

INDEPENDENT BANK CORP /MI/  
Form 424B3  
April 16, 2004

Filed pursuant to Rule 424(b)(3)  
File No. 333-113854

## **Prospectus and Proxy Statement**

**Special Meeting of Shareholders of**

**Midwest Guaranty Bancorp, Inc.**

**In Connection with an Offering of up to**

**1,200,000 Shares of Common Stock of**

**Independent Bank Corporation**

Dear Shareholder of Midwest Guaranty Bancorp, Inc.:

You are cordially invited to attend a special meeting of shareholders of Midwest Guaranty Bancorp, Inc., to be held on May 18, 2004, at 10:00 a.m., local time, at 201 West Big Beaver Road, Suite 190, Columbia Center Conference Room, Troy, Michigan 48098. At this special meeting, you will be asked to approve the acquisition of Midwest Guaranty Bancorp, Inc. (which we refer to in this document as "Midwest") by Independent Bank Corporation (which we refer to in this document as "IBC"). The acquisition will be accomplished through the merger of Midwest into IBC.

If the merger is completed as proposed, Midwest will merge with IBC. Subject to certain possible adjustments, each share of Midwest common stock will be converted into the right to receive total consideration of \$43.456, consisting of \$17.3824 in cash and shares of IBC common stock valued at \$26.0736. The actual number of shares of IBC common stock that each Midwest shareholder will receive will depend on the average closing price of IBC common stock during a period prior to the closing of the merger. For example, if the average closing price of IBC common stock is \$27.50 (which was the closing price the day the parties agreed to the merger), you would receive .9481 of a share of IBC common stock for each share of Midwest common stock you own. As another example, if the average closing price of IBC common stock is \$27.66 (which was the closing price on April 1, 2004), you would receive .9426 of a share of IBC common stock for each share of Midwest common stock you own. IBC's common stock is listed under the symbol "IBCP" on the Nasdaq National Market System. Midwest's common stock is not traded on any established trading market.

Alex Sheshunoff & Co. Investment Banking L.P., Midwest's financial advisor, has furnished the Board of Directors of Midwest with its written opinion that the terms of the merger are fair from a financial point of view.

**Your vote is very important.** IBC and Midwest cannot complete the merger unless, among other things, Midwest's shareholders approve the merger. **Midwest's Board of Directors has approved the merger and recommends that you vote FOR approval of the merger.** Please review and consider this prospectus and proxy statement carefully.

It is important that your shares are represented at the meeting, whether or not you plan to attend. Abstention or failure to vote will have the same effect as a vote against the merger. Accordingly, please complete, date, sign, and return promptly your proxy card in the enclosed envelope. You may attend the meeting and vote your shares in person if you wish, even if you have previously returned your proxy.

Sincerely,

/s/ Clarke B. Maxson  
Clarke B. Maxson  
President and CEO of Midwest Guaranty Bancorp, Inc.

**Neither the Securities and Exchange Commission nor any state securities regulator has approved or disapproved of these securities or determined if this prospectus and proxy statement is accurate or adequate. Any representation to the contrary is a criminal offense. IBC**

In Connection with an Offering of up to 1,200,000 Shares of Common Stock of Independent Bank Corporation

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**common stock is not a savings account, deposit, or other obligation of any bank or nonbank subsidiary of IBC and is not insured by the Federal Deposit Insurance Corporation (FDIC) or any other governmental agency. IBC common stock is subject to investment risks, including possible loss of value.**

This prospectus and proxy statement is dated April 16, 2004,  
and is first being mailed to shareholders on or about April 16, 2004.

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This prospectus and proxy statement incorporates business and financial information about IBC that is not included in or delivered with this prospectus and proxy statement. Documents incorporated by reference are available from IBC without charge. You may obtain documents incorporated by reference in this prospectus and proxy statement by requesting them in writing or by telephone from IBC at the following address:

Independent Bank Corporation  
Attn: Robert N. Shuster, Chief Financial Officer  
230 West Main Street  
Ionia, Michigan 48846  
(616) 527-9450

**To obtain delivery of this information prior to the special Midwest shareholders meeting, you must request the information no later than May 11, 2004, which is five business days before the date of the special meeting at which you are requested to vote.** You should rely only on the information contained or incorporated by reference in this prospectus and proxy statement to vote on the merger and the related issuance of IBC common stock. Neither IBC nor Midwest has authorized anyone to provide you with information that is different from what is contained in this prospectus and proxy statement.

**QUESTIONS AND ANSWERS ABOUT THE MERGER**

**Q: What is the proposed transaction?**

**A:** Pursuant to the Agreement and Plan of Merger entered into between IBC, Midwest, and Midwest Guaranty Bank (attached as Exhibit A to this prospectus and proxy statement), IBC will acquire Midwest through a merger transaction in which Midwest will merge into IBC. Promptly after this merger, Midwest Guaranty Bank, a subsidiary owned 100% by Midwest, will be consolidated with Independent Bank East Michigan, a subsidiary owned 100% by IBC.

**Q: If I own Midwest common stock, what will I receive in the merger?**

**A:** Each share of Midwest common stock you own will be converted into the right to receive total consideration of \$43.456, consisting of \$17.3824 in cash and shares of IBC common stock valued at \$26.0736, subject to certain possible adjustments as provided in the merger agreement. The number of shares of IBC common stock to be exchanged for each share of Midwest common stock will be based on the average closing price of IBC common stock over a measurement period of 20 consecutive trading days specified in the merger agreement. No certificates for fractional shares will be issued. Instead, you will receive cash in payment for any fractional share, based on the specified average closing price of IBC common stock.

**Q: If I have been granted options to buy Midwest common stock, what happens to the options in the merger?**

**A:** Each outstanding option to acquire Midwest common stock that is unexercised will, at the effective time of the merger, be terminated and converted into an option to acquire IBC common stock. Those options will be governed by the terms and conditions of IBC's Long Term Incentive Plan, under which those options will be granted. The number of shares of IBC common stock subject to the converted option and the exercise price will be determined as described in the merger agreement (and described under "What Midwest Option Holders Will Receive in the Merger," on page 15 below). Any options to purchase Midwest common stock that are not vested when the merger occurs will become fully-vested at the time they are converted into options to purchase shares of IBC common stock. New stock option agreements setting forth the terms of the converted stock options will be issued and will replace the current Midwest stock option agreements.

**Q: What are the tax consequences of the merger to me?**

**A:** Because you will receive a combination of IBC common stock and cash, you should recognize capital gain, but not loss, on the exchange to the extent of the lesser of cash received or gain realized in the exchange. This tax treatment may not apply to all Midwest shareholders. Midwest shareholders should consult their individual tax advisors for a full understanding of the tax consequences of the merger. Midwest recommends that Midwest shareholders carefully read the complete explanation of the "Material Federal Income Tax Consequences" of the merger beginning on page 32.

**Q: What vote is required to approve the merger agreement?**

**A:** The affirmative vote of a majority of the shares of Midwest common stock outstanding as of the record date for the special meeting (April 15, 2004) is required to adopt the merger agreement and approve the merger.

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**Q: What should I do now?**

**A:** After you have carefully read this prospectus and proxy statement, simply indicate on your proxy card how you want to vote with respect to the merger proposal. Complete, sign, date, and mail the proxy card in the enclosed postage-paid return envelope as soon as possible so that your Midwest shares will be represented and voted at the meeting. The Board of Directors of Midwest recommends that Midwest shareholders vote in favor of the merger proposal.

**Q: When should I send in my stock certificates?**

**A:** Please DO NOT send in your stock certificates with your proxy card. Promptly after the effective time of the merger (if it is approved and completed), you will receive transmittal materials from the exchange agent with instructions for surrendering your Midwest shares. You should follow the instructions in the letter of transmittal regarding how and when to surrender your stock certificates.

**Q: What do I do if I want to change my vote after I have mailed my signed proxy card?**

**A:** You may change your vote by revoking your proxy in any of the three following ways: (i) by sending a written notice to the secretary of Midwest prior to the special meeting stating that you would like to revoke your proxy; (ii) by completing, signing, and dating another proxy card and returning it by mail prior to the special meeting; or (iii) by attending the special meeting and voting in person.

**Q: If my shares are held in "street name" by my broker, will my broker vote my shares for me?**

**A:** If you do not provide your broker with instructions on how to vote your shares held in street name, your broker will not be permitted to vote your shares on the merger proposal. You should therefore instruct your broker how to vote your shares. Failure to instruct your broker how to vote your shares will be the equivalent of voting against the merger proposal.

**Q: When do you expect to complete the merger?**

**A:** The merger is presently expected to be complete at the end of May 2004. However, there can be no assurance of when or if the merger will occur. Midwest must first obtain the approval of Midwest shareholders at the special meeting and certain necessary regulatory approvals must be obtained. In addition, the merger is subject to the satisfaction of certain conditions, as described in Conditions to Closing the Merger, beginning on page 25.

**Q: Whom can I call with questions about the special meeting or the merger or to obtain additional information about IBC and Midwest?**

**A:** Midwest shareholders may contact Clarke B. Maxson, President and Chief Executive Officer of Midwest, at 201 West Big Beaver Road, Troy, Michigan 48098, telephone number 248-689-1200. You can also find more information about IBC and Midwest from various sources described under Where You Can Find More Information on page 85 of this prospectus and proxy statement.

SUMMARY

*This summary highlights selected information from this prospectus and proxy statement and may not contain all of the information that is important to you. For a more complete description of the legal terms of the merger of IBC and Midwest, you should carefully read this entire document and the documents that are incorporated by reference in this document.*

**The Companies**

***Independent Bank Corporation***

230 West Main Street  
Ionia, Michigan 48846  
(616) 527-5820

Independent Bank Corporation is a bank holding company registered under federal law and incorporated in Michigan. IBC owns all of the outstanding stock of four banks, which are also organized under the laws of Michigan. These four banks serve the financial needs of primarily rural and suburban communities across the Lower Peninsula of Michigan and provide a wide range of financial services. At December 31, 2003, IBC had, on a consolidated basis, total assets of \$2.4 billion, total deposits of \$1.7 billion, and total shareholders' equity of \$162.2 million.

***Midwest Guaranty Bancorp, Inc.***

201 West Big Beaver Road  
Troy, Michigan 48098  
(248) 689-1200

Midwest Guaranty Bancorp, Inc. is a bank holding company registered under federal law and incorporated in Michigan. Midwest is headquartered in Troy, Michigan and owns Midwest Guaranty Bank. Midwest operates its banking business in Troy, Michigan and the surrounding area. Midwest offers commercial and personal banking services, including checking and savings accounts, certificates of deposit, safe deposit boxes, travelers' checks, money orders, and commercial, mortgage, and consumer loans. As of December 31, 2003, Midwest had, on a consolidated basis, total assets of \$235.4 million, total deposits of \$189.2 million, and total shareholders' equity of \$18.1 million.

**The Merger**

**What Midwest Shareholders Will Receive in the Merger (See page 14)**

If the merger is completed as planned, subject to certain possible adjustments as provided in the merger agreement, you will receive total consideration of \$43,456, consisting of \$17,3824 in cash and shares of IBC common stock valued at \$26.0736, for each share of Midwest common stock that you own. The number of shares of IBC common stock to be exchanged for each share of Midwest common stock will be based on the average closing price of IBC common stock over a measurement period of 20 consecutive trading days specified in the merger agreement. For example, if the average closing price of IBC common stock is \$27.66, you would receive .9426 (\$26.0736 divided by \$27.66) of a share of IBC common stock for each share of Midwest common stock you own. No certificates representing fractional shares of IBC common stock will be issued. Instead, you will receive cash in payment for any fractional share, based on the average closing price of IBC common stock over the measurement period.

You should not send in your Midwest stock certificates until IBC instructs you to do so after the merger is completed.

**Recommendation to Midwest Shareholders to Approve the Merger (See page 17)**

After careful consideration, Midwest's Board of Directors has determined the merger to be in the best interests of Midwest's shareholders. Midwest's Board of Directors recommends that you vote FOR the proposal to approve the merger agreement.

**Midwest's Financial Advisor's Opinion that the Financial Terms of the Merger are Fair (See page 17)**

In deciding to approve the merger, Midwest's Board of Directors considered the opinion of its financial advisor, Alex Sheshunoff & Co. Investment Banking, L.P., that the terms of the merger are fair to Midwest shareholders from a financial point of view. The written opinion of Sheshunoff is attached as Appendix B to this prospectus and proxy statement.

**Time and Location of the Midwest Shareholder Meeting (See page 12)**

Midwest will hold a special meeting of its shareholders to vote on the approval of the merger agreement. This special meeting will be held:

May 18, 2004  
10:00 a.m. local time  
201 West Big Beaver Road, Suite 190  
Columbia Center Conference Room  
Troy, Michigan 48098

**Vote Required to Approve the Merger and Issuance of Shares (See page 12)**

Only holders of record of Midwest common stock on April 15, 2004 have the right to vote on approval of the merger agreement.

To approve the merger agreement, the holders of at least a majority of the shares of Midwest common stock issued and outstanding as of the record date must vote FOR approval of the merger agreement.

As of the record date, Midwest's directors, executive officers, and their affiliates beneficially owned 422,954 shares (excluding shares subject to options), or approximately 44.393% of the shares of Midwest common stock entitled to vote on the merger agreement. Midwest's directors have agreed to vote their shares in favor of the approval of the merger agreement.

**How to Cast Your Vote By Proxy**

Please mail your signed proxy card in the enclosed return envelope as soon as possible so that your shares of Midwest common stock may be represented at Midwest's special meeting. If you properly sign and return a proxy card but do not include instructions on how to vote your shares, they will be voted FOR approval of the merger agreement.

**How to Cast Your Vote if Your Shares are Held by a Broker or Other Nominee in Street Name**

If your shares are held by your broker or other nominee in street name, your broker does not have authority to vote your shares unless you provide your broker instructions on how you want to vote. Your broker should send you a form to give such instructions or you may request such a form from your broker.

If you do not provide your broker with voting instructions, your shares will not be voted at the special meeting. Failure to vote Midwest shares will have the same effect as voting against approval of the merger agreement.

**How to Change Your Vote (See page 13)**

If you want to change your vote, you may send the Secretary of Midwest a later-dated, signed proxy card before the special meeting or attend and vote at the special meeting. You may also revoke your proxy by sending written notice of revocation to the Secretary of Midwest before the special meeting.

You should send any later-dated proxy or notice of revocation to:

Midwest Guaranty Bancorp, Inc.  
201 West Big Beaver Road  
Troy, Michigan 48098  
Attention: Secretary

**Bank Regulators Must Approve the Merger (See page 22)**

The Board of Governors of the Federal Reserve System must approve the merger. IBC filed its application for approval with the Federal Reserve Board on March 23, 2004.

**Certain Conditions Must Be Met Before the Completion of the Merger (See page 25)**

There are a number of conditions that must be met before IBC and Midwest will be required to complete the merger. These conditions include the following, among others:

Midwest shareholders owning at least a majority of the issued and outstanding shares of Midwest common stock must vote to approve the merger agreement; and

the Federal Reserve Board must approve the merger. Other conditions to the completion of the merger are described beginning on page 25.

Certain conditions to the merger may be waived by the party for whose benefit they are provided. In addition, IBC and Midwest each have certain rights to terminate the merger agreement, as discussed below.

If Midwest's shareholders have approved the merger agreement, all regulatory approvals have been received, and all other conditions to the merger have been satisfied or waived, the closing will take place at a time and date set by IBC. The closing must take place on or before 12 business days after the later of regulatory approval of the merger or the Midwest shareholders meeting.



**Material Federal Income Tax Consequences of the Merger  
(See page 32)**

As a result of receiving a combination of IBC common stock and cash in exchange for shares of Midwest common stock, you will likely recognize gain, but not loss, equal to the lesser of (1) the amount of cash received or (2) the amount of gain realized in the transaction. Generally, the actual U.S. federal income tax consequences to you will depend on whether your shares of Midwest common stock were purchased at different times and at different prices and the character of the gain, if any, as either capital gain or ordinary income. **You should consult your own tax advisor for a full understanding of the merger's tax consequences that are particular to you.**

**No Dissenters' Rights (See page 34)**

Under Michigan law, you are not entitled to dissenters' rights with respect to approval of the proposed merger.

**Interest of Midwest Officers and Directors in the Merger  
(See page 80)**

The executive officers and directors of Midwest collectively own over 44% of the issued and outstanding Midwest common stock. Several officers also own stock options.

In addition to his interest generally as a shareholder of Midwest, the President and CEO of Midwest Guaranty Bank will be receiving certain benefits pursuant to an amendment and restatement of his existing employment agreement with the bank, which amendment and restatement will become effective if and when the merger becomes effective and Midwest Guaranty Bank is consolidated with Independent Bank East Michigan.

**Terminating the Merger Agreement (See page 26)**

Under certain circumstances, IBC can decide not to complete the merger even if Midwest's shareholders have approved it. Also, Midwest has the right to terminate the merger agreement if (1) during the 20-day measurement period referred to above, the average closing price of IBC common stock is less than \$23.392, and (2) IBC underperforms the Nasdaq Bank Index by more than 15% between February 3, 2004 and the end of the measurement period, and (3) within five business days after the end of the measurement period, IBC elects to exercise its option to increase the average closing price of IBC common stock to \$23.392 (for purposes of calculating the number of shares of IBC common stock to be issued for each share of Midwest common stock). If IBC elects to exercise this option, then Midwest will have the right to terminate the merger agreement at any time within four business days after IBC elects to exercise its option.

## SELECTED HISTORICAL FINANCIAL INFORMATION (UNAUDITED)

The following tables show summarized historical consolidated financial data for IBC and Midwest. This information is derived from IBC's and Midwest's audited financial statements for 1999 through 2003. This information is only a summary. You should read it in conjunction with the historical financial statements (and related notes) contained or incorporated by reference in IBC's annual reports on Form 10-K, quarterly reports on Form 10-Q, and other information filed with the Securities and Exchange Commission and in Midwest's financial statements, related notes, Management's Discussion and Analysis of Financial Condition and Results of Operations, and other information included in this prospectus and proxy statement. See "Where You Can Find More Information" on page 85.

## Year Ended December 31,

	2003	2002	2001	2000	1999
<b>Independent Bank Corporation</b>					
(dollars in thousands, except per share amounts)					
<b>Income Statement Data:</b>					
Net interest income	\$ 95,253	\$ 81,807	\$ 72,042	\$ 64,976	\$ 61,804
Provision for loan losses	4,032	3,562	3,737	3,287	2,661
Net income (1)	37,592	29,467	24,398	20,009	8,669
<b>Balance Sheet Data (period end):</b>					
Assets	\$ 2,358,557	\$ 2,057,562	\$ 1,888,457	\$ 1,783,791	\$ 1,725,205
Deposits	1,702,806	1,535,603	1,387,367	1,389,900	1,310,602
Loans	1,667,393	1,381,442	1,384,684	1,379,664	1,290,641
Borrowings	385,704	334,253	321,110	223,582	266,920
Shareholders' equity	162,216	138,047	131,903	128,336	113,746
<b>Common Share Summary: (2)</b>					
Diluted earnings per share	\$ 1.87	\$ 1.44	\$ 1.15	\$ .93	\$ .39
Dividends per share	.59	.44	.37	.32	.24
Book value per share	8.29	7.05	6.42	6.07	5.30
Weighted average diluted shares outstanding	20,059	20,516	21,175	21,525	21,984

## Year Ended December 31,

	2003	2002	2001	2000	1999
<b>Midwest Guaranty Bancorp, Inc.</b>					
(dollars in thousands, except per share amounts)					
<b>Income Statement Data:</b>					
Net interest income	\$ 10,375	\$ 9,217	\$ 8,130	\$ 7,900	\$ 6,726
Provision for loan losses	483	590	480	595	420
Net income	2,262	1,825	1,407	1,361	1,213
<b>Balance Sheet Data (period end):</b>					
Assets	\$ 235,445	\$ 202,459	\$ 167,840	\$ 141,843	\$ 135,192
Deposits	189,248	167,961	150,437	127,190	122,147
Loans	200,426	160,656	129,537	108,401	97,507
Borrowings	19,250	10,000	2,500	-	-
Subordinated debentures (3)	7,732	7,500	-	-	-
Shareholders' equity	18,119	15,978	14,005	13,558	12,543
<b>Common Share Summary:</b>					
Diluted earnings per share	\$ 2.33	\$ 1.90	\$ 1.39	\$ 1.31	\$ 1.15
Dividends per share	-	-	-	-	-
Book value per share	19.12	16.86	14.78	13.47	11.93
Weighted average diluted shares outstanding	972	961	1,010	1,039	1,054

(1) 2001 net income includes the cumulative effect of a change in accounting principle, net of the related tax effect, due to the implementation of SFAS #133.

(2)

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Per share data has been adjusted for a 10% stock dividend in 2003, 5% stock dividends in 2002, 2001, 2000, and 1999, and three-for-two stock splits in 2002 and 1998.

- (3) See Note 8 to the consolidated financial statements for Midwest included elsewhere in this document for the accounting of Midwest's subordinated debentures.

**SUMMARY SELECTED PRO FORMA COMBINED DATA (UNAUDITED)**

The following table shows selected financial information on a pro forma combined basis giving effect to the merger as if the merger had become effective at the end of the period presented, in the case of balance sheet information, and at the beginning of the period presented, in the case of income statement information. The pro forma information reflects the purchase method of accounting.

IBC anticipates that the merger will provide the combined company with financial benefits that include reduced operating expenses and the opportunity to earn more revenue. The pro forma information, while helpful in illustrating the financial characteristics of the combined company under one set of assumptions, does not reflect these benefits and, accordingly, does not attempt to predict or suggest future results. It also does not necessarily reflect what the historical results of the combined company would have been had the companies been combined as of the date and during the periods presented.

You should read this summary pro forma information in conjunction with the information under Unaudited Pro Forma Financial Information beginning on page 35.

	<b>Year Ended</b> <b>December 31, 2003</b>
	<hr/>
	(dollars in thousands)
<b>Pro Forma Combined Income Statement Data:</b>	
Net interest income	\$ 105,169
Provision for loan losses	4,515
Net income	39,113
<b>Pro Forma Combined Balance Sheet Data</b>	
<b>(period end)(1):</b>	
Assets	\$ 2,620,509
Deposits	1,892,258
Loans	1,902,450
Borrowings	422,307
Shareholders' equity	186,927

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- (1) The pro forma combined balance sheet data assumes the issuance of 895,339 shares of IBC common stock, plus the payment of \$16,474,239 in cash, in exchange for all of the outstanding shares of Midwest common stock. This assumes an exchange ratio of .9447 of a share of IBC common stock for each share of Midwest common stock outstanding as of December 31, 2003. It also assumes that none of the outstanding Midwest stock options will be exercised before completion of the merger. The actual exchange ratio will depend on the average closing price of IBC common stock over a measurement period of 20 consecutive trading days specified in the merger agreement. In addition, the aggregate merger consideration to be paid by IBC to all Midwest shareholders is subject to certain possible adjustments pursuant to the merger agreement.

**CAPITAL RATIOS**

Under the risk-based capital guidelines presently in effect for banks and bank holding companies, minimum capital levels are based on the perceived risk in the various asset categories. Certain off-balance-sheet instruments, such as loan commitments and letters of credit, require capital allocations. Bank holding companies such as IBC and Midwest and banks such as Midwest Guaranty Bank and Independent Bank East Michigan are required to maintain minimum risk-based capital ratios. IBC's and Midwest's ratios are above the regulatory minimum guidelines, and Midwest Guaranty Bank and Independent Bank East Michigan each met the regulatory criteria to be categorized as well-capitalized institutions at December 31, 2003. The well-capitalized classification may permit banks to minimize the cost of FDIC insurance assessments by being charged a lesser rate than those that do not meet this definition. Designation as a well-capitalized institution does not constitute a recommendation by federal bank regulators. The following table shows capital ratios and requirements as of December 31, 2003.

	<b>Leverage</b>	<b>Risk-based Capital</b>	
		<b>Tier 1</b>	<b>Total</b>
	<b>%</b>	<b>%</b>	<b>%</b>
IBC's capital ratios	7.91	10.55	11.57
IBEM's capital ratios	6.85	9.81	10.81
Midwest's capital ratios	10.17	11.08	13.08
Midwest Guaranty Bank's capital ratios	8.63	9.40	10.65
Pro forma combined capital ratios - Holding Company	7.47	9.76	10.83
Pro forma combined capital ratios - Bank	7.31	9.28	10.50
Regulatory capital ratios - "well-capitalized" definition	5.00	6.00	10.00
Regulatory capital ratios - minimum requirement	4.00	4.00	8.00

## COMPARATIVE PER SHARE DATA (UNAUDITED)

The following table shows information about income per share, dividends per share, and book value per share, which is referred to as pro forma information.

IBC anticipates that the combined company will derive financial benefits from the merger that include reduced operating expenses and the opportunity to earn more revenue. The pro forma information, while helpful in illustrating the financial characteristics of the combined company under one set of assumptions, does not reflect these benefits and, accordingly, does not attempt to predict or suggest future results. The pro forma information also does not necessarily reflect what the historical results of the combined company would have been had the companies been combined during these periods.

The information in the following table is based on, and should be read together with, the historical financial information that is presented in this document and in IBC's prior filings with the SEC and with the condensed combined pro forma financial statements presented elsewhere in this document. See *Where You Can Find More Information* on page 85.

## At or For the Year Ended December 31, 2003

	<u>IBC Historical</u>	<u>Midwest Historical</u>	<u>Pro Forma Combined</u>	<u>Equivalent Pro Forma Per Share of Midwest</u>
<i>Comparative Per Share Data</i>				
Basic earnings	\$ 1.91	\$ 2.39	\$ 1.91 (1)	\$ 1.80 (4)
Diluted earnings	1.87	2.33	1.86 (1)	1.76 (4)
Cash Dividends Paid	.59	-	.59 (2)	.59 (2)
Book Value	8.29	19.12	9.13 (3)	8.63 (4)

- (1) The Pro Forma Combined earnings per share amounts were calculated by totaling the historical earnings of IBC and Midwest and dividing the resulting amount by the average pro forma shares of IBC and Midwest, giving effect to the merger as if it had occurred on January 1, 2003. The average pro forma shares of IBC and Midwest reflect historical basic and diluted shares, plus historical basic and diluted average shares of Midwest, as adjusted based on an assumed exchange ratio of .9447 of a share of IBC common stock, plus the payment of \$17.3824 in cash, for each share of Midwest common stock. The actual exchange ratio will depend on the average closing price of IBC common stock over a measurement period of 20 consecutive trading days specified in the merger agreement. In addition, the aggregate merger consideration to be paid by IBC is subject to certain adjustments pursuant to the merger agreement. The pro forma earnings amounts do not take into consideration any operating efficiencies that may be realized as a result of the merger.
- (2) Pro Forma Combined cash dividends paid represents IBC's historical amount only.
- (3) The Pro Forma Combined book value data gives effect to the merger as if it had occurred at December 31, 2003.
- (4) The Equivalent Pro Forma Per Share of Midwest amounts were calculated by multiplying the Pro Forma Combined amounts by the assumed exchange ratio of .9447 of a share of IBC common stock for each share of Midwest common stock. The actual exchange ratio will depend on the average closing price of IBC common stock over a measurement period of 20 consecutive trading days specified in the merger agreement. These amounts do not take into consideration any operating efficiencies that may be realized as a result of the merger. This data is presented for comparative purposes only.

**SPECIAL MEETING OF MIDWEST SHAREHOLDERS**

**Date, Time, and Place of the Special Meeting**

The special meeting of shareholders of Midwest is scheduled to be held as follows:

May 18, 2004 10:00 a.m. local time  
201 West Big Beaver Road, Suite 190  
Columbia Center Conference Room  
Troy, Michigan 48098

**Purpose of the Special Meeting**

The Midwest special meeting is being held so that shareholders of Midwest may consider and vote upon the proposal to approve the merger agreement and any other business that properly comes before the special meeting or any adjournment or postponement of that meeting. Approval of the merger agreement will also constitute approval of the merger and the other transactions contemplated by the merger agreement.

**Shareholder Special Meeting Record Date**

Midwest has fixed the close of business on April 15, 2004 as the record date for the determination of Midwest's common shareholders entitled to receive notice of and to vote at the special meeting. On the record date, there were 952,754 shares of Midwest common stock outstanding, held by approximately 207 shareholders.

**Vote Required for the Approval of the Merger Agreement**

A majority of the outstanding shares of Midwest common stock entitled to vote at the special meeting must be represented, either in person or by proxy, to constitute a quorum at the special meeting. Under the Michigan Business Corporation Act, the affirmative vote of the holders of at least a majority of the shares of Midwest common stock outstanding and entitled to vote at the special meeting is required to approve the merger agreement. You are entitled to one vote for each share of Midwest common stock held by you on the record date.

As of the record date for the special meeting, directors and executive officers of Midwest beneficially owned approximately 422,954 shares of Midwest common stock, which represents approximately 44.393% of all outstanding shares of Midwest common stock entitled to vote at the special meeting. Of this amount, Midwest directors owned approximately 413,939 shares, which represents approximately 43.447% of all outstanding shares of Midwest common stock entitled to vote at the special meeting. Pursuant to an Agreement to Vote Shares, the directors of Midwest have agreed to vote FOR approval of the merger agreement.

**Proxies and Effect on Vote**

All shares of Midwest common stock represented by properly completed proxies received before or at the special meeting and not revoked will be voted in accordance with the instructions indicated on the proxy card. If a properly completed proxy is returned and no instructions are indicated, the Midwest common stock represented by the proxy will be (1) considered present and entitled to vote at the special meeting for purposes of determining the presence of a quorum and for purposes of calculating the vote, and (2) voted FOR approval of the merger agreement. If a properly completed proxy is returned and the shareholder has specifically abstained from voting on the proposal to approve the merger agreement, the common stock represented by the proxy will be (1) considered present and entitled to vote at the special meeting for purposes of determining the presence of a quorum and for purposes of calculating the vote, and (2) AGAINST approval of the merger agreement. If a broker or other nominee holding shares of Midwest common stock in street name signs and returns a proxy but indicates on the proxy that it does not have discretionary authority to vote certain shares on the approval of the merger agreement, those shares will be (1) considered present and entitled to vote at the special meeting for purposes of determining the presence of a quorum and for purposes of calculating the vote, and (2) voted AGAINST approval of the merger agreement.

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Because approval of the merger agreement requires the affirmative vote of at least a majority of all shares of Midwest common stock outstanding and entitled to vote as of the record date, abstentions, failures to return proxies, and broker non-votes will have the same effect as a vote against approval of the merger agreement.

Midwest does not expect that any matter other than the approval of the merger agreement will be brought before the special meeting. If, however, other matters are presented, the persons named as proxies will (subject to applicable law) vote in accordance with their judgment with respect to those matters.

### **Revocation of Proxies**

You may revoke your proxy at any time before it is voted at the special meeting by:

notifying the Secretary of Midwest in writing that the proxy is revoked;

sending a later-dated proxy to the Secretary of Midwest or giving a later-dated proxy to a person who attends the special meeting;  
or

appearing in person and voting at the special meeting.

Attendance at the special meeting will not in and of itself constitute revocation of a proxy. You should send any later-dated proxy or notice of revocation of a proxy to:

Midwest Guaranty Bancorp, Inc.  
Attention: Secretary  
201 West Big Beaver Road  
Troy, Michigan 48098

### **Solicitation of Proxies**

For Midwest shareholders, the proxy that accompanies this document is being solicited by Midwest's Board of Directors. In addition to solicitations by mail, directors, officers, and regular employees of Midwest and its subsidiaries may solicit proxies from shareholders personally or by telephone or other electronic means. Such individuals will not receive any additional compensation for doing so. Midwest will bear its own costs of soliciting proxies, which Midwest estimates will be less than \$2,000. Midwest also will make arrangements with brokers and other custodians, nominees, and fiduciaries to send this document to beneficial owners of Midwest common stock and, upon request, will reimburse those brokers and other custodians for their reasonable expenses in forwarding these materials.

*You should not send in any stock certificates with your proxies. A transmittal form with instructions for the exchange of your Midwest stock certificates will be mailed to you as soon as practicable after completion of the merger (if it is approved and completed).*



## THE MERGER AND MERGER AGREEMENT

The merger agreement, attached as Appendix A, is incorporated in this prospectus and proxy statement by reference and should be carefully considered. Various provisions of the merger agreement have been summarized in this document for your information. However, the merger agreement, not this summary, is the definitive statement of the terms of the merger.

### What Midwest Shareholders Will Receive in the Merger

If Midwest's shareholders approve the merger agreement and the merger is completed, Midwest will merge with and into IBC and, as a result, IBC will own Midwest Guaranty Bank and all of the other assets of Midwest. In exchange, subject to certain possible adjustments described below, you will receive total consideration of \$43.456 for each of your shares of Midwest common stock, consisting of cash equal to \$17.3824 and shares of IBC common stock valued at \$26.0736.

#### *Number of Shares of IBC Common Stock You Will Receive*

The actual number of shares of IBC common stock you will receive (with a value of \$26.0736) for each share of Midwest common stock will depend on the market price of IBC common stock during a period prior to the closing of the merger. The price of IBC common stock to be used for this purpose will be measured by taking the average of the last reported sales price of IBC common stock on the Nasdaq National Market System for the 20 consecutive full trading days ending on the third business day after the later of (i) the date all regulatory approvals for the merger have been received and (ii) approval of the merger agreement at the shareholders meeting described in this prospectus and proxy statement. As an example, if the average closing price of IBC common stock is \$27.66, you will receive .9426 shares of IBC common stock (\$26.0736 divided by \$27.66), plus \$17.3824 in cash for each share of Midwest common stock you own. IBC will not issue fractional shares of IBC common stock in the merger. Instead, if you would otherwise be entitled to receive a fraction of a share of IBC common stock, you will receive an amount of cash determined by multiplying the amount of the fractional share by the average closing price.

#### *Terminating the Merger Agreement*

Under certain circumstances, we can agree not to complete the merger even if Midwest's shareholders have approved it. Midwest has the right to terminate the merger agreement if (1) the average closing price of IBC common stock is less than \$23.392, and (2) IBC underperforms the Nasdaq Bank Index by more than 15% between February 3, 2004 and the end of the 20-day measurement period described above, and (3) within five business days after the end of the measurement period IBC elects to exercise its option to increase the average closing price of IBC common stock to \$23.392 for purposes of calculating the number of shares of IBC common stock to be issued for each share of Midwest common stock. If IBC elects to exercise this option, then Midwest will have the right to terminate the merger agreement at any time within four business days after IBC elects to exercise its option to increase the average closing price to \$23.392.

#### *Adjustments to Per Share Merger Consideration*

The per share merger consideration will not be adjusted to reflect changes in the market price of IBC's common stock (except for IBC's right to set a minimum average closing price, as described above). However, the per share merger consideration is subject to certain adjustments based upon the occurrence of certain events between the date of this prospectus and proxy statement and the completion of the merger, as follows:

The per share merger consideration may be adjusted based upon the occurrence of an event between the date of this prospectus and proxy statement and the completion of the merger that would result in changes in the number of shares of IBC or Midwest common stock outstanding (such as a stock split or a stock dividend). The purpose of any such adjustment is to prevent dilution of the respective interests of the shareholders of IBC and Midwest. The merger agreement also provides that the per share merger consideration may be adjusted for other transactions, such as a recapitalization, reclassification, combination, or similar transaction. If one of these types of transactions occurs, there will be an equitable adjustment in the per share merger consideration. IBC and Midwest do not expect that any events requiring such an adjustment to the per share merger consideration will occur.

In addition, the per share merger consideration may be adjusted downward if IBC finds significant environmental problems with the real estate owned by Midwest and its subsidiaries. The merger agreement gives IBC the right to conduct various investigations of the real estate owned by Midwest and its subsidiaries. If the reports resulting from such investigations state that remedial work will need to be performed to such real estate that in the aggregate will cost more than \$100,000 but less than \$500,000 (or if the environmental expert making the report is unable to estimate, with any reasonable degree of certainty, that such costs will be less than \$50,000), then IBC has the right to deduct the estimated costs of the remedial work from the cash that would otherwise be paid to Midwest shareholders in the merger. However, if IBC notifies Midwest that it intends to deduct such costs from the cash payable to Midwest shareholders in the merger, the Midwest Board of Directors can decide to terminate the merger agreement and cancel the merger. If the estimated costs of any remedial environmental work are expected to exceed \$500,000, both IBC and Midwest have the right to terminate the merger agreement.

### **What Midwest Option Holders Will Receive in the Merger**

At the effective time of the merger, each option to purchase shares of Midwest common stock outstanding and unexercised immediately prior to the effective time will automatically be converted into an option to purchase IBC common stock. The number of shares of IBC common stock issuable upon exercise of the converted option will be equal to the product of (i) the number of shares of Midwest common stock subject to the option immediately before the merger, multiplied by (ii) the quotient of \$43.456 (the dollar value of the per share merger consideration, which is subject to the adjustments described above), divided by the average closing price. The exercise price per share of IBC common stock subject to the converted option will be equal to the quotient of (x) the exercise price of the option to purchase Midwest common stock immediately before the effective time of the merger, divided by (y) the quotient of \$43.456 (the dollar value of the per share merger consideration, which is subject to the adjustments described above), divided by the average closing price.

### **Structure of the Merger**

Midwest will be merged with and into IBC with IBC being the surviving corporation in accordance with the merger agreement and the Michigan Business Corporation Act.

### **Background of the Merger**

Midwest was incorporated in January of 1988 (under the original name Southern Michigan Corporation ) and formed Midwest Guaranty Bank in December of 1988. The name of the holding company was later changed to Midwest Guaranty Bancorp, Inc.

Midwest's Board of Directors has periodically reviewed Midwest's strategic alternatives for enhancing profitability and maximizing shareholder value, giving consideration to the changes and ongoing consolidation of the financial services industry. In addition to other actions, Midwest's Board periodically discussed strategic alternatives with various investment banking firms.

On June 17, 2003, Midwest's Board formed a special committee of the Board to focus on the identification and evaluation of potential strategic alternatives that might be available to Midwest. The special committee consisted of Clarke B. Maxson, Frank A. Borschke, and Boleslaus I. Stanczyk.

By letter agreement dated July 3, 2003, Midwest engaged Alex Sheshunoff & Co. Investment Banking L.P. to advise the Board of Directors in connection with the Board's consideration of a sale of Midwest. Prior to such engagement, Sheshunoff had periodically provided consulting and investment banking services to Midwest. Midwest's Board of Directors was familiar with the experience and expertise of Sheshunoff in advising companies on strategic alternatives, as well as responding to business combination proposals such as the merger with IBC.

In July 2003, Sheshunoff presented to the special committee a list of financial institutions that Sheshunoff considered potential business combination candidates for Midwest. The special committee reviewed the list with Sheshunoff, and refined the list to a group of 19 financial institutions believed by Sheshunoff and the special committee to be potentially interested in and financially capable of engaging in a business combination with Midwest. Sheshunoff initiated contact with these financial institutions. Sheshunoff obtained confidentiality

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agreements from and delivered a package containing information about Midwest to six of these financial institutions. Three of these institutions submitted preliminary proposals to Midwest, and two of the institutions (including IBC) conducted due diligence reviews of Midwest, and each of those two institutions submitted a revised proposal. In addition, Midwest received an unsolicited proposal from a financial institution that was not among the 19 institutions described above, and Midwest furnished information to, and engaged in discussions with, that institution, although Midwest subsequently determined not to pursue a business combination with that institution.

On November 26, 2003, IBC sent Midwest a formal offer letter.

On December 8, 2003, the Board of Directors reviewed information concerning a possible affiliation with IBC as well as other strategic alternatives, including continuing Midwest's current strategy. The Board of Directors also reviewed merger pricing information, information on IBC's performance, and an analysis of Midwest's historical performance and projections.

Negotiations continued and the parties reached agreement on the key terms of the transaction. At this time, IBC's legal counsel began preparing the merger agreement. During December of 2003 and January of 2004, details were negotiated and finalized, and Midwest and Sheshunoff conducted a due diligence review of IBC.

On January 20, 2004, Midwest's special committee, along with Sheshunoff and legal counsel, presented to the Midwest Board of Directors the proposed form of merger agreement by and between IBC and Midwest pursuant to which Midwest would be merged with and into IBC. Legal counsel reviewed the fiduciary duties of the Board of Directors when considering such proposals. Midwest's legal counsel then presented a detailed review and analysis of the proposed merger agreement. At this meeting, Sheshunoff provided the Board of Directors with a comprehensive analysis of the proposed merger. The proposed combination with IBC was contrasted with Midwest's likely future prospects on a stand alone basis. Sheshunoff concluded by advising the Board of Directors that it was that firm's opinion that the terms of the proposed merger agreement were fair to Midwest and its shareholders from a financial point of view. Midwest's Board of Directors then discussed the proposed merger and voted to approve and authorize the merger and the merger agreement and all incidental actions.

IBC's Board of Directors met on January 25, 2004, reviewed the merger agreement, authorized the merger, and adopted the merger agreement with Midwest.

The merger agreement was executed on February 4, 2004. A joint press release regarding the merger was issued prior to the opening of the stock market on February 5, 2004.

The decision of the Board of Directors of Midwest to authorize and approve the merger, the merger agreement, and the related agreements was the result of extensive discussion and lengthy deliberation.

In reaching its decision, the Board of Directors of Midwest gave particular consideration to the following factors:

the financial value of IBC's proposal and the premium that value represents over the then recent sales of Midwest common stock and the liquidity of the market for IBC's common stock;

the social and economic impact of IBC's proposal and its consummation on Midwest and its employees, customers, and suppliers, and the communities in which Midwest and its subsidiaries operate;

Midwest's potential need to raise capital if it were to remain independent and continue to grow, and IBC's access to capital; and

the Board of Directors' perception of the strategic and synergistic business opportunities for the combined IBC-Midwest organization to grow into an organization that provides greater value to its shareholders than the sum of the two previously separate corporations.

Based on this consideration, the Board of Directors determined that IBC's proposal would be in the best interests of Midwest and its shareholders. In the proposed merger, subject to certain possible adjustments described

above, Midwest's shareholders would receive a combination of cash and shares of IBC common stock valued at approximately \$43.456 per share of Midwest common stock.

### **Merger Recommendation and Reasons for the Merger**

#### *Midwest*

The Midwest Board of Directors, with the assistance of outside financial and legal advisors, evaluated the financial, legal, and market considerations impacting the decision to proceed with the merger. The terms of the merger, including the consideration to be paid to Midwest's shareholders, are the result of arm's-length negotiations between the representatives of Midwest and IBC. In deciding to proceed with the transaction, the Board of Directors considered a number of material factors with a view to maximizing shareholder value in the intermediate and long-term, including the following:

the future prospects of Midwest if it were to continue to operate as an independent, stand-alone entity;

the fact that the market value of the consideration to be received by Midwest's shareholders in the merger represented a premium over prices in sales of Midwest's common stock in transactions known to its management;

the fact that Midwest shareholders would benefit from the increased liquidity of the shares to be received;

the historical performance of IBC and its perceived future prospects;

the apparent competence, experience, community banking philosophy, and integrity of IBC's management; and

the opinion of Sheshunoff that the financial terms of the merger are fair to Midwest shareholders from a financial point of view.

The Board of Directors of Midwest also believes that, by becoming part of a larger organization with greater resources, Midwest will be able to better serve its customers and communities and provide a broader array of products and services that will be competitive with other financial service providers in East Michigan.

*Midwest's Board of Directors recommends that you  
vote FOR the approval of the merger agreement.*

#### *IBC*

IBC believes the proposed merger with Midwest will further enhance its position in the East Michigan banking market.

### **Opinion of Midwest's Financial Advisor**

Midwest retained Sheshunoff to provide its opinion as to the fairness from a financial viewpoint of the merger consideration to the shareholders of Midwest. As part of its investment banking business, Sheshunoff is regularly engaged in the valuation of securities in connection with mergers and acquisitions and valuations for estate, corporate and other purposes. The Midwest Board of Directors retained Sheshunoff based upon its experience as a financial advisor in mergers and acquisitions of financial institutions and its knowledge of financial institutions.

On January 20, 2004, Sheshunoff rendered its oral opinion to Midwest's Board of Directors that, as of such date, the merger consideration was fair, from a financial point of view, to the shareholders of Midwest. Sheshunoff rendered its written fairness opinion as of March 12, 2004.

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The full text of the fairness opinion which sets forth, among other things, assumptions made, procedures followed, matters considered, and limitations on the review undertaken, is attached as Appendix B to this prospectus and proxy statement. You are urged to read Sheshunoff's fairness opinion carefully and in its entirety. The fairness opinion is addressed to the Board of Directors of Midwest and does not constitute a recommendation to any Midwest shareholder as to how such shareholder should vote at the special meeting of Midwest's shareholders.

In connection with the fairness opinion, Sheshunoff:

1. Reviewed the merger agreement;
2. Reviewed certain publicly available financial statements and other information about IBC;
3. Reviewed internal financial statements, operating data, and financial forecasts for Midwest;
4. Conducted conversations with executive management of Midwest and IBC regarding recent and projected financial performance;
5. Analyzed the present value of the after-tax cash flows Midwest could produce on an independent basis through the year 2007, based on assumptions provided by management;
6. Reviewed the relative contributions of Midwest and IBC to the combined company;
7. Compared the proposed financial terms of the merger with the financial terms of certain other transactions that Sheshunoff deemed to be relevant;
8. Compared the historical stock price data and trading volume of IBC common stock with that of certain other comparable publicly traded companies;
9. Compared certain financial characteristics and performance measures of IBC with that of certain other comparable publicly traded companies; and
10. Compared the historical stock price performance of IBC common stock with that of selected indices Sheshunoff deemed relevant.

In connection with its review, Sheshunoff relied upon and assumed the accuracy and completeness of all of the foregoing information provided to it or made publicly available, and Sheshunoff did not assume any responsibility for independent verification of such information. Sheshunoff assumed that internal confidential financial projections provided by Midwest were reasonably prepared reflecting the best currently available estimates and judgments of the future financial performance of Midwest, and did not independently verify the validity of such assumptions.

Sheshunoff did not make any independent evaluation or appraisal of the assets or liabilities of Midwest or IBC nor was Sheshunoff furnished with any such appraisals. Sheshunoff did not examine any individual loan files of Midwest or IBC. Sheshunoff is not an expert in the evaluation of loan portfolios for the purposes of assessing the adequacy of the allowance for losses with respect thereto and has assumed that such allowances were, in the aggregate, adequate to cover such losses.

The fairness opinion is necessarily based on economic, market and other conditions as in effect on, and the information made available to Sheshunoff as of February 17, 2004.

In rendering the fairness opinion, Sheshunoff performed a variety of financial analyses. The preparation of an opinion involves various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances. Consequently, the fairness opinion is not readily susceptible to partial analysis or summary description. Moreover, the evaluation of fairness, from a financial point of view, of the merger consideration is to some extent subjective, based on the experience and judgment of Sheshunoff, and not merely the result of mathematical analysis of financial data. Sheshunoff did not attribute particular weight to any analysis or factor considered by it. Accordingly, notwithstanding the separate factors summarized below, Sheshunoff believes that its analyses must be considered as a whole and that selecting portions

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of its analyses and of the factors considered by it, without considering all analyses and factors, could create an incomplete view of the evaluation process underlying its opinion. The ranges of valuations resulting from any particular analysis described below should not be taken to be Sheshunoff's view of the actual value of Midwest, IBC, or the combined entity.

In performing its analyses, Sheshunoff made numerous assumptions with respect to industry performance, business, and economic conditions and other matters, many of which are beyond the control of Midwest or IBC. The analyses performed by Sheshunoff are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by such analyses, nor are they appraisals. In addition, Sheshunoff's analyses should not be viewed as determinative of the opinion of the Board of Directors or the management of Midwest with respect to the value of Midwest or IBC or to the fairness of the merger consideration.

The following is a summary of the analyses performed by Sheshunoff in connection with its opinion. The following discussion contains financial information concerning Midwest and IBC as of September 30, 2003 and market information as of February 17, 2004.

For the purposes of the following analyses, Sheshunoff utilized a value of the merger consideration of \$43.46 per share and assumed IBC's 20-day average stock price was \$29.24 per share.

**Midwest Discounted Cash Flow Analysis.** Using discounted cash flow analysis, Sheshunoff estimated the present value of the future after-tax cash flow streams that Midwest could produce on a stand-alone basis through the year 2007, under various circumstances, assuming that it performed in accordance with the projections provided by Midwest's management.

Sheshunoff estimated the terminal value for Midwest at the end of 2007 by capitalizing the final period projected earnings using a discount rate that is the quotient of (i) the assumed annual long-term growth rate of the earnings of Midwest of 5% plus one and (ii) the difference between a range of required rates of return and the assumed annual long-term growth rate of earnings in (i) above. Sheshunoff discounted the annual cash flow streams (defined as all earnings in excess of that required to maintain a tangible equity to asset ratio of 7.0%) and the terminal values using discount rates ranging from 12% to 14%. The discount range was chosen to reflect different assumptions regarding the required rates of return of Midwest and the inherent risk surrounding the underlying projections. This discounted cash flow analysis indicated a range of values per share of \$32.10 to \$42.60 as shown in the table below compared to the merger consideration of \$43.46.

	<b>DISCOUNT RATE</b>		
	14.0%	13.0%	12.0%
Midwest Present Value (in millions)	\$ 31,760	\$ 36,284	\$ 42,150
Midwest Present Value (per share)	\$ 32.10	\$ 36.67	\$ 42.60

**Analysis of Selected Transactions:** Sheshunoff performed an analysis of premiums paid in selected recently completed acquisitions of banking organizations with comparable characteristics to the merger. Two sets of comparable transactions were selected to ensure a thorough analysis.

The first set of comparable transactions consisted of a group of transactions for banks in metropolitan areas in the Midwest Region (as defined by SNL Financial) of the United States for which pricing data were available. These comparable transactions consisted of 11 mergers and acquisitions of banks with assets between \$100 million and \$400 million that were announced between July 1, 2003 and February 13, 2004. The analysis yielded multiples of the purchase prices in these transactions relative to:

1. Tangible book value ranging from 1.3 times to 3.0 times with an average of 2.2 times and a median of 2.3 times compared with the multiples implied in the merger of 2.5 times September 30, 2003 tangible book value for Midwest;
2. Last 12 months earnings ranging from 15.3 times to 33.5 times with an average of 23.3 times and a median of 22.0 times compared with the multiples implied in the merger of 19.7 times last 12 months earnings as of September 30, 2003 for Midwest;

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3. Total assets ranging between 18.3% and 26.8% with an average of 20.8% and a median of 20.4% compared with the multiples implied in the merger of 18.4% of September 30, 2003 total assets for Midwest; and

4. Total deposits ranging from 21.0% to 31.8% with an average of 24.6% and a median of 23.4% compared with the multiples implied in the merger of 22.3% of deposits as of September 30, 2003 for Midwest.

The second set of comparable transactions consisted of banks in the United States with asset size and characteristics similar to Midwest for which pricing data were available. These comparable transactions consisted of 33 mergers and acquisitions of banks in the United States with total assets between \$100 million and \$300 million that were announced between July 1, 2003 and February 13, 2004. The analysis yielded multiples of the purchase prices in these transactions relative to:

1. Tangible book value ranging from 0.8 times to 4.8 times with an average of 2.4 times and a median of 2.5 times compared with the multiples implied in the merger of 2.5 times September 30, 2003 tangible book value for Midwest;

2. Last 12 months earnings ranging from 9.8 times to 42.1 times with an average of 25.8 times and a median of 23.9 times compared with the multiples implied in the merger of 19.7 times last 12 months earnings as of September 30, 2003 for Midwest;

3. Total assets ranging between 10.2% and 33.7% with an average of 20.4% and a median of 20.0% compared with the multiples implied in the merger of 18.4% of September 30, 2003 total assets for Midwest; and

4. Total deposits ranging from 11.8% to 41.2% with an average of 24.5% and a median of 23.4% compared with the multiples implied in the merger of 22.3% of deposits as of September 30, 2003 for Midwest.

Contribution Analysis: Sheshunoff reviewed the relative contributions of Midwest and IBC to the combined company based on the September 30, 2003 financial data. Sheshunoff compared the pro forma ownership interests of Midwest and IBC of 4.3% and 95.7%, respectively, to: (i) total assets of 9.2% and 90.8%, respectively; (ii) total loans of 10.6% and 89.4%, respectively; (iii) total deposits of 10.5% and 89.5%, respectively; (iv) total equity of 10.1% and 89.9%, respectively; (v) net interest income of 9.9% and 90.1%, respectively; (vi) non-interest income of 3.5% and 96.5%, respectively; (vii) non-interest expense of 8.7% and 91.3%, respectively; and (viii) earnings of 5.7% and 94.3%, respectively. The cash consideration paid by IBC to Midwest shareholders reduced the equity position of Midwest shareholders in the combined company relative to their proportional contribution of the other criteria compared. The effect of the cash consideration paid was to increase the proportional ownership by IBC's shareholders of the criteria compared.

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Comparable Company Analysis: Sheshunoff compared the operating and market results of IBC to the results of other publicly traded companies. The comparable publicly traded companies were selected primarily on the basis of two criteria: geographic location and total asset size. The geographic location of the banks and, therefore, of the comparables was the Midwest Region of the United States (as defined by SNL Financial). IBC was compared to companies with similar total assets ranging between \$1 billion and \$3 billion. The data for the following tables is based on information provided by SNL Financial. Some of the ratios presented are proprietary to SNL Financial and may not strictly conform to the common industry determinations or the computations by IBC in its financial statements.

	IBC	IBC Peer Group Mean
Net Interest Margin	4.80%	3.78%
Efficiency Ratio	54.7%	58.00%
Return on Average Assets	1.68%	1.14%
Return on Average Equity	24.77%	14.07%
Equity to Asset Ratio	6.68%	8.35%
Tangible Equity to Tangible Asset Ratio	5.69%	7.46%
Tier 1 Capital Ratio	7.67%	8.61%
Ratio of Non-performing Assets to Total Assets	0.36%	0.80%
Ratio of Non-performing Loans to Total Loans	0.32%	0.90%
Ratio of Loan Loss Reserves to Loans	1.10%	1.45%
Ratio of Loan Loss Reserves to Non-performing Assets	212.00%	189.00%

Generally, IBC's performance as measured by its return on average assets, net interest margin, efficiency ratio, and return on average equity was higher than the IBC peer group mean. Its capital levels were lower as shown in the equity to asset ratio and the tangible equity to tangible asset ratio, while its Tier 1 capital ratio was somewhat lower. IBC's asset quality as measured by its ratio of non-performing assets to total assets and its ratio of non-performing loans to total loans were better than the IBC peer group mean. Its coverage of non-performing assets as shown by the ratio of loan loss reserves to non-performing assets was better.

The companies' market results based on market data as of September 30, 2003 are contained in the following tables.

	IBC	IBC Peer Group Mean
Market Price as a Multiple of Stated Book Value	3.36	1.96
Market Price as a Multiple of Stated Tangible Book Value	3.98	2.24
Price as a Multiple of LTM Earnings (Sept 2003)	14.70	15.30
Dividend Yield per Share	2.31%	2.08%
Dividend Payout per Share	31.70%	34.33%

IBC's price to book multiples as measured by its market price as a multiple of stated book value and market price as a multiple of stated tangible book value were higher than its peer group. Its price to earnings multiple as shown in the price as a multiple of last 12 months earnings through September 30, 2003 was lower than the comparable ratio for the IBC Peer Group. IBC's dividend yield was slightly above and the dividend payout slightly below the respective measures for its peer group.

Sheshunoff compared selected stock market results of IBC to the publicly available corresponding data of other composites that Sheshunoff deemed to be relevant, including (i) the NASDAQ Bank Stock index, (ii) the SNL index of banks in the Midwestern Region of the U.S. (as defined by SNL Financial, L.C.), and (iii) the S&P 500. IBC's common stock price has performed better than the selected indices for the period from January 1, 2002 through February 17, 2004.

No company or transaction used in the comparable company and comparable transaction analyses is identical to Midwest, IBC, or IBC as the surviving corporation in the merger. Accordingly, an analysis of the results of the foregoing necessarily involves complex considerations and judgments concerning differences in financial and



operating characteristics of Midwest and IBC and other factors that could affect the public trading value of the companies to which they are being compared. Mathematical analysis (such as determining the average or median) is not in itself a meaningful method of using comparable transaction data or comparable company data.

Pursuant to an engagement letter dated July 3, 2003 between Midwest and Sheshunoff, Midwest agreed to pay Sheshunoff a professional fee of one percent (1%) of the merger consideration. In addition, Midwest agreed to reimburse Sheshunoff for its reasonable out-of-pocket expenses. Midwest also agreed to indemnify and hold harmless Sheshunoff and its officers and employees against certain liabilities in connection with its services under the engagement letter, except for liabilities resulting from the negligence, violation of law or regulation or bad faith of Sheshunoff or any matter for which Sheshunoff may have strict liability.

The fairness opinion is directed only to the question of whether the merger consideration is fair from a financial perspective and does not constitute a recommendation to any Midwest shareholder to vote in favor of the merger. No limitations were imposed on Sheshunoff regarding the scope of its investigation or otherwise by Midwest.

Based on the results of the various analyses described above, Sheshunoff concluded that the merger consideration to be paid by IBC pursuant to the merger is fair to Midwest shareholders, from a financial point of view.

### **Closing and Effective Time of the Merger**

IBC will select the time and place for the closing and anticipates that the closing will occur in May 2004. IBC must select a date for the closing on or before 12 business days after the later of (1) the date on which the last of the regulatory approvals of the merger has been received, and (2) the Midwest shareholders meeting described in this prospectus and proxy statement.

The merger will be effective at the close of business on the last day of the month in which the closing of the merger occurs.

### **Regulatory Approvals**

Before IBC and Midwest may complete the merger, IBC must receive the approval of the Federal Reserve Board. In addition, if and when the Federal Reserve Board approves the Merger, IBC and Midwest must wait an additional 30 days before completing the merger to allow the U.S. Department of Justice to take further action to delay or block the merger. (The Department of Justice may shorten this 30-day period in its discretion.) IBC filed its application for approval of the merger with the Federal Reserve Board on March 23, 2004. While IBC expects to receive Federal Reserve Board approval, no assurance can be made as to whether or when the approval will be given.

### **Distribution of IBC Common Stock**

At the effective time of the merger, Midwest's shareholders will cease to own shares of Midwest. Subject to certain adjustments pursuant to the merger agreement, each share of Midwest common stock issued and outstanding immediately prior to the completion of the merger will automatically be converted into the right to receive total consideration of \$43.456, consisting of \$17.3824 in cash and shares of IBC common stock valued at \$26.0736.

At the effective time of the merger, IBC will deliver to its exchange agent the amount of cash and number of shares of IBC common stock issuable in the merger. Within five business days after the closing of the merger, the exchange agent will send you and other former Midwest shareholders transmittal materials to be used to exchange the old Midwest stock certificates. The transmittal materials will contain instructions with respect to the surrender of old Midwest stock certificates. After the effective time of the merger, once the exchange agent receives your old Midwest stock certificates, the exchange agent will send you a certified check for the cash payable in exchange for your shares of Midwest common stock and will register the shares of IBC common stock issuable to you in the name and at the address appearing on Midwest's stock records as of the time of the merger or such other name or address as you request in the transmittal materials. The exchange agent will not be required to register the shares in that manner until it has received all of your old Midwest stock certificates (or an affidavit of loss for such

certificate or certificates and, if required by IBC or the exchange agent, an indemnity bond), together with properly executed transmittal materials. Such old Midwest stock certificates, transmittal materials, and affidavits must be in a form and condition reasonably acceptable to IBC and the exchange agent. The exchange agent will have discretion to determine reasonable rules and procedures relating to the exchange (or lack thereof) of old Midwest stock certificates and the payment of the per share merger consideration.

### **Exclusive Commitment to IBC**

#### *Board Recommendation*

The Midwest Board of Directors has approved the merger agreement and the merger and other transactions contemplated by the merger agreement. The Midwest Board of Directors believes that the merger agreement is in the best interests of Midwest and its shareholders and recommends that the Midwest shareholders vote FOR approval of the merger. See Merger Recommendation and Reasons for the Merger on page 17 above.

#### *No Negotiations with Third Parties*

In addition to the commitment of the Board of Directors of Midwest to recommend the merger to its shareholders, Midwest has agreed that it will not directly or indirectly invite, initiate, solicit, or encourage any other party to make any proposal involving the sale of Midwest or Midwest Guaranty Bank. Further, Midwest has agreed that it will not (i) negotiate with any other party regarding a possible sale of Midwest, except upon the receipt of an unsolicited offer from a third party as required by applicable law, or (ii) provide any nonpublic information about itself or any of Midwest's subsidiaries to any party other than IBC, except as required by applicable law. Midwest must promptly notify IBC of all inquiries and proposals that it receives relating to a proposed acquisition transaction and must keep IBC informed on the status and details of any such inquiry or proposal.

#### *Payment after Certain Events*

If the shareholders of Midwest fail to approve the merger agreement at the special shareholders meeting described in this prospectus and proxy statement, and such failure is due in whole or in part to the existence of any acquisition proposal which competes or is otherwise inconsistent with the transactions contemplated by the merger agreement, then Midwest is required to promptly pay to IBC a fee of \$250,000. The fee would be increased to \$500,000 if an inquiry or proposal was solicited, directly or indirectly, by any officer, director, shareholder, or other representative of Midwest or if Midwest otherwise breaches other covenants in the merger agreement related to its commitment to deal exclusively with IBC.

### **Conduct of Midwest Pending the Completion of the Merger**

In the merger agreement, Midwest made certain covenants to IBC. These covenants, which remain in effect until the merger is completed or until the merger agreement has been terminated, are summarized below.

#### *Ordinary Course of Business*

Midwest has agreed to conduct its business, and manage its property only in the usual, regular, and ordinary course in substantially the same manner as before the merger agreement was signed. In particular, Midwest has agreed, among other things, to:

preserve its business organization and that of each of its subsidiaries;

retain the services of its employees;

preserve the goodwill of customers and others with whom business relationships exist;

refrain from declaring, setting aside, making, or paying any dividend or other distribution;

refrain from issuing any shares of capital stock, issuing any rights, redeeming shares of stock, or making any changes to capitalization;



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refrain from making any change in its Articles of Incorporation, Bylaws, or capital stock except as effected by the merger agreement;

take no action to increase the salary, severance, or other compensation payable to, or fringe benefits of, or pay any bonus to, any officer, director, or employee as a class or group, except as contemplated by the merger agreement;

take no action to enter into, extend, or renew any employment or consulting agreement, except as in the ordinary course of business where the agreement is terminable at will without liability;

take no action to enter into or modify any employee benefit plans relating to any director, officer, or employee, except as may be required by law or the merger agreement;

maintain its books, accounts, and records in the usual and ordinary course;

except with prior consultation with IBC, refrain from originating any consumer loan in excess of \$250,000 or any commercial loan in excess of \$400,000;

refrain from entering into any contract or arrangement with a labor union or any contract or arrangement not made in the ordinary course of business;

take no action to borrow money except in the ordinary course of business;

take no action to change its method of accounting in effect for the year ended December 31, 2002;

make no capital expenditures in excess of \$25,000 or \$50,000 in the aggregate, except in the ordinary course of business or in connection with the merger agreement;

refrain from entering into any lease or lease renewal of real or personal property providing for annual payments exceeding \$5,000;

take no action with respect to any branch location;

refrain from purchasing any security or material investment, other than in connection with foreclosures or other repossessions, except for U.S. Treasury or Government agency securities with maturities of three years or less, or commercial paper, agreements to repurchase or federal funds with maturities of 90 days or less;

take no action to grant any preferential rights to purchase any assets or requiring the consent of any other party to transfer and assign such assets or rights;

refrain from materially changing or modifying any lending or investment policies;

refrain from entering into any futures, option, interest, or other hedging contract, except as necessitated by changes in interest rates and in accordance with safe and sound banking practices;

take no action that would cause any of the representations and warranties contained in the merger agreement to be false or would fail to cause any conditions precedent to be satisfied;

refrain from taking any action that would be impede or delay the merger or the ability of any party to perform under the merger agreement;

take no action to increase or decrease the interest rate on time deposits or certificates of deposit (except as permitted by the merger agreement); and

notify IBC in writing of any matter or event that would have a material adverse effect on Midwest.

#### *Environmental Investigation*

Midwest has agreed to permit IBC to conduct a phase one environmental assessment of each parcel of real property currently owned or leased by Midwest or any of its affiliates, excluding space leased by Midwest in office or retail establishments for automatic teller machine or branch facilities, or other office leases where the space leased is less than 20% of the total space leased to all tenants. IBC may order a phase two environmental assessment if reasonably required by the phase one results.

If the reports resulting from such investigations state that remedial work will need to be performed to such real estate that in the aggregate will cost more than \$100,000 but less than \$500,000 (or if the environmental expert making the report is unable to estimate, with any reasonable degree of certainty, that such costs will be less than \$50,000), then IBC has the right to deduct the estimated costs of the remedial work from the cash that would otherwise be paid to Midwest shareholders in the merger. However, if IBC notifies Midwest that it intends to deduct such costs from the cash payable to Midwest shareholders in the merger, the Midwest Board of Directors can decide to terminate the merger agreement and cancel the merger. If the estimated costs of any remedial environmental work are expected to exceed \$500,000, both IBC and Midwest have the right to terminate the merger agreement.

#### *Insurance and Indemnification*

For a period of three years, IBC has agreed to honor any rights to indemnification existing at the time of the merger, in favor of the present and former directors and officers of Midwest and its subsidiaries under their articles of incorporation or existing bylaws. These enforceable contractual rights will remain in effect following the merger with respect to acts or omissions occurring before the merger with the same force and effect as before the merger.

In addition, IBC has agreed to cooperate with Midwest to cause the officers and directors of Midwest immediately prior to the merger to be covered immediately following the merger by the directors' and officers' liability insurance policy maintained by Midwest for acts or omissions occurring before the merger that were committed by Midwest's officers and directors in their capacities as officers and directors. IBC may substitute for Midwest's current coverage new coverage under policies offering comparable coverage and amounts to IBC's policies for its own officers and directors.

#### **Conditions to Closing the Merger**

##### *Mutual Conditions to Close*

The obligations of each of IBC and Midwest to complete the merger are subject to the fulfillment of certain conditions, including the following:

the shareholders of Midwest must have approved the merger agreement;

each governmental agency having jurisdiction over the merger must have approved or consented to the merger;

all requisite third parties must have given the appropriate approval, consent, or waiver;

IBC and Midwest must not be subject to any order, decree, or injunction by any court or governmental authority that enjoins or prohibits the completion of the merger;

there must be no pending or threatened proceedings before governmental authorities that attempt to prohibit, restrict, or make the merger illegal;

the registration statement of which this prospectus and proxy statement is a part must have been declared effective by the SEC and must not be subject to a stop order or threatened stop order; and

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Clarke B. Maxson, the President and CEO of Midwest Guaranty Bank, must have executed and delivered an Amended and Restated Employment Agreement, in the form attached as Exhibit D to the merger agreement and described under Voting and Management Information Interests of Certain Persons in the Merger on page 81.

### *IBC's Conditions to Close*

In addition to the mutual conditions to close described above, IBC's obligation to complete the merger is subject to the fulfillment of additional conditions, including the following:

the representations and warranties made by Midwest and Midwest Guaranty Bank in the merger agreement must be true and correct as of the closing date or to a specifically related earlier date;

Midwest and Midwest Guaranty Bank must have performed in all material respects all of the agreements, conditions, and covenants made in the merger agreement to be completed at or before the closing;

Midwest and Midwest Guaranty Bank must provide an accounting of all expenses incurred by each of them in connection with the merger;

IBC must have received an opinion from Bracewell & Patterson, L.L.P. (legal counsel for Midwest) to the effect that Midwest is in good standing, Midwest Guaranty Bank is in good standing, the merger has been approved by the Boards of both companies, the merger agreement is binding on each of them, and that upon filing of the Certificate of Merger, the merger will become effective;

any information received by IBC making the representations and warranties from Midwest and Midwest Guaranty Bank true and correct must not have a material adverse impact on IBC;

Midwest's stock and options must not exceed 1,022,254 shares at the closing date; and

no condition, event, circumstance, fact, or occurrence may occur that reasonably may be expected to have a material adverse effect on Midwest.

### *Midwest's Conditions to Close*

In addition to the mutual conditions to close described above, Midwest's obligation to complete the merger is subject to the fulfillment of additional conditions, including the following:

the representations and warranties made by IBC in the merger agreement must be true and correct as of the closing date or to a specifically related earlier date;

IBC must have performed in all material respects all of the agreements, conditions, and covenants made in the merger agreement to be completed at or before the closing;

Midwest must have received an opinion from Varnum, Riddering, Schmidt & Howlett LLP (legal counsel for IBC) to the effect that IBC is in good standing, the merger agreement has been duly executed by IBC and is binding on IBC, and that upon filing of the Certificate of Merger, the merger will become effective; and

Midwest must have received a tax opinion from Varnum, Riddering, Schmidt & Howlett LLP to the effect that the merger will qualify as a reorganization and IBC and Midwest will each qualify as a party to the reorganization.

### **Termination**

Prior to the merger, the merger agreement may be terminated by the mutual consent of IBC and Midwest or may be terminated by either of them if the merger has not been completed on or before August 31, 2004.



*IBC's Right to Terminate*

In addition, IBC may terminate the merger agreement and abandon the merger on its own action upon the occurrence of additional events specified in the merger agreement including, among others, the following:

Midwest, prior to closing, breaches any covenant, undertaking, representation, or warranty in the merger agreement, and such breach remains uncured for more than 30 days after written notice from IBC;

the denial or withdrawal of the application for regulatory approval at the request or recommendation of a governmental entity, unless a petition for rehearing or an amended application is filed within 25 days after such denial or withdrawal;

the failure of Midwest's shareholders to approve the merger agreement by the requisite vote of approval at the special shareholders meeting described in this prospectus and proxy statement; or

certain environmental risks exist for which the cost of remediation exceeds \$500,000.

*Midwest's Right to Terminate*

In addition, Midwest may terminate the merger agreement and abandon the merger on its own action upon the occurrence of additional events specified in the merger agreement including, among others, the following:

IBC, prior to closing, breaches any covenant, undertaking, representation, or warranty in the merger agreement, and such breach remains uncured for more than 30 days after written notice from Midwest;

the denial or withdrawal of the application for regulatory approval at the request or recommendation of a governmental entity, unless a petition for rehearing or an amended application is filed within 25 days after such denial or withdrawal;

the failure of Midwest's shareholders to approve the merger agreement by the requisite vote of approval at the special shareholders meeting described in this prospectus and proxy statement;

certain environmental risks exist for which the cost of remediation exceeds \$100,000 and IBC exercises its right to deduct the costs of such remediation from the cash otherwise payable to Midwest shareholders in the merger;

certain environmental risks exist for which the cost of remediation exceeds \$500,000; or

IBC exercises its right to increase the average closing price of IBC common stock to \$23.392 for purposes of calculating the number of shares of IBC common stock to be issued for each share of Midwest common stock. (IBC is only entitled to exercise this right in certain situations. Please see Termination on page 26 above for more information.)

*Effect of Termination*

If either IBC or Midwest terminates the merger agreement as a result of a breach by the other party, the non-breaching party is entitled to reimbursement of all reasonable costs and expenses incurred in connection with the consummation of the merger in an amount not to exceed \$100,000. Certain provisions of the merger agreement, including provisions regarding confidentiality, will survive termination of the merger agreement. In addition, neither company will be released from liability to the other for any liabilities or damages arising out of its knowing or intentional breach of any provision of the merger agreement.

In addition to the transaction costs described above, if the shareholders of Midwest fail to approve the merger agreement at the special shareholders meeting described in this prospectus and proxy statement, and such failure is due in whole or in part to the existence of any acquisition proposal which competes or is otherwise inconsistent with the transactions contemplated by the merger agreement, then Midwest is required to promptly pay



to IBC a fee of \$250,000. The fee shall be increased to \$500,000 if an inquiry or proposal was solicited, directly or indirectly, by any officer, director, shareholder, or other representative of Midwest or if Midwest otherwise breaches other covenants in the merger agreement related to its commitment to deal exclusively with IBC.

### **Description of IBC Common Stock**

IBC's authorized capital stock consists of 30 million shares of common stock, \$1.00 par value per share, and 200,000 shares of preferred stock, no par value per share. As of December 31, 2003, IBC had 19,568,867 shares of IBC common stock outstanding and no shares of IBC preferred stock outstanding. IBC expects to issue not more than 1,200,000 shares of IBC common stock in the merger.

Holders of IBC common stock are entitled to dividends out of funds legally available for that purpose when, as, and if declared by IBC's Board of Directors. Each holder of IBC common stock is entitled to one vote for each share held on each matter submitted for shareholder action. IBC common stock has no preemptive rights, cumulative voting rights, conversion rights, or redemption provisions.

In the case of any liquidation, dissolution, or winding up of the affairs of IBC, holders of IBC common stock would be entitled to receive, pro rata, any assets distributable to common shareholders in proportion to the number of shares held by them.

All outstanding shares of IBC common stock are, and shares to be issued pursuant to the merger will be, when issued, fully paid and non-assessable.

### **Comparison of Rights of IBC and Midwest Shareholders**

If the merger is completed, holders of Midwest common stock will become holders of IBC common stock. Holders of IBC common stock will continue to be holders of IBC common stock after the merger.

Because both Midwest and IBC are incorporated under Michigan law, their respective shareholders' rights are governed by the Michigan Business Corporation Act. As a Midwest shareholder, your rights are currently governed by Midwest's Articles of Incorporation and Bylaws and the Michigan Business Corporation Act. However, after the merger, your rights will be governed by IBC's Restated Articles of Incorporation and Amended and Restated Bylaws and the Michigan Business Corporation Act. The following discussion compares Midwest's Articles of Incorporation and Bylaws to IBC's Restated Articles of Incorporation and Amended and Restated Bylaws.

The following comparison is not intended to be complete and is qualified in its entirety by reference to IBC's Restated Articles of Incorporation and Amended and Restated Bylaws and Midwest's Articles of Incorporation and Bylaws. Copies of these documents are available upon request. See [Where You Can Find More Information](#) on page 85 below.

#### *Anti-Takeover Provisions - In General*

Midwest's Articles of Incorporation, as amended, contain provisions that could prevent or delay the acquisition of Midwest by means of a tender offer, proxy contest, or otherwise. These provisions could also limit shareholders' participation in certain types of business combinations or other transactions that might be proposed in the future, regardless of whether those transactions were favored by a majority of shareholders, and could enhance the ability of officers and directors to retain their positions.

IBC's Restated Articles of Incorporation, as amended, contain similar types of provisions. Material differences in the companies' organizational documents with respect to such anti-takeover provisions are discussed below under separate sections, such as [Size and Classification of the Board of Directors](#) and [Removal of Directors](#).

#### *Authorized Capital*

The total authorized shares of capital stock of IBC consists of 30 million shares of common stock, \$1.00 par value per share, and 200,000 shares of preferred stock. As of December 31, 2003, there were 19,568,867 shares

of IBC common stock outstanding. IBC has not issued any shares of preferred stock. IBC's Restated Articles of Incorporation, as amended, authorize IBC's Board of Directors to issue preferred stock from time to time and to fix the rights, preferences and limitations of each series of preferred stock. This includes the designation of the series and the number of shares in it, the dividend rate, whether and when shares will be redeemable, the prices at which shares will be redeemable, rights upon liquidation, any sinking fund provisions, any conversion or exchange privileges, voting rights, any restrictions on the payment of dividends or other distributions on other classes of stock and any other rights, preferences or limitations.

The issuance of shares of IBC preferred stock could adversely affect the rights of the holders of IBC common stock and adversely affect the availability of earnings for distribution to the holders of IBC common stock.

The total authorized capital stock of Midwest consists of 2.2 million shares of common stock, no par value. No share of Midwest common stock is entitled to any preferences and all shares are equal. Midwest's Articles of Incorporation, as amended, do not authorize any other shares or classes of capital stock.

#### *Size and Classification of the Board of Directors*

Under IBC's Restated Articles of Incorporation, as amended, IBC's Board of Directors is divided into three classes, as nearly equal in number as possible. The term of office of one class of directors expires each year. The number of directors is determined from time to time by resolution adopted by the affirmative vote of at least 75% of the directors of IBC and a majority of the continuing directors, as defined in IBC's Restated Articles of Incorporation. Currently, IBC's Board of Directors is composed of six members. Because of the classification of IBC's Board of Directors, it would normally take at least two annual meetings of shareholders to change a majority of the members of IBC's Board of Directors.

Midwest's Bylaws provide that Midwest's Board of Directors shall be elected at each annual shareholder meeting. Currently, Midwest's Board of Directors is composed of nine members.

#### *Limitation of Personal Liability of Directors*

Both IBC's Restated Articles of Incorporation and Midwest's Articles of Incorporation, as modified by the Michigan Business Corporation Act, provide that a director will not be personally liable to the corporation for money damages for breach of the director's fiduciary duty. However, a director's liability cannot be limited for: (1) the amount of any financial benefit received by a director to which he or she is not entitled; (2) intentional infliction of harm on the corporation or its shareholders; (3) an illegal dividend, distribution or loan to an officer, director or employee of the corporation that is contrary to the Michigan Business Corporation Act; or (4) an intentional criminal act.

#### *Removal of Directors*

Under IBC's Restated Articles of Incorporation, any one or more directors may be removed from office at any time, with or without cause, but only by either (1) the affirmative vote of a majority of the continuing directors and at least 75% of the Board of Directors or (2) the affirmative vote, at a meeting of the shareholders called for that purpose, of the holders of at least 75% of the voting power of the then outstanding shares of capital stock entitled to vote generally in the election of directors voting together as a single class.

Under Midwest's Bylaws, a director may be removed from office at any time, with or without cause, by a majority in interest of the shareholders at an annual or special meeting.

#### *Shareholder Nominations of Directors*

Under IBC's Restated Articles of Incorporation, nominations for the election of directors may be made by the Board of Directors or by a shareholder entitled to vote in the election of directors. A shareholder entitled to vote in the election of directors, however, may make such a nomination only if written notice of such shareholder's intent to do so has been given, either by personal delivery or by United States mail, postage prepaid, and received by IBC (a) with respect to an election to be held at an annual meeting of shareholders, not later than 60 nor more than 90 days prior to the first anniversary of the preceding year's annual meeting (or, if the date of the annual meeting is changed by more than 20 days from such anniversary date, within 10 days after the date IBC mails or otherwise gives notice of the date of such meeting), and (b) with respect to an election to be held at a special meeting of

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shareholders called for that purpose, not later than the close of business on the 10th day following the date on which notice of the special meeting was first mailed to the shareholders by IBC.

An IBC shareholder's notice of intent to make a nomination shall set forth: (1) the name(s) and address(es) of the shareholder who intends to make the nomination and of the person or persons to be nominated; (2) a representation that the shareholder (a) is a holder of record of stock of IBC entitled to vote at such meeting, (b) will continue to hold such stock through the date on which the meeting is held, and (c) intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (3) a description of all arrangements or understandings between the shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination is to be made by the shareholder; (4) such other information regarding each nominee proposed by such shareholder as would be required to be included in a proxy statement filed pursuant to Regulation 14A promulgated under Section 14 of the Securities Exchange Act of 1934, as amended, had the nominee been nominated by the Board of Directors; and (5) the consent of each nominee to serve as a director of IBC if so elected.

Neither Midwest's Articles of Incorporation nor its Bylaws contain provisions specifically dealing with director nominations.

### *Shareholder Proposals*

Under IBC's Amended and Restated Bylaws, a shareholder who wishes to present a proposal for action at a shareholders' meeting must follow certain procedures. In order to present the proposal, the shareholder must give timely notice of the matter in writing to IBC. For annual meetings, to be timely the notice must be delivered to or mailed to and received by IBC not less than 30 days prior to the scheduled meeting, provided that if given less than 40 days prior to the meeting, IBC must receive the notice within 10 days following the notice of the meeting sent by IBC to the shareholders.

The notice by the IBC shareholder must include the following information: (1) the shareholder's name and record address; (2) a representation that the shareholder (a) is a holder of record of IBC stock entitled to vote at such meeting, (b) will continue to hold such stock until the date of such meeting, and (c) intends to appear in person or by proxy at the meeting to submit the proposal to shareholder vote; (3) a brief description of the matter to be acted on; and (4) any financial or other interest that the shareholder has in the proposal.

Neither Midwest's Articles of Incorporation nor its Bylaws contain provisions specifically dealing with shareholder proposals.

### *State Anti-Takeover Laws*

*Fair Price Act.* Certain provisions of the Michigan Business Corporation Act, referred to as the Fair Price Act, establish a statutory scheme similar to the supermajority and fair price provisions found in many corporate charters. The Fair Price Act applies to both IBC and Midwest. The Fair Price Act provides that a supermajority vote of 90% of the shareholders and no less than two-thirds of the votes of noninterested shareholders must approve a business combination. The Fair Price Act defines a business combination to include nearly any merger, consolidation, share exchange, sale of assets, stock issuance, liquidation, or reclassification of securities involving an interested shareholder or certain affiliates of an interested shareholder. An interested shareholder is generally any person who owns 10% or more of the outstanding voting shares of the corporation. An affiliate is a person who directly or indirectly controls, is controlled by, or is under common control with a specified person.

The supermajority vote required by the Fair Price Act does not apply to business combinations that satisfy certain conditions. These conditions include, among others: (1) the purchase price to be paid for the shares of common stock in the business combination must be at least equal to the highest of either (a) the market value of the shares on the date that the business combination was announced or on the date that the interested shareholder first became an interested shareholder, whichever is higher, or (b) the highest per share price paid by an interested shareholder within the two-year period preceding the announcement of the business combination or in the transaction in which the shareholder first became an interested shareholder, whichever is higher; (2) once becoming an interested shareholder, the person may not become the beneficial owner of any additional shares of the corporation except as part of the transaction that resulted in the interested shareholder becoming an interested shareholder or by virtue of proportionate stock splits or stock dividends; and (3) at least five years have passed

between the date the interested shareholder first became an interested shareholder and the date the business combination is completed. The requirements of the Fair Price Act do not apply to business combinations with an interested shareholder that the Board of Directors has approved or exempted from the requirements of the Fair Price Act by resolution before the time that the interested shareholder first became an interested shareholder.

*Control Share Act.* Certain portions of the Michigan Business Corporation Act, referred to as the Control Share Act, also regulate the acquisition of control shares of widely held Michigan corporations. The Control Share Act applies to IBC and Midwest and their shareholders. The Control Share Act establishes procedures governing control share acquisitions. A control share acquisition is defined as an acquisition of shares by an acquiror which, when combined with other shares held by that person or entity, would give the acquiror voting power in the election of directors of the corporation at or above any of the following thresholds: 20%, 33%, and 50%. Under the Control Share Act, an acquiror may not vote control shares that were acquired in a control share acquisition unless the corporation's disinterested shareholders (defined to exclude the acquiring person, officers of the target corporation and directors of the target corporation who are also employees of the corporation) vote to confer voting rights on the control shares. The Control Share Act does not affect the voting rights of shares owned by an acquiring person before the control share acquisition. The Control Share Act entitles corporations to redeem control shares from the acquiring person under certain circumstances. In other cases, the Control Share Act confers dissenters' rights upon all of a corporation's shareholders except the acquiring person.

#### *Amendments to Articles of Incorporation and Bylaws*

Under the Michigan Business Corporation Act, a corporation's articles of incorporation may be amended by the affirmative vote of the majority of the outstanding shares entitled to vote. In addition, an amendment to a corporation's articles of incorporation may require the approval of the majority of the outstanding shares of a class or series of stock if the amendment would (1) increase or decrease the authorized number of shares of that class or series or (2) alter or change the powers, preferences or special rights of that class or series so as to affect them directly. However, a corporation's articles of incorporation may specify that an amendment to one or more provisions of the articles must be approved by higher percentages. Neither IBC's Restated Articles of Incorporation, nor Midwest's Articles of Incorporation, contain specific provisions dealing with amendments to the Articles of Incorporation.

Under the Michigan Business Corporation Act, a corporation's bylaws may be amended by either the board of directors or the shareholders, unless the corporation's articles of incorporation or bylaws provide that only the shareholders may amend the bylaws or any particular bylaw. IBC's Amended and Restated Bylaws provide that they may be amended either by the shareholders or the Board of Directors. Midwest's Bylaws provide that they may be amended only by a majority in interest of the shareholders.

#### *Indemnification Provisions*

Under the Michigan Business Corporation Act, a corporation is permitted to, and in some circumstances must, indemnify its officers, directors, employees and agents, as well as persons who were serving in similar positions with another entity at the corporation's request, in a variety of situations.

The indemnification provisions in both IBC's and Midwest's charter documents are somewhat more limited. Generally, IBC's Restated Articles of Incorporation and Midwest's Articles of Incorporation provide that directors and executive officers of the corporation will be indemnified to the fullest extent permitted by the Michigan Business Corporation Act. Persons who are not directors or executive officers of IBC or Midwest, may be similarly indemnified, but only if the indemnification is approved by the Board of Directors, or shareholders in the case of Midwest, or required by the Michigan Business Corporation Act.

*Shareholder Action by Written Consent*

Under the Michigan Business Corporation Act, the shareholders of a corporation may take an action either at a meeting or without a meeting if all of the shareholders sign a written consent authorizing the action. However, unanimous approval by written consent is not required if the corporation's articles of incorporation allow the shareholders holding a majority of the voting power (or such higher level as may be required) to take action by written consent. In that case, certain other conditions must be met, such as providing notice of the action to all shareholders who did not sign the consent.

IBC's Restated Articles of Incorporation do not allow a majority of shareholders to take action without a meeting. Midwest's Articles of Incorporation allow a majority in interest of shareholders to take action without a meeting.

*Public Markets for IBC's and Midwest's Shares*

IBC's common stock is listed on the Nasdaq National Market System. There is no established public trading market for Midwest's common stock.

**Restrictions on Midwest Affiliates**

All shares of IBC common stock received by Midwest shareholders in the merger will be freely transferable, except that shares of IBC common stock received by persons who are deemed to be affiliates (as defined under the Securities Act of 1933) of Midwest before the merger may only be resold in transactions permitted by the resale provisions of Rule 145 under the Securities Act of 1933 or as otherwise permitted under the Securities Act. Persons who may be deemed to be affiliates of Midwest generally include individuals or entities that control, are controlled by, or are under common control with, Midwest and may include certain officers, directors, and principal shareholders of Midwest.

This prospectus and proxy statement covers IBC common stock to be issued in connection with the merger. It does not cover any resales of IBC common stock to be received by affiliates upon completion of the merger, and no person is authorized to make any use of this prospectus and proxy statement in connection with any such resale.

**Material Federal Income Tax Consequences**

The following discussion addresses the material United States federal income tax consequences of the merger to holders of Midwest common stock. This discussion applies only to Midwest shareholders who hold their Midwest common stock as a capital asset within the meaning of Section 1221 of the Internal Revenue Code. Further, this discussion does not address all aspects of United States federal income taxation that may be relevant to a particular shareholder in light of his or her personal circumstances or to shareholders subject to special treatment under the United States federal income tax laws, including: banks or trusts; tax-exempt organizations; insurance companies; regulated investment companies or mutual funds; dealers in securities or foreign currency; traders in securities who elect to apply a mark-to-market method of accounting; pass-through entities and investors in such entities; foreign persons; and shareholders who hold Midwest common stock as part of a hedge, straddle, constructive sale, conversion transaction or other integrated instrument; and shareholders of Midwest common stock who acquired their shares of Midwest common stock upon the exercise of warrants or employee stock options or otherwise as compensation.

This discussion is based on the Internal Revenue Code, Treasury regulations, administrative rulings and judicial decisions, all as currently applicable, and all of which are subject to change (possibly with retroactive effect) and to differing interpretations. Tax considerations under state, local and foreign laws are not addressed in this document. Tax consequences to you may vary depending upon your particular circumstances. Therefore, you should consult your tax advisor to determine the particular tax consequences of the merger to you, including those relating to state and/or local taxes.

It is a condition to the obligations of Midwest and IBC to complete the merger that they receive from Varnum, Riddering, Schmidt & Howlett LLP, legal counsel for IBC, an opinion regarding material federal income tax consequences of the merger. IBC and Midwest believe, based on this opinion, that the merger will have the following federal income tax consequences:

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the merger will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code and IBC and Midwest will each be a party to a reorganization within the meaning of Section 368(b);

the basis of Midwest's assets in the hands of IBC will be the same as the basis of those assets in the hands of Midwest immediately before the reorganization;

no gain or loss will be recognized by IBC on the receipt by IBC of the assets of Midwest in exchange for IBC common stock and the assumption by IBC of the liabilities of Midwest; and

the holding period of the assets of Midwest in the hands of IBC will include the holding period during which such assets were held by Midwest.

The tax opinion assumes the absence of changes in existing facts and relies on assumptions, representations, and covenants, including those contained in certificates of officers of IBC and Midwest. The tax opinion neither binds nor precludes the Internal Revenue Service from adopting a contrary position. An opinion of counsel sets forth such counsel's legal judgment and has no binding effect or official status of any kind and no assurance can be given that contrary positions will not be successfully asserted by the Internal Revenue Service or adopted by a court if the issues are litigated. Accordingly, you are strongly urged to consult with your tax advisor to determine the particular United States federal, state, local, or foreign income or other tax consequences of the merger to you.

### *Exchange for Cash and IBC Common Stock*

As a result of receiving a combination of cash and IBC common stock in exchange for shares of Midwest common stock, a Midwest shareholder will recognize gain, but not loss, equal to the lesser of (1) the amount of cash received or (2) the amount of gain realized in the merger. The amount of gain a Midwest shareholder realizes will equal the amount by which (a) the cash plus the fair market value at the effective time of the merger of the IBC common stock received exceeds (b) the shareholder's tax basis in the Midwest common stock surrendered in the merger. If a shareholder of Midwest common stock purchased his or her shares of Midwest common stock at different prices, such Midwest shareholder will have to compute his or her recognized gain or loss separately for the shares of Midwest common stock with different adjusted basis in accordance with the rules described in the previous sentence. Any recognized gain would be taxed as a capital gain or a dividend, as described below. The tax basis of the IBC common stock received in the merger will be the same as the tax basis of the shares of Midwest common stock surrendered in the merger decreased by the amount of cash received in the merger and increased by the (i) gain recognized in the merger, if any and (ii) dividend income recognized in the merger, if any. The holding period for shares of IBC common stock received by a Midwest shareholder will include such shareholder's holding period for the Midwest common stock surrendered in exchange for the IBC common stock, provided that such shares of Midwest common stock were held as capital assets of the shareholder at the effective time of the merger.

In certain circumstances, a Midwest shareholder may receive ordinary income, rather than capital gain treatment on all or a portion of the gain recognized in the merger if receipt of the cash portion of the merger consideration has the effect of the distribution of a dividend under the principles of Section 302 of the Internal Revenue Code. The determination of whether a cash payment has such effect is based on a comparison of the Midwest shareholder's proportionate interest in IBC after the merger with the proportionate interest the Midwest shareholder would have had if the shareholder had received solely IBC common stock in the merger. For purposes of this comparison, the Midwest shareholder may constructively own shares of IBC held by certain members of the Midwest shareholder's family or certain entities in which the Midwest shareholder has an ownership or beneficial interest and certain stock options may be aggregated with the Midwest shareholder's shares of IBC common stock. The amount of the cash payment that may be treated as a dividend is limited to the shareholder's ratable share of the accumulated earnings and profits of Midwest at the effective time of the merger. Any gain that is not treated as a dividend will be taxed as a capital gain, provided that the Midwest shareholder's common stock was held as a capital asset at the time of the merger. Capital gain or loss recognized by a Midwest shareholder in the merger will be long-term capital gain or loss if the holding period of the shares of Midwest common stock exceeds one year at the completion of the merger. In the case of individuals, the maximum federal income tax rate applicable to long-term capital gains generally is 15%. If a Midwest shareholder has to recognize ordinary income, such income for individuals is currently taxed at the maximum rate of 35%. The determination of whether a cash payment will be

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treated as having the effect of a dividend depends primarily upon the facts and circumstances of each Midwest shareholder. Midwest shareholders are urged to consult their own tax advisors regarding the tax treatment of the cash received in the merger.

A Midwest shareholder who holds Midwest common stock as a capital asset and who receives in the merger, in exchange for such stock, cash in lieu of a fractional share interest in IBC common stock, will be treated as having received such cash in full payment for such fractional share of stock and as capital gain or loss, notwithstanding the dividend rules discussed above.

Unless an exemption applies under the backup withholding rules of Section 3406 of the Internal Revenue Code, the Exchange Agent is required to withhold, and will withhold, 28% of any cash payments to which a Midwest shareholder is entitled pursuant to the merger, unless the Midwest shareholder provides the appropriate form. A Midwest shareholder should complete and sign the substitute Internal Revenue Service Form W-9 enclosed with the letter of transmittal sent by the Exchange Agent. This completed form provides the information, including the Midwest shareholder's taxpayer identification number (a social security number for individuals), and certification necessary to avoid backup withholding.

The foregoing is a summary discussion of material federal income tax consequences of the merger. The discussion is included for general information purposes only and may not apply to a particular Midwest shareholder in light of such shareholder's particular circumstances. Midwest shareholders should consult their own tax advisors as to the particular tax consequences to them of the merger, including the application of state, local and foreign tax laws and possible future changes in federal income tax laws and the interpretation thereof, which can have retroactive effects.

### **No Dissenters' Rights**

Midwest shareholders are not entitled to exercise dissenters' rights as a result of approval of the merger, and you are not entitled to demand payment for your shares under the Michigan Business Corporation Act.

**UNAUDITED PRO FORMA FINANCIAL INFORMATION**

The following unaudited pro forma condensed combined balance sheet and income statement as of and for the year ended December 31, 2003 give effect to the merger. This pro forma financial information is based on the historical consolidated financial statements of IBC and Midwest and their subsidiaries under the assumptions and adjustments set forth in the accompanying notes to the unaudited pro forma condensed combined financial statements. The unaudited pro forma condensed combined balance sheets assume the merger was consummated on December 31, 2003. The unaudited pro forma condensed combined statements of income give effect to the merger as if the merger occurred at the beginning of each period covered by such statements of income. Pro forma per share amounts are based on total merger consideration of \$43.456 per share of Midwest common stock. The actual amount of total merger consideration is subject to certain possible adjustments pursuant to the merger agreement.

The unaudited pro forma condensed combined financial statements reflect the restructuring and other merger related expenses disclosed in the notes to such statements, but do not reflect anticipated cost savings. As a result, the pro forma combined financial condition and results of operations of IBC as of and after the effective time of the merger may not be indicative of the results that actually would have occurred if the merger had been in effect during the periods presented or of the results that may be attained in the future.

This pro forma financial information should be read in conjunction with the historical consolidated financial statements of IBC and Midwest, including the respective notes to those financial statements, that are included or incorporated by reference in this prospectus and proxy statement, and in conjunction with the pro forma financial data, appearing elsewhere in this prospectus and proxy statement. See *Where You Can Find More Information* on page 85.



**Unaudited Pro Forma Condensed Combined Balance Sheet (A)**  
**December 31, 2003**  
(dollars in thousands)

	<b>Pro Forma</b>			
	<b>IBC Historical</b>	<b>Midwest Historical</b>	<b>Adjustments</b>	
<b>ASSETS</b>				
Cash and due from banks	\$ 61,741	\$ 7,654		\$ 69,395
Federal funds sold	-	31	(31) (B)	-
Short-term investments	-	19	(19) (B)	-
<b>Total cash and cash equivalents</b>	<b>61,741</b>	<b>7,704</b>	<b>(50)</b>	<b>69,395</b>
Securities available for sale	453,996	21,293		475,289
Securities held to maturity	-	295	26 (C)	321
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	13,895	947		14,842
Loans held for sale	32,642	-		32,642
Loans				
Commercial and agricultural	603,558	169,983	1,989 (C)	775,530
Real estate mortgage	681,602	26,685		708,287
Installment	234,562	3,758		238,320
Finance receivables	147,671			147,671
<b>Total Loans</b>	<b>1,667,393</b>	<b>200,426</b>	<b>1,989</b>	<b>1,869,808</b>
Allowance for loan losses	(17,728)	(3,170)		(20,898)
<b>Net Loans</b>	<b>1,649,665</b>	<b>197,256</b>	<b>1,989</b>	<b>1,848,910</b>
Property and equipment, net	43,979	5,522	(C)	49,501
Bank owned life insurance	36,850	-		36,850
Goodwill	16,696	-	(1,028) (C)	
			1,862 (D)	
			23,066 (H)	
			1,823 (H)	
			(3,785) (E)	38,634
Other intangibles	7,523	-	3,785 (E)	
			700 (F)	12,008
Accrued income and other assets	41,570	2,196	(554) (C)	
			728 (D)	43,940
<b>Total Assets</b>	<b>\$ 2,358,557</b>	<b>\$ 235,213</b>	<b>\$ 28,562</b>	<b>\$ 2,622,332</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
Deposits				
Non-interest bearing	\$ 192,733	\$ 52,868		\$ 245,601
Savings and NOW	700,541	86,438		786,979
Time	809,532	49,942	204 (C)	859,678
<b>Total Deposits</b>	<b>1,702,806</b>	<b>189,248</b>	<b>204</b>	<b>1,892,258</b>
Federal funds purchased	53,885	11,750	(50) (B)	65,585
Other borrowings	331,819	7,500	229 (C)	
			700 (F)	
			16,474 (H)	356,722
Guaranteed preferred beneficial interests in Company's subordinated debentures	50,600	7,500		58,100
Financed premiums payable	26,340			26,340

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**Pro Forma**

Accrued expenses and other liabilities	30,891	1,096	2,590 (D)	34,577
<b>Total Liabilities</b>	<b>2,196,341</b>	<b>217,094</b>	<b>20,147</b>	<b>2,433,582</b>
Commitments and contingent liabilities				
Shareholders' Equity				
Preferred Stock				-
Common stock	19,569	948	(948) (G)	
			895 (H)	20,464
Capital surplus	119,353	4,431	(4,431) (G)	
			23,816 (H)	
			1,823 (H)	144,992
Retained earnings	16,953	12,513	(12,513) (G)	16,953
Accumulated other comprehensive income	6,341	227	(227) (G)	6,341
<b>Total Shareholders' Equity</b>	<b>162,216</b>	<b>18,119</b>	<b>8,415</b>	<b>188,750</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 2,358,557</b>	<b>\$ 235,213</b>	<b>\$ 28,562</b>	<b>\$ 2,622,332</b>

See notes to pro forma combined financial statements.

**Unaudited Pro Forma Condensed Combined Statements of Income**  
**For the Year Ended December 31, 2003**  
(dollars in thousands, except per share amounts)

	<b>Pro Forma</b>			
	<b>IBC Historical</b>	<b>Midwest Historical</b>	<b>Adjustments</b>	<b>Combined</b>
<b>Interest Income</b>				
Interest and fees on loans	\$ 118,861	\$ 11,830	\$ (663) (J)	\$ 130,028
Securities available for sale				
Taxable	11,687	648		12,335
Tax-exempt	8,207	425		8,632
Securities held to maturity - tax exempt		20	(13) (J)	7
Other investments	611	96		707
<b>Total Interest Income</b>	<b>139,366</b>	<b>13,019</b>	<b>(676)</b>	<b>151,709</b>
<b>Interest Expense</b>				
Deposits	27,802	1,924	(102) (J)	29,624
Other borrowings	16,311	720	(115) (J)	16,917
<b>Total Interest Expense</b>	<b>44,113</b>	<b>2,644</b>	<b>(217)</b>	<b>46,541</b>
<b>Net Interest Income</b>	<b>95,253</b>	<b>10,375</b>	<b>(460)</b>	<b>105,169</b>
Provision for loan losses	4,032	483		4,515
<b>Net Interest Income After Provision for Loan Losses</b>	<b>91,221</b>	<b>9,892</b>	<b>(460)</b>	<b>100,654</b>
<b>Non-Interest Income</b>				
Service charges on deposit accounts	14,668	778		15,446
Net gains (losses) on asset sales				
Real estate mortgage loans	16,269	207		16,476
Securities	(779)			(779)
Title insurance fees	3,092			3,092
Manufactured home loan origination fees and commissions	1,769			1,769
Other income	7,585	612		8,197
<b>Total Non-Interest Income</b>	<b>42,604</b>	<b>1,597</b>		<b>44,201</b>
<b>Non-Interest Expense</b>				
Salaries and employee benefits	43,558	4,840		48,398
Occupancy, net	6,519	796		7,315
Furniture and fixtures	5,539	554		6,093
Other expenses	26,890	2,095	681 (E,F)	29,666
<b>Total Non-Interest Expense</b>	<b>82,506</b>	<b>8,286</b>	<b>681</b>	<b>91,472</b>
<b>Income Before Federal Income Tax</b>	<b>51,319</b>	<b>3,204</b>	<b>(1,140) (K)</b>	<b>53,383</b>
Federal Income Tax Expense	13,727	942	(399)	14,270
<b>Net Income</b>	<b>\$ 37,592</b>	<b>\$ 2,262</b>	<b>\$ (741)</b>	<b>\$ 39,113</b>

**Net Income Per Common Share**

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	<b>Pro Forma</b>			
Basic	\$ 1.91	\$	\$ 2.39	\$ 1.91
Diluted	\$ 1.87	\$	\$ 2.33	\$ 1.86
Average shares outstanding	19,635	948	(948) (I)	20,530
Effect of dilutive securities - stock options	424	24	895 (L)	489
Shares outstanding - Dilutive	\$ 20,059	\$ 97	\$ (12)	\$ 21,019

See notes to pro forma combined financial statements.

## Notes to Unaudited Pro Forma Condensed Combined Balance Sheets and Statements of Income

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### Notes

#### (A)

The unaudited pro forma consolidated condensed combined balance sheet of IBC and subsidiaries and Midwest and subsidiaries at December 31, 2003 has been prepared as if the merger had been consummated on that date. The unaudited pro forma consolidated condensed combined statement of income for the year ended December 31, 2003 was prepared as if the merger had been consummated at the beginning of the period presented. The unaudited pro forma consolidated condensed combined financial statements are based on the historical financial statements of IBC and the historical financial statements of Midwest and give effect to the merger under the purchase method of accounting and the assumptions and adjustments in the notes that follow.

Assumptions relating to the pro forma adjustments set forth in the unaudited pro forma consolidated condensed combined financial statements are summarized as follows:

- (1) Estimated fair values The estimated fair value and resulting net premium on loans for purposes of these pro forma financial statements is being amortized to interest income on a sum-of-the-years digits method over their remaining estimated lives, which approximates the effective yield method. The resulting adjustment on deposits and borrowings is being accreted into interest expense over their remaining estimated lives.
- (2) Certain reclassifications have been made to Midwest's financial information in order to conform to the presentation of IBC's financial information.

#### (B)

It is expected that short-term earning assets will pay down federal funds purchased upon the merger.

#### (C)

Purchase accounting fair value adjustments are estimated as follows (1)(2):

Loans	\$	1,989
Securities held to maturity		26
Deposits		(204)
Other borrowings		(229)
		1,582
Total		1,582
Tax effect at 35%		(554)
		1,028
Net fair value purchase accounting adjustment	\$	1,028

- (1) Fair value adjustments in accordance with purchase accounting under generally accepted accounting principles.
- (2) A valuation of property and equipment has not been performed as of the date of this document. It is anticipated a valuation will be done to adjust property and equipment to fair value as of the date of the merger.

**(D)**

Estimated transaction costs are as follows:

Merger related compensation and benefits	1,600
Investment banker	430
Professional services	85
Data processing conversion	340
Other	135
	<hr/>
Total	2,590
Tax effect (at 35%)	(728) (1)
	<hr/>
Total estimated transaction cost, net of tax	1,862
	<hr/>

These costs are an estimate and may change due to factors of which we are not now aware.

(1) An estimated \$510 in costs are not deductible for tax purposes.

**(E)**

To record core deposit intangible created which is estimated to be \$3,785 equal to 2% of Midwest's deposits. This amount is an estimate of the value of the core deposit. Although we have engaged a third party to perform a valuation of this intangible asset, this valuation has not been done as of the date of this document. The core deposit intangible is being amortized on a straight-line basis over 7 years.

**(F)**

To record covenant not to compete for Midwest's CEO. This amount is an estimate of the value of the covenant not to compete. Although we have engaged a third party to perform a valuation of this intangible asset, this valuation has not been done as of the date of this document. The covenant not to compete will be amortized on a straight-line basis over 5 years.

**(G)**

Elimination of Midwest's equity.

**(H)**

To record common stock issued (60%) and cash paid (40%) for each share of Midwest, as well as the fair value of IBC stock options exchanged for Midwest's outstanding stock options.

	<b>Total</b>	<b>Stock</b>	<b>Cash</b>	<b>Stock Options</b>
Purchase price (1)	\$ 43,009,076	\$ 24,711,359	\$ 16,474,239	\$ 1,823,478
	<hr/>	<hr/>	<hr/>	<hr/>
Midwest shares outstanding (2)	947,754			
Price paid per share	\$ 43.456			
	<hr/>			
Fair value of stock options (3)	\$ 1,823,478			
	<hr/>			
Estimated IBC stock price (4)		\$ 27.60		
Total IBC common shares issued		895,339		
		<hr/>		

(1) The cash portion of the purchase price is expected to be funded with proceeds from an established line of credit from an unrelated financial institution.

(2) Outstanding at December 31, 2003.

(3)

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Each Midwest stock option will be converted into IBC stock options based upon terms in the merger agreement. The fair value is equal to the Black-Scholes value of the IBC stock options issued.

- (4) Estimate. Actual will be calculated based on average of closing price of IBC common stock over a measurement period of 20 consecutive days specified in the merger agreement.

**(I)**

Elimination of Midwest's average shares.

**(J)**

Pro forma adjustments to interest income and interest expense were calculated as follows:

Amortization of premium on loans (5 year sum-of-the-years digits method)	(663)
Amortization of premium on securities held to maturity (2 years straight line)	(13)
	<hr/>
Total adjustments - interest income	(676)
	<hr/>
Accretion of adjustment on deposits (2 year straight line)	102
Accretion of adjustment on other borrowings (2 year straight line)	115
	<hr/>
Total adjustments - interest expense	217
	<hr/>

**(K)**

Federal income tax expense is assumed to be 35%, which is IBC's incremental tax rate.

**(L)**

Basic and fully diluted weighted average number of common and common stock equivalents utilized for the calculation of earnings per share for the periods presented were calculated using IBC's historical weighted average basic and diluted shares plus 895,339 shares estimated to be issued to Midwest's shareholders under the terms of the merger agreement. The shares to be issued were assumed to be issued at the beginning of the period presented.

**(M)**

Represents adjustment to Midwest's dilutive effect relating to stock options based on the price paid per share by IBC.



**MIDWEST GUARANTY BANCORP, INC.**

**Description of Business**

Midwest is a bank holding company established in 1988 and headquartered in Troy, Michigan that owns Midwest Guaranty Bank. Midwest Guaranty Bank operates its banking business through its main office in Troy, Michigan and its five branch offices located in Oakland County and western Wayne County. The bank offers commercial and personal banking services, including checking and savings accounts, certificates of deposit, safe deposit boxes, travelers checks, money orders, and commercial, mortgage, and consumer loans. The bank emphasizes customer service and relationship banking as the principal means of delivering financial services in the highly competitive markets it serves. As of December 31, 2003, Midwest had, on a consolidated basis, total assets of \$235 million, total deposits of \$189 million, total portfolio loans of \$200 million, and total shareholders equity of \$18 million.

**Midwest Common Stock**

As of April 15, 2004, Midwest had 952,754 shares of its common stock outstanding, held by approximately 207 shareholders of record. In addition, as of April 15, 2004, there were 69,500 shares of Midwest common stock issuable pursuant to outstanding options. There is no established public trading market for Midwest common stock. Midwest has not paid a cash dividend since its inception. Because Midwest has no significant sources of revenue, its ability to pay future dividends to its shareholders is indirectly limited by certain statutory and regulatory restrictions on the ability of its subsidiary bank to pay Midwest dividends in the future.

## Selected Financial Data

## MIDWEST GUARANTY BANCORP, INC..

## FINANCIAL HIGHLIGHTS

As of and for the years ended December 31, 1999 through 2003  
(In thousands, except for per share information)

<i>Income Statement Information</i>	2003	2002	2001	2000	1999
Interest income	\$ 13,019	\$ 11,473	\$ 10,977	\$ 10,718	\$ 9,089
Interest expense	2,644	2,256	2,847	2,818	2,363
Net interest income	10,375	9,217	8,130	7,900	6,726
Provision for loan losses	483	590	480	595	420
Non-interest income (1)	1,597	1,316	1,271	1,109	1,062
Non-interest expense (1)	8,286	7,357	6,910	6,429	5,521
Net income	2,262	1,825	1,407	1,361	1,213

*Per share information*

Net income - basic	\$ 2.39	\$ 1.93	\$ 1.40	\$ 1.31	\$ 1.15
Net income - diluted	2.33	1.90	1.39	1.31	1.15
Dividends declared	-	-	-	-	-
Book value	19.12	16.86	14.78	13.47	11.93

*Balance Sheet Information*

Total assets	\$ 235,445	\$ 202,459	\$ 167,840	\$ 141,843	\$ 135,192
Investment securities	21,588	27,065	15,764	12,899	12,102
Loans	200,426	160,656	129,537	108,401	97,507
Allowance for loan losses	3,170	2,640	2,180	2,005	1,740
Deposits	189,248	167,961	150,437	127,190	122,147
Federal Home Loan Bank advances	7,500	10,000	2,500	-	-
Subordinated debentures (2)	7,732	7,500	-	-	-
Shareholders' equity	18,119	15,978	14,005	13,558	12,543

*Ratios*

Return on average assets	1.01%	1.01%	0.92%	0.98%	0.96%
Return on average equity	13.31	12.23	9.87	10.43	10.01
Allowance for loan losses to total loans	1.58	1.64	1.68	1.85	1.78
Net interest income to average earning assets	5.05	5.71	6.10	6.77	6.37
Shareholders' equity to total assets	7.70	7.89	8.34	9.56	9.28

- (1) Non-interest income and non-interest expense for 2003 include \$200,000 and \$357,000, respectively, associated with a lawsuit, and related settlement, filed by Midwest to defend its trade name.
- (2) See Note 8 to the consolidated financial statements for Midwest included elsewhere in this document for the accounting of Midwest's subordinated debentures.

**MIDWEST'S MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS AS OF DECEMBER 31, 2003 AND 2002 AND FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001**

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

The following section presents additional information to assess the financial condition and results of operations of Midwest Guaranty Bancorp, Inc. This section should be read in conjunction with the consolidated financial statements and the supplemental financial data contained elsewhere in this document.

## **Results of Operations**

**Summary.** Net income totaled \$2,262,000 in 2003 compared to \$1,825,000 in 2002 and \$1,407,000 in 2001. The increases in net income are primarily a result of increases in net interest income and service charges on deposit accounts, partially offset by increases in non-interest expense and federal income taxes. The results for 2003 also include the pre-tax impact of approximately \$157,000 of costs, net of settlement proceeds, related to a lawsuit filed by the Company which was subsequently settled. This transaction is described in more detail below.

Diluted earnings per share were \$2.33 for 2003 compared to \$1.90 for 2002 and \$1.39 for 2001. The improvement in diluted earnings per share for 2003 represents a 23% increase over 2002 despite the net costs of the lawsuit noted above. Return on average equity was approximately 13.31% for 2003 compared to 12.23% for 2002 and 9.87% for 2001.

**Net Interest Income.** Tax equivalent net interest income totaled \$10,604,000 during 2003, compared to \$9,385,000 and \$8,282,000 during 2002 and 2001, respectively. We review yields on certain asset categories and our net interest margin on a fully taxable equivalent basis. In this presentation, net interest income is adjusted to reflect tax-exempt interest income on an equivalent before tax basis. This measure ensures comparability of net interest income arising from both taxable and tax-exempt sources. The adjustments to determine tax equivalent net interest income were computed using a 34% tax rate.

The increase in tax equivalent net interest income in 2003 compared to 2002 reflects a \$45.6 million or 27.8% increase in average interest-earning assets and a 66 basis point decline in our tax equivalent net interest income as a percent of average interest-earning assets ( Net Yield ). The increase in average interest-earning assets is due primarily to growth in commercial real estate loans, commercial and industrial loans and investment securities. Declining interest rates (through the first half of 2003) and increased levels of lower cost core deposits

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and other borrowed funds resulted in a 23 basis point decline in our interest expense as a percentage of average interest-bearing liabilities in 2003 compared to 2002. The decline in the cost of funds was more than offset by a 78 basis point decline in the tax equivalent yield on average interest-earning assets to 6.31% in 2003 from 7.09% in 2002. This decline is primarily due to the addition of new loans and new investment securities at lower interest rates as well as both the amortization and prepayment of higher yielding loans.

The increase in tax equivalent net interest income in 2002 compared to 2001 principally reflects a \$28.4 million or 20.9% increase in the amount of average interest earning assets and a 39 basis point decline in Net Yield.

The following table summarizes average balances and rates on major categories of interest-earning assets and interest-bearing liabilities:

<b>AVERAGE BALANCES AND TAX EQUIVALENT RATES</b>	<b>2003</b>			<b>2002</b>			<b>2001</b>		
	<b>Average Balance</b>	<b>Interest</b>	<b>Rate</b>	<b>Average Balance</b>	<b>Interest</b>	<b>Rate</b>	<b>Average Balance</b>	<b>Interest</b>	<b>Rate</b>
(dollars in thousands)									
<b>ASSETS</b>									
Taxable loans(1)	\$ 180,491	\$ 11,830	6.55%	\$ 141,840	\$ 10,562	7.45%	\$ 117,596	\$ 10,062	8.56%
Taxable securities	16,199	648	4.00	10,726	472	4.40	7,663	443	5.78
Tax-exempt securities(2)	8,779	674	7.68	6,267	492	7.85	5,631	448	7.96
Other investments	4,381	96	2.19	5,429	115	2.12	4,950	177	3.58
	<u>209,850</u>	<u>13,248</u>	6.31	<u>164,262</u>	<u>11,641</u>	7.09	<u>135,840</u>	<u>11,130</u>	8.19
Interest earning assets									
Cash and due from banks	9,198			11,080			11,302		
Other assets, net	5,242			4,938			5,724		
	<u>\$ 224,290</u>			<u>\$ 180,280</u>			<u>\$ 152,866</u>		
<b>LIABILITIES</b>									
Savings and NOW	\$ 96,204	929	0.97	\$ 77,237	961	1.24	\$ 57,241	982	1.72
Time deposits	41,953	996	2.37	37,055	1,072	2.89	37,763	1,809	4.79
Other borrowings	20,076	719	3.58	4,661	223	4.78	1,208	57	4.72
	<u>158,053</u>	<u>2,644</u>	1.67	<u>118,953</u>	<u>2,256</u>	1.90	<u>96,212</u>	<u>2,848</u>	2.96
Interest bearing liabilities									
Demand deposits	48,635			45,536			42,068		
Other liabilities	610			870			330		
Shareholders' equity	16,992			14,921			14,256		
	<u>\$ 224,290</u>			<u>\$ 180,280</u>			<u>\$ 152,866</u>		
Total liabilities and shareholders' equity									
Net interest income		<u>\$ 10,604</u>			<u>\$ 9,385</u>			<u>\$ 8,282</u>	
Net interest income									

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	2003	2002	2001
earning assets as a percent of	5.05%	5.71%	6.10%

- (1) All domestic.
- (2) Interest on tax-exempt securities is presented on a fully tax equivalent basis assuming a marginal tax rate of 34%.

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The following table summarizes the change in tax equivalent net interest income from changes in average balances ( volume ) and yields and rates ( rate ).

CHANGE IN TAX EQUIVALENT NET INTEREST INCOME	2003 compared to 2002			2002 compared to 2001		
	Volume	Rate	Net	Volume	Rate	Net
(in thousands)						
Increase (decrease) in interest income (1)						
Taxable loans (2)	\$ 2,639	\$ (1,371)	\$ 1,268	\$ 1,909	\$ (1,409)	\$ 500
Taxable securities	222	(46)	176	151	(122)	29
Tax-exempt securities(3)	193	(11)	182	50	(6)	44
Other investments	(23)	4	(19)	16	(78)	(62)
<b>Total interest income</b>	<b>3,031</b>	<b>(1,424)</b>	<b>1,607</b>	<b>2,126</b>	<b>(1,615)</b>	<b>511</b>
Increase (decrease) in interest expense (1)						
Savings and NOW	207	(239)	(32)	290	(311)	(21)
Time deposits	131	(207)	(76)	(33)	(704)	(737)
Other borrowings	565	(69)	496	165	1	166
<b>Total interest expense</b>	<b>903</b>	<b>(515)</b>	<b>388</b>	<b>422</b>	<b>(1,014)</b>	<b>(592)</b>
<b>Net interest income</b>	<b>\$ 2,128</b>	<b>\$ (909)</b>	<b>\$ 1,219</b>	<b>\$ 1,704</b>	<b>\$ (601)</b>	<b>\$ 1,103</b>

- (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 securities is presented on a fully tax equivalent basis assuming a marginal tax rate of 34%.

The following table summarizes the composition of average interest-earning assets and interest-bearing liabilities.

COMPOSITION OF AVERAGE INTEREST-EARNING ASSETS AND INTEREST-BEARING LIABILITIES	Year ended December 31,		
	2003	2002	2001
As a percent of average earning assets			
Loans--all domestic	86.0%	86.3%	86.6%
Other earning assets	14.0	13.7	13.4
<b>Average earning assets</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
Savings and NOW	45.8%	47.0%	42.1%
Time deposits	20.0	22.6	27.8
Other borrowings	9.6	2.8	0.9

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	<b>Year ended December 31,</b>		
	75.4%	72.4%	70.8%
	<hr/>	<hr/>	<hr/>
Average interest bearing liabilities			
Earning asset ratio	93.6%	91.1%	88.9%
Free-funds ratio	24.6	27.6	29.2

**Provision for Loan Losses.** The provision for loan losses was \$483,000 during 2003 compared to \$590,000 and \$480,000 during 2002 and 2001, respectively. The reduction in the provision for loan losses for 2003 as compared to 2002 was primarily due to continued improvement in the Company's credit quality and net charge-off position, which more than offset the need for additional provisions related to the commercial loan growth the

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Company experienced during 2003. Non-performing loans as a percent of total loans improved to 0.46% at the end of 2003 from 0.74% at the end of 2002, and the Company experienced net recoveries of \$47,000 in 2003 compared to net charge-offs of \$130,000 in 2002 (See Loans and Asset Quality ). The increase in the provision for loan losses for 2002 as compared to 2001 was primarily the result of the commercial loan growth the Company experienced during 2002.

Changes in the provision for loan losses reflect our assessment of the allowance for loan losses. While we use relevant information to recognize losses on loans, additional provisions for related losses may be necessary based on changes in economic conditions; customer circumstances and other credit risk factors (See Loans and Asset Quality ).

**Non-Interest Income.** Non-interest income totaled \$1,597,000 during 2003 compared to \$1,316,000 and \$1,271,000 during 2002 and 2001, respectively. The following table summarizes the components of non-interest income.

NON-INTEREST INCOME	Year ended December 31,		
	2003	2002	2001
		(in thousands)	
Service charge on deposit accounts	\$ 778	\$ 642	\$ 602
Net gains (losses) on assets			
Real estate mortgage loans	207	199	188
Securities	-	29	109
Proceeds from settlement of trade name lawsuit	200	-	-
Non-origination loan fees	229	249	191
Other	183	197	181
	<u>\$ 1,597</u>	<u>\$ 1,316</u>	<u>\$ 1,271</u>

Excluding the proceeds from the settlement of the trade name lawsuit and net gains on the sales of securities, non-interest income grew by 8.5% to \$1,397,000 during 2003 and by 10.7% to \$1,287,000 during 2002. Increases in service charges on deposit accounts account for the majority of the increase in total non-interest income during 2003. Increases in service charges on deposit accounts and non-origination loan fees account for the majority of the increase during 2002.

Service charges on deposit accounts totaled \$778,000 during 2003, compared to \$642,000 and \$602,000 during 2002 and 2001, respectively. The increases in such service charges relate primarily to growth in checking accounts during each of the past three years, a re-pricing of Midwest Guaranty Bank's service charge policies during the third quarter of 2002 and increased usage of the bank's wire transfer service for deposit customers. The increase in wire transfer fees was largely from one real estate title company customer whose volume of business increased substantially in mid 2002 and throughout the first half of 2003 as a result of the strong mortgage refinance environment during this period. With the continued evolution of our checking and other deposit products, we would expect the level of growth of service charges on deposits to continue at a moderate pace for future periods.

Net gains on the sale of real estate mortgage loans are generally a function of the volume of loans sold. We realized net gains of \$207,000 on the sale of such loans during 2003, compared to \$199,000 and \$188,000 during 2002 and 2001, respectively. The slight increase in 2003 and 2002 is primarily the result of an increase in mortgage refinancing activity during those periods. Based on the rise in real estate mortgage loan interest rates since the second quarter of 2003, we would expect this revenue source to remain relatively flat or potentially decline, assuming we maintain the same staffing levels we currently employ. As we are primarily a commercial lender, we currently sell our residential mortgage loans on a servicing released basis to minimize the overhead within our consumer mortgage service.

The purchase or sale of securities is dependent upon our assessment of investment and funding opportunities as well as asset/liability management needs. There were no securities sold in 2003. We sold securities



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with an aggregate market value of approximately \$523,000 in 2002 and \$3,536,000 during 2001 primarily to provide additional liquidity for planned growth in commercial loans. These sales resulted in a \$29,000 gain in 2002 and a \$109,000 gain in 2001.

During 2003, the Company, as plaintiff, also realized \$200,000 on the settlement of a lawsuit to defend its trade name from an out-of-state financial institution. This transaction is discussed in more detail under the Non-interest Expense section below.

**Non-Interest Expense.** Non-interest expense totaled \$8,286,000 during 2003, compared to \$7,357,000 and \$6,910,000 during 2002 and 2001, respectively. The following table summarizes the components of non-interest expense.

NON-INTEREST EXPENSE	Year ended December 31,		
	2003	2002	2001
		(in thousands)	
Compensation	\$ 3,994	\$ 3,775	\$ 3,454
Other employee benefits	847	764	705
	<u>4,841</u>	<u>4,539</u>	<u>4,159</u>
Compensation and employee benefits	4,841	4,539	4,159
Occupancy and equipment, net	1,350	1,190	1,195
Printing and supplies	187	154	165
Postage and freight	185	169	157
Telephone	145	154	116
Advertising and promotion	76	63	59
Director fees	127	117	106
Professional fees	291	337	321
Michigan Single Business tax	97	69	128
Costs associated with trade name and lawsuit	357	-	-
Other	630	565	504
	<u>8,286</u>	<u>7,357</u>	<u>6,910</u>
Total non-interest expense	\$ 8,286	\$ 7,357	6,910

The increase in compensation in 2003 is attributable to merit pay increases and an increase in the employee bonus related to overall improvement in the Company's performance for 2003 compared to 2002. The increase in compensation in 2002 is attributable to the addition of three officer positions in mid-2001, merit pay increases and an increase in the employee bonus related to overall improvement in the Company's performance for 2002 compared to 2001. At the end of the second quarter of 2001, the Company hired two additional commercial loan officers and its Chief Financial Officer to improve its ability to accelerate its commercial growth plans. The increase in other employee benefits for both 2003 and 2002 is largely attributable to a rise in overall insurance costs, primarily health insurance, in excess of normal inflation rates. Based on current conditions, we expect health care insurance costs to continue to rise at levels significantly above the general rate of inflation.

Occupancy and equipment increased \$160,000 in 2003 and remained relatively flat for 2002 when compared to 2001. The increase for 2003 relates to an increase in data processing and other equipment depreciation consistent with the Company's plan to improve its technological and operational structure for the future. During 2003, the Company upgraded its item processing equipment to provide for item archival and imaging, upgraded the majority of its automated teller machines (ATMs), and continued the expansion of its network capability. Accordingly, the Company expects its occupancy and equipment expense to increase moderately in 2004 based upon a full year of amortization for such items. The Company, however, expects such enhancements will improve the speed and service capabilities for its relationship employees and set the stage for future customer technologies. The Company also expects other overhead expenses, such as printing and postage, to moderate in the future as a result of these investments.

Professional fees, which include legal fees, were \$291,000 for 2003 compared to \$337,000 for 2002 and \$321,000 for 2001. The decline in 2003 is largely related to a reduction in legal fees associated with our commercial lending process. With the continued improvement in the Company's credit quality and credit



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administration support functions (See **Loans and Asset Quality** ), the need for legal support for loan structuring and workouts has been greatly reduced.

During 2003, the Company also incurred approximately \$357,000 in costs, primarily legal, as a plaintiff in a lawsuit to defend its trade name from an out-of-state financial institution which entered southeast Michigan with a confusingly similar name. The Company was granted a preliminary injunction by the United States District Court, pending a final trial on the merits, which restrained and enjoined the defendant from using its trade name in conjunction with the offering of banking and financial services in southeast Michigan. The lawsuit was subsequently settled and the defendant's name has been changed for its Michigan banking operation.

Other expense areas, including printing and supplies, postage and freight, telephone, advertising and other non-interest expense have remained relatively stable, increasing or decreasing slightly over the prior periods presented.

Our federal income tax expense has increased generally commensurate with our increase in pre-tax earnings. Our actual federal income tax expense is lower than the amount computed by applying our statutory federal income tax rate to our pre-tax earnings primarily due to tax-exempt interest income. Our effective tax rate was 29.4%, 29.4% and 30.1% in 2003, 2002 and 2001, respectively.

### **Financial Condition**

**Summary.** Our total assets grew to \$235 million at December 31, 2003 from \$202 million at December 31, 2002. The growth in total assets primarily reflects an increase in total loans, primarily real estate and commercial and industrial loans, of \$39.8 million. The loan growth was funded by an increase in total deposits of \$21.3 million, the purchase of federal funds of \$11.8 million and a decrease in securities available for sale of \$5.8 million. The growth in deposits was primarily from increases in time deposits greater than \$100,000 and non-interest bearing checking accounts.

**Securities.** Securities available-for-sale decreased by \$5.8 million during 2003 to \$21.3 million at December 31, 2003. This decrease was due primarily to principal repayments of approximately \$4.0 million of mortgage-backed securities and the call of approximately \$945,000 of municipal securities. These funds were reinvested in commercial loans due to the growth opportunities that became available to us in these higher yielding assets. Accordingly, there were no purchases of securities available for sale during the year.

During 2003, we also underwrote a municipal bond of \$500,000 for a local municipality customer in our market area which we classified as held-to-maturity, as we intend to hold this security to full maturity. During 2003, we received principal repayments of \$205,000 on this security.

We maintain a diversified securities portfolio, which includes U.S. government-sponsored agency and mortgage-backed securities, securities issued by states and political subdivisions, and corporate securities. Per our investment policy, we attempt to maintain a portfolio that maximizes portfolio yield over the long-term in a manner that is consistent with our liquidity needs, pledging requirements, and our asset and liability management strategies. We believe that the unrealized losses on securities are temporary in nature and due primarily to changes in interest rates and not a result of credit related issues. We also believe that we have the ability to hold securities with unrealized losses to maturity or until such time as the unrealized losses reverse.

**Loans and Asset Quality.** Our loan portfolio increased by \$39.8 million, or 25%, to \$200.4 million at December 31, 2003. The following table summarizes the composition of our loan portfolio.

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LOAN PORTFOLIO COMPOSITION	Year ended December 31,			
	2003		2002	
	(in thousands)			
Real estate secured:	Amount	Percent	Amount	Percent
Commercial and multi-family	\$ 93,223	47%	\$ 69,914	44%
One-to-four family residential	26,685	13	18,076	11
Construction and land development	17,785	9	15,035	9
	<hr/>	<hr/>	<hr/>	<hr/>
Total real estate secured	137,693	69	103,025	64
Commercial and industrial	58,976	29	54,457	34
Credit card	605	-	602	-
Consumer installment	3,152	2	2,572	2
	<hr/>	<hr/>	<hr/>	<hr/>
Total Loans	\$ 200,426	100%	\$ 160,656	100%
	<hr/>	<hr/>	<hr/>	<hr/>

Our focus on relationship lending with both existing and new commercial customers, the hiring of two seasoned commercial lenders in mid-2001 and opportunities made available by previous major financial institution mergers are the primary reasons for the accelerated growth we have experienced. Approximately 60% of our growth in 2003 was from commercial real estate.

We are principally a commercial lender and have designed and structured our loan origination, loan support and loan administration functions primarily to support the commercial lending lines of business. We do offer consumer loan products, including residential mortgage, home equity, auto and other vehicle loans, but this portfolio remains relatively small and has largely evolved as a service to the principals, owners and employees of our commercial customers. Consumer residential mortgages that meet the criteria for the secondary market are fully sold with servicing released. We do not maintain a servicing portfolio of residential mortgage loans.

Our portfolio loans are primarily a balanced mix of fixed and variable rate loans with terms of five years or less. The short-term nature of our portfolio helps to mitigate our exposure to changes in interest rates. Our variable rate loans are primarily business lines of credit or financing for equipment or other working capital needs. Our fixed rate loans are primarily real estate loans and include both amortizing term and balloon mortgages. We consider ourselves relationship lenders as we often provide both the working capital and real estate financing, and maintain the deposit accounts and other corporate and personal banking services of our commercial customers.

The future growth of our loan portfolio is dependent upon a number of competitive and economic factors. Our lending market primarily includes the Detroit metropolitan areas within Oakland, Macomb and Wayne counties. Although we feel continued opportunity exists in our market area for growth of high quality loan assets, the highly competitive nature of this market could lead to lower relative pricing on new loans which may adversely impact our future operating results.

Commercial and commercial real estate lending generally involves more risk than consumer and consumer real estate lending because loan balances are greater and repayment is generally dependent upon the borrower's business operations. Over 80% of our loan portfolio is concentrated in commercial lending. As we place significant reliance on commercial business and commercial real estate lending, we have adopted a comprehensive loan policy and risk management function to ensure our growth in commercial loan assets is well managed. We principally lend on a secured basis to a diverse industrial mix of small and medium-sized businesses based upon their ability to generate cash flow from their primary business. Our approval process includes significant oversight from various officer and Board loan committees, we operate a loan rating system that is independent of the approval function and we outsource an annual loan review process to a reputable third party consultant. We feel these processes provide the requisite controls and promote compliance with established underwriting standards.

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 loan that is 90 days or more past due and still accruing interest is probable. There were



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no loans that were past due 90 days or more which were not on a non-accrual status at December 31, 2003, 2002 and 2001. Our non-performing assets were as follows.

NON-PERFORMING ASSETS	2003	December 31, 2002	2001
		(in thousands)	
Non-accrual loans	\$ 923	\$ 1,182	\$ 635
Loans 90 days or more past due and still accruing interest	-	-	-
Restructured loans	-	-	-
Total non-performing loans	923	1,182	635
Other real estate	181	191	191
	<u>\$ 1,104</u>	<u>\$ 1,373</u>	<u>\$ 826</u>
Non-performing loans to total loans	.46%	.74%	.49%
Non-performing assets to total assets	.47	.68	.49
Allowance for loan losses as a percent of non-performing loans	343	223	343

Non-performing loans totaled \$923,000, or 0.46% of total loans at December 31, 2003, a slight decrease from December 31, 2002 despite strong growth in total loans during 2003. The non-performing loans at December 31, 2003 are comprised primarily of a number of smaller commercial and real estate secured loans.

The increase in non-performing loans in 2002 compared to 2001 was primarily the result of two commercial real estate loans which were placed on non-accrual during 2002 totaling approximately \$560,000. The balance of each of these loans at December 31, 2002 was fully collected during 2003.

The following table summarizes changes in the allowance for loan losses.

ALLOWANCE FOR LOAN LOSSES	Year ended December 31,		
	2003	2002	2001
		(in thousands)	
Balance at beginning of year	\$ 2,640	\$ 2,180	\$ 2,005
Provision for loan losses	483	590	480
Recoveries credited to allowance	113	180	30
Loans charged against allowance	(66)	(310)	(335)
	<u>\$ 3,170</u>	<u>\$ 2,640</u>	<u>\$ 2,180</u>
Average loans	181,685	142,821	118,036
Net loans charged (credited) against the allowance to average loans	(.03)%	.09%	.26%
Allowance for loan losses as a percent of total loans	1.58	1.64	1.68

The Company experienced a net recovery position of nearly \$50,000 in 2003 compared to a net charge-off position of \$130,000 and \$305,000 in 2002 and 2001. This resulted in a net loans charged (credited) against the allowance for loan losses of (0.03)% of average loans during 2003, compared to 0.09% and 0.26% during 2002 and 2001, respectively. This continual decrease in net loans charged against the allowance during 2003 and 2002 compared to 2001 relates primarily to a lower level of net charge-offs in the commercial loan portfolio.

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Although actual net loss figures have declined, because of the significant concentration in the higher risk commercial lending line of business, future events may result in losses significantly in excess of recent historical losses.

We utilize a loan rating system that includes eight loan ratings, where a one is considered excellent and an eight is considered loss. This rating system was developed with the assistance of our loan review consultants and has been well accepted by our banking regulators. Each new loan over a specified dollar amount is assigned a loan

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rating by our Credit Administration function, independent of the loan approval function. The loan rating is subject to change based upon periodic analysis by our Credit Administration function. Loans that are rated a five (watch or special mention) or below are included on the Company's Watch List report and are reviewed on an individual loan basis to determine if an allocation of our allowance for loan losses is necessary. The Watch List is reviewed quarterly by the Company's Board of Directors.

In determining the allowance for loan losses and the related provision for loan losses, we consider two principal elements: (i) specific allocations based upon probable losses identified during the review of specific loans adversely rated as watch (or special mention), substandard, doubtful or loss, and (ii) allocations for certain loan portfolio categories supported by historical loan loss experience with consideration of other subjective factors which are subject to change over time.

The first element reflects our estimate of losses based upon our systematic review of specific loans adversely rated as watch (or special mention), substandard, doubtful or loss. Typically, the lower the rating assigned to an individual loan the greater the allocation percentage assigned, unless the estimate of loss is clear based upon the assessment of various objective factors. These estimates are based upon a number of objective factors, such as payment history, financial condition and operating trends of the borrower, and discounted collateral coverage.

The second element is determined by assigning allocations to specific loan portfolio categories that contain similar characteristics. These categories include real estate loans, commercial and industrial loans, credit cards and consumer installment. Allocation factors are determined first by reviewing the historical net loss experience for the prior four quarters for each category and are then adjusted based upon the consideration of a number of subjective factors that are subject to change over time. These subjective factors include consideration for the general nature of the loan category, the impact of local and general economic business factors and trends, category concentrations and changes in the size, mix and the general terms of the loan categories.

As our market area generally includes the metropolitan area of Detroit, the local economy is primarily impacted by the manufacturing, largely automotive, and high-tech industries. Both of these industries experienced marked downturns during 2001 and early 2002, and have generally lagged the recovery in the national markets. This trend has been generally consistent with what we have seen in the operating results of certain of our commercial business borrowers. There has also occurred a significant increase in the vacancy rates for commercial property in our market areas during these periods, which has generally remained throughout 2003.

During this same time period we have experienced significant growth in our commercial portfolios. Commercial business and industrial loans and commercial real estate loans represent over 80% of our total loan portfolio. In addition, although the majority of our commercial real estate portfolio remains owner-occupied, we did experience a rise in our concentration of non-owner-occupied commercial real estate during the past two years. Although we are confident in the credit administration practices we employ and the allowance allocations we have estimated when considering the above, future events may occur that could result in significant differences from these estimates.

The following table summarizes the allocation of the allowance for loan losses by loan type.

ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES	Year ended December 31,		
	2003	2002	2001
	(in thousands)		
Real estate secured	\$ 1,359	\$ 1,065	\$ 625
Commercial and industrial	1,727	1,469	1,482
Credit card	46	49	46
Consumer installment	38	57	25
	<hr/>	<hr/>	<hr/>
Total	\$ 3,170	\$ 2,640	\$ 2,180
	<hr/>	<hr/>	<hr/>



**MIDWEST'S MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS AS OF DECEMBER 31, 2003 AND 2002 AND FOR THE YEARS ENDED  
DECEMBER 31, 2003, 2002 AND 2001**

Deposits and borrowings. During 2003, total deposits increased \$21.3 million, or 13%, to \$189.2 million at December 31, 2003. Total borrowings also increased in 2003, primarily from the use of \$11.8 million in federal funds purchased. The following table summarizes the mix of our deposits and other borrowings.

**DEPOSITS AND OTHER BORROWINGS**

	<b>December 31,</b>	
	<b>2003</b>	<b>2002</b>
	(in thousands)	
Non-Interest bearing checking	\$ 52,868	\$ 46,329
Savings and NOW	86,438	85,637
Time deposits less than \$100,000	11,859	12,167
Time deposits greater than \$100,000	38,083	23,828
	189,248	167,961
Total deposits	189,248	167,961
Federal funds purchased	11,750	-
Federal Home Loan Bank advances	7,500	10,000
Subordinated debentures	7,732	7,500
	216,230	185,461
Total deposits and other borrowings	\$ 216,230	\$ 185,461

The increase in deposits was primarily from a \$6.5 million increase in non-interest bearing checking accounts and a \$14.3 million increase in time deposits greater than \$100,000. The growth in checking accounts is primarily attributable to the growth in new commercial business deposits which occurred alongside the significant growth in commercial loan assets experienced during the year. A portion of the growth in time deposits greater than \$100,000 has come from public funds made available from local government authorities.

Because of our bank's relative size when compared to the major money-center banks and regional banks in the competitive markets we serve, we rely less on the marketing tactics utilized by our competition to grow deposits, such as pricing promotions, extensive media advertising and product expansion, because of the additional costs and expertise required with such programs. Accordingly, as a community bank focused on commercial relationships and personalized customer service, we focus our efforts on differentiating ourselves by communication of these values through participation in community events and activities and direct calling efforts by our sales personnel. This has allowed us to expand our existing customer relationships and obtain referrals from our current customer base and our community contacts in order to enhance our core deposit base. We feel our deposit customers truly bank with us because of the personalized service and relationships that our branch and lending personnel provide. Historically, we have been quite successful at funding much of our asset growth from core deposits provided directly or indirectly from our commercial customers.

Most recently, however, we have placed a larger reliance on alternative sources of funds to more profitably fund the more robust commercial loan growth we have experienced in the last two years and expect to experience in the future. As part of our asset/liability management efforts, we have implemented strategies that incorporate greater use of federal funds purchased and time deposits from public funds made available from local government authorities. These sources of funds have become more available to us, and we have found them to be at a marginally lower cost than core deposits, considering the current low interest rates available on such funds and the additional expenditures necessary to grow core deposits. We also anticipate greater use of Federal Home Loan Bank advances in the future as an alternative to funding longer-term fixed rate assets.

Although we anticipate greater use of such alternative sources of funds to supplement our core deposits, we are focusing time evaluating the extent of our current product line and future marketing plans to ensure our continued ability to attract and grow our core deposits.

**Liquidity.** Liquidity management represents our ability to efficiently and economically accommodate decreases in deposits and other liabilities and fund increases in assets. Liquidity management is an integral part of our asset/liability management process to ensure we achieve and maintain a mix of earning assets and liabilities that

**MIDWEST'S MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS AS OF DECEMBER 31, 2003 AND 2002 AND FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001**

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maximize our profitability while providing adequate liquidity. Our primary sources of funds include deposits, borrowed funds, and cash provided from the repayment, sale or maturity of loans and investment securities. These funds are used primarily to meet the withdrawal needs of our depositors and to fund loan demand.

The \$39.8 million increase in loans during 2003 was funded by a combination of alternatives. Deposit growth of approximately \$21.3 million was the primary source of funding. The Company also relied more heavily on its short-term federal fund facilities during 2003. Because of the relatively low interest rate environment during 2003, these facilities provided a more cost effective funding alternative when considering the Company's interest rate risk profile. Federal funds purchased were \$11.8 million at the end of 2003. In addition, the Company purchased approximately \$10 million of mortgage-backed securities in 2002 with the anticipation that accelerated principal repayments could be redeployed in planned future loan growth. Cash flows from investment securities, primarily principal repayments, provided approximately \$5.7 million for 2003.

We maintain a level of liquidity that considers our primary liquidity needs, including our expected loan demand, deposit flows, the nature and extent of unfunded loan commitments, and cash flow expected from the repayment of loans and securities. We generally utilize our unsecured federal fund facilities provided by our correspondents to meet the fluctuations in our daily cash needs. During 2003, we increased our capacity to borrow under our federal funds purchased facilities to \$18.5 million, of which approximately \$6.7 million was unused at December 31, 2003.

When loan demand generally exceeds the supply of funding from our core deposits, we assess a combination of alternative funding strategies and monitor such strategies against pre-established liquidity targets. These targets are monitored monthly by our asset/liability management committee and reported monthly to our Board of Directors. In addition to the federal fund facilities with our correspondents, our alternative funding sources primarily include time deposits from public authorities in the Company's market area and borrowing capacity from the Federal Home Loan Bank.

Within the Company's market area of Oakland and Wayne counties, there has historically been a significant supply of funds available from public authorities. Midwest Guaranty Bank has been able to maintain strong relationships with these public authorities and successfully obtain additional funds from them when needed. Although the Company expects to continue to utilize such funds, there is no guarantee that such funds will be available when needed. Time deposits from public authorities totaled approximately \$13.6 million and \$10.5 million at December 31, 2003 and 2002.

Federal Home Loan Bank advances totaled \$7.5 million at December 31, 2003 compared to \$10 million at December 31, 2002. During 2003, the Company was approved by the Federal Home Loan Bank to pledge other real estate related collateral, primarily commercial real estate, for Federal Home Loan Bank borrowings. This increased our unused capacity to borrow from the Federal Home Loan Bank at the end of 2003 to approximately \$29 million. Consistent with the Company's asset/liability management objectives to maximize profitability while providing adequate liquidity, the Company may supplement future loan growth with additional advances from the Federal Home Loan Bank.

The Company also classifies the majority of its investment securities as available for sale which serves as a secondary source of liquidity. At the end of 2003, securities available for sale were approximately \$21.3 million with a net unrealized gain of \$343,000.

In addition to our primary funding needs, the Company has certain long-term contractual funding obligations. These contractual obligations primarily consist of borrowings with the Federal Home Loan Bank, lease commitments for certain office facilities and as discussed more fully under "Capital Resources" below, subordinated debentures. Scheduled principal payments on these contractual obligations as of December 31, 2003 are outlined in the table below.

**MIDWEST'S MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS AS OF DECEMBER 31, 2003 AND 2002 AND FOR THE YEARS ENDED  
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**CONTRACTUAL OBLIGATIONS**

	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
	(in thousands)				
Federal Home Loan Bank borrowings	\$ 7,500	\$ 2,500	\$ 5,000	\$ -	\$ -
Operating lease commitments	2,018	327	712	712	267
Subordinated debentures	7,732	-	-	-	7,732
<b>Total</b>	<b>\$ 17,250</b>	<b>\$ 2,827</b>	<b>\$ 5,712</b>	<b>\$ 712</b>	<b>\$ 7,999</b>

**Capital Resources.** The capital position of the Company is managed to reflect the underlying risks of the Company's business activities, to comply with regulatory requirements and to ensure continued improvement in value to our common shareholders. The following table reflects the Company's capitalization.

**CAPITALIZATION**

	December 31,	
	2003	2002
	(in thousands)	
Subordinated debentures	\$ 7,732	\$ 7,500
Shareholders' equity		
Common stock	948	948
Capital surplus	4,431	4,431
Retained earnings	12,513	10,252
Accumulated other comprehensive income	227	347
<b>Total shareholders' equity</b>	<b>18,119</b>	<b>15,978</b>
<b>Total capitalization</b>	<b>\$ 25,851</b>	<b>\$ 23,478</b>

Consistent with our growth plans for the future, and considering the cost of capital is an important factor in creating shareholder value, we issued \$7,732,000 of subordinated debentures during 2002 to Midwest Guaranty Trust I, a Delaware trust formed solely for the offering, to allow for the issuance of \$7,500,000 of trust preferred securities. Distributions on the trust preferred securities are payable quarterly at a floating rate, which was 4.63% at December 31, 2003. The securities count as Tier 1 capital for regulatory purposes, subject to certain limitations. Effective in December of 2003, the trust is no longer consolidated for reporting purposes per the issuance of FASB Interpretation No. 46 (FIN 46). The impact on the recorded amounts is more fully described in Note 8 to the consolidated financial statements included elsewhere in this document. Consistent with FIN 46, the Federal regulatory agencies are currently considering the impact FIN 46 may have on the treatment of trust preferred securities for regulatory capital purposes.

Shareholders' equity totaled \$18.1 million at December 31, 2003. The increase from \$16.0 million at December 31, 2002 primarily reflects the Company's earnings of \$2.3 million for 2003. Since inception, the Company has not declared a cash dividend on its common shares. Earnings have been fully retained to provide for more accelerated growth in assets. Average shareholders' equity was equal to 7.58% of average assets for 2003 compared to 8.28% for 2002. The decrease in this ratio was largely the result of improved leverage of our Balance Sheet made available from the trust preferred securities to allow for more effective management of our common shareholder capital. The following table summarizes our capital ratios.

**CAPITAL RATIOS**

**December 31,**  
**2003                      2002**

**CAPITAL RATIOS**

	<b>December 31,</b>	
Average shareholders' equity to average assets	7.58%	8.28%
Equity capital to total assets	7.70	7.89
Tier 1 capital to average assets	10.17	10.35
Tier 1 risk-based capital	11.08	11.84
Total risk-based capital	13.08	14.40

**MIDWEST'S MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS AS OF DECEMBER 31, 2003 AND 2002 AND FOR THE YEARS ENDED  
DECEMBER 31, 2003, 2002 AND 2001**

**Asset/Liability Management and Interest Rate Sensitivity.** Interest-rate risk primarily arises from differences in the cash flow characteristics of our assets and liabilities. Options embedded in certain financial instruments, including floors and caps on adjustable-rate loans as well as borrowers' rights to prepay fixed-rate loans also create interest-rate risk.

Through our asset/liability management process we evaluate various opportunities and alternative balance-sheet strategies and consider the likely impact on our risk profile and the anticipated contribution to earnings. These evaluations consider, among other factors, the impact on our capital, and on our credit, interest-rate and liquidity risks. We have established measurable parameters for these risk measures as part of our asset/liability process. Our asset/liability management committee monitors adherence to these parameters on a monthly basis and reports monthly to our Board of Directors.

We primarily employ simulation analysis to monitor the Company's interest-rate risk profile and evaluate potential changes in our bank's net interest income that result from changes in interest rates. We also utilize rate sensitive gap analysis to further monitor our interest rate risk profile. The purpose of these analyses is to identify sources of interest-rate risk inherent in our Balance Sheets. The analyses do not anticipate any actions that we might initiate in response to changes in interest rates and, accordingly, the analyses do not provide a reliable forecast of anticipated results.

The simulation analysis estimates net interest income over the next twelve months based upon the contractual cash flow characteristics of the Company's assets and liabilities. The analysis is predicated on an immediate and sustained shift in interest rates, assumes no growth in assets or liabilities and generally assumes contractual repayments re-price at prevailing interest rates. The simulation performed as of December 31, 2003 is summarized below.

#### CHANGES IN NET INTEREST INCOME

Change in Interest Rates	Net Interest Income	Percent Change
	(dollars in thousands)	
300 basis point rise	\$ 11,961	15.45%
200 basis point rise	11,251	8.59
100 basis point rise	10,556	1.89
Base-rate scenario	10,361	-
100 basis point decline	10,239	(1.18)
200 basis point decline	10,110	(2.42)
300 basis point decline	9,980	(3.68)

#### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as disclosures found elsewhere regarding the Company, are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses. Actual results could differ from those estimates.

The allowance for loan losses is maintained at a level believed adequate by management to absorb probable losses inherent in the loan portfolio. Our methodology for determining the adequacy of the allowance for loan losses and the related provision for loan losses is described above under Loans and Asset Quality. The determination of the allowance requires a significant amount of judgment, as a multitude of factors can influence the ultimate

**MIDWEST'S MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS AS OF DECEMBER 31, 2003 AND 2002 AND FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001**

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collection of a loan. Management's evaluation of the adequacy of the allowance is an estimate that considers, among other factors, reviews of individual loans, assessments of the impact of current and anticipated economic conditions on the portfolio, and historical loss experience.

Management believes the accounting estimate related to the allowance for loan losses is a critical accounting estimate because the estimate requires company management to make judgments and assumptions that are highly susceptible to change from period to period. Those judgments and assumptions that are most critical include the initial and on-going assessment of the credit-worthiness of the borrower, the amount and timing of future cash flows of the borrower that are available for repayment of the loan, the sufficiency of underlying collateral, the frequency and subjectivity of loan reviews and risk ratings, emerging or changing trends that might not be fully captured in historical loss experience, and charges against the allowance for actual losses that are greater than previously estimated. These judgments and assumptions are dependent upon or can be influenced by a variety of factors including the breadth and depth of experience of lending officers, credit administration and loan review personnel that periodically review the status of the loan, changing economic and industry conditions, changes in the financial condition of the borrower and changes in the value and availability of the underlying collateral and guarantees.

While the Company strives to reflect all known risk factors in its evaluations, judgment errors may occur. Management has discussed the development and selection of this critical accounting estimate with the Audit Committee of its Board of Directors and the Audit Committee has reviewed the Company's disclosures relating to it.

#### **MERGERS AND ACQUISITIONS**

On February 4, 2004, Midwest and IBC signed a definitive agreement for Midwest and its wholly-owned subsidiaries, including Midwest Guaranty Bank, to be acquired by IBC. This transaction is described in more detail in Note 2 of the Company's consolidated financial statements contained elsewhere in this document.

REPORT OF INDEPENDENT AUDITORS

Shareholders and Board of Directors  
Midwest Guaranty Bancorp, Inc.  
Troy, Michigan

We have audited the accompanying consolidated statements of financial condition of Midwest Guaranty Bancorp, Inc. as of December 31, 2003 and 2002, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2003. These 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 Midwest Guaranty Bancorp, Inc. as of December 31, 2003 and 2002, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

/s/ Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

Grand Rapids, Michigan  
February 11, 2004

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MIDWEST GUARANTY BANCORP, INC.  
 CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION  
 December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
<b>ASSETS</b>		
Cash and due from banks	\$ 7,654,277	\$ 9,448,763
Federal funds sold	31,390	78,508
Other short-term investments	19,001	55,686
	<hr/>	<hr/>
Total cash and cash equivalents	7,704,668	9,582,957
Securities available-for-sale	21,292,560	27,064,778
Securities held-to-maturity (fair value of \$321,189 for 2003)	295,000	-
Loans	200,425,733	160,656,073
Allowance for loan losses	(3,170,040)	(2,640,084)
	<hr/>	<hr/>
Loans, net	197,255,693	158,015,989
Federal Home Loan Bank and Federal Reserve Bank stock	946,600	800,000
Premises and equipment, net	5,522,268	5,089,119
Accrued interest receivable	797,853	757,861
Other assets	1,630,130	1,148,650
	<hr/>	<hr/>
Total assets	\$ 235,444,772	\$ 202,459,354
	<hr/>	<hr/>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Liabilities		
Deposits		
Noninterest-bearing	\$ 52,868,484	\$ 46,329,062
Interest-bearing	136,379,233	121,631,733
	<hr/>	<hr/>
Total deposits	189,247,717	167,960,795
Federal funds purchased	11,750,000	-
Federal Home Loan Bank advances	7,500,000	10,000,000
Accrued interest payable	434,587	434,884
Other liabilities	661,574	585,802
Subordinated debentures	7,732,000	7,500,000
	<hr/>	<hr/>
Total liabilities	217,325,878	186,481,481
Shareholders' equity		
Common stock (\$1 stated value, 2,200,000 shares authorized; 947,754 shares issued and outstanding at December 31, 2003 and 2002)	947,754	947,754
Capital surplus	4,431,083	4,431,083
Retained earnings	12,513,389	10,251,835
Accumulated other comprehensive income	226,668	347,201
	<hr/>	<hr/>
Total shareholders' equity	18,118,894	15,977,873
	<hr/>	<hr/>
Total liabilities and shareholders' equity	\$ 235,444,772	\$ 202,459,354
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See accompanying notes to consolidated financial statements.

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MIDWEST GUARANTY BANCORP, INC.  
CONSOLIDATED STATEMENTS OF INCOME  
Years ended December 31, 2003, 2002 and 2001

	<b>2003</b>	<b>2002</b>	<b>2001</b>
Interest income			
Loans, including fees	\$ 11,829,861	\$ 10,561,711	\$ 10,061,580
Securities	1,092,878	796,010	739,501
Federal Home Loan Bank and Federal Reserve Bank stock	48,088	39,464	41,077
Federal funds sold	23,446	58,684	121,841
Other investments	24,917	17,222	13,343
	<u>13,019,190</u>	<u>11,473,091</u>	<u>10,977,342</u>
Interest expense			
Deposits	1,924,363	2,032,669	2,790,772
Federal Home Loan Bank advances	315,726	150,046	43,387
Subordinated debentures	372,294	70,266	-
Federal funds purchased	31,539	2,739	13,641
	<u>2,643,922</u>	<u>2,255,720</u>	<u>2,847,800</u>
<b>Net interest income</b>	<u>10,375,268</u>	<u>9,217,371</u>	<u>8,129,542</u>
Provision for loan losses	483,000	590,000	480,000
<b>Net interest income after provision for loan losses</b>	<u>9,892,268</u>	<u>8,627,371</u>	<u>7,649,542</u>
Noninterest income			
Service charges on deposits	777,631	642,114	602,213
Net gain on sales of loans	206,609	198,970	187,737
Net gain on sales of securities	-	28,944	109,175
Proceeds from settlement of trade name lawsuit	200,000	-	-
Other	412,545	445,835	372,245
	<u>1,596,785</u>	<u>1,315,863</u>	<u>1,271,370</u>
Noninterest expense			
Compensation and employee benefits	4,840,482	4,539,080	4,158,774
Occupancy and equipment	1,349,950	1,190,472	1,194,563
Printing and supplies	186,773	153,993	164,502
Postage and freight	185,294	168,748	156,935
Telephone	145,159	153,616	115,968
Advertising and promotion	76,305	63,259	59,455
Director fees	126,500	117,000	106,000
Professional fees	291,160	336,551	320,700
Michigan Single Business tax	97,000	69,000	128,400
Costs associated with trade name lawsuit	356,974	-	-
Other	629,928	564,979	504,499
	<u>8,285,525</u>	<u>7,356,698</u>	<u>6,909,796</u>
<b>Income before federal income taxes</b>	<u>3,203,528</u>	<u>2,586,536</u>	<u>2,011,116</u>
Federal income taxes	941,974	761,553	604,450
<b>Net income</b>	<u>\$ 2,261,554</u>	<u>\$ 1,824,983</u>	<u>\$ 1,406,666</u>
Basic earnings per share	\$ 2.39	\$ 1.93	\$ 1.40

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	<u>2003</u>	<u>2002</u>	<u>2001</u>
Diluted earnings per share	\$ 2.33	\$ 1.90	\$ 1.39

See accompanying notes to consolidated financial statements.

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MIDWEST GUARANTY BANCORP, INC.  
 CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
 Years ended December 31, 2003, 2002 and 2001

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
<b>Balance, January 1, 2001</b>	\$ 1,006,799	\$ 5,293,641	\$ 7,020,186	\$ 236,980	\$ 13,557,606
Net income			1,406,666		1,406,666
Other comprehensive loss:					
Change in net unrealized gain on securities available for sale				52,023	52,023
Reclassification adjustment for gains included in net income				(109,175)	(109,175)
Net change in net unrealized gain on securities available for sale				(57,152)	(57,152)
Tax effects				19,432	19,432
Other comprehensive loss				(37,720)	(37,720)
Comprehensive income					1,368,946
Issuance of 1,500 shares upon exercise of stock options	1,500	10,500			12,000
Retirement of 60,545 shares	(60,545)	(873,058)			(933,603)
<b>Balance, December 31, 2001</b>	947,754	4,431,083	8,426,852	199,260	14,004,949
Net income			1,824,983		1,824,983
Other comprehensive income:					
Change in net unrealized gain on securities available for sale				253,097	253,097
Reclassification adjustment for gains included in net income				(28,944)	(28,944)
Net change in net unrealized gain on securities available for sale				224,153	224,153
Tax effects				(76,212)	(76,212)
Other comprehensive income				147,941	147,941
Comprehensive income					1,972,924
<b>Balance, December 31, 2002</b>	947,754	4,431,083	10,251,835	347,201	15,977,873
Net income			2,261,554		2,261,554
Other comprehensive loss:					
Net change in net unrealized gain on securities available for sale				(182,626)	(182,626)
Tax effects				62,093	62,093

	<b>Common Stock</b>	<b>Capital Surplus</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Income (120,533)</b>	<b>Total Shareholders' Equity (120,533)</b>
Other comprehensive loss					(120,533)
Comprehensive income					2,141,021
<b>Balance, December 31, 2003</b>	<b>\$ 947,754</b>	<b>\$ 4,431,083</b>	<b>\$ 12,513,389</b>	<b>\$ 226,668</b>	<b>\$ 18,118,894</b>

See accompanying notes to consolidated financial statements.

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MIDWEST GUARANTY BANCORP, INC.  
 CONSOLIDATED STATEMENTS OF CASH FLOWS  
 Years ended December 31, 2003, 2002 and 2001

	<u>2003</u>	<u>2002</u>	<u>2001</u>
<b>Cash flows from operating activities</b>			
Net income	\$ 2,261,554	\$ 1,824,983	\$ 1,406,666
Adjustments to reconcile net income to net cash from operating activities			
Depreciation and amortization	569,888	444,948	385,374
Provision for loan losses	483,000	590,000	480,000
Loans originated for sale	(16,152,440)	(14,241,550)	(13,849,300)
Proceeds from loan sales	16,359,049	15,045,520	13,432,037
Net (gain) on sales of loans	(206,609)	(198,970)	(187,737)
Net (gain) on sales of securities	-	(28,944)	(109,175)
Net change in:			
Accrued interest receivable	(38,351)	(61,217)	49,575
Other assets	(187,387)	(366,308)	(153,456)
Accrued interest payable	(1,938)	(37,861)	70,540
Other liabilities	75,772	263,238	(248,892)
Net cash from operating activities	<u>3,162,538</u>	<u>3,233,839</u>	<u>1,275,632</u>
<b>Cash flows from investing activities</b>			
Available-for-sale securities			
Purchases	-	(13,637,113)	(7,243,763)
Proceeds from sales	-	523,906	3,536,487
Proceeds from calls, maturities and repayments	5,516,035	1,992,365	899,652
Held-to-maturity securities			
Purchases	(500,000)	-	-
Proceeds from principal repayments	205,000	-	-
Purchase of Federal Home Loan Bank and Federal Reserve Bank stock	(146,600)	(180,400)	(30,000)
Net change in loans	(39,722,704)	(31,248,962)	(21,440,821)
Premises and equipment purchased	(929,480)	(414,262)	(248,663)
Net cash from investing activities	<u>(35,577,749)</u>	<u>(42,964,466)</u>	<u>(24,527,108)</u>
<b>Cash flows from financing activities</b>			
Net change in deposits	21,286,922	17,523,935	23,247,059
Net change in Federal funds purchased	11,750,000	-	-
Proceeds from Federal Home Loan Bank advances	1,000,000	7,500,000	2,500,000
Repayment of Federal Home Loan Bank advances	(3,500,000)	-	-
Proceeds from trust preferred securities	-	7,500,000	-
Issuance of shares upon exercise of stock options	-	-	12,000
Retirement of common stock	-	-	(933,603)
Net cash from financing activities	<u>30,536,922</u>	<u>32,523,935</u>	<u>24,825,456</u>
Net change in cash and cash equivalents	(1,878,289)	(7,206,692)	1,573,980
Cash and cash equivalents at beginning of year	9,582,957	16,789,649	15,215,669
<b>Cash and cash equivalents at end of year</b>	<u>\$ 7,704,668</u>	<u>\$ 9,582,957</u>	<u>\$ 16,789,649</u>
Supplemental disclosures of cash flow information			
Federal income taxes paid	\$ 1,122,000	\$ 851,000	\$ 767,000
Interest paid	2,644,219	2,293,581	2,777,260
See accompanying notes to consolidated financial statements.			



MIDWEST GUARANTY BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Principles of Consolidation and Nature of Operations: The consolidated financial statements include the accounts of Midwest Guaranty Bancorp, Inc., its wholly owned subsidiaries, Midwest Guaranty Bank ( the Bank ) and Midwest Bancshares Leasing, Inc., and the Bank's wholly owned subsidiary, Midwest Guaranty Mortgage Company ( the Mortgage Company ), together referred to as the Company. Intercompany transactions and balances are eliminated in consolidation. As further discussed in a separate note, a special purpose trust, formed solely for the issuance of trust preferred securities, that had previously been consolidated with the Company is now reported separately.

The Company is a regional, commercial banking organization offering a full range of banking products and services to businesses and individuals located primarily in Southeastern Michigan. The Bank's primary deposit products are checking, savings, and term certificate accounts, and its primary lending products are commercial, real estate, and installment loans. Substantially all loans are secured by specific items of collateral including business assets, consumer assets and real estate. Commercial loans are expected to be repaid from cash flow from operations of businesses. Real estate loans are secured by both residential and commercial real estate. The Mortgage Company originates residential and commercial real estate loans and sells certain residential real estate loans.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and future results could differ. Estimates associated with the allowance for loan losses and fair values of financial instruments are particularly subject to change.

Cash Flows: Cash and cash equivalents includes cash, deposits with other financial institutions and other short-term investments under 90 days and federal funds sold. Net cash flows are reported for loan and deposit transactions.

Securities: Securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Securities are classified as available-for-sale when they might be sold before maturity. Securities available-for-sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income (loss). Other securities such as Federal Home Loan Bank and Federal Reserve Bank stock are carried at cost.

Interest income includes amortization of purchase premium or discount. Gains and losses on sales are based on the amortized cost of the security sold. Securities are written down to fair value when a decline in fair value is not temporary.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of unearned interest, deferred loan fees and costs, and an allowance for loan losses. Loans held for sale are reported at the lower of cost or market, on an aggregate basis.

Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term. Interest income on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection. Consumer loans are typically charged off no later than 180 days past due. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.



MIDWEST GUARANTY BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Loans (continued): All interest accrued but not received is reversed against interest income for loans placed on nonaccrual. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Nonperforming loans and impaired loans are defined differently. Some loans may be included in both categories, whereas other loans may only be included in one category. Non-performing loans include nonaccrual loans and loans past due 90 days and still accruing interest. A loan is impaired when full payment under the loan terms is not expected. Commercial and commercial real estate loans are individually evaluated for impairment. Large groups of smaller balance homogeneous loans, such as consumer, credit card and residential real estate loans, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses, increased by the provision for loan losses and decreased by charge-offs less recoveries. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed.

If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral.

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed principally on the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are amortized over the shorter of the respective lease term or the estimated useful life of the improvement.

Long-term Assets: Premises and equipment and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Foreclosed Assets: Assets acquired through or instead of loan foreclosure are initially recorded at fair value when acquired, establishing a new cost basis. If fair value declines, a valuation allowance is recorded through expense. Costs after acquisition are expensed.

401(k) Plan: A 401(k) Plan covers employees who work 1,000 or more hours per year, and who have attained the age of 21. Expense under the plan is the amount contributed based upon a percentage of eligible salaries, limited to 50% of the first 6% of salary contributed. Expense of the plan was approximately \$87,000, \$90,000 and \$77,000 for 2003, 2002 and 2001.

MIDWEST GUARANTY BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Stock Compensation:** Employee compensation expense under stock option plans is reported using the intrinsic value method. No stock-based compensation cost is reflected in net income, as all options granted had an exercise price equal to market price of the underlying common stock at date of grant. The following table illustrates the effect on net income and earnings per share had expense been measured using the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation.

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Net income as reported	\$ 2,261,554	\$ 1,824,983	\$ 1,406,666
Pro forma net income	2,174,027	1,762,920	1,311,164
Basic earnings per share as reported	2.39	1.93	1.40
Pro forma basic earnings per share	2.29	1.86	1.30
Diluted earnings per share as reported	2.33	1.90	1.39
Pro forma diluted earnings per share	2.24	1.84	1.30

The pro forma effects are computed with option pricing models, using the following assumptions for the 2003 and 2001 option grants: risk-free interest rate of 3.85% and 5.04%, expected option life of 9 years and an expected dividend yield of 0%.

**Income Taxes:** Income tax expense is the sum of the current year income tax due and the change in the deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance is established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

**Off-Balance Sheet Financial Instruments:** Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded. Instruments, such as standby letters of credit, that are considered financial guarantees in accordance with FASB Interpretation No. 45 are recorded at fair value.

**Earnings Per Share:** Basic earnings per share is net income divided by the weighted average number of shares outstanding during the period. Diluted earnings per share includes the dilutive effect of additional potential shares issuable under stock options.

**Comprehensive Income:** Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale which are also recognized as separate components of equity.

**Loss Contingencies:** Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

MIDWEST GUARANTY BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Restrictions on Cash: Cash on hand or on deposit with the Federal Reserve Bank of approximately \$402,000 and \$419,000 was required to meet regulatory reserve and clearing requirements at year-end 2003 and 2002. These balances do not earn interest.

Dividend Restriction: Banking regulations require maintaining certain capital levels and may limit the dividends paid by the bank to the holding company or by the holding company to shareholders.

Fair Values of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Adoption of New Accounting Standards: During 2003, the Company adopted FASB Statement 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*, FASB Statement 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equities*, FASB Interpretation 45, *Guarantors Accounting and Disclosure Requirements for Guarantees*, and FASB Interpretation 46, *Consolidation of Variable Interest Entities*. Adoption of the new standards did not materially affect the Company's operating results or financial condition.

Operating Segments: While the chief decision-makers monitor revenue streams of the various products and services, the identifiable segments are not material and operations are managed and financial performance is evaluated on a Company-wide basis. Accordingly, all of the financial service operations are considered by management to be aggregated in one reportable operating segment.

Reclassifications: Certain items in the prior year financial statements have been reclassified to conform with the current year presentation.

MIDWEST GUARANTY BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**NOTE 2 PENDING MERGER WITH INDEPENDENT BANK CORPORATION**

On February 4, 2004, Midwest Guaranty Bancorp, Inc. ( Midwest ) and Independent Bank Corporation ( IBC ) signed a definitive agreement for Midwest and its wholly-owned subsidiaries, including Midwest Guaranty Bank, to be acquired by IBC. The agreement is subject to regulatory approvals, the approval of the shareholders of Midwest and other customary closing conditions. The transaction is scheduled to be completed by July 31, 2004.

Under the terms of the agreement, shareholders of Midwest will receive \$43.456 per share, with 60% of the consideration paid in Independent common stock and 40% of the consideration paid in cash. The transaction is contingent upon certain share price adjustments of IBC's stock. At the time of consummation of the transaction, should the average market value of IBC's stock drop below a predetermined level, and that drop exceeds the general decline in the market value of NASDAQ bank stocks, and IBC elects to exercise its option to increase the average closing price of IBC stock to that predetermined level, the Board of Directors of Midwest could elect to terminate the transaction.

IBC has over \$2.3 billion in total assets and operates four affiliate banks and a premium finance company. IBC and its subsidiaries provide a wide range of banking and other financial services through 97 offices across Michigan's Lower Peninsula. IBC also provides financing for insurance premiums and extended automobile warranties across the United States through its wholly-owned subsidiary, Mepco Insurance Premium Financing, Inc.

**NOTE 3 SECURITIES**

Securities at year-end were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Available-for-Sale:</b>				
<u>2003</u>				
U.S. Treasury and agency	\$ 497,553	\$ 22,994	\$ -	\$ 520,547
State and municipal	8,108,401	575,576	-	8,683,977
Mortgage-backed	8,832,608	25,812	(102,388)	8,756,032
Corporate	1,005,526	99,258	-	1,104,784
	<hr/>	<hr/>	<hr/>	<hr/>
Total debt securities	18,444,088	723,640	(102,388)	19,065,340
Equity securities	2,505,036	-	(277,816)	2,227,220
	<hr/>	<hr/>	<hr/>	<hr/>
Total	\$ 20,949,124	\$ 723,640	\$ (380,204)	\$ 21,292,560
	<hr/>	<hr/>	<hr/>	<hr/>
<u>2002</u>				
U.S. Treasury and agency	\$ 985,264	\$ 67,	-	\$ 1,052,456
State and municipal	9,029,362	469,804	(35,591)	9,463,575
Mortgage-backed	12,907,384	25,515	(72,542)	12,860,357
Corporate	1,009,547	107,052	-	1,116,599
Other	100,000	-	-	100,000
	<hr/>	<hr/>	<hr/>	<hr/>
Total debt securities	24,031,557	669,563	(108,133)	24,592,987
Equity securities	2,507,159	10,417	(45,785)	2,471,791
	<hr/>	<hr/>	<hr/>	<hr/>
Total	\$ 26,538,716	\$ 679,980	\$ (153,918)	\$ 27,064,778
	<hr/>	<hr/>	<hr/>	<hr/>

MIDWEST GUARANTY BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**NOTE 3 SECURITIES** (Continued)

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<b>Held-to-Maturity:</b>				
<u>2003</u>				
State and municipal	\$ 295,000	\$ 26,189	\$ -	\$ 321,189

There were no sales of securities in 2003. Proceeds from the sale of a security totaled \$523,906 during 2002. A gross gain of \$28,944 was realized on this sale. Proceeds from the sale of securities totaled \$3,536,487 during 2001. Gross gains of \$109,175 were realized on these sales.

Debt securities at year-end 2003 by contractual maturity are shown below. Securities not due at a single maturity date, primarily mortgage-backed securities, are shown separately.

	<u>Amortized Cost</u>	<u>Fair Value</u>
Due in one year or less	\$ 705,222	\$ 736,706
Due after one year through five years	1,347,874	1,477,584
Due in five through ten years	2,565,044	2,753,234
Due after ten years	5,288,340	5,662,973
	9,906,480	10,630,497
Mortgage-backed securities	8,832,608	8,756,032
	\$ 18,739,088	\$ 19,386,529

Securities pledged to secure Federal Home Loan Bank advances, public deposits and for other purposes required or permitted by law had a carrying value of approximately \$9,470,000 and \$16,081,000 at year-end 2003 and 2002.

Securities with unrealized losses at year-end 2003 not recognized in income are as follows:

<u>Description of Securities</u>	<u>Less than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
Mortgage-backed	\$ 3,659,393	\$ 71,748	\$ 2,053,178	\$ 30,640	\$ 5,712,571	\$ 102,388
FNMA Preferred Stock	998,548	6,489	1,228,672	271,327	2,227,220	277,816
Total	\$ 4,657,941	\$ 78,237	\$ 3,281,850	\$ 301,967	\$ 7,939,791	\$ 380,204

The unrealized losses on the mortgage-backed and FNMA preferred stock securities have not been recognized into income because the securities are backed by a federal agency or federally sponsored agency with minimal credit risk, management has the intent and ability to hold them for the foreseeable future, and the decline in fair value is largely due to differences in market interest rates as compared to those of the underlying securities. The fair value declines are considered temporary and are expected to recover as market rates change.



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MIDWEST GUARANTY BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 4 LOANS, NET**

Net loans at year-end were as follows:

	<u>2003</u>	<u>2002</u>
Real estate secured loans:		
Commercial and multi-family	\$ 93,223,021	\$ 69,913,973
One-to-four family residential	26,684,644	18,075,971
Construction and land development	17,784,916	15,034,814
	<u>137,692,581</u>	<u>103,024,758</u>
Total real estate secured loans	137,692,581	103,024,758
Commercial and industrial loans	58,975,943	54,457,400
Credit card loans	605,598	601,957
Consumer loans	3,151,611	2,571,958
	<u>200,425,733</u>	<u>160,656,073</u>
Subtotal	200,425,733	160,656,073
Less: allowance for loan losses	(3,170,040)	(2,640,084)
	<u>197,255,693</u>	<u>158,015,989</u>
Loans, net	\$ 197,255,693	\$ 158,015,989

Activity in the allowance for loan losses for the year was as follows:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Beginning balance	\$ 2,640,084	\$ 2,180,350	\$ 2,004,911
Provision for loan losses	483,000	590,000	480,000
Loans charged-off	(66,136)	(309,845)	(334,459)
Recoveries	113,092	179,579	29,898
	<u>3,170,040</u>	<u>2,640,084</u>	<u>2,180,350</u>
Ending balance	\$ 3,170,040	\$ 2,640,084	\$ 2,180,350

Impaired loans were as follows:

	<u>2003</u>	<u>2002</u>
Year-end loans with no allocated allowance for loan losses	\$ 294,613	\$ 931,141
Year-end loans with allocated allowance for loan losses	628,816	614,749
	<u>\$ 923,429</u>	<u>\$ 1,545,890</u>
Amount of the allowance for loan losses allocated	\$ 160,000	\$ 143,400

  

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Average of impaired loans during the year	\$ 1,158,023	\$ 862,212	\$ 956,892
Interest income recognized during impairment	103,513	67,748	72,620

**NOTE 3 SECURITIES**

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	<b>2003</b>	<b>2002</b>	<b>2001</b>
Cash-basis interest income recognized	103,513	63,257	72,620

Non-performing loans were as follows:

	<b>2003</b>	<b>2002</b>
	<hr/>	<hr/>
Loans past due over 90 days still on accrual	\$ 0	\$ 0
Non-accrual loans	923,429	1,182,495



MIDWEST GUARANTY BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**NOTE 5 PREMISES AND EQUIPMENT, NET**

Premises and equipment, net, at year-end were as follows:

	<u>2003</u>	<u>2002</u>
Land	\$ 822,000	\$ 822,000
Buildings and leasehold improvements	3,930,698	3,924,412
Furniture, fixtures and equipment	4,184,124	3,410,774
Construction in progress	-	33,913
	<u>8,936,822</u>	<u>8,191,099</u>
Less: accumulated depreciation and amortization	(3,414,554)	(3,101,980)
	<u>\$ 5,522,268</u>	<u>\$ 5,089,119</u>

Building rent expense was approximately \$317,000, \$312,000 and \$317,000 for 2003, 2002 and 2001. Rent commitments under noncancelable operating leases approximated the following, before considering renewal options that generally are present:

2004	\$ 327,000
2005	356,000
2006	356,000
2007	356,000
2008	356,000
Thereafter	267,000
	<u>\$ 2,018,000</u>

**NOTE 6 TIME DEPOSITS**

Remaining maturities of time deposits at year-end were as follows:

	<u>2003</u>	<u>2002</u>
Due in year one	\$ 40,688,851	\$ 27,234,573
Due in year two	1,746,449	4,028,441
Due in year three	1,558,345	1,015,494
Due in year four	2,596,712	1,238,355
Due in year five	3,351,864	2,477,644
	<u>\$ 49,942,221</u>	<u>\$ 35,994,507</u>

Time deposit accounts in amounts of \$100,000 or more totaled approximately \$38,083,000 and \$23,828,000 as of December 31, 2003 and 2002.

MIDWEST GUARANTY BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 7 FEDERAL HOME LOAN BANK ADVANCES**

At year-end 2003 and 2002, advances from the Federal Home Loan Bank (FHLB) were as follows.

	2003	2002
1.98% FHLB advance, due November 2003	\$ -	\$ 2,500,000
2.55% FHLB advance, due November 2004	2,500,000	2,500,000
3.08% FHLB advance, due November 2005	2,500,000	2,500,000
5.43% FHLB advance, due April 2006	1,000,000	1,000,000
4.70% FHLB advance, due November 2006	1,500,000	1,500,000
	\$ 7,500,000	\$ 10,000,000

Each advance has a fixed interest rate, is payable at its maturity date, and is subject to a prepayment penalty. The advances were collateralized by approximately \$86,636,000 of first and second lien residential and first lien commercial mortgage loans under a blanket lien arrangement and \$9,145,000 of securities at year-end 2003, and \$1,847,000 of first mortgage loans under a blanket lien arrangement and \$13,032,000 of securities at year-end 2002.

**NOTE 8 SUBORDINATED DEBENTURES AND TRUST PREFERRED SECURITIES**

A special purpose entity, Midwest Guaranty Trust I (the trust) issued \$232,000 of common securities to the Company and \$7,500,000 of trust preferred securities (together referred to as the securities) in 2002 as part of a pooled offering. Distributions on the securities are payable quarterly based upon a floating rate, which was 4.63% and 5.27% at year-end 2003 and 2002. The Company issued subordinated debentures to the trust in exchange for the proceeds of the offering, which debentures represent the sole asset of the trust. The Company has the option to defer payments of interest on the subordinated debentures from time to time for up to 20 consecutive quarters. The subordinated debentures mature on November 7, 2032 and are redeemable prior to maturity at the option of the Company, in whole or in part, on any February 7, May 7, August 7 or November 7 on or after November 7, 2007 at face value plus accrued and unpaid interest. The trust preferred securities are subject to mandatory redemption, in whole or in part, upon redemption of the subordinated debentures at maturity or an earlier date.

Prior to 2003, the trust was consolidated in the Company's financial statements, with the trust preferred securities issued by the trust reported in liabilities and the common securities and subordinated debentures eliminated in consolidation. Under new accounting guidance, FASB Interpretation No. 46, as revised in December 2003, the trust is no longer consolidated with the Company. Accordingly, the Company does not report the \$7,500,000 of trust preferred securities issued by the trust as liabilities, and instead reports the common securities of \$232,000 held by the Company in other assets and the \$7,732,000 of subordinated debentures issued by the Company and held by the trust in liabilities, as these are no longer eliminated in consolidation. The amounts previously reported as trust preferred securities have been recaptured as subordinated debentures in the liability section of the balance sheet. The effect of no longer consolidating the trust was not significant to the Company's operating results. The securities continue to count as Tier 1 capital for regulatory capital purposes, subject to certain limitations.

Debt issue costs of approximately \$159,000 were capitalized and are being amortized over the estimated life of the securities. Unamortized debt issue costs were \$122,000 and \$154,000 at year-end 2003 and 2002.

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MIDWEST GUARANTY BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 9 INCOME TAXES**

Income tax expense (benefit) was as follows.

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Current	\$ 967,474	\$ 974,956	\$ 644,836
Deferred	(25,500)	(213,403)	(40,386)
	<u>\$ 941,974</u>	<u>\$ 761,553</u>	<u>\$ 604,450</u>

The difference between the actual tax expense and the expected tax expense based on the statutory tax rate of 34% is primarily due to the following:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Federal statutory rate times financial statement income	\$ 1,089,200	\$ 879,422	\$ 683,779
Effect of:			
Tax-exempt income	(135,145)	(103,446)	(91,758)
Other, net	(12,081)	(14,423)	12,429
	<u>\$ 941,974</u>	<u>\$ 761,553</u>	<u>\$ 604,450</u>

The net deferred tax assets at year-end were as follows:

	<u>2003</u>	<u>2002</u>
Deferred tax assets:		
Allowance for loan losses	\$ 945,586	\$ 781,366
Other	66,259	82,489
	<u>1,011,845</u>	<u>863,855</u>
Deferred tax liabilities:		
Depreciation	(268,501)	(158,252)
Unrealized gain on available for sale securities	(116,768)	(178,861)
Other	(19,678)	(7,437)
	<u>(404,947)</u>	<u>(344,550)</u>
Net deferred tax asset	<u>\$ 606,898</u>	<u>\$ 519,305</u>

**NOTE 10 - RELATED PARTY TRANSACTIONS**

Loans to principal officers, directors, and their affiliates in 2003 were as follows.

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Beginning balance	\$	1,033,000
New loans		613,000
Repayments		(24,000)
		<hr/>
Ending balance	\$	1,622,000
		<hr/>

Deposits from principal officers, directors, and their affiliates totaled approximately \$1,588,000 and \$2,843,000 at year-end 2003 and 2002.

MIDWEST GUARANTY BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 11 EARNINGS PER SHARE**

The factors used in the earnings per share computations follow:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Basic			
Net income	\$ 2,261,554	\$ 1,824,983	\$ 1,406,666
Weighted average common shares outstanding	947,754	947,754	1,005,614
Basic earnings per share	\$ 2.39	\$ 1.93	\$ 1.40
Diluted			
Net income	\$ 2,261,554	\$ 1,824,983	\$ 1,406,666
Weighted average common shares outstanding for basic earnings per share	947,754	947,754	1,005,614
Add: Dilutive effects of assumed exercises of stock options	24,346	12,955	4,403
Average shares and dilutive potential shares	972,100	960,709	1,010,017
Diluted earnings per share	\$ 2.33	\$ 1.90	\$ 1.39

Stock options for 23,200 shares were not considered in computing diluted earnings per share for 2001 because they were antidilutive.

**NOTE 12 STOCK OPTIONS**

Stock option plans provide for the issuance of options to officers at an exercise price equal to the market price at the date of grant. The maximum option term is 10 years, and options vest after 3 years from the date of grant.

A summary of the option activity is as follows:

	<u>Available for Grant</u>	<u>Options Outstanding</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Fair Value of Options Granted</u>
Balance at January 1, 2001	57,800	43,700	\$ 15.62	
Granted	(18,450)	18,450	18.47	\$ 6.75
Exercised	(1,500)	8,000		
Balance at December 31, 2001	39,350	60,650	16.67	
Forfeited	6,150	(6,150)	16.76	
Balance at December 31, 2002	45,500	54,500	16.67	
Granted	(20,000)	20,000	25.73	7.53
Authorized for Grant	80,000			

	<b>Available for Grant</b>	<b>Options Outstanding</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Fair Value of Options Granted</b>
Balance at December 31, 2003	105,500	74,500	\$ 19.10	
At year-end 2003, 2002 and 2001, 25,000, 25,000 and 14,450 options were exercisable.				

MIDWEST GUARANTY BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Options outstanding at year-end 2003 were as follows.

Range of Exercise Prices	Outstanding			Exercisable	
	Number	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
\$12.50-\$15.90	33,750	5.36	\$ 15.11	18,500	\$ 14.53
\$19.06-\$19.50	20,750	6.18	19.20	6,500	19.50
\$25.73	20,000	9.10	25.73	-	-
Outstanding at year end	74,500			25,000	

### NOTE 13 REGULATORY CAPITAL

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required.

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The Company and Bank were considered well capitalized at year-end 2003 and 2002. Capital levels and ratios approximated the following at year-end (in thousands):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<u>2003</u>						
Total Capital to risk weighted Assets						
Consolidated	\$ 27,877	13.08%	\$ 17,048	8.00%	\$ 21,310	10.00%
Bank	22,684	10.65	17,034	8.00	21,294	10.00
Tier 1 (Core) Capital to risk weighted assets						
Consolidated	23,612	11.08	8,524	4.00	12,786	6.00
Bank	20,016	9.40	8,517	4.00	12,776	6.00
Tier 1 (Core) Capital to average assets						
Consolidated	23,612	10.17	9,285	4.00	11,606	5.00
Bank	20,016	8.63	9,277	4.00	11,596	5.00
<u>2002</u>						
Total Capital to risk weighted Assets						
Consolidated	\$ 25,309	14.40%	\$ 14,064	8.00%	\$ 17,580	10.00%
Bank	18,846	10.73	14,048	8.00	17,561	10.00
Tier 1 (Core) Capital to risk weighted assets						
Consolidated	20,811	11.84	7,032	4.00	10,548	6.00
Bank	16,645	9.48	7,024	4.00	10,536	6.00
Tier 1 (Core) Capital to average assets						
Consolidated	20,811	10.35	8,040	4.00	10,050	5.00
Bank	16,645	8.29	8,035	4.00	10,043	5.00



MIDWEST GUARANTY BANCORP, INC.  
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**NOTE 14 LOAN COMMITMENTS AND OFF-BALANCE-SHEET ACTIVITIES**

Some financial instruments, such as loan commitments, credit lines, letters of credit, and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance-sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

Unused commitments, including loan commitments, credit lines, letters of credit and overdraft protection, approximated \$42,567,000 and \$39,728,000 at year-end 2003 and 2002. Loan commitments are made at market rates, generally for periods of 90 days or less. Less than five percent of loan commitments are at fixed rates. These fixed rate loan commitments have interest rates ranging from 5.75% to 7.5% with maturities up to five years.

During 2003, the Company was a plaintiff in a lawsuit to defend its trade name from an out-of-state financial institution which entered southeast Michigan with a confusingly similar name. The Company was granted a preliminary injunction by the United States District Court, pending a final trial on the merits, which restrained and enjoined the defendant from using its trade name in conjunction with the offering of banking and financial services in southeast Michigan. The lawsuit was subsequently settled and the defendant's name has been changed for its Michigan banking operation. The Company incurred approximately \$357,000 in costs, primarily legal, associated with the lawsuit, and received \$200,000 upon settlement of the lawsuit.

**NOTE 15 FAIR VALUE OF FINANCIAL INSTRUMENTS**

The carrying amount and fair values of financial instruments at year-end were as follows:

	2003		2002	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Financial assets:</u>				
Cash and cash equivalents	\$ 7,704,668	\$ 7,704,668	\$ 9,582,957	\$ 9,582,957
Securities	21,587,560	21,613,749	27,064,778	27,064,778
Federal Home Loan Bank and Federal Reserve Bank stock	946,600	946,600	800,000	800,000
Loans, net	197,255,693	199,245,000	158,015,989	161,217,000
Accrued interest receivable	797,853	797,853	757,861	757,861
<u>Financial liabilities:</u>				
Demand and savings deposits	139,305,496	139,305,496	131,966,288	131,966,288
Time deposits	49,942,221	50,146,000	35,994,507	36,525,000
Federal funds purchased	11,750,000	11,750,000	-	-
Federal Home Loan Bank advances	7,500,000	7,729,000	10,000,000	10,298,000
Accrued interest payable	434,587	434,587	434,884	434,884
Subordinated debentures	7,732,000	7,732,000	7,500,000	7,500,000

**NOTE 15 - FAIR VALUE OF FINANCIAL INSTRUMENTS** (Continued)

The estimated fair value approximates carrying amount for all items except those described below. Estimated fair value for securities is based on quoted market values for the individual securities or for equivalent securities. Estimated fair value for loans is based on the rates charged at year end for new loans with similar maturities, applied until the loan is assumed to reprice or be paid and the allowance for loan losses is considered to be a reasonable estimate of discount for credit quality concerns. Estimated fair value for time deposits is based on the rates paid at year-end for new deposits, applied until maturity. Estimated fair value of Federal Home Loan Bank advances and subordinated debentures is based on rates paid at year-end for similar financing. Estimated fair value for other financial instruments and off-balance-sheet loan commitments are considered nominal.

**NOTE 16 CONDENSED FINANCIAL INFORMATION PARENT COMPANY ONLY**

Condensed financial information for the Parent Company only was as follows:

**BALANCE SHEETS**  
December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
<b>Assets</b>		
Cash and deposits held by subsidiary bank	\$ 5,082,664	\$ 6,341,274
Investment in subsidiaries	20,658,047	17,247,307
Other assets	164,876	198,182
	<u>                    </u>	<u>                    </u>
Total assets	<u>\$ 25,905,587</u>	<u>\$ 23,786,763</u>
<b>Liabilities and Shareholders' Equity</b>		
Subordinated debentures	\$ 7,732,000	\$ 7,732,000
Other liabilities	54,693	76,890
	<u>                    </u>	<u>                    </u>
Total liabilities	7,786,693	7,808,890
	<u>                    </u>	<u>                    </u>
Total shareholders' equity	18,118,894	15,977,873
	<u>                    </u>	<u>                    </u>
Total liabilities and shareholders' equity	<u>\$ 25,905,587</u>	<u>\$ 23,786,763</u>

MIDWEST GUARANTY BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 16 - CONDENSED FINANCIAL INFORMATION - PARENT COMPANY ONLY** (Continued)**STATEMENTS OF INCOME**

Years ended December 31, 2003, 2002 and 2001

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Interest income	\$ 11,171	\$ 2,174	\$ -
Dividends from subsidiary	4,450	18,356	47,000
Interest expense	(372,294)	(72,440)	-
Other expense	(55,072)	(28,106)	(41,897)
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Income (loss) before income tax and undistributed income of subsidiary</b>	(411,745)	(80,016)	5,103
Income tax (benefit)	(142,026)	(33,447)	(14,245)
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Income (loss) before undistributed income of subsidiary</b>	(269,719)	(46,569)	19,348
Equity in undistributed income of subsidiary	2,531,273	1,871,552	1,387,318
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Net income</b>	<u>\$ 2,261,554</u>	<u>\$ 1,824,983</u>	<u>\$ 1,406,666</u>

**STATEMENTS OF CASH FLOWS**

Years ended December 31, 2003, 2002 and 2001

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Cash flows from operating activities			
Net income	\$ 2,261,554	\$ 1,824,983	\$ 1,406,666
Adjustments to reconcile net income to net cash from operating and investing activities			
Net change in other assets	33,306	(189,319)	-
Net change in other liabilities	(22,197)	76,890	-
Equity in undistributed income of subsidiaries	(2,531,273)	(1,871,552)	(1,387,318)
	<u>          </u>	<u>          </u>	<u>          </u>
Net cash from operating activities	(258,610)	(158,998)	19,348
Cash flows from investing and financing activities			
Investment in common securities of Trust	-	(232,000)	-
Capital infusion to Bank	(1,000,000)	(1,000,000)	-
Proceeds from subordinated debentures	-	7,732,000	-
Issuance of shares upon exercise of stock options	-	-	12,000
Retirement of common stock	-	-	(933,603)
	<u>          </u>	<u>          </u>	<u>          </u>
Net cash from investing and financing activities	(1,000,000)	6,500,000	(921,603)
Net change in cash and cash equivalents	(1,258,610)	6,341,002	(902,255)
Cash and cash equivalents at beginning of year	6,341,274	272	902,527
	<u>          </u>	<u>          </u>	<u>          </u>

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<b>Cash and cash equivalents at end of year</b>	\$ 5,082,664	\$ 6,341,274	\$ 272
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MIDWEST GUARANTY BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**NOTE 17 QUARTERLY FINANCIAL DATA (UNAUDITED)** (in thousands, except per share amounts)

	<u>Interest Income</u>	<u>Net Interest Income</u>	<u>Net Income</u>	<u>Earnings per Share</u>	
				<u>Basic</u>	<u>Diluted</u>
<u>2002</u>					
First quarter	\$ 3,092	\$ 2,249	\$ 455	\$ 0.48	\$ 0.47
Second quarter	3,269	2,576	435	0.46	0.45
Third quarter	3,206	2,665	743	0.79	0.77
Fourth quarter	3,352	2,705	629	0.66	0.64
<u>2003</u>					
First quarter	\$ 2,673	\$ 2,148	\$ 352	\$ 0.37	\$ 0.37
Second quarter	2,793	2,261	437	0.46	0.45
Third quarter	2,901	2,356	482	0.51	0.50
Fourth quarter	3,106	2,452	554	0.59	0.58

Net income for the first, second, third and fourth quarters of 2003 included approximately \$26,000, \$189,000, \$11,000 and \$10,000, respectively, in after tax costs associated with the lawsuit to defend the Company's trade name. Net income for the third quarter of 2003 included approximately \$132,000 in after tax proceeds associated with the settlement of the lawsuit. The lawsuit is more fully disclosed in Note 14.

## VOTING AND MANAGEMENT INFORMATION

## Voting Securities and Principal Shareholders of Midwest

Shareholders of record of Midwest common stock as of the close of business on April 15, 2004, are entitled to one vote for each share then held. As of that date, Midwest had 952,754 shares of its common stock outstanding.

## Major Shareholders

The following table sets forth information for each person who Midwest knows was the beneficial owner of more than 5% of Midwest's outstanding shares of common stock as of April 15, 2004. The information shown in this table is based upon information furnished to Midwest by the individuals named in the table.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership (1)	Percent of Class (Fully-diluted)(2)
Clarke B. Maxson Midwest Guaranty Bank 201 W. Big Beaver, Suite 125 Troy, Michigan 48084	110,442	10.804%
Gilbert B. Silverman 26500 Telegraph Road Southfield, Michigan 48034	59,844	5.854%
Martin Stoneman 310 Wabeek Bldg. 280 W. Maple Road Birmingham, Michigan 48009-3346	56,386	5.516%
William C. Young 41605 Ann Arbor Road Plymouth, Michigan 48170	84,294	8.246%

- (1) The numbers of shares stated are based on information furnished by each person listed and include shares personally owned of record by that person and shares that under applicable regulations are considered to be otherwise beneficially owned by that person. Under these regulations, a beneficial owner of a security includes any person who, directly or indirectly, through any contract, arrangement, understanding, relationship, or otherwise, has or shares voting power or dispositive power with respect to the security. Voting power includes the power to vote or direct the voting of the security. Dispositive power includes the power to dispose or direct the disposition of the security. A person is also considered the beneficial owner of a security if the person has a right to acquire beneficial ownership of the security within 60 days.
- (2) The number of outstanding shares of Midwest common stock used as the denominator for the purposes of computing the Percent of Class owned by a beneficial owner is 1,022,254, consisting of 952,754 shares of common stock outstanding and 69,500 shares of common stock issuable upon the exercise of outstanding stock options. Upon the completion of the merger (if approved and completed), all outstanding options to purchase shares of Midwest common stock will be exchanged for options to purchase IBC common stock.

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*Directors and Executive Officers*

The following table sets forth certain information concerning the number of shares of Midwest common stock held as of April 15, 2004, by each of Midwest's directors, each of the named executive officers of Midwest, and all of Midwest's directors and executive officers as a group. The information shown in this table is based upon information furnished to Midwest by the individuals named in the table and upon Midwest's records with respect to options.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership (1)	Percent of Class (Fully-diluted)(2)
Frank A. Borschke	46,705 (3)	4.569%
John E. Desmond	3,542	0.346%
Leo Jerome	21,266 (4)	2.080%
Clarke B. Maxson	110,442 (5)	10.804%
Gilbert B. Silverman	59,844 (6)	5.854%
Boleslaus I. Stanczyk	23,506 (7)	2.299%
Martin Stoneman	56,386 (8)	5.516%
Thomas J. Strobl	7,954 (9)	0.778%
William C. Young	84,294	8.246%
Brett A. Piehl	3,000(10)	0.293%
Raymond Stecko	19,500(11)	1.908%
Thomas F. Gammon	7,750(12)	0.758%
Barry Mahloy	2,500(13)	0.245%
Henry W. Allemon	14,515(14)	1.420%
David A. Verkeyn	5,200(15)	0.509%
All directors and executive officers as a group (15 persons)	466,404	45.625%

- (1) The numbers of shares stated are based on information furnished by each person listed and include shares personally owned of record by that person and shares