	$ 61,735	4.00%	NA	NA
Independent Bank	156,104	10.13	61,627	4.00	$ 92,441	6.00%
Tier 1 capital to average assets						
Consolidated	$ 144,265	6.25%	$ 92,338	4.00%	NA	NA
Independent Bank	156,104	6.77	92,268	4.00	$ 115,335	5.00%

NA - Not applicable

The components of our regulatory capital are as follows:

	Consolidated		Independent Bank	
	December 31,		December 31,	
	2012	2011	2012	2011
	(In thousands)			
Total shareholders' equity	$ 134,975	$ 102,627	$ 186,384	$ 152,987
Add (deduct)				
Qualifying trust preferred securities	47,678	38,183	-	-
Accumulated other comprehensive loss	8,058	11,921	8,156	11,583
Intangible assets	(3,975)	(7,609)	(3,975)	(7,609)
Disallowed capitalized mortgage loan servicing rights	(788)	(857)	(788)	(857)
Tier 1 capital	185,948	144,265	189,777	156,104
Qualifying trust preferred securities	990	10,485	-	-
Allowance for loan losses and allowance for unfunded lending commitments limited to 1.25% of total risk-weighted assets	17,725	19,797	17,776	19,764
Total risk-based capital	$ 204,663	$ 174,547	$ 207,553	$ 175,868

In November, 2011, our Board adopted the Capital Plan and submitted such Capital Plan to the FRB and the OFIR. The Capital Plan was updated in February, 2012. The FRB and OFIR have accepted such Capital Plan and as of December 31, 2012 we have met the requirements of the Capital Plan.

The primary objective of our Capital Plan is to achieve and thereafter maintain the minimum capital ratios required by the Board resolutions adopted in December 2009 (as subsequently amended). The minimum capital ratios established by our Board are higher than the ratios required in order to be considered “well-capitalized” under federal standards. The Board imposed these higher ratios in order to ensure that we have sufficient capital to withstand potential continuing losses based on our prevailing elevated level of non-performing assets and given certain other risks and uncertainties we face. As of December 31, 2012, our Bank continued to meet the requirements to be considered “well-capitalized” under federal regulatory standards and met both of the minimum capital ratio goals established by our Board.

Set forth below are the actual capital ratios of our Bank as of December 31, 2012, the minimum capital ratios imposed by the Board resolutions, and the minimum ratios necessary to be considered “well-capitalized” under federal regulatory standards:

	Independent Bank Actual as of December 31, 2012	Minimum Ratios Established by our Board	Minimum Ratio Required to be Well-Capitalized
Total Capital to Risk-Weighted Assets	14.95%	11.00%	10.00%
Tier 1 Capital to Average Total Assets	8.26	8.00	5.00

The Capital Plan included projections that reflected forecasted financial data through 2014. At the present time, based on these forecasts and our expectations, we believe that our Bank can remain above the minimum capital ratios established by our Board. These forecasts are susceptible to significant variations, particularly if the Michigan economy were to deteriorate and credit costs were to be higher than anticipated or if we incur any significant future losses at Mepco related to the collection of vehicle service contract counterparty receivables (see Note #11). Because of such uncertainties, it is possible that our Bank may not be able to remain above the minimum capital ratios established by our Board.

NOTE 22 – FAIR VALUE DISCLOSURES

FASB ASC topic 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets. Level 1 instruments include securities traded on active exchange markets, such as the New York Stock Exchange, as well as U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market. Level 2 instruments include securities traded in less active dealer or broker markets.

Level 3: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

We used the following methods and significant assumptions to estimate fair value:

Securities: Where quoted market prices are available in an active market, securities (trading or available for sale) are classified as Level 1 of the valuation hierarchy. Level 1 securities include certain preferred stocks included in our trading portfolio for which there are quoted prices in active markets. If quoted market prices are not available for the specific security, then fair values are estimated by (1) using quoted market prices of securities with similar characteristics, (2) matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for specific securities but rather by relying on the securities' relationship to other benchmark quoted prices, or (3) a discounted cash flow analysis whose significant fair value inputs can generally be verified and do not typically involve judgment by management. These securities are classified as Level 2 of the valuation hierarchy and include agency and private label residential mortgage-backed securities, municipal securities and trust preferred securities.

Loans held for sale: The fair value of mortgage loans held for sale is based on mortgage backed security pricing for comparable assets (recurring Level 2). The fair value of loans held for sale relating to branch sale is based on a discount provided for in the branch sale agreement (non-recurring Level 2).

Impaired loans with specific loss allocations based on collateral value: From time to time, certain loans are considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. We measure our investment in an impaired loan based on one of three methods: the loan's observable market price, the fair value of the collateral or the present value of expected future cash flows discounted at the loan's effective interest rate. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At December 31, 2012 and 2011, all of our total impaired loans were evaluated based on either the fair value of the collateral or the present value of expected future cash flows discounted at the loan's effective interest rate. When the fair value of the collateral is based on an appraised value or when an appraised value is not available we record the impaired loan as nonrecurring Level 3. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments can be significant and thus will typically result in a Level 3 classification of the inputs for determining fair value.

Other real estate: At the time of acquisition, other real estate is recorded at fair value, less estimated costs to sell, which becomes the property's new basis. Subsequent write-downs to reflect declines in value since the time of acquisition may occur from time to time and are recorded in other expense in the Consolidated Statements of Operations. The fair value of the property used at and subsequent to the time of acquisition is typically determined by a third party appraisal of the property. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments can be significant and typically result in a Level 3 classification of the inputs for determining fair value.

Appraisals for both collateral-dependent impaired loans and other real estate owned are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by us. Once received, an independent third party (for commercial properties over $0.25 million) or a member of our special assets group (for commercial properties under $0.25 million and retail properties) reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. On an annual basis, we compare the actual selling price of collateral that has been sold to the most recent appraised value to determine what additional adjustment, if any, should be made to the appraisal value to arrive at fair value. For commercial properties we typically do not discount an appraisal while for retail properties we generally discount the value by 5%. In addition, we will adjust the appraised values for expected liquidation costs including sales commissions and transfer taxes.

Capitalized mortgage loan servicing rights: The fair value of capitalized mortgage loan servicing rights is based on a valuation model used by an independent third party that calculates the present value of estimated net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income. Since the secondary servicing market has not been active since the later part of 2009, model assumptions are generally unobservable and are based upon the best information available including data relating to our own servicing portfolio, reviews of mortgage servicing assumption and valuation surveys and input from various mortgage servicers and, therefore, are recorded as nonrecurring Level 3. Management evaluates the third party valuation for reasonableness each quarter as part of our financial reporting control processes.

Derivatives – The fair value of interest rate swap agreement is determined using a discounted cash flow model whose significant fair value inputs can generally be verified and do not typically involve judgment by management (recurring Level 2). The fair value of the Amended Warrant is determined using a simulation analysis which considers potential outcomes for a large number of independent scenarios regarding the future prices of our common stock and uses several unobservable variables (recurring Level 3).

Assets and liabilities measured at fair value, including financial assets for which we have elected the fair value option, are summarized below:

		Fair Value Measurements Using		
	Fair Value Measure-ments	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Un-observable Inputs (Level 3)
	(In thousands)			
December 31, 2012:				
Measured at Fair Value on a Recurring Basis:				
Assets				
Trading securities	$ 110	$ 110	$ -	$ -
Securities available for sale				
U.S. agency	30,667	-	30,667	-
U.S. agency residential mortgage-backed	127,412	-	127,412	-
Private label residential mortgage-backed	8,194	-	8,194	-
Obligations of states and political subdivisions	39,051	-	39,051	-
Trust preferred	3,089	-	3,089	-
Loans held for sale	47,487	-	47,487	-
Derivatives (1)	1,368	-	1,368	-
Liabilities				
Derivatives (2)	1,320	-	861	459
Measured at Fair Value on a Non-recurring basis:				
Assets				
Capitalized mortgage loan servicing rights (3)	8,814	-	-	8,814
Impaired loans (4)				
Commercial				
Income producing - real estate	3,727	-	-	3,727
Land, land development & construction-real estate	2,882	-	-	2,882
Commercial and industrial	6,581	-	-	6,581
Mortgage				
1-4 Family	2,694	-	-	2,694
Resort Lending	380	-	-	380
Other real estate (5)				
Commercial				
Income producing - real estate	86	-	-	86
Land, land development & construction-real estate	3,190	-	-	3,190
Mortgage				
1-4 Family	405	-	-	405
Resort Lending	3,535	-	-	3,535
Installment				
Home equity installment - 1st lien	59	-	-	59
Loans held for sale relating to branch sale	3,292	-	3,292	-

(1) Included in accrued income and other assets
(2) Included in accrued expenses and other liabilities
(3) Only includes servicing rights that are carried at fair value due to recognition of a valuation allowance.
(4) Only includes impaired loans with specific loss allocations based on collateral value.
(5) Only includes other real estate with subsequent write downs to fair value.

	Fair Value Measure-ments	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Un-observable Inputs (Level 3)
		(In thousands)		
December 31, 2011:				
Measured at Fair Value on a Recurring Basis:				
Assets				
Trading securities	$ 77	$ 77	$ -	$ -
Securities available for sale				
U.S. agency	25,017	-	25,017	-
U.S. agency residential mortgage-backed	94,206	-	94,206	-
Private label residential mortgage-backed	8,268	-	8,268	-
Obligations of states and political subdivisions	27,317	-	27,317	-
Trust preferred	2,636	-	2,636	-
Loans held for sale	44,801	-	44,801	-
Derivatives (1)	857	-	857	-
Liabilities				
Derivatives (2)	1,883	-	1,709	174
Measured at Fair Value on a Non-recurring basis:				
Assets				
Capitalized mortgage loan servicing rights (3)	11,004	-	-	11,004
Impaired loans (4)				
Commercial				
Income producing - real estate	8,022	-	-	8,022
Land, land development & construction-real estate	5,702	-	-	5,702
Commercial and industrial	5,613	-	-	5,613
Mortgage				
1-4 Family	3,263	-	-	3,263
Resort Lending	1,064	-	-	1,064
Other real estate (5)				
Commercial				
Income producing - real estate	1,388	-	-	1,388
Land, land development & construction-real estate	7,512	-	-	7,512
Commercial and industrial	497	-	-	497
Mortgage				
1-4 Family	2,079	-	-	2,079
Resort Lending	5,297	-	-	5,297
Home equity line of credit - 1st lien	53	-	-	53
Installment				
Home equity installment - 1st lien	100	-	-	100

(1) Included in accrued income and other assets
(2) Included in accrued expenses and other liabilities
(3) Only includes servicing rights that are carried at fair value due to recognition of a valuation allowance.
(4) Only includes impaired loans with specific loss allocations based on collateral value.
(5) Only includes other real estate with subsequent write downs to fair value.

There were no transfers between Level 1 and Level 2 during the years ended December 31, 2012 and 2011.

Changes in fair values for financial assets which we have elected the fair value option for the years ended December 31 are as follows:

	Net Gains (Losses) on Assets		Total Change in Fair Values Included in Current Period Earnings
	Securities	Loans	
	(In thousands)		
2012			
Trading securities	$ 33	$ -	$ 33
Loans held for sale	-	440	440
2011			
Trading securities	$ 45	$ -	$ 45
Loans held for sale	-	1,503	1,503
2010			
Trading securities	$ (22)	$ -	$ (22)
Loans held for sale	-	(378)	(378)

For those items measured at fair value pursuant to our election of the fair value option, interest income is recorded within the Consolidated Statements of Operations based on the contractual amount of interest income earned on these financial assets and dividend income is recorded based on cash dividends and also recorded in interest income.

The following represent impairment charges recognized during the years ended December 31, 2012, 2011 and 2010 relating to assets measured at fair value on a non-recurring basis:

- Capitalized mortgage loan servicing rights, whose individual strata are measured at fair value had a carrying amount of $8.8 million which is net of a valuation allowance of $6.1 million at December 31, 2012 and had a carrying amount of $11.0 million which is net of a valuation allowance of $6.5 million at December 31, 2011. A recovery (charge) of $0.5 million, $(3.3) million and $(0.9) million was included in our results of operations for the years ending December 31, 2012, 2011 and 2010, respectively.

- Loans which are measured for impairment using the fair value of collateral for collateral dependent loans, had a carrying amount of $22.8 million, with a valuation allowance of $6.5 million at December 31, 2012 and had a carrying amount of $33.9 million, with a valuation allowance of $10.3 million at December 31, 2011. An additional provision for loan losses relating to impaired loans of $2.0 million, $8.9 million and $12.0 million was included in our results of operations for the years ending December 31, 2012, 2011 and 2010, respectively.

- Other real estate, which is measured using the fair value of the property, had a carrying amount of $7.3 million which is net of a valuation allowance of $6.0 million at December 31, 2012 and a carrying amount of $16.9 million which is net of a valuation allowance of $14.7 million at December 31, 2011. An additional charge relating to ORE measured at fair value of $1.5 million, $5.4 million and $6.2 million was included in our results of operations during the years ended December 31, 2012, 2011 and 2010, respectively.

A reconciliation for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31 follows:

	(Liability) Amended Warrant 2012	(Liability) Amended Warrant 2011
	(In thousands)	
Beginning balance	$ (174)	$ (1,311)
Total gains (losses) realized and unrealized:		
Included in results of operations	(285)	1,137
Included in other comprehensive income	-	-
Purchases, issuances, settlements, maturities and calls	-	-
Transfers in and/or out of Level 3	-	-
Ending balance	$ (459)	$ (174)
Amount of total gains (losses) for the year included in earnings attributable to the change in unrealized gains (losses) relating to assets and liabilities still held at December 31	$ (285)	$ 1,137

During 2010, we entered into an amended and restated warrant with the UST that would allow them to purchase our common stock at a fixed price (see Note #12). Because of certain anti-dilution features included in the Amended Warrant, it is not considered to be indexed to our common stock and is therefore accounted for as a derivative instrument (see Note #16). Any change in value of this warrant is recorded in other income in our Consolidated Statements of Operations.

The fair value of the Amended Warrant is determined using a simulation analysis which considers potential outcomes for a large number of independent scenarios regarding the future prices of our common stock. The simulation analysis relies on a binomial lattice model, a standard technique usually applied to the valuation of stock options. The binomial lattice maps out possible price paths of our common stock, the underlying asset of the Amended Warrant. The simulation is based on a 500-step lattice covering the term of the Amended Warrant. The binomial lattice requires specification of 14 variables, of which several are unobservable in the market.

Quantitative information about the Amended Warrant at December 31, 2012 and 2011 follows:

	(Liability) Fair Value	Valuation Technique	Unobservable Inputs	Unobservable Input Values December 31, 2012	Unobservable Input Values December 31, 2011
	(In thousands)				
Amended Warrant	$ (459)	Binomial Lattice Model	Probability of non- permitted equity raise	0.5%	1.0%
			Expected discount to stock price in an equity raise	10.0%	10.0%
			Dollar amount of expected capital raise	$ 100 Million	$ 100 Million
			Expected time of non- permitted equity raise	April, 2013	April, 2013

The significant unobservable inputs used in the fair value measurement of the Company's amended warrant are probability of a non-permitted capital raise, expected discount to stock price in an equity raise, dollar amount of expected capital raise and expected time of equity raise. Significant increases/(decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the probability of a non-permitted capital raise and dollar amount of equity raise is accompanied by a directionally consistent change in fair value and a directionally opposite change in the assumption used for expected discount to stock price in an equity raise and expected time of equity raise.

Quantitative information about Level 3 fair value measurements measured on a non-recurring basis at December 31, 2012 follows:

	Asset (Liability) Fair Value	Valuation Technique	Unobservable Inputs	Weighted Average
	(In thousands)			
Capitalized mortgage loan servicing rights	$ 8,814	Present value of net servicing revenue	Discount rate	11.00%
			Cost to service	$ 83
			Ancillary income	43
			Float rate	0.84%
Impaired loans				
Commercial	13,190	Sales comparison approach	Adjustment for differences between comparable sales	16.7%
		Income approach	Capitalization rate	10.8
Mortgage	3,074	Sales comparison approach	Adjustment for differences between comparable sales	9.5
Other real estate				
Commercial	3,276	Sales comparison approach	Adjustment for differences between comparable sales	(12.4)
		Income approach	Capitalization rate	12.3
Mortgage and Installment	3,999	Sales comparison approach	Adjustment for differences between comparable sales	(6.3)

The following table reflects the difference between the aggregate fair value and the aggregate remaining contractual principal balance outstanding for loans held for sale for which the fair value option has been elected at December 31.

	Aggregate Fair Value	Difference	Contractual Principal
		(In thousands)	
Loans held for sale			
2012	$ 47,487	$ 1,843	$ 45,644
2011	44,801	1,403	43,398
2010	50,098	(100)	50,198

NOTE 23 – FAIR VALUES OF FINANCIAL INSTRUMENTS

Most of our assets and liabilities are considered financial instruments. Many of these financial instruments lack an available trading market and it is our general practice and intent to hold the majority of our financial instruments to maturity. Significant estimates and assumptions were used to determine the fair value of financial instruments. These estimates are subjective in nature, involving uncertainties and matters of judgment, and therefore, fair values cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Estimated fair values have been determined using available data and methodologies that are considered suitable for each category of financial instrument. For instruments with adjustable-interest rates which reprice frequently and without significant credit risk, it is presumed that estimated fair values approximate the recorded book balances.

Cash and due from banks and interest bearing deposits: The recorded book balance of cash and due from banks and interest bearing deposits approximate fair value and are classified as Level 1.

Securities: Financial instrument assets actively traded in a secondary market have been valued using quoted market prices. Trading securities are classified as Level 1 while securities available for sale are classified as Level 2 as described in Note #22.

Federal Home Loan Bank and Federal Reserve Bank Stock: It is not practicable to determine the fair value of FHLB and FRB Stock due to restrictions placed on transferability.

Net loans and loans held for sale: The fair value of loans is calculated by discounting estimated future cash flows using estimated market discount rates that reflect credit and interest-rate risk inherent in the loans resulting in a Level 3 classification. Impaired loans are valued at the lower of cost or fair value as described in Note #22. Loans held for sale are classified as Level 2 as described in Note #22.

Accrued interest receivable and payable: The recorded book balance of accrued interest receivable and payable approximate fair value and are classified at the same Level as the asset and liability they are associated with.

Derivative financial instruments: Interest rate swaps have principally been valued based on the discounted value of contractual cash flows using a discount rate approximating current market rates and are classified as Level 2 as described in Note #22 and the Amended Warrant has been valued based on a simulation analysis which considers potential outcomes for a large number of independent scenarios and is classified as Level 3 as described in Note #22.

Deposits: Deposits without a stated maturity, including demand deposits, savings, NOW and money market accounts, have a fair value equal to the amount payable on demand. Each of these instruments is classified as Level 1. Deposits with a stated maturity, such as certificates of deposit have been valued based on the discounted value of contractual cash flows using a discount rate approximating current market rates for liabilities with a similar maturity resulting in a Level 2 classification.

Other borrowings: Other borrowings have been valued based on the discounted value of contractual cash flows using a discount rate approximating current market rates for liabilities with a similar maturity resulting in a Level 2 classification.

Subordinated debentures: Subordinated debentures have generally been valued based on a quoted market price of the specific or similar instruments resulting in a Level 1 or Level 2 classification.

The estimated fair values and recorded book balances at December 31 follow:

	December 31, 2012				
			Fair Value Measurements Using		
	Recorded Book Balance	Fair Value Measure-ments	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Un-observable Inputs (Level 3)
			(In thousands)		
Assets					
Cash and due from banks	$ 55,487	$ 55,487	$ 55,487	$ -	$ -
Interest bearing deposits	124,295	124,295	124,295	-	-
Trading securities	110	110	110	-	-
Securities available for sale	208,413	208,413	-	208,413	-
Federal Home Loan Bank and Federal Reserve Bank Stock	20,838	NA	NA	NA	NA
Net loans and loans held for sale	1,425,643	1,400,385	-	50,779	1,349,606
Accrued interest receivable	5,814	5,814	102	934	4,778
Derivative financial instruments	1,368	1,368	-	1,368	-
Liabilities					
Deposits with no stated maturity	$ 1,360,609	$ 1,360,609	$ 1,360,609	$ -	$ -
Deposits with stated maturity	418,928	420,374	-	420,374	-
Other borrowings	17,625	21,463	-	21,463	-
Subordinated debentures	50,175	42,235	7,956	34,279	-
Accrued interest payable	7,197	7,197	2,942	4,255	-
Derivative financial instruments	1,320	1,320	-	861	459

	December 31, 2011	
	Recorded Book Balance	Estimated Fair Value
	(In thousands)	
Assets		
Cash and due from banks	$ 62,777	$ 62,777
Interest bearing deposits	278,331	278,331
Trading securities	77	77
Securities available for sale	157,444	157,444
Federal Home Loan Bank and Federal Reserve Bank Stock	20,828	NA
Net loans and loans held for sale	1,562,525	1,475,738
Accrued interest receivable	6,243	6,243
Derivative financial instruments	857	857
Liabilities		
Deposits with no stated maturity	$ 1,517,321	$ 1,517,321
Deposits with stated maturity	568,804	571,552
Other borrowings	33,387	37,907
Subordinated debentures	50,175	16,138
Accrued interest payable	5,106	5,106
Derivative financial instruments	1,883	1,883

The fair values for commitments to extend credit and standby letters of credit are estimated to approximate their aggregate book balances, which are nominal and therefore are not disclosed.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale the entire holdings of a particular financial instrument.

Fair value estimates are based on existing on- and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business, the value of future earnings attributable to off-balance sheet activities and the value of assets and liabilities that are not considered financial instruments.

Fair value estimates for deposit accounts do not include the value of the core deposit intangible asset resulting from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market.

NOTE 24 – OPERATING SEGMENTS

Our reportable segments are based upon legal entities. We have two reportable segments: Independent Bank (“IB”) and Mepco. The accounting policies of the segments are the same as those described in Note 1 to the consolidated financial statements. We evaluate performance based principally on net income (loss) of the respective reportable segments.

In the normal course of business, our IB segment provides funding to our Mepco segment through an intercompany line of credit priced at the prime rate of interest as published in the Wall Street Journal. Our IB segment also provides certain administrative services to our Mepco segment which reimburses at an agreed upon rate. These intercompany transactions are eliminated upon consolidation. The only other material intersegment balances and transactions are investments in subsidiaries at the parent entities and cash balances on deposit at our IB segment.

A summary of selected financial information for our reportable segments follows:

	IB	Mepco	Other(1)	Elimination(2)	Total
			(In thousands)		
2012					
Total assets	$ 1,885,807	$ 135,447	$ 192,343	$ (189,730)	$ 2,023,867
Interest income	84,760	14,638	-	-	99,398
Net interest income	77,919	11,115	(2,779)	-	86,255
Provision for loan losses	6,895	(8)	-	-	6,887
Income (loss) before income tax	27,379	2,591	(3,677)	(95)	26,198
Net income (loss)	28,260	1,710	(3,677)	(95)	26,198
2011					
Total assets	$ 2,132,736	$ 172,007	$ 157,251	$ (154,588)	$ 2,307,406
Interest income	93,310	21,452	-	-	114,762
Net interest income	81,224	16,074	(2,729)	-	94,569
Provision for loan losses	27,972	(26)	-	-	27,946
Loss before income tax	(11,137)	(6,694)	(2,486)	(95)	(20,412)
Net loss	(12,768)	(4,849)	(2,488)	(95)	(20,200)
2010					
Total assets	$ 2,270,881	$ 265,201	$ 176,740	$ (177,574)	$ 2,535,248
Interest income	111,470	37,381	-	-	148,851
Net interest income	87,521	28,602	(4,470)	-	111,653
Provision for loan losses	47,093	(328)	-	-	46,765
Income (loss) before income tax	(27,763)	(2,264)	11,823	(95)	(18,299)
Net income (loss)	(27,049)	(1,388)	11,823	(95)	(16,709)

(1) Includes amounts relating to our parent company and certain insignificant operations. Net income in 2010 includes parent company's $18.1 million gain on extinguishment of debt.
(2) Includes parent company's investment in subsidiaries and cash balances maintained at subsidiary.

NOTE 25 – ACCUMULATED OTHER COMPREHENSIVE LOSS

A summary of accumulated other comprehensive at December 31 follows:

	2012	2011	2010
		(In thousands)	
Unrealized losses on available for sale securities	$ (516)	$ (3,579)	$ (4,448)
Disproportionate tax effects from securities available for sale	(5,617)	(5,617)	(5,313)
Unrealized losses on cash flow hedges	(739)	(1,103)	(1,420)
Unrealized losses on settled derivatives	-	(436)	(1,095)
Disproportionate tax effects from cash flow hedges	(1,186)	(1,186)	(844)
Total	$ (8,058)	$ (11,921)	$ (13,120)

NOTE 26 – INDEPENDENT BANK CORPORATION (PARENT COMPANY ONLY) FINANCIAL INFORMATION

Presented below are condensed financial statements for our parent company.

CONDENSED STATEMENTS OF FINANCIAL CONDITION

	December 31,	
	2012	2011
	(In thousands)	
ASSETS		
Cash and due from banks	$ 3,788	$ 2,138
Investment in subsidiaries	187,890	154,494
Other assets	665	619
Total Assets	$ 192,343	$ 157,251
LIABILITIES AND SHAREHOLDERS' EQUITY		
Subordinated debentures	$ 50,175	$ 50,175
Other liabilities	7,635	4,986
Shareholders' equity	134,533	102,090
Total Liabilities and Shareholders' Equity	$ 192,343	$ 157,251

CONDENSED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2012	2011	2010
		(In thousands)	
OPERATING INCOME			
(Increase) decrease in fair value of U.S. Treasury warrant	$ (285)	$ 1,137	$ 393
Gain on extinguishment of debt	-	-	18,066
Other income	70	64	107
Total Operating Income	(215)	1,201	18,566
OPERATING EXPENSES			
Interest expense	2,779	2,729	4,470
Administrative and other expenses	683	958	2,273
Total Operating Expenses	3,462	3,687	6,743
Income (Loss) Before Income Tax and Equity in Undistributed Net Income (Loss) of Subsidiaries	(3,677)	(2,486)	11,823
Income tax credit	-	(2)	-
Income (Loss) Before Equity in Undistributed Net Income (Loss) of Subsidiaries	(3,677)	(2,488)	11,823
Equity in undistributed net income (loss) of subsidiaries	29,875	(17,712)	(28,532)
Net Income (Loss)	$ 26,198	$ (20,200)	$ (16,709)

CONDENSED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2012	2011	2010
		(In thousands)	
Net Loss	$ 26,198	$ (20,200)	$ (16,709)
ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO NET CASH USED IN OPERATING ACTIVITIES			
Share based compensation	184	157	-
Gain on extinguishment of debt		-	(18,066)
Depreciation, amortization of intangible assets and premiums, and accretion of discounts on securities and loans	-	1	2
Increase in other assets	(46)	(92)	(618)
Increase (decrease) in other liabilities	2,945	(2,404)	1,977
Equity in undistributed net (income) loss of subsidiaries operations	(29,875)	17,712	28,532
Total Adjustments	(26,792)	15,374	11,827
Net Cash Used in Operating Activities	(594)	(4,826)	(4,882)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issuance of common stock	2,244	2,245	1,118
Extinguishment of debt, net	-	-	(1,005)
Net Cash From Financing Activities	2,244	2,245	113
Net Increase (Decrease) in Cash and Cash Equivalents	1,650	(2,581)	(4,769)
Cash and Cash Equivalents at Beginning of Year	2,138	4,719	9,488
Cash and Cash Equivalents at End of Year	$ 3,788	$ 2,138	$ 4,719

NOTE 27 – BRANCH SALE

On December 7, 2012 we sold 21 branches to another financial institution (the "Branch Sale"). The branches sold included six branch locations in the Battle Creek, Michigan market area and 15 branch locations in Northeast Michigan.

The Branch Sale resulted in the transfer of approximately $403.1 million of deposits in exchange for our receipt of a deposit premium of approximately $11.5 million. We also sold approximately $48.0 million of loans at a discount of 1.75% and premises and equipment totaling approximately $8.1 million. The Branch Sale also resulted in our transfer of $336.1 million of cash to the purchaser. We recorded a net gain on the Branch Sale of approximately $5.4 million. This gain is net of an allocation of $2.6 million of existing core deposit intangibles, a $2.5 million loss on the sale of premises and equipment, a $0.2 million loss on the sale of loans and $0.8 million in transaction and other related net costs.

A summary of loans sold and deposits transferred follows:

	(In thousands)
Loans:	
Commercial	$ 27,083
Mortgage	8,074
Installment	12,797
Total loans	47,954
Allowance for loan losses	(610)
Net loans	$ 47,344
Deposits	
Non-interest bearing	$ 71,718
Savings and interest bearing-checking	217,264
Retail time	114,107
Total deposits	$ 403,089

QUARTERLY FINANCIAL DATA (UNAUDITED)

A summary of selected quarterly results of operations for the years ended December 31 follows:

	Three Months Ended			
	March 31,	June 30,	September 30,	December 31,
	(In thousands, except per share amounts)			
2012				
Interest income	$ 25,696	$ 25,255	$ 24,733	$ 23,714
Net interest income	22,100	21,830	21,451	20,874
Provision for loan losses	5,131	1,056	251	449
Income before income tax	3,504	4,333	6,446	11,915
Net income	3,504	4,333	6,446	11,915
Net income applicable to common stock	2,448	3,241	5,353	10,809
Income per common share				
Basic	0.29	0.38	0.61	1.21
Diluted	0.07	0.11	0.16	0.36
2011				
Interest income	$ 30,718	$ 29,127	$ 28,187	$ 26,730
Net interest income	24,450	23,384	23,774	22,961
Provision for loan losses	10,702	4,156	6,171	6,917
Loss before income tax	(7,409)	(221)	(4,604)	(8,178)
Net income (loss)	(7,401)	37	(4,122)	(8,714)
Net loss applicable to common stock	(8,409)	(1,014)	(5,165)	(9,769)
Loss per common share				
Basic	(1.06)	(0.12)	(0.61)	(1.15)
Diluted	(1.06)	(0.12)	(0.61)	(1.15)

During the fourth quarter of 2012, we recognized a net gain on the sale of certain branches of $5.4 million (see note #27) and a recovery on our capitalized mortgage loan servicing rights of $1.1 million (see note #4). During the fourth quarter of 2011, we recognized a $6.0 million expense for vehicle service contract counterparty contingencies expense (see notes #11 and #20).

QUARTERLY SUMMARY

	Reported Sale Prices of Common Shares						Cash Dividends Declared	
	2012			2011				
	High	Low	Close	High	Low	Close	2012	2011
First quarter	$ 2.59	$ 1.30	$ 2.20	$ 4.75	$ 1.28	$ 3.20	$ -	$ -
Second quarter	4.35	2.13	2.47	3.84	1.69	2.03	-	-
Third quarter	3.13	2.48	2.71	2.87	1.75	1.92	-	-
Fourth quarter	3.99	2.61	3.50	1.98	1.25	1.33	-	-

We have approximately 2,300 holders of record of our common stock. Our common stock trades on the Nasdaq Global Select Market System under the symbol “IBCP.” The prices shown above are supplied by Nasdaq and reflect the inter-dealer prices and may not include retail markups, markdowns or commissions. There may have been transactions or quotations at higher or lower prices of which we are not aware.

In addition to the provisions of the Michigan Business Corporation Act, our ability to pay dividends is limited by our ability to obtain funds from our Bank and by regulatory capital guidelines applicable to us (see note #21).

EXHIBIT 21

INDEPENDENT BANK CORPORATION

Subsidiaries of the Registrant

	State of Incorporation
IBC Capital Finance II Ionia, Michigan	Delaware
IBC Capital Finance III Ionia, Michigan	Delaware
IBC Capital Finance IV Ionia, Michigan	Delaware
Midwest Guaranty Trust I Ionia, Michigan	Delaware
Independent Bank Ionia, Michigan	Michigan
IBC Financial Services, Inc., Grand Rapids, Michigan (a subsidiary of Independent Bank)	Michigan
Independent Title Services, Inc., Grand Rapids, Michigan (a subsidiary of Independent Bank)	Michigan
Mepco Finance Corporation ("Mepco"), Chicago, Illinois (a subsidiary of Independent Bank)	Michigan
Mepco Acceptance Corp., Chicago, Illinois (a subsidiary of Mepco)	California
Jarco Investments, LLC, Ionia, Michigan (a subsidiary of Independent Bank)	Michigan
Eaton Investments, LLC, Ionia, Michigan (a subsidiary of Independent Bank)	Michigan
IBC Property Management, LLC, Ionia, Michigan (a subsidiary of Independent Bank)	Michigan
Land Holdings, LLC, Ionia, Michigan (a subsidiary of Independent Bank)	Michigan
Cal Land Investments, LLC, Ionia, MI (a subsidiary of Independent Bank)	Michigan
Independent Life Insurance Trust, Ionia, Michigan (a subsidiary of Independent Bank)	Michigan

EXHIBIT 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements (Nos. 333-47352, 333-32269, 333-32267, 333-89072 and 333-125484) on Forms S-8 of Independent Bank Corporation of our report dated March 13, 2013 with respect to the consolidated financial statements of Independent Bank Corporation, which report appears in this Annual Report on Form 10-K of Independent Bank Corporation for the year ended December 31, 2012.

/s/ Crowe Horwath LLP

Grand Rapids, Michigan
March 13, 2013

EXHIBIT 31.1

CERTIFICATION

I, William B. Kessel, certify that:

1. I have reviewed this annual report on Form 10-K of Independent Bank Corporation;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 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 15.15(f)) for the registrant and 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 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 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; and
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.

Date: March 13, 2013

/s/ William B. Kessel
William B. Kessel
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, Robert N. Shuster, certify that:

1. I have reviewed this annual report on Form 10-K of Independent Bank Corporation;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 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 15.15(f)) for the registrant and 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 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 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; and
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.

Date: March 13, 2013

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

EXHIBIT 32.1

CERTIFICATE OF THE
CHIEF EXECUTIVE OFFICER OF
INDEPENDENT BANK CORPORATION

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002:

I, William B. Kessel, President and Chief Executive Officer of Independent Bank Corporation, certify pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

(1) The annual report on Form 10-K for the annual period ended December 31, 2012, 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 annual report on Form 10-K for the annual period ended December 31, 2012, fairly presents, in all material respects, the financial condition and results of operations of Independent Bank Corporation.

Date: March 13, 2013

/s/ William B. Kessel
William B. Kessel
President and 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.

EXHIBIT 32.2

CERTIFICATE OF THE
CHIEF FINANCIAL OFFICER OF
INDEPENDENT BANK CORPORATION

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002:

I, Robert N. Shuster, Chief Financial Officer of Independent Bank Corporation, certify pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

(1) The annual report on Form 10-K for the annual period ended December 31, 2012, 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 annual report on Form 10-K for the annual period ended December 31, 2012, fairly presents, in all material respects, the financial condition and results of operations of Independent Bank Corporation.

Date: March 13, 2013

/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.

EXHIBIT 99.1

INDEPENDENT BANK CORPORATION
Certification of Chief Executive Officer
Pursuant to Section 111(b)(4) of the
Emergency Economic Stabilization Act of 2008

I, William B. Kessel, certify, based on my knowledge, that:

(i) The compensation committee of Independent Bank Corporation has discussed, reviewed, and evaluated with senior risk officers at least every six months during any part of the most recently completed fiscal year that was a TARP period, senior executive officer (SEO) compensation plans and employee compensation plans and the risks these plans pose to Independent Bank Corporation;

(ii) The compensation committee of Independent Bank Corporation has identified and limited during any part of the most recently completed fiscal year that was a TARP period any features of the SEO compensation plans that could lead SEOs to take unnecessary and excessive risks that could threaten the value of Independent Bank Corporation and has identified any features of the employee compensation plans that pose risks to Independent Bank Corporation and has limited those features to ensure that Independent Bank Corporation is not unnecessarily exposed to risks;

(iii) The compensation committee has reviewed, at least every six months during any part of the most recently completed fiscal year that was a TARP period, the terms of each employee compensation plan and identified any features of the plan that could encourage the manipulation of reported earnings of Independent Bank Corporation to enhance the compensation of an employee, and has limited any such features;

(iv) The compensation committee of Independent Bank Corporation will certify to the reviews of the SEO compensation plans and employee compensation plans required under (i) and (iii) above;

(v) The compensation committee of Independent Bank Corporation will provide a narrative description of how it limited during any part of the most recently completed fiscal year that was a TARP period the features in:

   (A) SEO compensation plans that could lead SEOs to take unnecessary and excessive risks that could threaten the value of Independent Bank Corporation;

   (B) Employee compensation plans that unnecessarily expose Independent Bank Corporation to risks; and

   (C) Employee compensation plans that could encourage the manipulation of reported earnings of Independent Bank Corporation to enhance the compensation of an employee;

(vi) Independent Bank Corporation has required that bonus payments to SEOs or any of the next twenty most highly compensated employees, as defined in the regulations and guidance established under section 111 of EESA (bonus payments), be subject to a recovery or “clawback” provision during any part of the most recently completed fiscal year that was a TARP period if the bonus payments were based on materially inaccurate financial statements or any other materially inaccurate performance metric criteria;

(vii) Independent Bank Corporation has prohibited any golden parachute payment, as defined in the regulations and guidance established under section 111 of EESA, to a SEO or any of the next five most highly compensated employees during any part of the most recently completed fiscal year that was a TARP period;

(viii) Independent Bank Corporation has limited bonus payments to its applicable employees in accordance with section 111 of EESA and the regulations and guidance established thereunder during any part of the most recently completed fiscal year that was a TARP period;

(ix) Independent Bank Corporation and its employees have complied with the excessive or luxury expenditures policy, as defined in the regulations and guidance established under section 111 of EESA, during any part of the most recently completed fiscal year that was a TARP period; and any expenses that, pursuant to the policy, required approval of the board of directors, a committee of the board of directors, an SEO, or an executive officer with a similar level of responsibility were properly approved;

(x) Independent Bank Corporation will permit a non-binding shareholder resolution in compliance with any applicable Federal securities rules and regulations on the disclosures provided under the Federal securities laws related to SEO compensation paid or accrued during any part of the most recently completed fiscal year that was a TARP period;

(xi) Independent Bank Corporation will disclose the amount, nature, and justification for the offering, during any part of the most recently completed fiscal year that was a TARP period, of any perquisites, as defined in the regulations and guidance established under section 111 of EESA, whose total value exceeds $25,000 for any employee who is subject to the bonus payment limitations identified in paragraph (viii);

(xii) Independent Bank Corporation will disclose whether Independent Bank Corporation, the board of directors of Independent Bank Corporation, or the compensation committee of Independent Bank Corporation has engaged during any part of the most recently completed fiscal year that was a TARP period a compensation consultant; and the services the compensation consultant or any affiliate of the compensation consultant provided during this period;

(xiii) Independent Bank Corporation has prohibited the payment of any gross-ups, as defined in the regulations and guidance established under section 111 of EESA, to the SEOs and the next twenty most highly compensated employees during any part of the most recently completed fiscal year that was a TARP period;

(xiv) Independent Bank Corporation has substantially complied with all other requirements related to employee compensation that are provided in the agreement between Independent Bank Corporation and Treasury, including any amendments;

(xv) Independent Bank Corporation has submitted to Treasury a complete and accurate list of the SEOs and the twenty next most highly compensated employees for the current fiscal year, with the non-SEOs ranked in descending order of level of annual compensation, and with the name, title, and employer of each SEO and most highly compensated employee identified; and

(xvi) I understand that a knowing and willful false or fraudulent statement made in connection with this certification may be punished by fine, imprisonment, or both. (See, for example 18 U.S.C. 1001.)

Date: March 13, 2013

/s/ William B. Kessel
William B. Kessel
President and Chief Executive Officer

EXHIBIT 99.2

INDEPENDENT BANK CORPORATION
Certification of Chief Financial Officer
Pursuant to Section 111(b)(4) of the
Emergency Economic Stabilization Act of 2008

I, Robert N. Shuster, certify, based on my knowledge, that:

(i) The compensation committee of Independent Bank Corporation has discussed, reviewed, and evaluated with senior risk officers at least every six months during any part of the most recently completed fiscal year that was a TARP period, senior executive officer (SEO) compensation plans and employee compensation plans and the risks these plans pose to Independent Bank Corporation;

(ii) The compensation committee of Independent Bank Corporation has identified and limited during any part of the most recently completed fiscal year that was a TARP period any features of the SEO compensation plans that could lead SEOs to take unnecessary and excessive risks that could threaten the value of Independent Bank Corporation and has identified any features of the employee compensation plans that pose risks to Independent Bank Corporation and has limited those features to ensure that Independent Bank Corporation is not unnecessarily exposed to risks;

(iii) The compensation committee has reviewed, at least every six months during any part of the most recently completed fiscal year that was a TARP period, the terms of each employee compensation plan and identified any features of the plan that could encourage the manipulation of reported earnings of Independent Bank Corporation to enhance the compensation of an employee, and has limited any such features;

(iv) The compensation committee of Independent Bank Corporation will certify to the reviews of the SEO compensation plans and employee compensation plans required under (i) and (iii) above;

(v) The compensation committee of Independent Bank Corporation will provide a narrative description of how it limited during any part of the most recently completed fiscal year that was a TARP period the features in:

 (A) SEO compensation plans that could lead SEOs to take unnecessary and excessive risks that could threaten the value of Independent Bank Corporation;

 (B) Employee compensation plans that unnecessarily expose Independent Bank Corporation to risks; and

 (C) Employee compensation plans that could encourage the manipulation of reported earnings of Independent Bank Corporation to enhance the compensation of an employee;

(vi) Independent Bank Corporation has required that bonus payments to SEOs or any of the next twenty most highly compensated employees, as defined in the regulations and guidance established under section 111 of EESA (bonus payments), be subject to a recovery or “clawback” provision during any part of the most recently completed fiscal year that was a TARP period if the bonus payments were based on materially inaccurate financial statements or any other materially inaccurate performance metric criteria;

(vii) Independent Bank Corporation has prohibited any golden parachute payment, as defined in the regulations and guidance established under section 111 of EESA, to a SEO or any of the next five most highly compensated employees during any part of the most recently completed fiscal year that was a TARP period;

(viii) Independent Bank Corporation has limited bonus payments to its applicable employees in accordance with section 111 of EESA and the regulations and guidance established thereunder during any part of the most recently completed fiscal year that was a TARP period;

(ix) Independent Bank Corporation and its employees have complied with the excessive or luxury expenditures policy, as defined in the regulations and guidance established under section 111 of EESA, during any part of the most recently completed fiscal year that was a TARP period; and any expenses that, pursuant to the policy, required approval of the board of directors, a committee of the board of directors, an SEO, or an executive officer with a similar level of responsibility were properly approved;

(x) Independent Bank Corporation will permit a non-binding shareholder resolution in compliance with any applicable Federal securities rules and regulations on the disclosures provided under the Federal securities laws related to SEO compensation paid or accrued during any part of the most recently completed fiscal year that was a TARP period;

(xi) Independent Bank Corporation will disclose the amount, nature, and justification for the offering, during any part of the most recently completed fiscal year that was a TARP period, of any perquisites, as defined in the regulations and guidance established under section 111 of EESA, whose total value exceeds $25,000 for any employee who is subject to the bonus payment limitations identified in paragraph (viii);

(xii) Independent Bank Corporation will disclose whether Independent Bank Corporation, the board of directors of Independent Bank Corporation, or the compensation committee of Independent Bank Corporation has engaged during any part of the most recently completed fiscal year that was a TARP period a compensation consultant; and the services the compensation consultant or any affiliate of the compensation consultant provided during this period;

(xiii) Independent Bank Corporation has prohibited the payment of any gross-ups, as defined in the regulations and guidance established under section 111 of EESA, to the SEOs and the next twenty most highly compensated employees during any part of the most recently completed fiscal year that was a TARP period;

(xiv) Independent Bank Corporation has substantially complied with all other requirements related to employee compensation that are provided in the agreement between Independent Bank Corporation and Treasury, including any amendments;

(xv) Independent Bank Corporation has submitted to Treasury a complete and accurate list of the SEOs and the twenty next most highly compensated employees for the current fiscal year, with the non-SEOs ranked in descending order of level of annual compensation, and with the name, title, and employer of each SEO and most highly compensated employee identified; and

(xvi) I understand that a knowing and willful false or fraudulent statement made in connection with this certification may be punished by fine, imprisonment, or both. (See, for example 18 U.S.C. 1001.)

Date: March 13, 2013

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