

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2001

Commission file number 0-7818

INDEPENDENT BANK CORPORATION

(Exact name of registrant as specified in its charter)

Michigan

38-2032782

(State or jurisdiction of  
Incorporation or Organization)

(I.R.S. Employer Identification  
Number)

230 West Main Street, P.O. Box 491, Ionia, Michigan 48846

(Address of principal executive offices)

(616) 527-9450

(Registrant's telephone number, including area code)

NONE

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

Indicate by check mark whether the registrant (1) has filed all documents  
and reports required to be filed by Sections 13 or 15(d) of the Securities  
Exchange Act of 1934 during the preceding 12 months (or for such shorter period  
that the registrant was required to file such reports), and (2) has been subject  
to such filing requirements for the past 90 days. YES X NO

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

Common stock, par value \$1

11,909,036

Class

Outstanding at November 7, 2001

INDEPENDENT BANK CORPORATION AND SUBSIDIARIES

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Part I  
Item 1.

INDEPENDENT BANK CORPORATION AND SUBSIDIARIES  
Consolidated Statements of Financial Condition

	September 30, 2001	December 31, 2000
	----- (unaudited) -----	
	(in thousands)	
<b>Assets</b>		
Cash and due from banks	\$ 51,744	\$ 58,149
Securities available for sale	298,038	217,447
Securities held to maturity (fair value of \$20.1 million at December 31, 2000)		20,098
Federal Home Loan Bank stock, at cost	21,266	19,612
Loans held for sale	37,733	20,817
Loans		
Commercial	450,875	381,066
Real estate mortgage	696,196	772,223
Installment	245,693	226,375
	-----	-----
Total Loans	1,392,764	1,379,664
Allowance for loan losses	(15,762)	(13,982)
	-----	-----
Net Loans	1,377,002	1,365,682
Property and equipment, net	34,339	34,757
Accrued income and other assets	48,035	47,229
	-----	-----
Total Assets	\$ 1,868,157	\$ 1,783,791
	=====	=====
<b>Liabilities and Shareholders' Equity</b>		
<b>Deposits</b>		
Non-interest bearing	\$ 151,261	\$ 140,945
Savings and NOW	585,153	576,621
Time	635,677	672,334
	-----	-----
Total Deposits	1,372,091	1,389,900
Federal funds purchased	25,700	27,550
Other borrowings	285,704	196,032
Guaranteed preferred beneficial interests in Company's subordinated debentures	17,250	17,250
Accrued expenses and other liabilities	35,788	24,723
	-----	-----
Total Liabilities	1,736,533	1,655,455
	-----	-----
<b>Shareholders' Equity</b>		
Preferred stock, no par value--200,000 shares authorized; none outstanding		
Common stock, \$1.00 par value--30,000,000 shares authorized; issued and outstanding: 11,940,038 shares at September 30, 2001 and 11,609,524 shares at December 31, 2000	11,940	11,610
Capital surplus	84,734	77,255
Retained earnings	34,864	37,544
Accumulated other comprehensive income	86	1,927
	-----	-----
Total Shareholders' Equity	131,624	128,336
	-----	-----
Total Liabilities and Shareholders' Equity	\$ 1,868,157	\$ 1,783,791
	=====	=====

See notes to interim consolidated financial statements

INDEPENDENT BANK CORPORATION AND SUBSIDIARIES  
Consolidated Statements of Operations

	Three Months Ended September 30, 2001                      2000		Nine Months Ended September 30, 2001                      2000	
	(unaudited)		(unaudited)	
Interest Income	(in thousands, except per share amounts)			
Interest and fees on loans	\$ 31,606	\$ 31,011	\$ 94,296	\$ 89,121
Securities available for sale				
Taxable	2,451	2,013	6,809	5,506
Tax-exempt	1,485	1,353	4,326	4,299
Securities held to maturity				
Taxable		543		2,048
Tax-exempt		123		430
Other investments	378	421	1,146	1,201
Total Interest Income	35,920	35,464	106,577	102,605
Interest Expense				
Deposits	10,601	13,690	34,960	37,913
Other borrowings	5,007	3,878	13,980	12,082
Total Interest Expense	15,608	17,568	48,940	49,995
Net Interest Income	20,312	17,896	57,637	52,610
Provision for loan losses	1,061	657	2,955	2,606
Net Interest Income After Provision for Loan Losses	19,251	17,239	54,682	50,004
Non-interest Income				
Service charges on deposit accounts	2,808	1,794	6,891	5,005
Net gains on asset sales				
Real estate mortgage loans	1,294	631	4,341	1,545
Securities		28	158	12
Other income	2,856	2,524	7,912	7,383
Total Non-interest Income	6,958	4,977	19,302	13,945
Non-interest Expense				
Salaries and employee benefits	9,585	8,438	27,998	25,127
Occupancy, net	1,229	1,157	3,702	3,454
Furniture and fixtures	1,040	1,064	3,207	3,297
Other expenses	5,624	4,049	14,741	12,302
Total Non-interest Expense	17,478	14,708	49,648	44,180
Income Before Federal Income Tax	8,731	7,508	24,336	19,769
Federal income tax expense	2,486	2,049	6,549	5,188
Net Income Before Cumulative Effect of Change in Accounting Principle	6,245	5,459	17,787	14,581
Cumulative effect of change in accounting principle, net of tax			(35)	
Net Income	\$ 6,245	\$ 5,459	\$ 17,752	\$ 14,581
Net Income Per Share Before Cumulative Effect of Change in Accounting Principle				
Basic	\$ .52	\$ .44	\$ 1.47	\$ 1.18
Diluted	.51	.44	1.45	1.17
Net Income Per Share				
Basic	\$ .52	\$ .44	\$ 1.47	\$ 1.18
Diluted	.51	.44	1.45	1.17
Dividends Per Common Share				
Declared	\$ .15	\$ .14	\$ .46	\$ .41
Paid	.15	.14	.45	.41

See notes to interim consolidated financial statements.

INDEPENDENT BANK CORPORATION AND SUBSIDIARIES  
Consolidated Statements of Cash Flows

	Nine months ended September 30,	
	2001	2000
	(unaudited)	
	(in thousands)	
Net Income	\$ 17,752	\$ 14,581
<hr style="border-top: 1px dashed black;"/>		
Adjustments to Reconcile Net Income		
to Net Cash from Operating Activities		
Proceeds from sales of loans held for sale	298,314	115,460
Disbursements for loans held for sale	(310,889)	(116,814)
Provision for loan losses	2,955	2,606
Depreciation and amortization of premiums and accretion of discounts on securities and loans	4,815	5,051
Net gains on sales of real estate mortgage loans	(4,341)	(1,545)
Net gains on sales of securities	(158)	(12)
Decrease in deferred loan fees	269	178
(Increase) decrease in accrued income and other assets	(2,084)	794
Increase in accrued expenses and other liabilities	4,241	6,548
	-----	-----
	(6,878)	12,266
	-----	-----
Net Cash from Operating Activities	10,874	26,847
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Cash Flow from Investing Activities		
Proceeds from the sale of securities available for sale	5,084	19,605
Proceeds from the maturity of securities available for sale	13,266	1,930
Proceeds from the maturity of securities held to maturity		4,899
Principal payments received on securities available for sale	17,446	7,057
Principal payments received on securities held to maturity		24,221
Purchases of securities available for sale	(92,245)	(38,839)
Purchases of securities held to maturity		(500)
Portfolio loans purchased	(36,480)	
Principal payments on portfolio loans purchased	1,942	2,115
(Increase) decrease in portfolio loans made to customers, net of principal payments received	19,994	(74,961)
Capital expenditures	(2,879)	(983)
	-----	-----
Net Cash from Investing Activities	(73,872)	(55,456)
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Cash Flow from Financing Activities		
Net increase (decrease) in total deposits	(17,809)	78,192
Net increase (decrease) in short-term borrowings	22,806	(41,781)
Proceeds from Federal Home Loan Bank advances	739,500	225,866
Payments of Federal Home Loan Bank advances	(673,484)	(233,412)
Payments of long-term debt	(1,000)	(1,500)
Dividends paid	(5,418)	(4,941)
Proceeds from issuance of common stock	2,186	710
Repurchase of common stock	(10,188)	(1,582)
	-----	-----
Net Cash from Financing Activities	56,593	21,552
<hr style="border-top: 1px dashed black;"/>		
Net Decrease in Cash and Cash Equivalents	(6,405)	(7,057)
Cash and Cash Equivalents at Beginning of Period	58,149	58,646
	-----	-----
Cash and Cash Equivalents at End of Period	\$ 51,744	\$ 51,589
	=====	=====
Cash paid during the period for		
Interest	\$ 50,378	\$ 47,917
Income taxes	4,296	1,300
Transfer of loans to other real estate	1,797	2,188
Transfer of securities held to maturity to available for sale	20,098	
See notes to interim consolidated financial statements		

INDEPENDENT BANK CORPORATION AND SUBSIDIARIES  
Consolidated Statements of Shareholders' Equity

	Nine months ended September 30,	
	2001	2000
	(unaudited)	
	(in thousands)	
Balance at beginning of period	\$ 128,336	\$ 113,746
Net income	17,752	14,581
Cash dividends declared	(5,501)	(5,061)
Issuance of common stock	3,066	753
Repurchase of common stock	(10,188)	(1,582)
Allocation of ESOP shares		64
Net change in accumulated other comprehensive income (loss), net of related tax effect (note 4)	(1,841)	1,837
Balance at end of period	\$ 131,624	\$ 124,338

See notes to interim consolidated financial statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

1. In the opinion of management of the Registrant, the accompanying unaudited consolidated financial statements contain all the adjustments (consisting only of normal recurring accruals) necessary to present fairly the consolidated financial condition of the Registrant as of September 30, 2001 and December 31, 2000, and the results of operations for the three- and nine-month periods ended September 30, 2001 and 2000.

2. Management's assessment of the allowance for loan losses is based on an evaluation of the loan portfolio, recent loss experience, current economic conditions and other pertinent factors. Loans on non-accrual status, past due more than 90 days, or restructured amounted to \$7.9 million at September 30, 2001, and \$7.0 million at December 31, 2000. (See Management's Discussion and Analysis of Financial Condition and Results of Operations).

3. The provision for income taxes represents federal income tax expense calculated using annualized rates on taxable income generated during the respective periods. The provision for income taxes for the nine-month period ended September 30, 2001 includes a benefit in the amount of \$402,000 resulting from an adjustment of net deferred tax assets associated with an increase in the Registrant's statutory tax rate from 34% to 35%. The adjustment was recognized during the three-month period ended June 30, 2001.

4. Comprehensive income for the three-month and the nine-month periods ended September 30 follows:

	Three months ended September 30,		Nine months ended September 30,	
	2001	2000	2001	2000
	(in thousands)			
Net income	\$ 6,245	\$ 5,459	\$ 17,752	\$ 14,581
Net change in unrealized gain on securities available for sale, net of related tax effect	2,125	1,192	3,817	1,837
Cumulative effect of change in accounting principle, net of related tax effect			(731)	
Net change in unrealized loss on derivative instruments, net of related tax effect	(2,383)		(4,927)	
Comprehensive income	\$ 5,987	\$ 6,651	\$ 15,911	\$ 16,418

5. The Registrant's reportable segments are based upon legal entities. The Registrant has four reportable segments: Independent Bank ("IB"), Independent Bank West Michigan ("IBWM"), Independent Bank South Michigan ("IBSM") and Independent Bank East Michigan ("IBEM"), collectively the "Banks." The Registrant evaluates performance based principally on net income of the respective reportable segments. The Registrant consolidated two segments, IB and Independent Bank MSB, during the third quarter of this year. The consolidation is not expected to have a material impact on the Registrant's financial condition or results of operations. Prior period financial information has been restated to reflect the consolidation.

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

A summary of selected financial information for the Registrant's reportable segments for the three-month and nine-month periods ended September 30, follows:

Three months ended September 30,

	IB	IBWM	IBSM	IBEM	OTHER(1)	TOTAL
	-----					
	(in thousands)					
<b>2001</b>						
Total assets	\$ 885,122	\$ 368,057	\$ 286,336	\$ 324,173	4,469	\$ 1,868,157
Interest income	17,114	8,006	4,780	6,015	5	35,920
Net interest income	9,302	5,085	2,826	3,614	(515)	20,312
Provision for loan losses	291	400	90	280		1,061
Income (loss) before income tax	4,568	2,276	1,466	1,350	(929)	8,731
Net income (loss)	3,285	1,571	1,073	1,052	(736)	6,245
<b>2000</b>						
Total assets	\$ 890,683	\$ 346,695	\$ 212,525	\$ 313,095	7,674	\$ 1,770,672
Interest income	17,191	7,748	4,530	5,990	5	35,464
Net interest income	8,239	4,490	2,501	3,373	(707)	17,896
Provision for loan losses	342	135	60	120		657
Income (loss) before income tax	3,609	2,273	1,288	1,320	(982)	7,508
Net income (loss)	2,625	1,551	967	1,023	(707)	5,459

Nine months ended September 30,

	IB	IBWM	IBSM	IBEM	OTHER(1)	TOTAL
	-----					
	(in thousands)					
<b>2001</b>						
Total assets	\$ 885,122	\$ 368,057	\$ 286,336	\$ 324,173	4,469	\$ 1,868,157
Interest income	51,543	23,592	13,662	17,760	20	106,577
Net interest income	26,267	14,673	7,849	10,465	(1,617)	57,637
Provision for loan losses	1,305	700	270	680		2,955
Income (loss) before income tax	11,861	7,431	3,855	4,028	(2,839)	24,336
Net income (loss) before change in accounting principle	8,531	5,078	2,844	3,134	(1,800)	17,787
Net income (loss)	8,525	5,006	2,844	3,177	(1,800)	17,752
<b>2000</b>						
Total assets	\$ 890,683	\$ 346,695	\$ 212,525	\$ 313,095	7,674	\$ 1,770,672
Interest income	50,383	22,211	12,679	17,317	15	102,605
Net interest income	24,535	13,102	7,096	10,015	(2,138)	52,610
Provision for loan losses	1,521	405	320	360		2,606
Income (loss) before income tax	10,234	5,976	3,101	3,683	(3,225)	19,769
Net income (loss)	7,509	4,111	2,358	2,883	(2,280)	14,581

(1) Includes items relating to the Registrant and certain insignificant operations.

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

6. A reconciliation of basic and diluted earnings per share for the three-month and the nine-month periods ended September 30 follows:

	Three months ended September 30, 2001		Nine months ended September 30, 2000	
	2001	2000	2001	2000
	(in thousands, except per share amounts)			
Net income before cumulative effect of change in accounting principle	\$ 6,245	\$ 5,459	\$ 17,787	\$ 14,581
Net income	\$ 6,245	\$ 5,459	\$ 17,752	\$ 14,581
Shares outstanding (Basic) (1)	12,066	12,344	12,082	12,345
Effect of dilutive securities - stock options	226	116	179	91
Shares outstanding (Diluted)	12,292	12,460	12,261	12,436
Net income per share before cumulative effect of change in accounting principle				
Basic	\$ .52	\$ .44	\$ 1.47	\$ 1.18
Diluted	.51	.44	1.45	1.17
Net income per share				
Basic	\$ .52	\$ .44	\$ 1.47	\$ 1.18
Diluted	.51	.44	1.45	1.17

(1) Shares outstanding have been adjusted for a 5% stock dividend in 2001.

7. The Registrant adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," ("SFAS #133") on January 1, 2001. SFAS #133, which was subsequently amended by SFAS #137 and SFAS #138, requires companies to record derivatives on the balance sheet as assets and liabilities measured at fair value. The accounting for increases and decreases in the value of derivatives depends upon the use of derivatives and whether the derivatives will qualify for hedge accounting.

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

	September 30, 2001		
	Notional Amount	Average Maturity (years)	Fair Value
	(dollars in thousands)		
Fair Value Hedge - pay variable interest-rate swap agreements	\$ 49,000	7.0	\$64
Cash Flow Hedge			
Pay fixed interest-rate swap agreements	\$186,000	2.1	\$(8,135)
Interest-rate collar agreements	10,000	2.1	(563)
Total	\$196,000	2.1	\$(8,698)
No hedge designation			
Pay fixed interest-rate swap agreements	\$ 37,000	0.2	\$ (235)
Interest-rate cap agreements	47,000	0.7	0
Interest-rate floor agreements	10,000	1.0	0
Rate-lock real estate mortgage loan commitments	30,000	0.1	266
Mandatory commitments to sell real estate mortgage loans	66,000	0.1	(622)
Total	\$190,000	0.3	\$ (591)

### Risk Management Objectives and Strategies

The Banks have established interest-rate risk parameters for maximum fluctuations in net interest income and market value of portfolio equity. Management monitors the Banks' interest rate risk position via simulation modeling reports (See "Asset/liability management"). The goal of the Banks' asset/liability management efforts is to maintain profitable financial leverage within established risk parameters.

### Cash Flow Hedges

The Banks use variable rate and short-term fixed-rate (less than 12 months) debt obligations to fund a portion of their balance sheets, which expose the Banks to variability in interest rates.

To meet their objectives, the Banks may periodically enter into derivative financial instruments to mitigate exposure to fluctuations in cash flows resulting from changes in interest rates ("Cash Flow Hedges"). Cash Flow Hedges currently include certain pay-fixed interest-rate swaps and interest-rate collars.

Pay-fixed interest-rate swaps convert the variable-rate cash flows on debt obligations to fixed-rates. Under interest-rate collars, the Banks will receive cash if interest rates rise above a predetermined level while the Banks will make cash payments if interest rates fall below a predetermined level. The Banks effectively have variable rate debt with an established maximum and minimum rate.

Upon adoption of SFAS #133, the Banks recorded the fair value of Cash Flow Hedges in accrued expenses and other liabilities. On an ongoing basis, the Banks will adjust their balance sheets to reflect the then current fair value of Cash Flow Hedges. The related gains or losses are reported in other comprehensive income and are subsequently reclassified into earnings, as a yield adjustment in the same period in which the related interest on the debt obligations affect earnings. It is anticipated that approximately \$4.0 million, net of tax, of unrealized losses on Cash Flow Hedges at September 30, 2001 will become realized over the next twelve months. To the extent that the Cash Flow Hedges are not effective, the ineffective portion of the Cash Flow Hedges are immediately recognized as interest expense. The maximum term of any Cash Flow Hedge is 6.1 years.

### Fair Value Hedges

The Banks use long-term, fixed-rate brokered CDs to fund a portion of their balance sheets. These instruments expose the Banks to variability in fair value due to changes in interest rates. To meet their asset/liability management objectives, the Banks may enter into pay-variable interest-rate swaps to mitigate fluctuations in fair values of such fixed-rate debt instruments ("Fair Value Hedges").

Upon adoption of SFAS #133, the Banks recorded Fair Value Hedges at fair value in accrued expenses and other liabilities. The hedged instruments were also recorded at fair value through the statement of operations, which offsets the adjustment to Fair Value Hedges. On an ongoing basis, the Banks will adjust their respective balance sheets to reflect the then current fair value. To the extent that the change in value of the Fair Value Hedges does not offset the change in the value of the hedged instruments, the ineffective portion is immediately recognized as interest expense.

#### No Hedge Designation

Certain financial derivative instruments, discussed in the following paragraphs, were not designated as hedges. The fair value of these derivative instruments have been recorded on the Banks' balance sheets and will be adjusted on an ongoing basis to reflect their then current fair value. The changes in the fair value of interest rate swap agreements and option contracts, not designated as hedges, are recognized currently as interest expense.

Interest rate caps are used to help manage fluctuations in cash flows resulting from interest rate risk on certain short-term debt obligations. Under these agreements, the Banks will receive cash if interest rates rise above a predetermined level. Pay-fixed interest-rate swaps are also used to manage fluctuations in cash flows resulting from changes in interest rates on certain short-term debt obligations.

In the ordinary course of business, the Banks enter into rate-lock real estate mortgage loan commitments with customers ("Rate Lock Commitments"). These commitments expose the Banks to interest rate risk. The Banks also enter into mandatory commitments to sell real estate mortgage loans ("Mandatory Commitments") to hedge price fluctuations of mortgage loans held for sale and Rate Lock Commitments. Mandatory Commitments help protect the Banks' 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 in gains on the sale of real estate mortgage loans. Interest expense and net gains on the sale of real estate mortgage loans, as well as net income may be more volatile as a result of derivative instruments, which are not designated as hedges.

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

The impact of SFAS #133 on net income and other comprehensive income for the three- and nine-months ended September 30, 2001 is as follows:

	Net Income	Other Comprehensive Income	Total
	-----	-----	-----
	(in thousands)		
Change in fair value during the three-month period			
Option contracts not designated as hedges	\$ (1)		\$ (1)
Interest rate swap agreements not designated as hedges	91		91
Rate Lock Commitments	(47)		(47)
Mandatory Commitments	(232)		(232)
Fair value hedges	43		43
Ineffectiveness of cash flow hedges	(25)		(25)
Cash flow hedges	(124) \$	(4,580)	(4,704)
Reclassification adjustment		968	968
	-----	-----	-----
Total	(295)	(3,612)	(3,907)
Federal income tax	(100)	(1,229)	(1,329)
	-----	-----	-----
Net	\$ (195)	\$ (2,383)	\$ (2,578)
	=====	=====	=====

	Net Income	Other Comprehensive Income	Total
	-----	-----	-----
	(in thousands)		
Change in fair value during the nine-month period			
Option contracts not designated as hedges	\$ (29)		\$ (29)
Interest rate swap agreements not designated as hedges	(546)		(546)
Rate Lock Commitments	266		266
Mandatory Commitments	(622)		(622)
Fair value hedges	39		39
Ineffectiveness of cash flow hedges	(44)		(44)
Cash flow hedges	(78) \$	(8,941)	(9,019)
Reclassification adjustment		1,475	1,475
	-----	-----	-----
Total	(1,014)	(7,466)	(8,480)
Federal income tax	(345)	(2,539)	(2,884)
	-----	-----	-----
Net	\$ (669)	\$ (4,927)	\$ (5,596)
	=====	=====	=====

The Banks transferred securities held to maturity with book values and market values of \$20.1 million to available for sale upon adoption of SFAS #133.

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

8. On July 20, 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141, "Business Combinations," ("SFAS #141") and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," ("SFAS #142"). These two statements will have a profound effect on how organizations account for business combinations and for the purchased goodwill and intangible assets that arise from those combinations or are acquired otherwise. SFAS #141 is effective for all business combinations initiated after June 30, 2001, and for all purchase method business combinations completed after June 30, 2001, and requires that such combinations be accounted for using the purchase method of accounting. SFAS #142 is effective for fiscal years beginning after December 15, 2001 and requires that the amortization of goodwill cease and that goodwill instead only be reviewed for impairment. The Registrant is currently amortizing approximately \$0.7 million, net of tax, of goodwill annually. It is expected that this amortization will cease upon adoption of SFAS #142 on January 1, 2002. Management is currently evaluating impairment of goodwill which is not expected to have a material impact on the Registrant's financial condition or results of operations.

Emerging Issues Task Force ("EITF") 99-20, "Recognition of Interest Income and Impairment of Purchased and Retained Beneficial Interest in Securitized Financial Assets," ("EITF 99-20") was effective for the Registrant's quarter ended June 30, 2001. The adoption of EITF 99-20 did not have a material impact on the Registrant's financial condition or results of operations.

On October 3, 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," ("SFAS #144") which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS #144 is effective for fiscal years beginning after December 15, 2001. The adoption of SFAS #144 is not expected to have a material impact on the Registrant's financial condition or results of operations.

9. The results of operations for the three- and nine-month periods ended September 30, 2001, are not necessarily indicative of the results to be expected for the full year.

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

Management's discussion and analysis of financial condition and results of operations contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from those projected in such forward-looking statements.

The following section presents additional information that may be necessary to assess the financial condition and results of operations of the Registrant and the Banks. This section should be read in conjunction with the consolidated financial statements contained elsewhere in this report as well as the Registrant's 2000 Annual Report on Form 10-K.

FINANCIAL CONDITION

**SUMMARY** Assets totaled \$1.868 billion at September 30, 2001 compared to \$1.784 billion at December 31, 2000. Increases in securities available for sale, loans held for sale, commercial loans and installment loans were partially offset by declines in cash and due from banks, securities held to maturity and real estate mortgage loans.

Loans, excluding loans held for sale, ("Portfolio Loans") increased to \$1.393 billion at September 30, 2001, from \$1.380 billion at December 31, 2000. Commercial loans grew by \$69.8 million to \$450.9 million at September 30, 2001. Installment loans increased by \$19.3 million and real estate mortgage loans decreased by \$76.0 million in the first nine months of 2001. See "Portfolio loans and asset quality."

Other borrowings increased \$89.7 million in the first nine months of 2001 due primarily to a shift in funding sources, as brokered certificates of deposit ("Brokered CDs"), which are included in time deposits, declined from \$212.0 million at December 31, 2000 to \$165.6 million at September 30, 2001. See "Deposits and borrowings."

**SECURITIES** The Banks maintain diversified securities portfolios, which include obligations of the U.S. Treasury and government-sponsored agencies as well as securities issued by states and political subdivisions ("Municipal Securities"), corporate securities and mortgage-backed securities. The Banks also invest in capital securities, which include preferred stocks and trust preferred securities. Management continually evaluates the Banks' asset/liability management needs and attempts to maintain a portfolio structure that provides sufficient liquidity and cash flow. See "Asset/liability management."

**SECURITIES**

	Amortized Cost	Unrealized Gains	Losses	Fair Value
	-----	-----	-----	-----
	(in thousands)			
Securities available for sale				
September 30, 2001	\$289,338	\$ 9,282	\$582	\$298,038
December 31, 2000	214,526	3,486	565	217,447
Securities held to maturity				
December 31, 2000	\$ 20,098	\$ 200	\$187	\$ 20,111

As permitted by SFAS #133 securities that were previously designated as held to maturity were reclassified to available for sale as of January 1, 2001. (See note #7 to Interim Consolidated Financial Statements.)

Securities available for sale increased by \$80.6 million during the first nine months of 2001. This increase was primarily the result of the addition of approximately \$50.1 million in seasoned 15 year Federal Home Loan Mortgage Corporation ("FHLMC") mortgage-backed securities ("MBS") with a weighted-average coupon of 6.29% during the third quarter of 2001. These 15 year FHLMC MBS were created from the securitization of existing real estate mortgage loans previously originated by one of the Banks. The balance of the increase in securities available for sale was primarily due to purchases of Municipal Securities and corporate securities.

The purchase or sale of securities is dependent upon Management's assessment of investment and funding opportunities as well as the Banks' asset/liability management needs. The Banks did not sell any securities during the three months ended September 30, 2001. The Banks sold securities designated as available for sale with an aggregate market value of \$13.8 million (at a net gain of \$28,000) for the three months ended September 30, 2000. The Banks sold securities designated as available for sale with aggregate market values of \$5.1 million (at a net gain of \$158,000) and \$19.6 million (at a net gain of \$12,000) for the nine months ended September 30, 2001 and 2000, respectively.

**PORTFOLIO LOANS AND ASSET QUALITY** Management believes that the Registrant's decentralized structure provides important advantages in serving the credit needs of the Banks' principal lending markets. In addition to the communities served by the Banks' branch networks, principal lending markets include nearby communities and metropolitan areas. Subject to established underwriting criteria, the Banks also participate in commercial lending transactions with certain non-affiliated banks and may also purchase real estate mortgage loans from third-party originators. Commercial loan participations with non-affiliated banks totaled approximately \$7.4 million at September 30, 2001. Purchased real estate mortgage loans totaled approximately \$57.3 million at September 30, 2001. During the second quarter of 2001, the Banks purchased \$36.5 million of adjustable rate real estate mortgage loans from a non-affiliated bank. The properties securing these loans were located primarily in North Carolina, South Carolina and Virginia.

Although the Management and Board of Directors of each Bank retain authority and responsibility for credit decisions, each of the Banks has adopted uniform underwriting standards. Further, the Registrant's loan committee, as well as the centralization of commercial loan credit services and loan review functions, promotes compliance with these established underwriting standards. The centralization of retail loan services also provides for consistent service quality and facilitates compliance with consumer protection laws and regulations.

The Banks generally retain loans that may be profitably funded within established risk parameters. See "Asset/liability management." As a result, the Banks may hold adjustable-rate and balloon real estate mortgage loans as Portfolio Loans, while 15- and 30-year, fixed-rate real estate mortgage loans are generally sold to mitigate exposure to changes in interest rates. See "Non-interest income."

LOAN PORTFOLIO COMPOSITION

	September 30, 2001	December 31, 2000
	-----	-----
	(in thousands)	
Real estate		
Residential first mortgages	\$ 532,959	\$ 597,472
Residential home equity and other junior mortgages	190,668	177,343
Construction and land development	180,215	144,401
Other (1)	274,970	262,246
Consumer	122,846	111,147
Commercial	74,585	66,574
Agricultural	16,521	20,481
	-----	-----
Total loans	\$1,392,764	\$1,379,664
	=====	=====

(1) Includes loans secured by multi-family residential and non-farm, non-residential property.

The increase in construction and land development, other real estate and commercial loans principally reflects Management's emphasis on lending opportunities in these categories particularly within the Lansing and Grand Rapids, Michigan markets. The increase in consumer loans is primarily due to growth in automobile and recreational vehicle indirect lending. The decline in real estate mortgage loans is primarily due to a significant increase in prepayments due to refinancing activity associated with lower interest rates and the securitization of approximately \$50.1 million of existing seasoned real estate mortgage loans into FHLMC MBS. See "Securities." Continued overall growth of Portfolio Loans is dependent upon a number of competitive and economic factors.

NON-PERFORMING ASSETS

	September 30, 2001	December 31, 2000
	-----	-----
	(dollars in thousands)	
Non-accrual loans	\$ 4,655	\$5,200
Loans 90 days or more past due and still accruing interest	2,960	1,571
Restructured loans	251	260
	-----	-----
Total non-performing loans	7,866	7,031
Other real estate	2,147	2,174
	-----	-----
Total non-performing assets	\$10,013	\$9,205
	=====	=====
As a percent of Portfolio Loans		
Non-performing loans	0.56%	0.51%
Non-performing assets	0.72	0.67
Allowance for loan losses	1.13	1.01
Allowance for loan losses as a percent of non-performing loans	200	199

Non-performing loans increased by \$0.8 million from December 31, 2000 and totaled \$7.9 million, or 0.56%, of total Portfolio Loans at September 30, 2001. The increase in non-performing loans is primarily the result of one commercial real estate loan totaling \$1.3 million at September 30, 2001. This loan is secured by an office building in the Lansing area with an original appraised value of approximately \$1.6 million. However, due to the current vacancy level in the building, a specific valuation allowance of approximately \$200,000 has been established on this loan at September 30, 2001. Other real estate totaled \$2.1 million at September 30, 2001, essentially unchanged from December 31, 2000.

Impaired loans totaled approximately \$4.3 million and \$3.7 million at September 30, 2001 and December 31, 2000, respectively. At those same dates, certain impaired loans with balances of approximately \$1.6 million and \$0.3 million, respectively, had specific allocations of the

allowance for loan losses, which totaled approximately \$0.4 million and \$0.1 million, respectively. The Banks' average investment in impaired loans was approximately \$3.8 million, for the nine-month period ended September 30, 2001. Cash receipts on impaired loans on non-accrual status are generally applied to the principal balance. Interest recognized on impaired loans during the nine-month period ended September 30, 2001 was approximately \$132,000.

#### ALLOWANCE FOR LOAN LOSSES

	Nine months ended September 30,	
	2001	2000
	----- (in thousands) -----	
Balance at beginning of period	\$ 13,982	\$ 12,985
Additions (deduction)		
Provision charged to operating expense	2,955	2,606
Recoveries credited to allowance	476	489
Loans charged against the allowance	(1,651)	(2,491)
	-----	-----
Balance at end of period	\$ 15,762	\$ 13,589
	=====	=====
 Net loans charged against the allowance to average Portfolio Loans (annualized)	 0.11%	 0.20%

In determining the allowance and the related provision for loan losses, Management considers four principal elements: (i) specific allocations based upon probable losses identified during the review of the loan portfolio, (ii) allocations established for other adversely rated loans, (iii) allocations based principally on historical loan loss experience and (iv) additional allowances based on subjective factors, including local and general economic business factors and trends, portfolio concentrations and changes in the size and/or the general terms of the loan portfolios. In its recent assessment of subjective factors, Management considered national and local economic trends, the performance of major stock indices, changes in consumer spending and consumer confidence and national and local employment trends which indicate a slow down in the economy. Management also considered recent trends in adversely rated loans as well as the impact of slower economic conditions on the business prospects of the Banks' commercial customers.

#### ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES

	September 30, 2001	December 31, 2000
	----- (in thousands) -----	
Specific allocations	\$ 400	\$ 100
Other adversely rated loans	3,843	3,166
Historical loss allocations	4,968	4,717
Additional allocations based on subjective factors	6,551	5,999
	-----	-----
	\$ 15,762	\$ 13,982
	=====	=====

Loans charged against the allowance for loan losses, net of recoveries, were equal to an annualized 0.11% of average Portfolio Loans during the nine months ended September 30, 2001, compared to an annualized 0.20% during the comparable period of 2000. The decline in net loans charged against the allowance in 2001 compared to 2000 relates primarily to a \$0.9 million charge-off on a real estate development loan that was incurred in the second quarter of 2000. See "Provision for loan losses."

**DEPOSITS AND BORROWINGS** The Banks' competitive position within many of the markets served by the branch networks limits the ability to materially increase their deposits without adversely impacting the weighted-average cost of core deposits. Accordingly, the Banks compete on the

basis of convenience and personal service, while employing pricing tactics that are intended to enhance the value of core deposits. Deposits, excluding Brokered CDs, totaled \$1.206 billion at September 30, 2001, compared to \$1.178 billion at December 31, 2000.

The Banks have implemented strategies that incorporate federal funds purchased, other borrowings and Brokered CDs to fund a portion of the Portfolio Loans. The use of such alternate sources of funds supplements the Banks' core deposits and is also an integral part of the Banks' asset/liability management efforts. Derivative financial instruments are employed to manage the Banks' exposure to changes in interest rates. See "Asset/liability management".

	September 30, 2001			December 31, 2000		
	Amount	Average Maturity	Rate	Amount	Average Maturity	Rate
	(dollars in thousands)					
Brokered CDs (1)	\$165,643	2.7 years	4.45%	\$212,010	3.5 years	6.73%
Fixed rate FHLB advances (1)	135,104	3.6 years	4.48	68,743	7.9 years	6.33
Variable rate FHLB advances (1)	109,500	0.4 years	3.51	114,345	0.2 years	6.69
Securities sold under agreements to Repurchase (1)	26,000	9 days	3.59			
Federal Funds purchased	25,700	1 day	3.38	27,550	1 day	6.85
<b>Total</b>	<b>\$461,947</b>	<b>2.1 years</b>	<b>4.13</b>	<b>\$422,648</b>	<b>3.1 years</b>	<b>6.67</b>

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

Other borrowed funds, principally advances from the Federal Home Loan Bank (the "FHLB") increased to \$285.7 million at September 30, 2001, from \$196.0 million at December 31, 2000. The increase in FHLB advances of \$61.5 million primarily reflects a shift away from Brokered CDs, as the rates on Brokered CD's had lagged the general decline in market interest rates during the first six months of 2001. Brokered CD's declined by \$46.4 million during the first nine months of 2001. During the third quarter of 2001 the rates on Brokered CD's became more comparable to similar term FHLB advances. The Banks prepaid FHLB advances totaling \$26.0 million (at a pretax expense of \$240,000) and \$31.0 million (at a pretax expense of \$288,000) during the three and nine months ended September 30, 2001, respectively. The Banks did not prepay any FHLB advances during the same periods in 2000.

In the third quarter of 2001 one of the Banks swapped approximately \$50 million of seasoned real estate mortgage loans for FHLMC MBS. The Bank can borrow funds utilizing the FHLMC MBS as collateral, providing an additional source of liquidity. At September 30, 2001, included in other borrowings were securities sold under agreements to repurchase of \$26.0 million which matured on October 9, 2001.

**LIQUIDITY AND CAPITAL RESOURCES** Effective management of capital resources is critical to Management's mission to create value for the Registrant's shareholders. The cost of capital is an important factor in creating shareholder value and, accordingly, the Registrant's capital structure includes unsecured debt and Preferred Securities.

To profitably deploy capital within existing markets, the Banks have implemented balance sheet management strategies that combine efforts to originate Portfolio Loans with disciplined funding strategies.

Acquisitions of the Registrant's common stock are also an integral component of Management's capital management strategies. On July 18, 2001 the Registrant announced that its Board of Directors had authorized it to acquire an additional 500,000 shares of its common stock in open market transactions. The Registrant's authority to purchase shares of its common stock under this authorization expires on July 16, 2002. This share repurchase program is in addition to a previously announced 500,000 share repurchase program that expired on September 30, 2001.

The Registrant has purchased approximately 426,000 shares of its common stock during the first nine months of 2001 at an average price of \$23.89 per share. Shares acquired by the Registrant pursuant to these repurchase plans will be used for stock dividends and for the Registrant's obligations to issue shares under various incentive or stock option plans.

#### CAPITALIZATION

	September 30, 2001	December 31, 2000
----- (in thousands)		
Unsecured debt	\$ 10,500	\$ 11,500
Preferred Securities	17,250	17,250
Shareholders' Equity		
Preferred stock, no par value	-	-
Common Stock, par value \$1.00 per share	11,940	11,610
Capital surplus	84,734	77,255
Retained earnings	34,864	37,544
Accumulated other comprehensive income	86	1,927
	-----	-----
Total shareholders' equity	131,624	128,336
	-----	-----
Total capitalization	\$159,374	\$157,086
	=====	=====

Shareholders' equity totaled \$131.6 million at September 30, 2001. The increase from \$128.3 million at December 31, 2000 reflects the retention of earnings as well as the issuance of common stock pursuant to various equity-based incentive compensation plans, partially offset by cash dividends declared, stock repurchases and a decline in other accumulated comprehensive income. Shareholders' equity was equal to 7.05% of total assets at September 30, 2001, compared to 7.19% at December 31, 2000.

#### CAPITAL RATIOS

	September 30, 2001	December 31, 2000
-----		
Equity capital	7.05%	7.19%
Average shareholders equity to average assets(1)	7.29	6.92
Tier 1 leverage (tangible equity capital)	7.27	7.26
Tier 1 risk-based capital	9.74	9.68
Total risk-based capital	10.88	10.74

(1) Based on year to date average balances for the respective periods

ASSET/LIABILITY MANAGEMENT Interest-rate risk is created by differences in the pricing characteristics of the Banks' 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.

The asset/liability management efforts of the Registrant and the Banks are intended to identify sources of interest-rate risk and to evaluate opportunities to structure the balance sheet in a manner that is consistent with Management's mission to maintain profitable financial leverage. The marginal cost of funds is a principal consideration in the implementation of the Banks' balance sheet management strategies, but such evaluations further consider interest-rate and liquidity risk as well as other pertinent factors.

Management employs simulation analyses to monitor the Banks' interest-rate risk profiles and evaluate potential changes in the Banks' net interest income and market value of portfolio equity that result from changes in interest rates. (See note #7 to Interim Consolidated Financial Statements.)

RESULTS OF OPERATIONS

SUMMARY Net income totaled \$6,245,000 and \$17,752,000 during the three- and nine-month periods ended September 30, 2001 respectively. Increases from the comparable periods in 2000 principally reflect increases in net interest income, service charges on deposit accounts and net gains on the sale of real estate mortgage loans, partially offset by an increase in non-interest expense.

KEY PERFORMANCE RATIOS

	Three months ended September 30,		Nine months ended September 30,	
	2001	2000	2001	2000
Net income to				
Average assets	1.35%	1.23%	1.32%	1.12%
Average equity	18.43	17.61	18.16	16.41
Earnings per common share				
Basic	\$0.52	\$0.44	\$1.47	\$1.18
Diluted	0.51	0.44	1.45	1.17

NET INTEREST INCOME Tax equivalent net interest income increased by 13.0% to \$21.3 million and by 9.0% to \$60.5 million, during the three- and nine-month periods in 2001, respectively. Increases from the comparable periods of 2000 reflect increases in average earning assets as well as an increase in tax equivalent net interest income as a percent of average earning assets ("Net Yield").

Average earning assets totaled \$1.736 billion and \$1.689 billion during the three- and nine-month periods in 2001, respectively. The increases from the corresponding periods of 2000 principally reflect increases in Portfolio Loans and securities available for sale.

Net Yield increased by 33 basis points to 4.89% during the three-month period in 2001 and by 23 basis points to 4.78% during the nine-month period in 2001 compared to the like periods in 2000. In addition to an increase in Portfolio Loans as a percent of average earning assets, the increase in Net Yield is also due to a decline in the Banks' cost of funds due to lower rates on borrowings and deposits associated with the decline in market interest rates and increased levels of lower cost core deposits.

NET INTEREST INCOME AND SELECTED RATIOS

	Three months ended September 30,		Nine months ended September 30,	
	2001	2000	2001	2000
Average earning assets (in thousands)	\$1,736,140	\$1,651,254	\$1,688,682	\$1,626,867
Tax equivalent net interest income	21,293	18,850	60,461	55,455
As a percent of average earning assets				
Tax equivalent interest income	8.46%	8.79%	8.65%	8.65%
Interest expense	3.57	4.23	3.87	4.10
Tax equivalent net interest income	4.89	4.56	4.78	4.55
Average earning assets as a percent of average assets	94.46%	93.84%	94.11%	93.70%
Free-funds ratio	11.46%	10.06%	10.99%	9.30%

PROVISION FOR LOAN LOSSES The provision for loan losses was \$1.1 million during the three months ended September 30, 2001, compared to \$657,000 during the three-month period in 2000. During the nine-month periods ended September 30, 2001 and 2000, the provision was \$3.0 million and \$2.6 million, respectively. The increase in the provision reflects Management's assessment of the allowance for loan losses. The third quarter 2001 provision reflects the overall growth and change in mix in Portfolio Loans, the internal classification of certain multi-family real estate mortgage loans into higher risk categories and subjective factors associated with weakening economic conditions. See "Portfolio Loans and asset quality."

NON-INTEREST INCOME Non-interest income totaled \$7.0 million during the three months ended September 30, 2001, a \$2.0 million increase from \$5.0 million during the comparable period in 2000. Non-interest income increased to \$19.3 million during the nine months ended September 30, 2001, from \$13.9 million a year earlier.

NON-INTEREST INCOME

	Three months ended September 30,		Nine months ended September 30,	
	2001	2000	2001	2000
	-----			
	(in thousands)			
Service charges on deposit accounts	\$2,808	\$1,794	\$ 6,891	\$ 5,005
Net gains on asset sales				
Real estate mortgage loans	1,294	631	4,341	1,545
Securities		28	158	12
Manufactured home loan origination fees and commissions	613	545	1,642	1,567
Title insurance fees	509	253	1,357	655
Real estate mortgage loan servicing fees	284	367	840	1,115
Mutual fund and annuity commissions	214	281	604	1,023
Other	1,236	1,078	3,469	3,023
	-----			
Total non-interest income	\$6,958	\$4,977	\$19,302	\$13,945
	=====			

A significant increase in the Banks' mortgage lending activities (due primarily to increased refinancing activity spurred by lower interest rates) has had a substantial impact on total non-interest income. Net gains on the sale of real estate mortgage loans increased by \$663,000 and \$2.8 million during the three and nine months ended September 30, 2001 compared to the same periods in 2000. During the third quarter of 2001, the volume of real estate mortgage loans originated and sold increased by \$69.0 million and \$54.4 million, respectively, compared to the third quarter of 2000. Net gains as a percentage of real estate mortgage loans sold decreased to 0.87% in the third quarter of 2001 from 1.40% in the third quarter of 2000. The decrease in gains as a percentage of real estate mortgage loans sold is primarily due to adjustments related to SFAS #133. During the quarter, gains on the sale of real estate mortgage loans were reduced by approximately \$300,000 as a result of recording changes in the fair value of certain derivative instruments pursuant to SFAS #133. This reduction in gains on the sale of real estate mortgage loans primarily represents a timing difference that is expected to reverse when the applicable commitments to sell real estate mortgage loans in the secondary market are fulfilled.

	Three months ended September 30,		Nine months ended September 30,	
	2001	2000	2001	2000
	-----			
	(in thousands)			
Real estate mortgage loans originated	\$160,599	\$91,649	\$468,651	\$255,221
Real estate mortgage loan sales	99,385	45,025	293,972	113,915
Real estate mortgage loan servicing rights sold	85,885	12,386	256,285	23,379
Net gains on the sale of real estate mortgage loans	1,294	631	4,341	1,545
Net gains as a percent of real estate mortgage loans sold	0.87%	1.40%	1.26%	1.36%

The volume of loans sold is dependent upon the Banks' ability to originate real estate mortgage loans as well as the demand for fixed-rate obligations and other loans that the Banks cannot profitably fund within established interest-rate risk parameters. See "Portfolio Loans and asset quality." Net gains on real estate mortgage loans are also dependent upon economic and competitive factors as well as the Banks' ability to effectively manage exposure to changes in interest rates.

Service charges on deposit accounts increased by 57% to \$2.8 million and by 38% to \$6.9 million during the three- and nine-month periods ended September 30, 2001, respectively, compared to the same periods in 2000. Increases in service charges principally relate to growth in checking accounts as a result of deposit account promotions, including direct mail solicitations, and increases in certain fees on both retail and commercial checking accounts that were implemented in the second quarter of 2001.

Title insurance fees increased substantially for both the three- and nine-month periods in 2001 compared to 2000 as a result of the growth in mortgage lending volume associated with increased refinancing activity. Real estate mortgage loan servicing fees declined in 2001 compared to 2000 due to a decline in the balance of mortgage loans serviced for others primarily the result of an acceleration in prepayment activity and a decline in loans sold servicing retained. The Banks are selling the majority of newly originated mortgage loans on a "service-released" basis. Mutual fund and annuity commissions have also declined in 2001 compared to 2000 due primarily to lower sales volumes.

The Banks capitalized approximately \$0.7 million of related servicing rights during the nine-month periods ended September 30, 2001 and 2000. Amortization of capitalized servicing rights for those periods were \$1.0 million and \$0.8 million, respectively. The book value of capitalized mortgage servicing rights was \$4.3 million at September 30, 2001. The fair value of capitalized servicing rights, which relate to approximately \$726 million of real estate mortgage loans sold and serviced, approximated \$5.1 million at that same date.

**NON-INTEREST EXPENSE** Non-interest expense increased by \$2.8 million to \$17.5 million and by \$5.5 million to \$49.6 million during the three- and nine-month periods ended September 30, 2001, respectively, compared to the like periods in 2000. Increased performance based compensation as well as salary increases and staff additions related to the growth of the Registrant, contributed to the increase in non-interest expense. The third quarter of 2001 included \$160,000 in other expenses related to the consolidation of two of the Registrant's bank charters.

NON-INTEREST EXPENSE

	Three months ended September 30,		Nine months ended September 30,	
	2001	2000	2001	2000
	(in thousands)			
Salaries	\$ 6,610	\$ 6,071	\$ 19,309	\$ 17,612
Performance-based compensation and benefits	1,478	1,054	4,420	3,565
Other benefits	1,497	1,313	4,269	3,950
Salaries and benefits	9,585	8,438	27,998	25,127
Occupancy, net	1,229	1,157	3,702	3,454
Furniture and fixtures	1,040	1,064	3,207	3,297
Data processing	728	530	1,865	1,887
Loan and collection	733	484	1,806	1,127
Advertising	613	451	1,747	1,495
Communications	554	524	1,719	1,618
Supplies	574	374	1,457	1,137
Amortization of intangible assets	426	431	1,278	1,295
Other	1,996	1,255	4,869	3,743
Total non-interest expense	\$ 17,478	\$ 14,708	\$ 49,648	\$ 44,180

Item 3.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

No material changes in the market risk faced by the Registrant have occurred since December 31, 2000.

Part II

Item 6. Exhibits & Reports on Form 8-K

(a) Exhibit Number & Description

11. Computation of Earnings Per Share

(b) Reports on Form 8-K

A report on Form 8-K was filed on October 23 2001, under item 9. The report included supplemental data to the Registrant's press release dated October 23, 2001, regarding its earnings during the quarter ended September 30, 2001.



Exhibit Index

11 Computation of Earnings Per Share

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Computation of Earnings Per Share

See Note 6. of Notes to Interim Consolidated Financial Statements for a reconciliation of basic and diluted earnings per share for the three-month and the nine-month periods ending September 30, 2001 and 2000.