

FORM 10-K
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

For the fiscal year ended December 31, 2007

OR

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

For the transition period from _____ to _____

Commission file number 000-25927

MACATAWA BANK CORPORATION
(Exact name of registrant as specified in its charter)

MICHIGAN
(State of other jurisdiction of
incorporation or organization)

38-3391345
(I.R.S. Employer
Identification No.)

10753 Macatawa Drive, Holland, Michigan 49424
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (616) 820-1444

Securities registered pursuant to Section 12(b) of the Exchange Act: None

Securities registered pursuant to Section 12(g) of the Exchange Act: Common Stock.

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained in this form and no disclosure will be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of June 30, 2007 the aggregate market value of the registrant’s common stock held by non-affiliates of the registrant was \$251,909,616 based on the closing sale price of \$15.91 as reported on the National Association of Securities Dealers Automated Quotation System. As of March 7, 2008, there were 16,976,525 outstanding shares of Company’s common stock (no par value). Portions of the Company’s Proxy Statement for the Annual Meeting of Shareholders to be held April 24, 2008 are incorporated by reference into Part II and Part III of the Report.

PART I

ITEM 1: Business

As used in this Annual Report, the terms “we,” “us,” “our” and “Macatawa” mean Macatawa Bank Corporation and its subsidiaries, unless the context indicates another meaning.

General

Macatawa Bank Corporation is a Michigan corporation and is a financial holding company and the bank holding company for its wholly owned banking subsidiary, Macatawa Bank, as well as Macatawa Investment Services, Inc., Macatawa Statutory Trust I and Macatawa Statutory Trust II. Effective November 1, 2006, Macatawa Investment Services, Inc. ceased doing business as a registered broker-dealer. On November 1, 2006 Macatawa Bank began offering brokerage services to its customers through an arrangement with Infinex Investments, Inc. (“Infinex”). Infinex is a full services investment provider, a registered broker-dealer and a member of the National Association of Securities Dealers (NASD) and the Securities Investor Protection Corporation (SIPC). As more fully discussed in our Form 8-K dated October 11, 2006, Macatawa Bank Corporation entered into an Agreement and Plan of Merger with the Smith & Associates investment advisory firm based in Holland, Michigan. The Smith & Associates acquisition became effective on January 1, 2007 and that business is now part of Macatawa Bank. Effective January 9, 2002, Macatawa Bank Corporation elected to become a financial holding company pursuant to Title I of the Gramm-Leach-Bliley Act. Macatawa Bank commenced operations on November 25, 1997. Grand Bank was formed in 1987 and operated from a single location in Grand Rapids, Michigan. Grand Bank became a wholly owned subsidiary effective April 1, 2002 upon the completion of the acquisition of Grand Bank Financial Corporation (GBFC), and its results are included in the consolidated statements of income since this effective date. To achieve further synergies from the Grand Bank acquisition, we merged Grand Bank into Macatawa Bank effective January 1, 2003 with the combined bank named Macatawa Bank. At the same time, Grand Bank Mortgage Company was merged into Macatawa Bank Mortgage Company.

Macatawa Bank is a Michigan chartered bank with depository accounts insured by the Federal Deposit Insurance Corporation. The bank operates twenty-six branch offices and a lending and operational service facility offering commercial and personal banking services, including checking and savings accounts (including certificates of deposit), cash management, safe deposit boxes, travelers checks, money orders, trust services and commercial, mortgage and consumer loans in Kent County, Ottawa County, and northern Allegan County, Michigan. Other service delivery channels we offer include ATMs, internet banking, telephone banking and debit cards. Macatawa Bank provides various brokerage services including discount brokerage through Infinex, personal financial planning and consultation regarding mutual funds. Macatawa Statutory Trust I is a grantor trust that issued a pooled trust preferred security in July, 2003. Macatawa Statutory Trust II is a grantor trust that issued a pooled trust preferred security in March, 2004. Macatawa Bank Mortgage Company, a subsidiary of Macatawa Bank, originates and sells residential mortgage loans into the secondary market on a servicing released basis. As of December 31, 2007, we had total assets of \$2.13 billion, total deposits of \$1.52 billion, approximately 100,000 deposit accounts and shareholders’ equity of \$160.6 million.

Our headquarters and administrative offices are located at 10753 Macatawa Drive, Holland, Michigan 49424, and our telephone number is (616) 820-1444. Our internet website address is www.macatawabank.com. We make available free of charge through this website our annual report on Form 10-K, our quarterly reports on Form 10-Q and our current reports on Form 8-K and amendments to those reports as soon as reasonably practicable after filing such reports with the Securities and Exchange Commission. The reference to our website address does not constitute incorporation by reference of the information contained on the website, and the information contained on the website is not part of this document.

Products and Services

Deposit Services. We offer a broad range of deposit services, including checking accounts, savings accounts and time deposits of various types. Transaction accounts and savings and time certificates are tailored to the principal market area at rates competitive with those offered in the area. All deposit accounts are insured by the FDIC up to the maximum amount permitted by law. We solicit these accounts from individuals, businesses, associations, churches, nonprofit organizations, financial institutions and government authorities. We may also use alternative funding sources as needed, including short-term borrowings, advances from Federal Home Loan Banks, securities sold under agreements to repurchase (“repo borrowings”) and certificates of deposit purchased from brokers and the packaging of loans for securitization and sale.

Deposits are gathered primarily from the communities we serve through our network of 26 branches. We offer business and consumer checking accounts, regular and money market savings accounts, and certificates of deposit having many options in their terms.

We set our deposit pricing to be competitive with other banks in our market area. We periodically purchase brokered deposits to supplement funding needs. These are time accounts originated outside of our local market area. Brokered deposits comprised approximately 13% of total deposits at December 31, 2007 and approximately 16% at December 31, 2006. We operate in a very competitive environment, competing with other local banks similar in size and with significantly larger regional banks. We monitor rates at other financial institutions in the area to ascertain that our rates are competitive with the market. We also attempt to offer a wide variety of products to meet the needs of our customers.

Deposit Portfolio Composition. The following table sets forth the average deposit balances and the weighted average rates paid thereon.

	Average for the Year					
	2007		2006		2005	
	Amount	Average Rate	Amount	Average Rate	Amount	Average Rate
Noninterest bearing demand	\$ 165,059	--	\$ 167,144	--	\$ 164,184	--
Interest bearing demand	704,723	3.5%	655,549	3.3%	608,718	2.0%
Savings	40,957	0.6%	40,827	0.6%	40,674	0.5%
Time	696,759	4.9%	710,924	4.5%	576,843	3.5%
Total deposits	\$ 1,607,498	3.7%	\$ 1,574,444	3.4%	\$ 1,390,419	2.3%

The following table summarizes time deposits in amounts of \$100,000 or more by time remaining until maturity as of December 31, 2007:

(Dollars in thousands)	Amount
Three months or less	\$ 115,856
Over 3 months through 6 months	127,953
Over 6 months through 1 year	100,879
Over 1 year	113,081
Total	\$ 457,769

Lending Activities.

Loan Portfolio Composition. The following table reflects the composition of our loan portfolio and the corresponding percentage of our total loans represented by each class of loans as of the dates indicated.

(Dollars in thousands)

	Year Ended December 31									
	2007		2006		2005		2004		2003	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Commercial real estate	\$ 855,882	49%	\$ 875,717	51%	\$ 793,919	51%	\$ 676,637	48%	\$ 536,884	46%
Residential real estate	266,325	15%	224,836	13%	223,390	15%	218,999	16%	172,647	15%
Other commercial	438,743	25%	416,135	25%	359,036	23%	338,398	24%	312,131	27%
Consumer	189,682	11%	194,762	11%	171,534	11%	162,353	12%	135,445	12%
Total loans	\$1,750,632	100%	\$1,711,450	100%	\$1,547,879	100%	\$1,396,387	100%	\$1,157,107	100%
Less:										
Allowance for loan losses	(33,422)		(23,259)		(20,992)		(19,251)		(16,093)	
Total loans receivable, net	\$1,717,210		\$1,688,191		\$1,526,887		\$1,377,136		\$1,141,014	

Nonperforming Assets. The following table shows the composition and amount of our nonperforming assets.

	December 31				
	2007	2006	2005	2004	2003
(Dollars in thousands)					
Nonaccrual loans	\$ 70,999	\$ 5,811	\$ 3,977	\$ 3,249	\$ 1,717
Loans 90 days or more delinquent and still accruing	2,872	16,479	227	772	2,308
Restructured loans	38	--	--	--	--
Total nonperforming loans	\$ 73,909	\$ 22,290	\$ 4,204	\$ 4,021	\$ 4,025
Foreclosed assets	5,704	3,212	527	1,850	464
Repossessed assets	172	81	165	--	4
Total nonperforming assets	\$ 79,785	\$ 25,583	\$ 4,896	\$ 5,871	\$ 4,493
Nonperforming loans to total loans	4.22%	1.30%	.27%	.29%	.35%
Nonperforming assets to total assets	3.75%	1.23%	.26%	.35%	.32%

The increase in nonperforming loan balances in 2007 is more fully discussed under the section Loan Portfolio and Asset Quality included in the Management Discussion and Analysis of Results of Operations and Financial Condition.

Loan Loss Experience. The following is a summary of our loan balances at the end of each period and the daily average balances of these loans. It also includes changes in the allowance for loan losses arising from loans charged-off and recoveries on loans previously charged-off, and additions to the allowance which we have expensed.

		December 31				
		2007	2006	2005	2004	2003
(Dollars in thousands)						
Loans:						
Average daily balance of loans for the year		\$ 1,725,453	\$ 1,635,391	\$ 1,471,404	\$ 1,290,338	\$ 1,046,731
Amount of loans outstanding at end of period		1,750,632	1,711,450	1,547,879	1,396,387	1,157,107
Allowance for loan losses:						
Balance at beginning of year		\$ 23,259	\$ 20,992	\$ 19,251	\$ 16,093	\$ 13,472
Addition to allowance charged to operations		15,750	7,715	3,675	7,890	4,105
Loans charged-off:						
Commercial		(5,065)	(5,601)	(1,842)	(4,833)	(1,308)
Residential Real Estate		(139)	(43)	(24)	(21)	(50)
Consumer		(716)	(410)	(371)	(91)	(187)
Recoveries:						
Commercial		263	399	261	180	26
Residential Real Estate		2	10	17	11	17
Consumer		68	197	25	22	18
Balance at end of year		\$ 33,422	\$ 23,259	\$ 20,992	\$ 19,251	\$ 16,093
Ratios:						
Net charge-offs to average loans outstanding		0.32%	0.33%	0.13%	0.37%	0.14%
Allowance for loan losses to loans outstanding at year end		1.91%	1.36%	1.36%	1.38%	1.39%

Allocation of the Allowance for Loan Losses. The following table shows the allocation of the allowance for loan loss at the dates indicated to the extent specific allocations have been determined relative to particular loans.

		Year Ended December 31									
		2007		2006		2005		2004		2003	
		Allowance Amount	% of Each Category to Total Loans	Allowance Amount	% of Each Category to Total Loans	Allowance Amount	% of Each Category to Total Loans	Allowance Amount	% of Each Category to Total Loans	Allowance Amount	% of Each Category to Total Loans
Commercial and commercial real estate											
	\$	31,132	74.0%	21,417	75.5%	18,883	74.5%	17,324	72.7%	14,371	73.4%
Real estate mortgages		699	15.2%	502	13.1%	463	14.4%	476	15.7%	360	14.9%
Consumer		1,591	10.8%	1,340	11.4%	1,646	11.1%	1,243	11.6%	1,074	11.7%
Unallocated		--	--	--	--	--	--	208	--	288	--
Total	\$	33,422	100%	23,259	100%	20,992	100	19,251	100%	16,093	100.0%

Maturities and Sensitivities of Loans to Changes in Interest Rates. The following table shows the amount of total loans outstanding as of December 31, 2007 which, based on remaining scheduled repayments of principal, are due in the periods indicated.

(dollars in thousands)

	Maturing			
	Within One Year	After One, But Within Five Years	After Five Years	Total
Commercial real estate	\$ 403,093	\$ 395,913	\$ 56,876	\$ 855,882
Residential real estate	67,785	34,731	163,809	266,325
Other commercial	255,856	167,464	15,423	438,743
Consumer	7,395	91,476	90,811	189,682
Totals	\$ 734,129	\$ 689,584	\$ 326,919	\$ 1,750,632
Allowance for loan losses				(33,422)
Total loans receivable, net				\$ 1,717,210

Interest Sensitivity. Below is a schedule of the loan amounts maturing or repricing which are classified according to their sensitivity to changes in interest rates at December 31, 2007.

(dollars in thousands)

	Fixed Rate (a)	Variable Rate (a)	Total
Due within 3 months	\$ 40,504	\$ 700,620	\$ 741,124
Due after 3 months, but within 1 year	96,577	14,802	111,379
Due after one but within 5 years	571,209	56,323	627,532
Due after 5 years	197,572	2,026	199,598
Total	\$ 905,862	\$ 773,771	\$ 1,679,633
Allowance for loan losses			(33,422)
Total loans receivable, net			\$ 1,646,211

(a) Does not include loans on non-accrual.

Residential Real Estate Loans. We originate owner-occupied residential mortgage loans, which are generally long-term with either fixed or variable interest rates. Our general policy, which is subject to review by our management as a result of changing market and economic conditions and other factors, is to sell the majority of our residential mortgage loans in the secondary market. During 2007, we did, however, choose to retain a larger portion of our residential mortgage loan volume. We retained approximately half of the dollar volume of our loan originations, selling the remaining half in the secondary market. Because of the relatively short duration of our assets, we viewed the improvement in rates on residential mortgage loans in 2007 as an opportunity to hold more of these higher quality loans in our portfolio.

Our borrowers generally qualify and are underwritten using industry standards for quality residential mortgage loans. We do not originate loans that are considered sub-prime. Residential mortgage loan originations derive from a number of sources, including advertising, direct solicitation, real estate broker referrals, existing borrowers and depositors, builders and walk-in customers. Loan applications are accepted at most of our offices. The substantial majority of these loans are secured by properties in our market area.

Our adjustable rate mortgage loans are fully amortizing loans with contractual maturities of up to 30 years. These loans generally carry interest rates which are reset to a stated margin over an independent index, generally the one-year constant maturity treasury index or the one year LIBOR index. Increases or decreases in the interest rate of our variable rate mortgage loans are generally limited to 2% annually with lifetime interest rate caps of 6% over the initial interest rate. Our variable rate mortgage loans do not contain prepayment penalties and do not produce negative amortization. Initial interest rates offered on our variable rate mortgage loans may be slightly below the fully indexed rate, although borrowers are generally qualified at the fully indexed rate.

We also offer fixed rate mortgage loans to owner occupants with maturities up to 30 years, which conform to secondary market standards. Interest rates charged on these fixed rate loans are priced on a daily basis according to market conditions. These loans generally do not include prepayment penalties. We generally sell long-term, conforming fixed-rate loans with terms of 15 years or greater in the secondary market.

We generally originate residential mortgage loans with loan-to-value ratios not to exceed 80%. For loans with loan-to-value ratios that equal or exceed 90% at origination, we require private mortgage insurance in an amount sufficient to reduce our exposure to 80% or less of the lower of the appraised value or purchase price of the underlying collateral. In underwriting one- to four-family residential real estate loans, we evaluate both the borrower's ability to make monthly payments and the value of the property securing the loan. Properties securing one- to four-family residential real estate loans that we made are appraised by independent appraisers. We require borrowers to obtain title insurance and fire, property and, if necessary, flood insurance.

Multi-Family and Commercial Real Estate Loans. We originate permanent loans secured by multi-family and commercial real estate. Our permanent multi-family and commercial real estate loan portfolio includes loans secured by apartment buildings, condominiums, small office buildings, small business facilities, medical facilities and other non-residential building properties, substantially all of which are located within our primary market area.

Permanent multi-family and commercial real estate loans have a maximum maturity of 10 years with an amortization period of up to 20 years. Most of these loans, however, have maturities of 5 years or less with amortization periods of 15 and 20 years. Multi-family loans and commercial real estate loans are generally written in amounts of up to 80% of the lesser of the appraised value of the property or the purchase price, and borrowers are generally personally liable for all or part of the indebtedness.

Appraisals on properties securing multi-family and commercial real estate loans that we originate are primarily performed by independent appraisers who we designate at the time the loan is made. Management reviews all appraisals on multi-family and commercial real estate loans. In addition, our underwriting procedures generally require verification of the borrower's credit history, income and financial statements, banking relationships, references, and historical and projected cash flows for the property that indicate minimum debt service coverage ratios.

Multi-family and commercial real estate loans generally present a higher level of risk than loans secured by owner occupied one- to four-family residences. This greater risk is due to several factors, including the concentration of principal in a limited number of loans and borrowers, the effects of general economic conditions on income producing properties and the increased difficulty of evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by multi-family and commercial real estate is typically dependent upon the successful operation of the related real estate project. If cash flow from the project is reduced, the borrower's ability to repay the loan may be impaired. For example, if leases are not obtained or renewed, or a bankruptcy court modifies a lease term, or a major tenant is unable to fulfill its lease obligations, cash flow from the project will be reduced.

Construction and Development Loans. We make construction loans to individuals for the construction of their residences and commercial customers for the construction of their business facilities. Construction loans are also made to builders and developers for the construction of one- to four-family residences and the development of one- to four-family lots, residential subdivisions, condominium developments and other commercial developments.

Construction and development loans are obtained principally through continued business from commercial customers, developers and builders who have previously borrowed from us, as well as referrals from existing customers. As part of the application process, the applicant must submit accurate plans, specifications and costs of the project to be constructed or developed. These items are used as a basis to determine the appraised value of the subject property. Loans are based on the lesser of current appraised value and/or the cost of construction (land plus building). Construction and development loans to borrowers other than owner-occupants involve many of the same risks discussed above regarding multi-family and commercial real estate loans and tend to be more sensitive to general economic conditions than many other types of loans. Further, because of the uncertainties inherent in estimating development and construction costs and the market for the project upon completion, it is relatively difficult to evaluate accurately the total loan funds required to complete a project, the related loan-to-value ratios and the likelihood of ultimate success of the project.

Construction loans to individuals for their residences are structured to be converted to permanent loans at the end of the construction phase, which typically runs six to nine months. These construction loans have rates and terms which generally match one- to four-family loans then offered by us, except that during the construction phase, the borrower pays interest only. Residential construction loans are generally underwritten pursuant to the same guidelines used for originating permanent, owner-occupied one-to-four family residential real estate loans.

Construction or development loans to builders of one- to four-family residences generally require the payment of interest only for up to one year with adjustable rates. These loans may also provide for the payment of loan fees from loan proceeds. We also make loans to residential land developers for the purpose of developing one- to four-family lots and residential condominium projects. These loans typically have terms of two years or less with maximum loan to value ratios of 80%. These loans may provide for the payment of loan fees from loan proceeds. Loan principal is typically paid down as lots or units are sold. During 2007, the Company experienced a significant increase in non-performing loan levels, primarily associated with this loan segment. The increase in nonperforming loan balances in 2007 is more fully discussed under the section Loan Portfolio and Asset Quality included in the Management Discussion and Analysis of Results of Operations and Financial Condition. The increase was largely associated with a decline in general market conditions that significantly reduced the demand for new construction one-to-four family residential real estate. Accordingly, the Company has generally curtailed this type of lending for new customers. For current borrowing customers, we will continue to support the projects for which we have already advanced funds in order to facilitate success of the projects and ultimate repayment of our loans. Any new loans made for the development of residential real estate are only to current borrowers that can establish repayment ability from sources independent of the project itself.

Commercial Business Loans. Our commercial business lending portfolio contains loans with a variety of purposes and security, including loans to finance operations and equipment. Generally, our commercial business lending has been limited to borrowers headquartered, or doing business, in our primary market area. These credit relationships typically require the satisfaction of appropriate loan covenants and debt formulas; including, but not limited to, net worth, debt to net worth, and accounts receivable aging requirements. These loan covenants and debt formulas are monitored through periodic, required reporting of accounts receivable aging schedules and financial statements, and in the case of larger business operations, reviews or audits by independent professional firms.

Unlike residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment and other income, and which are secured by real property whose value tends to be more easily ascertainable, commercial business loans are of higher risk and typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial business loans may be substantially dependent on the success of the business itself. Further, the collateral securing the loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business.

Consumer Loans. We originate a variety of different types of consumer loans, including automobile loans, home equity lines of credit and installment loans, home improvement loans, deposit account loans and other loans for household and personal purposes. Our automobile loans typically are originated at fixed interest rates with terms up to 60 months for new and used vehicles. Loans secured by automobiles are generally originated for up to 80% of the National Automobile Dealers Association book value of the automobile securing the loan.

Our home equity installment loans are written so that the total commitment amount, when combined with the balance of the first mortgage lien, generally will not exceed the greater of 90% of the appraised value of the property or 90% of two times the Michigan real estate assessment value. These loans have a maximum maturity of 5 years with an amortization period of up to 15 years, and carry fixed rates of interest.

We also originate home equity lines of credit utilizing the same underwriting standards as for home equity installment loans. Home equity lines of credit are revolving line of credit loans. The majority of our existing home equity line of credit portfolio has adjustable rates, interest only payments and a maximum maturity of ten years.

The underwriting standards that we employ for consumer loans include a determination of the applicant's payment history on other debts and ability to meet existing obligations and payments on the proposed loan. Although creditworthiness of the applicant is of primary consideration, the underwriting process also includes a comparison of the value of the security, if any, in relation to the proposed loan amount. Consumer loans may entail greater credit risk than do residential mortgage loans, particularly in the case of consumer loans which are unsecured or are secured by rapidly depreciable assets, such as automobiles. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans.

Securities. Our security portfolio is classified as either "available for sale" or "held to maturity." Securities classified as "available for sale" may be sold prior to maturity due to changes in interest rates, prepayment risks, and availability of alternative investments, or to meet our liquidity needs. The primary objective of our investing activities is to provide for the safety of the principal invested. Our secondary considerations include the maximization of earnings, liquidity and to help decrease our overall exposure to changes in interest rates. The following table reflects the composition of our securities portfolio as of the dates indicated.

(Dollars in thousands)

	Year Ended December 31		
	2007	2006	2005
U.S. Treasury and U.S. Government Agencies	\$ 150,045	\$ 146,910	\$ 108,561
State and municipal bonds	52,377	53,366	51,049
Other equity securities	993	981	993
Total	\$ 203,415	\$ 201,257	\$ 160,603

Excluding our investment portfolio holdings in U.S. Treasury and U.S. Government Agency Securities, we had no investments in securities of any one issuer which exceeded 10% of shareholders' equity.

Schedule of Maturities of Investment Securities and Weighted Average Yields. The following is a schedule of investment security maturities and their weighted average yield by category at December 31, 2007.

(dollars in thousands)	Due Within One Year		One to Five Years		Five to Ten Years		After Ten Years		Investments with No Contractual Maturity	
	Amount	Average Yield	Amount	Average Yield	Amount	Average Yield	Amount	Average Yield	Amount	Average Yield
U.S. Treasury and U.S. Government Agencies	\$ 26,189	3.92%	\$123,720	4.63%	\$ 28	7.25%	\$ 108	6.32%	--	--
Tax-exempt state and municipal bonds (1)	--	--	4,722	6.58%	27,868	6.08%	19,787	6.11%	--	--
Other equity securities	--	--	--	--	--	--	--	--	993	4.32%
Total (1)	\$ 26,189	3.92%	\$128,442	4.70%	\$ 27,896	6.08%	\$ 19,895	6.11%	993	4.32%

(1) Yields on tax-exempt securities are computed on a fully taxable-equivalent basis.

Trust Services. We began offering trust services in January 1999 to further provide for the financial needs of our customers. With the acquisition of Grand Bank in April 2002 our trust assets increased by over \$500 million, and with the acquisition of Smith & Associates our trust asset increased by over \$100 million. As of December 31, 2007, the Trust Department had assets of approximately \$1.15 billion. Our types of service include both personal trust and retirement plan services.

Our personal trust services include financial planning, investment management services, trust and estate administration and custodial services. As of December 31, 2007, our personal trust assets totaled approximately \$989.2 million.

Our retirement plan services provide all types of qualified retirement plans including profit sharing, 401(k)s and pension plans. As of December 31, 2007, our retirement plan assets totaled approximately \$164.9 million.

Market Area

Our market area of Ottawa, Kent and northern Allegan Counties are located in western Michigan. This area consists of two mid-sized cities, Grand Rapids and Holland, and rural areas. Grand Rapids is the second largest city in Michigan and Holland is the largest city in Ottawa County. Both cities and surrounding areas have a solid and diverse economic base, which includes health and life sciences services, tourism, office furniture, automotive components and assemblies, pharmaceutical, transportation, equipment, food and construction supplies. Companies operating in the market area include the Van Andel Institute, Steelcase, Herman Miller, Alticor, Gentex, Spectrum Health, Haworth, Johnson Controls, General Motors, Gerber, SPX, Magna Donnelly, and Meijer.

Much of our success as a retail and small to mid-sized business lender has been due to our market area's favorable population, housing and income demographics. Population growth levels have been positive year over year, but most recently population levels have slowed and stabilized. Population within our three county market area grew 18.0% from 1990 to 2000, and 6% from 2000 to 2007. Median household income levels in our market area exceed state and national levels while unemployment levels are generally below state levels but above national levels.

Competition

Our primary market area includes Ottawa County, Kent County and northern Allegan County, all located in Western Michigan. There are many bank, thrift and credit union offices located within our market area. Most are branches of larger financial institutions. We also face competition from finance companies, insurance companies, mortgage companies, securities brokerage firms, money market funds and other providers of financial services. Many of our competitors have been in business a number of years, have established customer bases, are larger and have higher lending limits than we do. We compete for loans, deposits and other financial services based on our ability to communicate effectively with our customers, to understand and meet their needs and to provide high quality customer service. Our management believes that our personal service philosophy enhances our ability to compete favorably in attracting individuals and small businesses. We actively solicit customers by offering our customers personal attention, professional service, and competitive interest rates.

Environmental Matters

We do not believe that existing environmental regulations will have any material effect upon our capital expenditures, our earnings or our competitive position.

Employees

As of December 31, 2007, we had 377 full-time and 127 part-time employees. We have assembled a staff of experienced, dedicated and highly qualified professionals whose goal is to meet the financial needs of our customers while providing outstanding service. The majority of our management team has at least 10 years of banking experience, and several key personnel have more than 20 years of banking experience. None of our employees is represented by collective bargaining agreements with us.

Acquisitions

On April 1, 2002, Grand Bank Financial Corporation was merged into Macatawa Bank Corporation. Macatawa Bank Corporation became the holding company for Grand Bank. Effective January 1, 2003, Grand Bank was merged into Macatawa Bank.

On January 1, 2007, the Company completed the acquisition of Smith & Associates. The Company in turn contributed the business to Macatawa Bank.

SUPERVISION AND REGULATION

The following is a summary of certain statutes and regulations affecting Macatawa Bank Corporation and Macatawa Bank. This summary is qualified in its entirety by such statutes and regulations. A change in applicable laws or regulations may have a material effect on us and our business.

General

Financial institutions and their holding companies are extensively regulated under federal and state law. Consequently, our growth and earnings performance can be affected not only by management decisions and general economic conditions, but also by the statutes administered by, and the regulations and policies of, various governmental regulatory authorities. Those authorities include, but are not limited to, the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"), the Federal Deposit Insurance Corporation ("FDIC"), the Commissioner of the Michigan Office of Financial and Insurance Services ("Commissioner"), the Internal Revenue Service, and state taxing authorities. The effect of such statutes, regulations and policies can be significant, and cannot be predicted with a high degree of certainty.

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

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

Macatawa Bank Mortgage Company, a subsidiary of Macatawa Bank, is subject to various state and federal regulations.

Macatawa Bank Corporation

General. On January 9, 2002, Macatawa Bank Corporation became a financial holding company, within the meaning of the Gramm-Leach-Bliley Act of 1999 ("GLB Act"), and is registered with, and subject to regulation by, the Federal Reserve Board under the Bank Holding Company Act, as amended (the "BHCA"). Under the BHCA, we are subject to periodic examination by the Federal Reserve Board, and are required to file with the Federal Reserve Board periodic reports of our operations and such additional information as the Federal Reserve Board may require.

In accordance with Federal Reserve Board policy, we are expected to act as a source of financial strength to Macatawa Bank and to commit resources to support Macatawa Bank in circumstances where we might not do so absent such policy. In addition, if the Commissioner deems Macatawa Bank's capital to be impaired, the Commissioner may require Macatawa Bank to restore its capital by a special assessment upon us as the bank's sole shareholder. If we were to fail to pay any such assessment, the directors of Macatawa Bank would be required, under Michigan law, to sell the shares of the bank's stock owned by us to the highest bidder at either a public or private auction and use the proceeds of the sale to restore the bank's capital.

Investments and Activities. In general, any direct or indirect acquisition by us of any voting shares of any bank which would result in our direct or indirect ownership or control of more than 5% of any class of voting shares of such bank, and any merger or consolidation between us and another financial holding company or bank holding company, will require the prior written approval of the Federal Reserve Board under the BHCA. No Federal Reserve Board approval is required for us to acquire a company, other than a bank holding company or bank, engaged in activities that are financial in nature as determined by the Federal Reserve Board.

The merger or consolidation of an existing bank subsidiary of ours with another bank, or the acquisition by such a subsidiary of assets of another bank, or the assumption of liability by such a subsidiary to pay any deposits in another bank, will require the prior written approval of the responsible Federal depository institution regulatory agency under the Bank Merger Act. In addition, in certain such cases an application to, and the prior approval of, the Federal Reserve Board under the BHCA and/or the Commissioner under the Michigan Banking Code, may be required.

Financial holding companies, like us, may engage in various lending, advisory, insurance and insurance underwriting, securities underwriting, dealing and market making, and merchant banking activities (as well as those activities previously approved for bank holding companies by the Federal Reserve Board) together with such other activities as may be determined by the Federal Reserve Board (in coordination with other regulatory authorities) to be financial in nature, incidental to any such financial activity, or complimentary to any such financial activity, and which do not pose a substantial risk to the safety or soundness of depository institutions or the financial system generally. In order to maintain the benefits and flexibility of being a financial holding company, each of our subsidiary depository institutions must continue to be “well-capitalized” and “well-managed” under applicable regulatory standards and each subsidiary depository institution must maintain at least a satisfactory or above Community Reinvestment Act rating.

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

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

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

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

Federal Securities Regulation. Our common stock is registered with the Securities and Exchange Commission (“SEC”) under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended. The Sarbanes-Oxley Act of 2002 provides for numerous changes to the reporting, accounting, corporate governance and business practices of companies as well as financial and other professionals who have involvement with the U.S. public markets. The SEC continues to issue new and proposed rules implementing various provisions of the Sarbanes-Oxley Act.

Macatawa Bank

General. Macatawa Bank is a Michigan banking corporation, and its deposit accounts are insured by the Bank Insurance Fund (the "BIF") of the FDIC. As a BIF insured Michigan chartered bank, Macatawa Bank is subject to the examination, supervision, reporting and enforcement requirements of the Commissioner, as the chartering authority for Michigan banks, and the FDIC, as administrator of BIF. These agencies and the federal and state laws applicable to our bank and its operations, extensively regulate various aspects of the banking business including, among other things, permissible types and amounts of loans, investments and other activities, capital adequacy, branching, interest rates on loans and on deposits, the maintenance of non-interest bearing reserves on deposit accounts, and the safety and soundness of banking practices. Grand Bank was also subject to the same supervision and regulation until its merger into Macatawa Bank effective January 1, 2003.

Deposit Insurance. As an FDIC-insured institution, we are required to pay deposit insurance premium assessments to the FDIC. The FDIC has adopted a risk-based assessment system under which all insured depository institutions are placed into one of four categories and assessed insurance premiums, based upon their respective levels of capital and results of supervisory evaluation. Institutions classified as well-capitalized (as defined by the FDIC) and considered healthy pay the lowest premium while institutions that are less than adequately capitalized (as defined by the FDIC) and considered of substantial supervisory concern pay the highest premium. Risk classification of all insured institutions is made by the FDIC for each semi-annual assessment period.

The Federal Deposit Insurance Act ("FDIA") required the FDIC to establish assessment rates at levels which would maintain the Deposit Insurance Fund at a mandated reserve ratio of not less than 1.25% of estimated insured deposits. On February 8, 2006 The Federal Deposit Insurance Reform Act of 2005 (the Reform Act) was signed into law. The Reform Act provides for the establishment of a range of 1.15% to 1.50% within which the FDIC Board of Directors may set the Designated Reserve Ratio (DRR). The Reform Act allows the FDIC to manage the pace at which the reserve ratio varies within this range. On November 2, 2006, the FDIC adopted new premium rates for 2007, stating they were needed to offset continued strong growth in insured deposits that is lowering the Deposit Insurance Fund ratio. Banks that had been paying zero in deposit insurance premiums for the past ten years are now required to pay premiums of 5 to 7 basis points in 2008. Under the new rate schedule, most well-capitalized banks pay 5 to 7 basis points annually. That rate increases to 43 basis points for banks that pose significant supervisory concerns.

FICO Assessments. Our bank, as a member of the BIF, is subject to assessments to cover the payments on outstanding obligations of the Financing Corporation ("FICO"). FICO was created to finance the recapitalization of the Federal Savings and Loan Insurance Corporation, the predecessor to the FDIC's Savings Association Insurance Fund (the "SAIF") which insures the deposits of thrift institutions. From now until the maturity of the outstanding FICO obligations in 2019, BIF members and SAIF members will share the cost of the interest on the FICO bonds on a *pro rata* basis. It is estimated that FICO assessments during this period will be less than 0.025% of deposits.

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

Capital Requirements. The FDIC has established the following minimum capital standards for state-chartered, FDIC insured non-member banks, such as Macatawa Bank: a leverage requirement consisting of a minimum ratio of Tier 1 capital to total average assets of 3% for the most highly-rated banks with minimum requirements of 4% to 5% for all others, and a risk-based capital requirement consisting of a minimum ratio of total capital to total risk-weighted assets of 8%, at least one-half of which must be Tier 1 capital. Tier 1 capital consists principally of shareholders' equity. These capital requirements are minimum requirements. Higher capital levels will be required if warranted by the particular circumstances or risk profiles of individual institutions.

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

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

As of December 31, 2007, each of Macatawa Bank's ratios exceeded minimum requirements for the well capitalized category.

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

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

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

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

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

Safety and Soundness Standards. The federal banking agencies have adopted guidelines to promote the safety and soundness of federally insured depository institutions. These guidelines establish standards for internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, asset quality and earnings.

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

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

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

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

ITEM 1A: Risk Factors

You should carefully consider the following risk factors, together with the other information provided in this Annual Report on Form 10-K.

Changes in economic conditions or interest rates may negatively affect our earnings, capital and liquidity.

The results of operations for financial institutions, including our bank, may be materially and adversely affected by changes in prevailing local and national economic conditions, including declines in real estate market values, rapid increases or decreases in interest rates and changes in the monetary and fiscal policies of the federal government. Our profitability is heavily influenced by the spread between the interest rates we earn on investments and loans and the interest rates we pay on deposits and other interest-bearing liabilities. Substantially all our loans are to businesses and individuals in western Michigan and any decline in the economy of this area could adversely affect us. Like most banking institutions, our net interest spread and margin will be affected by general economic conditions and other factors that influence market interest rates and our ability to respond to changes in such rates. At any given time, our assets and liabilities may be such that they are affected differently by a given change in interest rates.

Our credit losses could increase and our allowance for loan losses may not be adequate to cover actual loan losses.

The risk of nonpayment of loans is inherent in all lending activities and nonpayment, if it occurs, may have a material adverse affect on our earnings and overall financial condition as well as the value of our common stock. We make various assumptions and judgments about the collectibility of our loan portfolio and provide an allowance for potential losses based on a number of factors. If our assumptions are wrong, our allowance for loan and lease losses may not be sufficient to cover our losses, thereby having an adverse affect on our operating results, and may cause us to increase the allowance in the future. The actual amount of future provisions for loan losses cannot now be determined and may exceed the amounts of past provisions. Additionally, federal banking regulators, as an integral part of their supervisory function, periodically review our allowance for credit losses. These regulatory agencies may require us to increase our provision for credit losses or to recognize further loan or lease charge-offs based upon their judgments, which may be different from ours. Any increase in the allowance for credit losses could have a negative effect on our net income, financial condition and results of operations.

Our business is subject to various lending risks depending on the nature of the borrower's business, its cash flow and our collateral.

Repayment of our commercial loans is often dependent on cash flow of the borrower, which may be unpredictable, and collateral securing these loans may fluctuate in value. Our commercial loans are primarily made based on the cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. Most often, this collateral is accounts receivable, inventory, equipment or real estate. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers. Other collateral securing loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business.

Our commercial real estate loans involve higher principal amounts than other loans, and repayment of these loans may be dependent on factors outside our control or the control of our borrowers. Commercial real estate lending typically involves higher loan principal amounts, and the repayment of these loans generally is dependent, in large part, on sufficient income from the properties securing the loans to cover operating expenses and debt service. Because payments on loans secured by commercial real estate often depend upon the successful operating and management of the properties, repayment of such loans may be affected by factors outside the borrower's control, such as adverse conditions in the real estate market or the economy or changes in government regulation. If the cash flow from the project is reduced, the borrower's ability to repay the loan and the value of the security for the loan may be impaired.

Our construction and development loans are based upon estimates of costs to construct and value associated with the completed project. These estimates may be inaccurate. Because of the uncertainties inherent in estimating construction costs, as well as the market value of the completed project, it is relatively difficult to evaluate accurately the total funds required to complete a project and the related loan-to-value ratio. As a result, construction loans often involve the disbursement of substantial funds with repayment dependent, in part, upon the success of the ultimate project and the ability of the borrower to sell or lease the property, rather than the ability of the borrower or guarantor to repay principal and interest. Delays in completing the project may arise from labor problems, material shortages and other unpredictable contingencies. If the estimate of the cash of construction is inaccurate, we may be required to advance additional funds to complete construction. If our appraisal of the value of the completed project proves to be overstated, we may have inadequate security for the repayment of the loan upon completion of the project.

Our construction and development loans also include loans to residential land developers for which repayment is generally from the sale of residential lots and/or new construction residential one-to-four family homes. Residential development loans typically involve higher loan principal amounts. In addition, the sale of residential lots and/or new construction residential one-to-four family residences is contingent upon general market conditions and the resulting impact on the demand for residential property. If the demand for residential lots and/or new construction residential one-to-four family residences slows, the borrowers' ability to repay the loan and the value of the security for the loan may be impaired.

Our consumer loans generally have a higher risk of default than our other loans Consumer loans entail greater risk than our other loans, particularly in the case of consumer loans that are unsecured or secured by rapidly depreciating assets. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of damage, loss or depreciation. The remaining deficiency often does not warrant further substantial collection efforts against the borrower beyond obtaining a deficiency judgment. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and thus, are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy, all of which increase when the economy is weak. Furthermore, the application of various Federal and state laws, including Federal and state bankruptcy and insolvency laws, may limit the amount that can be recovered on such loans.

Litigation involving Trade Partners may have a material adverse effect on our financial condition.

Item 3 of this Form 10-K includes information about the Trade Partners, Inc. receivership and pending legal actions involving Trade Partners, Inc., the Macatawa Bank Corporation and Macatawa Bank. If one or more of these legal actions is determined adversely to the Macatawa Bank Corporation and Macatawa Bank, or if one or more of these legal actions results in Macatawa Bank Corporation or Macatawa Bank paying a substantial settlement, then such adverse determination or settlement may have a material adverse effect on our financial condition.

We may experience difficulties in managing our growth.

To sustain our continued growth, we require additional capital to fund our expanding lending activities. As part of our strategy for continued growth, we intend to open additional branches. New branches often experience a period of unprofitability due to the impact of overhead expenses and the start-up phase of generating loans and deposits. To the extent that we continue to open additional branches, we may experience the effects of higher operating expenses relative to operating income from the new operations, which may have an adverse affect on our levels of net income, return on average equity and return on average assets.

In addition, we may acquire banks and related businesses that we believe provide a strategic fit with our business. To the extent that we grow through acquisitions, we cannot assure you that we will be able to adequately or profitably manage such growth. Acquiring other banks and businesses involves risks commonly associated with acquisitions.

We rely heavily on our management and other key personnel, and the loss of any of them may adversely affect our operations.

We are and will continue to be dependent upon the services of our management team, including our President and Chief Executive Officer of Macatawa Bank, our Executive Vice President of Macatawa Bank, and our other senior managers and commercial lenders. Losing one or more key members of the management team could adversely affect our operations. We do not maintain key man life insurance on any of our officers or directors.

Our future success is dependent on our ability to compete effectively in the highly competitive banking industry.

We face substantial competition in all phases of our operations from a variety of different competitors. Our future growth and success will depend on our ability to compete effectively in this highly competitive environment. We compete for deposits, loans and other financial services with numerous Michigan-based and out-of-state banks, thrifts, credit unions and other financial institutions as well as other entities which provide financial services. Some of the financial institutions and financial services organizations with which we compete are not subject to the same degree of regulation as we are. Most of our competitors have been in business for many years, have established customer bases, are larger, and have substantially higher lending limits than we do. The primary competitors in our market area include Fifth Third Bancorp, Huntington Bancshares, LaSalle Bank, and National City Corp. The financial services industry is also likely to become more competitive as further technological advances enable more companies to provide financial services. These technological advances may diminish the importance of depository institutions and other financial intermediaries in the transfer of funds between parties.

We are subject to significant government regulation, and any regulatory changes may adversely affect us.

The banking industry is heavily regulated under both federal and state law. These regulations are primarily intended to protect customers, not our creditors or shareholders. As a bank holding company, we are also subject to extensive regulation by the Federal Reserve, in addition to other regulatory and self-regulatory organizations. Our ability to establish new facilities or make acquisitions is conditioned upon the receipt of the required regulatory approvals from these organizations. Regulations affecting banks and financial services companies undergo continuous change, and we cannot predict the ultimate effect of such changes, which could have a material adverse effect on our profitability or financial condition.

We continually encounter technological change, and we may have fewer resources than our competitors to continue to invest in technological improvements.

The banking industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. In addition to better serving customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend, in part, on our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. There can be no assurance that we will be able to effectively implement new technology-driven products and services or be successful in marketing such products and services to our customers.

Our articles of incorporation and by-laws and Michigan laws contain certain provisions that could make a takeover more difficult.

Our articles of incorporation and by-laws, and the laws of Michigan, include provisions which are designed to provide our board of directors with time to consider whether a hostile takeover offer is in our best interest and the best interests of our shareholders. These provisions, however, could discourage potential acquisition proposals and could delay or prevent a change in control. The provisions also could diminish the opportunities for a holder of our common stock to participate in tender offers, including tender offers at a price above the then-current price for our common stock. These provisions could also prevent transactions in which our shareholders might otherwise receive a premium for their shares over then current market prices, and may limit the ability of our shareholders to approve transactions that they may deem to be in their best interests.

The Michigan Business Corporation Act contains provisions intended to protect shareholders and prohibit or discourage certain types of hostile takeover activities. In addition to these provisions and the provisions of our articles of incorporation and by-laws, Federal law requires the Federal Reserve Board's approval prior to acquisition of "control" of a bank holding company. All of these provisions may have the effect of delaying or preventing a change in control at the company level without action by our shareholders, and therefore, could adversely affect the price of our common stock.

Our ability to pay dividends is limited by law and contract.

We are a holding company and substantially all of our assets are held by our bank. Our ability to continue to make dividend payments to our shareholders will depend primarily on available cash resources at the holding company and dividends from our bank. Dividend payments or extensions of credit from our bank are subject to regulatory limitations, generally based on capital levels and current and retained earnings, imposed by regulatory agencies with authority over our bank. The ability of our bank to pay dividends is also subject to its profitability, financial condition, capital expenditures and other cash flow requirements. We also are prohibited from paying dividends on our common stock if the required payments on our subordinated debentures have not been made. We cannot assure you that our bank will be able to pay dividends to us in the future.

The market price for our common stock fluctuates.

The market price for our common stock has fluctuated, ranging between \$7.56 and \$20.28 for 2007. The overall market and the price of our common stock may continue to fluctuate. There may be a significant impact on the market price for our common stock due to, among other things:

- Variations in our anticipated or actual operating results or the results of our competitors;
- Changes in investors' or analysts' perceptions of the risks and conditions of our business;
- The size of the public float of our common stock;
- Regulatory developments;
- Market conditions; and
- General economic conditions.

Additionally, the average daily trading volume for our common stock as reported on the Nasdaq National Market was 84,767 shares during 2007, with daily volume ranging from a low of 16,306 shares to a high of 1,194,995 shares. There can be no assurance that a more active or consistent trading market in our common stock will develop. As a result, relatively small trades could have a significant impact on the price of our common stock.

ITEM 1B: Unresolved Staff Comments.

None.

ITEM 2: Properties.

We own or lease facilities located in Ottawa County, Allegan County and Kent County, Michigan. Our administrative offices are located at 10753 Macatawa Drive, Holland, Michigan 49424. Our administrative offices are approximately 49,000 square feet and contain our administration, human resources, trust, loan underwriting and processing, and deposit operations.

Our facilities as of February 23, 2008, were as follows:

<u>Location of Facility</u>	<u>Use</u>
10753 Macatawa Drive, Holland	Main Branch, Administrative, and Loan Processing Offices
815 E. Main Street, Zeeland	Branch Office
125 Ottawa Avenue N.W., Grand Rapids*	Trust and Mortgage Offices
126 Ottawa Avenue N.W., Grand Rapids*	Branch Office
141 E. 8th Street, Holland	Branch Office
489 Butternut Dr., Holland	Branch Office
701 Maple Avenue, Holland	Branch Office
699 E. 16th Street, Holland	Branch Office
41 N. State Street, Zeeland	Branch Office
2020 Baldwin Street, Jenison	Branch Office
6299 Lake Michigan Dr., Allendale	Branch Office
132 South Washington, Douglas	Branch Office
4758 - 136th Street, Hamilton*	Branch Office
3526 Chicago Drive, Hudsonville	Branch Office
20 E. Lakewood Blvd., Holland	Branch Office
3191 - 44th Street, S.W., Grandville	Branch Office
2261 Byron Center Avenue S.W., Byron Center	Branch Office
5271 Clyde Park Avenue, S.W., Wyoming	Branch Office and Loan Center
4590 Cascade Road, Grand Rapids	Branch Office
3177 Knapp Street, N.E., Grand Rapids	Branch Office and Loan Center
15135 Whittaker Way, Grand Haven	Branch Office and Loan Center
12415 Riley Street, Holland	Branch Office
2750 Walker N.W., Walker	Branch Office
1575 - 68th Street S.E., Grand Rapids	Branch Office
2820 - 10 Mile Road, Rockford	Branch Office
520 Baldwin Street, Jenison	Branch Office
2440 Burton Street, S.E., Grand Rapids	Branch Office
6330 28th Street, S.E., Grand Rapids	Branch Office

* Leased facility

We believe our facilities are well-maintained and adequately insured. Because of our growth, we are continually evaluating the need for additional space and branches.

Item 3. LEGAL PROCEEDINGS.

Please refer to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, (Part II, Item 1 Legal Proceedings) for information concerning legal proceedings related to Trade Partners, Inc.

A lawsuit was filed in April 2003 by John and Kathryn Brand in Oklahoma state court against Grand Bank, the Company, Trade Partners and certain individuals and entities associated with Trade Partners. The complaint seeks damages for the asserted breach of certain escrow agreements for which Grand Bank served as custodian and escrow agent. The claims asserted against the Company and Grand Bank in this action have been settled and dismissed with prejudice.

In May 2003, a purported class action complaint was filed by Forrest W. Jenkins and Russell S. Vail against the Company in the United States District Court for the District of Western Michigan. As amended, this suit alleges that Grand Bank breached escrow agreements and fiduciary duties and violated the Michigan Uniform Securities Act with respect to the investments secured by the purported class in viaticals and in interests in limited partnerships which made loans to Trade Partners secured by viaticals, and with respect to loans made by purported class members directly to Trade Partners. Plaintiffs' motion for class certification was denied in November 2006. The Company has answered this complaint denying the material allegations and raising certain affirmative defenses.

Following denial of class certification in the Jenkins case, nine new cases were filed in several different jurisdictions. These complaints are identical in all material respects other than the identity of the plaintiffs, and are substantially identical to the complaint in the Jenkins litigation. None of these complaints contain class action allegations, but the total number of named plaintiffs in all the nine cases is about 1,300. The cases are: Ronald Ash, et. al. v. Macatawa Bank Corporation, et. al.—filed November 17, 2006 in the District Court for Oklahoma County, Oklahoma, subsequently removed by the Company to the United States District Court for the Western District of Oklahoma; Steven M. Adamson, et. al. v. Macatawa Bank Corporation, et. al.—filed November 15, 2006 in the United States District Court for the Western District of Oklahoma; James Lee Myers et. al. v. Macatawa Bank Corporation, et. al.—filed November 14, 2006 in the Superior Court for Los Angeles County, California, subsequently removed by the Company to the United States District Court for the Central District of California; Frank V. Bailey et. al. v. Macatawa Bank Corporation, et. al.—filed November 29, 2006 in the United States District Court for the Northern District of Texas; Eddie Elkins, et. al. v. Macatawa Bank Corporation—filed January 29, 2007 in the United States District Court for the Western District of Oklahoma; William A. Giese, et. al. v. Macatawa Bank Corporation, et. al.—filed November 17, 2006 in the Circuit Court for Kent County, Michigan; Gerald Abraham, et. al. v. Macatawa Bank Corporation, et. al.—filed November 29, 2006 in the Circuit Court for Kent County, Michigan; brge Acevedo, et. al. v. Macatawa Bank Corporation, et. al.—filed December 17, 2006 in the Circuit Court for Kent County, Michigan; and Jose Javier Acasuso, et. al. v. Macatawa Bank Corporation, et. al.—filed January 17, 2007 in the Circuit Court for Kent County, Michigan.

The Company believes it has meritorious defenses and intends to vigorously defend these cases.

On April 15, 2003, the United States District Court for the Western District of Michigan appointed a receiver for Trade Partners. In order to prevent or minimize any loss to investors in the viaticals sold by Trade Partners to investors, the court-appointed receiver has been coordinating the payment of premiums on the approximately 1,000 outstanding viaticated insurance policies in the Trade Partners portfolio so that the policies do not lapse. The receiver informed the Company that nine policies with a total face value of approximately \$1.4 million lapsed for failure to pay premiums prior to the receiver's coordination efforts. In addition, the receiver unsuccessfully contested a partial lapse totaling about \$700,000. In February 2008 the receiver reported that he had discovered that an unspecified number of group policies in an unspecified face amount had apparently lapsed prior to the receivership "for various reasons, including companies that went out of business or employees who had been terminated."

On July 1, 2003, the United States District Court for the Western District of Michigan authorized the receiver to borrow money from Macatawa Bank to pay premiums, if needed. Macatawa Bank agreed to extend a \$4 million line of credit to the receiver, conditioned upon obtaining a security interest in the viaticals. No draws were made against the line, and the line expired during the fourth quarter of 2004.

The receiver received authorization from the Court in July 2005 to sell the entire portfolio, which the receiver said had a face value of approximately \$170 million, to Universal Settlements International, Inc., a Canadian company, for an amount equal to 26.58% of face value. Under the terms of the sale, payments are to be made by Universal Settlements to the receivership as policy transfers are processed by the issuing insurance companies. The receiver has reported that as of January 25, 2008 he had received sale payments of approximately \$38.9 million and proceeds of maturities aggregating another \$31.5 million.

The receiver on July 21, 2006 filed a proposed amended plan of distribution and related disclosure statement, contemplating a complete liquidation of the assets of Trade Partners. The plan was approved by the Court on January 7, 2007. The receiver reported as of February 5, 2008 that claims against the receivership estate totaled \$169,430,383.85, but that contrary to his earlier reports he now expected that there may be "one or two" additional claims in unspecified amounts that will be filed.

The receiver reported that he commenced distributions on January 19, 2007, and that \$46,940,265 had been distributed as of October 15, 2007, of which \$43,155,155 was distributed with respect to claims of investors. There may be additional distributions, but the Company does not know when they might be made or in what amount.

It is possible that one or more additional legal actions may be initiated involving the custodial and escrow agent services provided by Grand Bank in connection with Trade Partners. If any such legal actions are commenced, the Company intends to defend them vigorously. To the extent any pending or future claims allege errors or omissions on the part of Grand Bank or Macatawa Bank, Management believes that some or all liability, if any is proven or established, will be covered by errors and omissions insurance maintained by Grand Bank and Macatawa Bank. The Company has reported the Trade Partners matter to its two insurance carriers. Federal Insurance Company has assumed the Company's defense and has advanced a portion of its defense costs pursuant to a reservation of rights letter asserting certain coverage defenses, and an Interim Funding Agreement. Federal Insurance Company notified the Company on July 21, 2006 that it has filed an Arbitration Demand with the American Arbitration Association, seeking a declaration that based upon its asserted coverage defenses its policy does not cover this matter. The Company and Federal Insurance Company have agreed to defer any proceedings with respect to this Arbitration Demand. The Company believes that Federal Insurance Company is obligated to provide coverage, and the Company intends to vigorously pursue its rights under the insurance policy. The other carrier has taken the position that the duty of defense rests solely with the first carrier, and reserves its rights with respect to indemnity pursuant to a reservation letter asserting certain coverage defenses.

As of the date hereof, except as disclosed above, there were no material pending legal proceedings, other than routine litigation incidental to the business of banking to which we or any of our subsidiaries are a party of or which any of our properties are the subject.

ITEM 4: Submission of Matters to a Vote of Security Holders.

No matters were submitted during the fourth quarter of 2007 to a vote of our shareholders.

ADDITIONAL ITEM: Executive Officers of the Registrant.

The list below identifies those persons designated as executive officers of Macatawa Bank Corporation and Macatawa Bank.

<u>Name</u>	<u>Age</u>	<u>Year Elected an Executive Officer</u>	<u>Positions Held</u>
Benj. A. Smith, III	64	1997	Chairman of the Board and Chief Executive Officer of Macatawa Bank Corporation.
Philip J. Koning	53	1997	President and Chief Executive Officer of Macatawa Bank and Treasurer and Secretary of Macatawa Bank Corporation.
Ronald L. Haan	54	2005	Executive Vice President of Macatawa Bank
Jon W. Swets	42	2002	Senior Vice President and Chief Financial Officer of Macatawa Bank Corporation and Macatawa Bank

PART II

ITEM 5: Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock is quoted on the Nasdaq Global Select Market. High and low sales prices (as reported on the Nasdaq Global Select Market) for each quarter are included in the following table. The information in the following table has been retroactively adjusted to reflect the effect of all stock dividends paid.

Quarter	2007			2006		
	High	Low	Dividends Declared	High	Low	Dividends Declared
First Quarter	\$20.28	\$17.01	\$0.12	\$23.88	\$21.25	\$0.11
Second Quarter	\$17.90	\$14.70	\$0.13	\$23.04	\$19.68	\$0.11
Third Quarter	\$16.44	\$11.04	\$0.13	\$22.90	\$19.99	\$0.11
Fourth Quarter	\$14.44	\$7.56	\$0.13	\$22.65	\$19.42	\$0.12

On February 28, 2008, there were approximately 812 owners of record and, in addition, approximately 8,556 beneficial owners of our common stock.

The Company declared its first cash dividend, amounting to \$.03 per share, during the fourth quarter of 2000. Quarterly cash dividends totaling \$.13 were paid during 2001, and a 3% stock dividend was declared during the second quarter of 2001. Quarterly cash dividends totaling \$.16 were paid during 2002, and a 4% stock dividend was declared during the second quarter of 2002. Quarterly cash dividends totaling \$.21 were paid during 2003, and a 5% stock dividend was declared during the second quarter of 2003. Quarterly cash dividends totaling \$.27 were paid during 2004, and a 5% stock dividend was declared during the second quarter of 2004. Quarterly cash dividends totaling \$.37 were paid during 2005, and a 15% stock dividend was declared during the second quarter of 2005. Quarterly cash dividends totaling \$.46 were paid during 2006, and a 5% stock dividend was declared in the second quarter of 2006. In addition, a 3-for-2 stock split was paid during the second quarter of 2006. Quarterly cash dividends totaling \$.51 were paid during 2007, and a 5% stock dividend was declared during the second quarter of 2007. All of these cash dividend amounts have been retroactively adjusted to reflect the effect of the stock dividends and stock split.

We intend to continue to declare quarterly cash dividends in the future. We may also consider declaring further stock dividends. We expect to obtain the funds for the payment of future cash dividends from cash currently held and from the dividends we receive from Macatawa Bank out of its earnings. However, there can be no assurance that we will have the financial resources to continue to pay dividends in the future.

The information set forth under the caption "Shareholder Return Performance Graph" in our Annual Report to Shareholders for the year ended December 31, 2007, is incorporated by reference and is filed as part of Exhibit 13 to this Form 10-K Annual Report.

On May 17, 2007, the Corporation announced a repurchase plan that authorized share repurchases of up to \$30 million of the Corporation's common stock. In the fourth quarter of 2007, the Corporation repurchased 34,000 shares of its common stock in open market transactions under the repurchase plan. The shares were purchased at an average price of \$8.38 per share. The Corporation has remaining authority to repurchase up to \$26,103,695 of market value of its common stock under the repurchase plan.

ISSUER PURCHASES OF EQUITY SECURITIES				
Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as a Part of Publicly Announced Plans or Programs	Maximum Approximate Dollar Value of Shares that May yet Be Purchased Under the Approved Plan
October	---	---	---	---
November	---	---	---	---
December	34,000	\$ 8.38	34,000	\$26,103,695
Total	34,000	\$ 8.38	34,000	\$26,103,695

ITEM 6: Selected Financial Data.

The information set forth under the caption "Selected Consolidated Financial Data" in our Annual Report to Shareholders for the year ended December 31, 2007, is incorporated by reference and is filed as part of Exhibit 13 to this Form 10-K Annual Report.

ITEM 7: Management's Discussion and Analysis of Results of Operations and Financial Condition.

The information set forth under the caption "Management's Discussion and Analysis of Results of Operations and Financial Condition," in our Annual Report to Shareholders for the year ended December 31, 2007, is hereby incorporated by reference and is filed as part of Exhibit 13 to this Form 10-K Annual Report.

ITEM 7A: Quantitative and Qualitative Disclosures About Market Risk.

The information set forth under the captions "Management's Discussion and Analysis of Results of Operations and Financial Condition – Sensitivity to Market Risk" in our Annual Report to Shareholders for the year ended December 31, 2007, is hereby incorporated by reference and is filed as part of Exhibit 13 to this Form 10-K Annual Report.

ITEM 8: Financial Statements and Supplementary Data.

The information set forth under the captions "Quarterly Financial Data," "Report of Independent Registered Public Accounting Firm on Internal Control," "Consolidated Balance Sheets," "Consolidated Statements of Income," "Consolidated Statements of Changes in Shareholders' Equity," "Consolidated Statements of Cash Flows," and "Notes to Consolidated Financial Statements" in our Annual Report to Shareholders for the year ended December 31, 2007, is hereby incorporated by reference and is filed as part of Exhibit 13 to this Form 10-K Annual Report.

ITEM 9: Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

There have been no disagreements with our independent public accountants.

ITEM 9A: Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures.

The Company's Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Report, have concluded that as of the end of the period covered by this Report the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company would be made known to them by others within the company, particularly during the period in which this Form 10-K Annual Report was being prepared.

(b) Management's Report on Internal Control over Financial Reporting.

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system was designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Company management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2007. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on our assessment we believe that, as of December 31, 2007, the Company's internal control over financial reporting is effective based on those criteria.

Internal control over financial reporting as of December 31, 2007, has been audited by Crowe Chizek and Company LLC, an independent registered certified public accounting firm, as stated in their report included in Exhibit 13 to this Annual Report on Form 10-K which is incorporated herein by reference.

(c) Changes in Internal Controls.

There were no significant changes in the Company's internal controls over financial reporting during the fourth quarter ended December 31, 2007, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B: Other Information.

None.

PART III

ITEM 10: Directors, Executive Officers and Corporate Governance.

The information set forth on pages 3-4, under the caption "Information About Directors", on page 7 under the caption "Audit Committee Report", on page 6 under the caption "Corporate Governance-Director Nominations", and on page 16 under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in our definitive Proxy Statement dated March 7, 2008, relating to our 2008 Annual Meeting of Shareholders and the information within that section is incorporated by reference.

Information relating to our Executive Officers is included in Part I hereof entitled "Executive Officers of the Registrant." There are no family relationships between or among the above-named executive officers. There are no arrangements or understandings between any of the above-named officers pursuant to which any of them was named an officer.

We have adopted a Senior Officer Code of Ethics. A copy of our Senior Officer Code of Ethics is available upon request by writing to the Chief Financial Officer, Macatawa Bank Corporation, 10753 Macatawa Drive, Holland, Michigan 49424.

ITEM 11: Executive Compensation.

Information relating to compensation of our executive officers and directors is contained under the captions “Compensation of Directors”, “Executive Compensation”, “Compensation Discussion and Analysis”, “Summary Compensation Table” and “Potential Payments Upon Termination or Change of Control” in our definitive Proxy Statement dated March 7, 2008, relating to our 2008 Annual Meeting of Shareholders and the information within those sections is incorporated by reference.

ITEM 12: Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Information relating to security ownership of certain beneficial owners and management is contained on Page 2 under the caption “Voting Securities and Principal Holders Thereof” and on page 15 under the caption “Security Ownership of Management” in our definitive Proxy Statement dated March 7, 2008, relating to our 2008 Annual Meeting of Shareholders and the information within that section is incorporated by reference.

Equity Compensation Plan Information. The Company maintains certain equity compensation plans under which common stock is authorized for issuance to employees, consultants and directors in exchange for services, including the 1998 Stock Compensation Plan, the 1998 Directors’ Stock Option Plan, the 2006 Stock Compensation Plan, the 2006 Directors’ Stock Compensation Plan, the Grand Bank Financial Corporation 1998 Stock Option Plan and the Grand Bank Financial Corporation Stock Option Plan of 1997.

The following table sets forth certain information regarding the above referenced equity compensation plans as of December 31, 2007. The following information has been adjusted to reflect the effect of all stock dividends and stock splits.

Plan Category	Equity Compensation Plan Information		
	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights (1)	(b) Weighted-average Exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	957,765	\$14.66	959,299
Equity compensation plans not approved by security holders	0	N/A	0
Total	957,765	\$14.66	959,299

ITEM 13: Certain Relationships and Related Transactions, and Director Independence.

Information relating to certain relationships and related transactions is contained on page 16 under the caption “Transactions Involving Management” and on page 5 under the heading “Corporate Governance-Director Independence” in our definitive Proxy Statement dated March 7, 2008, relating to our 2008 Annual Meeting of Shareholders and the information within that section is incorporated by reference.

ITEM 14: Principal Accountant Fees and Services.

Information relating to principal accountant fees and services is contained on page 17, under the caption "Principal Accounting Firm Fees" in our definitive Proxy Statement dated March 7, 2008, relating to our 2008 Annual Meeting of Shareholders and the information within that section is incorporated by reference.

PART IV

ITEM 15: Exhibits and Financial Statement Schedules.

(a) Financial Statements.

1. The following documents are filed as part of Item 8 of this report:

Report of Independent Registered Public Accounting Firm on Internal Control
Consolidated Balance Sheets as of December 31, 2007 and 2006
Consolidated Statements of Income for the years ended December 31, 2007, 2006 and 2005
Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2007, 2006 and 2005
Consolidated Statements of Cash Flows for the years ended December 31, 2007, 2006 and 2005
Notes to Consolidated Financial Statements

2. Schedules to the consolidated financial statements required by Article 9 of Regulation S-X are not required under the related instructions or are inapplicable, and therefore have been omitted.
3. The following exhibits are filed as part of this report: Reference is made to the exhibit index which follows the signature page of this report.

The Registrant will furnish a copy of any exhibits listed on the Exhibit Index to any shareholder of the Registrant without charge upon written request to Chief Financial Officer, Macatawa Bank Corporation, 10753 Macatawa Drive, Holland, Michigan 49424.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, dated March 10, 2008.

MACATAWA BANK CORPORATION

/s/ Benj. A. Smith, III

Benj. A. Smith, III
Chairman and Chief Executive Officer
(Principal Executive Officer)

/s/ Jon W. Swets

Jon W. Swets
Senior Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on March 10, 2008 by the following persons on behalf of the Registrant and in the capacities indicated. Each director of the Registrant, whose signature appears below, hereby appoints Benj. A. Smith, III and Philip J. Koning, and each of them severally, as his attorney-in-fact, to sign in his name and on his behalf, as a director of the Registrant, and to file with the Commission any and all Amendments to this Report on Form 10-K.

Signature

/s/ Benj. A. Smith, III	March 10, 2008
_____ Benj. A. Smith, III, Principal Executive Officer and a Director	
/s/ Jon W. Swets	March 10, 2008
_____ Jon W. Swets, Principal Financial and Accounting Officer	
/s/ G. Thomas Boylan	March 10, 2008
_____ G. Thomas Boylan, Director	
/s/ Robert E. DenHerder	March 10, 2008
_____ Robert E. DenHerder, Director	
/s/ John F. Koetje	March 10, 2008
_____ John F. Koetje, Director	
/s/ Philip J. Koning	March 10, 2008
_____ Philip J. Koning, Director and President	
/s/ Arend D. Lubbers	March 10, 2008
_____ Arend D. Lubbers, Director	

Exhibit Number and Description

- 3.1 Articles of Incorporation of Macatawa Bank Corporation, as amended, incorporated by reference to Exhibit 3.1 to the Macatawa Bank Corporation Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, and by reference to Exhibit 3.1 to the Macatawa Bank Corporation Form 10-Q for the quarter ended June 30, 2006.
- 3.2 Bylaws of Macatawa Bank Corporation, incorporated by reference to Exhibit 3.2 to the Macatawa Bank Corporation Registration Statement on Form SB-2 (Registration No. 333-45755) together with the Amendment attached hereto.
- 4 Specimen stock certificate of Macatawa Bank Corporation, incorporated by reference to Exhibit 4 to the Macatawa Bank Corporation Registration Statement on Form SB-2 (Registration No. 333-45755).
- 10.1* Macatawa Bank Corporation Stock Compensation Plan, incorporated by reference to Exhibit 10.1 to the Registrant's Form SB-2 Registration Statement (No. 333-45755), as amended by the First Amendment included as Appendix B to the Macatawa Bank Corporation Proxy Statement dated March 5, 1999, for the Annual Meeting of Shareholders held April 15, 1999, as further amended by the Second Amendment included as Appendix A to the Macatawa Bank Corporation Proxy Statement dated March 7, 2002, for the Annual Meeting of Shareholders held April 18, 2002, both of which amendments are incorporated herein by reference.
- 10.2* Macatawa Bank Corporation 1998 Directors' Stock Option Plan incorporated by reference to Exhibit 10.2 to the Registrant's Form SB-2 Registration Statement (No. 333-45755), as amended by the First Amendment included as Appendix B to the Macatawa Bank Corporation Proxy Statement dated March 7, 2002, for the Macatawa Bank Corporation Annual Meeting of Shareholders held April 18, 2002, which is incorporated herein by reference.
- 10.3* Macatawa Bank Corporation 2006 Stock Compensation Plan incorporated by reference to Appendix A to the Macatawa Bank Corporation Proxy Statement dated March 6, 2006.
- 10.4* Macatawa Bank Corporation 2006 Directors' Stock Compensation Plan incorporated by reference to Appendix B to the Macatawa Bank Corporation Proxy Statement dated March 6, 2006.
- 10.5* Amended and Restated Employment Agreement between Benj. A Smith III and Macatawa Bank Corporation dated May 9, 2007, incorporated by reference to Exhibit 10.1 to the Macatawa Bank Corporation Quarterly Report on Form 10-Q dated May 10, 2007.
- 10.6 Agreement and Plan of Merger dated October 11, 2006 by and among MacatawaBank Corporation, Benj. A. Smith & Associates, Ltd. (Smith & Associates) and Benj. A. Smith, III, incorporated by reference to Exhibit 10.1 to the Macatawa Bank Corporation Current Report on Form 8-K dated October 11, 2006.

- 10.7* Noncompetition Agreement dated October 11, 2006, by and between Macatawa Bank Corporation and Benj. A. Smith, III, incorporated by reference to Exhibit 10.2 to the Macatawa Bank Corporation Current Report on Form 8-K dated October 11, 2006.
- 10.8 Form of Indemnity Agreement between Macatawa Bank Corporation and each of its directors, incorporated by reference to Exhibit 10.2 to the Macatawa Bank Corporation Quarterly Report on Form 10-Q for the quarter ended June 30, 2003.
- 10.9 Investment Management Agreement between Macatawa Bank and Smith & Associates Investment Management Services dated March 11, 2004, incorporated by reference to Exhibit 10.5 to the Macatawa Bank Corporation Annual Report on Form 10-K for the year ended December 31, 2003.
- 10.10* Form of Stock Option Agreement, incorporated by reference to Exhibit 10.6 to the Macatawa Bank Corporation Annual Report on Form 10-K for the year ended December 31, 2004.
- 10.11* Form of Stock Option Agreement for non-qualified stock options, incorporated by reference to Exhibit 10.3 to the Macatawa Bank Corporation Quarterly Report on Form 10-Q for the quarter ended June 30, 2006.
- 10.12* Form of Stock Option Agreement for incentive stock options, incorporated by reference to Exhibit 10.4 to the Macatawa Bank Corporation Quarterly Report on Form 10-Q for the quarter ended June 30, 2006.
- 10.13* Form of Stock Option Agreement under the Directors' Stock Compensation Plan, incorporated by reference to Exhibit 10.5 to the Macatawa Bank Corporation Quarterly Report on Form 10-Q for the quarter ended June 30, 2006.
- 10.14* Form of Restricted Stock Agreement, incorporated by reference to Exhibit 10.15 to the Macatawa Bank Corporation annual Report on Form 10-K for the year ended December 31, 2006.
- 13 Annual Report to Shareholders for the year ended December 31, 2007. This exhibit, except for those portions expressly incorporated by reference in this filing, is furnished for the information of the Securities and Exchange Commission and is not deemed "filed" as part of this filing. This information was delivered to the Company's shareholders in compliance with Rule 14a-3 of the Securities Exchange Act of 1934, as amended.
- 21 Subsidiaries of the Registrant
- 23 Consent of Crowe Chizek and Company LLC, independent registered public accounting firm
- 24 Power of Attorney (included on the signature page on page 30 of the Annual Report on Form 10-K)
- 31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certificate of the Chief Executive Officer and Chief Financial Officer of Macatawa Bank Corporation pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Management contract or compensatory plan.

To Our Shareholders:

Without question, 2007 was the most challenging year in the history of Macatawa Bank. Since we opened our doors a decade ago, our story has been one of growth, expansion, increased profitability and dividends. Even as West Michigan began to move into an economic downturn, we continued to add new customers, increase market share, and deliver strong financial results.

Last year proved to be different for Macatawa as well as for financial institutions across the state and throughout the country. The economic downturn in Michigan resulted in lower household income and job losses that accelerated throughout the year. This was compounded by a national decline in home sales and values, which we feel significantly impacted West Michigan.

As a result, our 2007 performance was disappointing. The biggest factor contributing to these results was an increase in our loan loss allowance related to residential land development loans. Real estate developers use these loans to finance land and construction for residential communities. While these loans are collateralized by real estate assets, the current economic environment is putting downward pressure on prices and significantly extending the payback periods of many projects.

The marketplace dynamics are causing some of our loans to underperform. We took a fiscally prudent step of increasing our loan loss provision during the third and fourth quarters, which had a negative impact on our overall performance.

Given the environment and the fact we had been a victim of loan fraud, we felt it was appropriate to review our underwriting procedures to ensure we are properly managing our loan portfolio. This review showed that our underwriting principles continue to be sound. We used the opportunity to further improve our loan systems and procedures and to implement emerging "best practices" in our industry. We also reviewed our lending standards and, in light of the current economic conditions in West Michigan, tightened some of our policies and requirements. We believe the measures we have taken will allow us to continue to fulfill our mission as the go-to community bank for mortgages, home-equity lines, manufacturing expansions and other loans that are good for our economy – while building a growing and profitable bank.

Let us be very clear: the majority of our loans continue to perform well. The bulk of our underperforming loans can be traced to the struggling economy, particularly the housing market, in West Michigan. Moving forward, we are committed to disciplined loan underwriting. Our senior loan team has worked to analyze our loan portfolio and taken the appropriate steps to identify and mitigate potential issues going forward.

We strongly believe that 2008 will be a better year for Macatawa Bank. While the loan situation will take some time to resolve, we have already set aside reserves for our most significant issues. Our local economy has already begun to see bright spots in terms of new jobs and increased manufacturing exports. The January cuts in the federal fund rates, along with the much-anticipated growth stimulus package, will help spur our economic recovery.

Built From A Solid Foundation

In just 10 years, Macatawa Bank has grown to be a market leader. We have worked hard to secure a significant market share, good growth in core accounts, great customer acceptance and a group of exceptionally strong employees. We are building on our already-solid foundations to ensure year-over-year financial improvements, continued growth and long-term success.

Every decision made over the last decade has been with these values and principles in mind. Our philosophy continues to resonate with a wide variety of customers, from corporate CEOs looking to fund expansions, to entrepreneurs financing start-up ventures, to prospective retirees planning for the care of their nest egg and newlyweds looking to buy their first homes. We have products and services to meet all of these needs and more. The depth and breadth of our offerings, in combination with our blend of high-tech and high-touch banking, earned us the leading deposit market share in Ottawa County, and moved us to number two overall in the major West Michigan counties of Kent, Ottawa and Allegan.

Focused for a Successful Future

Despite the economic challenges for our region, the team at Macatawa Bank is working to ensure continued growth. Our goal is to help every customer be a partner for life. We continue to emphasize our sales and service culture through face-to-face meetings with existing and potential customers. From a product and services viewpoint, we are continually upgrading our offerings to strengthen customer retention and open additional revenue opportunities. Finally, we are managing our operating costs through process improvements, productivity gains and an ongoing flow of revenue-generation and cost-savings ideas. We invite you to learn more about our plans in the forthcoming pages.

We believe in West Michigan. Macatawa Bank has strong roots in this community. We understand its potential and are committed to its growth. By working with our customers and keeping their best interests in mind during these rough times, we feel we will be well positioned to grow with them when the economy does turn around – as we know it will.

There is no doubt that 2007 was a tough year. Despite the challenging market conditions, we continued to make progress – even if that progress was not as evident as it had been in years past. We certainly can't control the economy. We can – and have – positioned the Bank to minimize risk and maximize potential.

We are appreciative for the commitment and support extended to us over the past 10 years by our shareholders, customers, employees and the entire West Michigan community. We look forward to many years of continued success and to sharing the fruits of that success with our shareholders.

Benjamin A. Smith III
Chairman & CEO Macatawa Bank Corporation

Philip J. Koning
President Macatawa Bank Corporation
President & CEO Macatawa Bank

Financial Highlights

(Dollars in thousands, except per share data)

	As of and for the Year Ended December 31		
	2007	2006	% Change
Summary of Operations			
Net interest income	\$ 62,916	\$ 67,417	(6.7)%
Provision for loan losses (1) (2)	15,750	7,715	104.1%
Noninterest income	16,098	14,177	13.6%
Noninterest expense	50,259	44,913	11.9%
Net income (1) (2)	9,269	19,831	(53.3)%
Balance Sheet Data			
Total assets	\$ 2,129,966	\$ 2,074,816	2.7%
Loans	1,750,632	1,711,450	2.3%
Deposits	1,523,553	1,667,557	(8.6)%
Shareholders' equity	160,625	156,849	2.4%
Allowance for loan losses	33,422	23,259	43.7%
Key Ratios			
Return on average equity (1) (2)	5.63%	13.09%	(57.0)%
Return on average assets (1) (2)	.44%	1.01%	(56.4)%
Average net interest margin	3.21%	3.67%	(12.5)%
Efficiency ratio	63.61%	55.04%	15.6%
Share Information*			
Basic earnings per common share (1) (2)	\$.54	\$ 1.17	(53.8)%
Diluted earnings per common share (1) (2)	.54	1.14	(52.6)%
Book value per common share	9.47	9.19	3.0%
Dividends per common share	.51	.46	10.9%
Shares outstanding at end of period	16,968,398	17,067,350	(0.6)%

*Retroactively adjusted to reflect the effect of all stock splits and dividends.

- (1) Net income for 2007 includes the impact of approximately \$11.6 million (\$7.5 million after tax, or \$0.44 per share) of charges against earnings for additional provisions for loan losses to address risks associated with loans to residential developers.
 - (2) Net income for 2006 includes the impact of a \$4.7 million (\$3.1 million after tax, or \$0.18 per share) charge against earnings related to a commercial borrower whose loans became impaired.
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Selected Consolidated Financial Data

The following selected consolidated financial and other data are derived from the Company's Financial Statements and should be read with the Consolidated Financial Statements and Notes thereto, and Management's Discussion and Analysis of Results of Operations and Financial Condition. The Consolidated Balance Sheets as of December 31, 2007 and 2006, and the Consolidated Statements of Income for the years ended December 31, 2007, 2006, and 2005, are included elsewhere in this Annual Report.

(Dollars in thousands, except per share data)

As of and For the Year Ended December 31

	2007	2006	2005	2004	2003
Financial Condition					
Total assets	\$ 2,129,966	\$ 2,074,816	\$ 1,869,990	\$ 1,672,606	\$ 1,401,111
Securities	203,415	201,257	160,603	139,801	109,673
Loans	1,750,632	1,711,450	1,547,879	1,396,387	1,157,107
Deposits	1,523,553	1,667,557	1,507,772	1,351,516	1,109,399
Other borrowed funds	354,052	192,018	145,161	123,985	145,680
Shareholders' equity	160,625	156,849	141,744	129,074	121,900
Share Information*					
Basic earnings per common share	\$.54	\$ 1.17	\$ 1.24	\$.76	\$.71
Diluted earnings per common share	.54	1.14	1.21	.75	.69
Book value per common share	9.47	9.19	8.38	7.69	7.29
Dividends per common share	.51	.46	.37	.27	.21
Weighted average dilutive shares outstanding	17,283,344	17,379,473	17,309,322	17,065,064	16,950,362
Shares outstanding at end of period	16,968,398	17,067,350	16,914,541	16,787,112	16,714,224
Operations					
Interest income	\$ 139,372	\$ 133,506	\$ 105,395	\$ 78,329	\$ 64,435
Interest expense	76,456	66,089	42,558	26,309	22,341
Net interest income	62,916	67,417	62,837	52,020	42,094
Provision for loan losses	15,750	7,715	3,675	7,890	4,105
Net interest income after provision for loan losses	47,166	59,702	59,162	44,130	37,989
Total noninterest income	16,098	14,177	13,004	10,042	10,154
Total noninterest expense	50,259	44,913	41,423	35,400	30,575
Income before tax	13,005	28,966	30,743	18,772	17,568
Federal income tax	3,736	9,135	9,854	5,996	5,788
Net income	\$ 9,269	\$ 19,831	\$ 20,889	\$ 12,776	\$ 11,780
Performance Ratios					
Return on average equity	5.63%	13.09%	15.30%	10.15%	9.91%
Return on average assets	.44%	1.01%	1.17%	.83%	.94%
Yield on average interest-earning assets	7.11%	7.26%	6.37%	5.47%	5.55%
Cost on average interest-bearing liabilities	4.32%	4.01%	2.87%	2.07%	2.19%
Average net interest spread	2.79%	3.25%	3.50%	3.40%	3.36%
Average net interest margin	3.21%	3.67%	3.81%	3.64%	3.63%
Efficiency ratio	63.61%	55.04%	54.62%	57.04%	58.52%
Capital Ratios					
Equity to assets	7.54%	7.56%	7.58%	7.72%	8.70%
Total risk-based capital ratio	10.68%	10.85%	11.07%	11.12%	10.92%
Credit Quality Ratios					
Allowance for loan losses to total loans	1.91%	1.36%	1.36%	1.38%	1.39%
Nonperforming assets to total assets	3.75%	1.23%	.26%	.35%	.32%
Net charge-offs to average loans	.32%	.33%	.13%	.37%	.14%

*Retroactively adjusted to reflect the effect of all stock splits and dividends.

Quarterly Financial Data (unaudited)

A summary of selected quarterly results of operations for the years ended December 31, 2007 and 2006 follows:

(Dollars in thousands, except per share data)

	Three Months Ended			
	March 31	June 30	September 30	December 31
2007				
Interest income	\$ 34,931	\$ 35,683	\$ 35,391	\$ 33,368
Net Interest income	16,059	16,335	15,835	14,687
Provision for loan losses	875	965	3,640	10,270
Income before income tax expense	7,132	6,785	3,494	(4,406)
Net income	4,835	4,590	2,457	(2,612)
Net income per share*				
Basic	.28	.27	.14	(.15)
Diluted	.28	.26	.14	(.15)
2006				
Interest income	\$ 30,241	\$ 32,896	\$ 34,779	\$ 35,589
Net Interest income	16,314	16,975	17,083	17,045
Provision for loan losses	700	800	490	5,725
Income before income tax expense	7,723	8,471	8,839	3,934
Net income	5,222	5,756	6,009	2,845
Net income per share*				
Basic	0.31	0.34	0.35	0.17
Diluted	0.30	0.33	0.35	0.16

*Retroactively adjusted to reflect the effect of all stock splits and dividends.

Net income for the third and fourth quarters of 2007 includes the impact of \$2.1 million (\$1.4 million after tax, or \$0.08 per share) and \$9.5 million (\$6.2 million after tax, or \$0.36 per share), respectively, of charges against earnings for additional provisions for loan losses primarily to address risks associated with loans to residential developers.

Net income for the fourth quarter of 2006 includes the impact of a \$4.7 million (\$3.1 million after tax, or \$0.18 per share) charge against earnings related to a commercial borrower whose loans became impaired.

Management's Discussion and Analysis of Results of Operations and Financial Condition

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

The following section presents additional information to assess the results of operations and financial condition of the Company. This section should be read in conjunction with the consolidated financial statements and the supplemental financial data contained elsewhere in this Annual Report.

Overview

Macatawa Bank Corporation is a Michigan corporation and is the holding company for a wholly owned subsidiary, Macatawa Bank and for two trusts, Macatawa Statutory Trust I and Macatawa Statutory Trust II. Effective November 1, 2006, Macatawa Investment Services, Inc., a wholly owned subsidiary of Macatawa Bank Corporation, ceased doing business as a registered broker-dealer. Macatawa Bank Corporation is a financial holding company pursuant to Title I of the Gramm-Leach-Bliley Act. Macatawa Bank is a Michigan chartered bank with depository accounts insured by the Federal Deposit Insurance Corporation. The bank operates twenty-six branch offices and a lending and operational service facility, providing a full range of commercial and consumer banking and trust services in Kent County, Ottawa County, and northern Allegan County, Michigan. On November 1, 2006, Macatawa Bank began offering brokerage services to its customers through an arrangement with Infinex Investments, Inc. ("Infinex"). Infinex is a full service investment provider, a registered broker-dealer and a member of the National Association of Securities Dealers (NASD) and the Securities Investor Protection Corporation (SIPC). As more fully discussed in our Form 8-K dated October 11, 2006, Macatawa Bank Corporation entered into an Agreement and Plan of Merger with the Smith & Associates investment advisory firm based in Holland, Michigan. The Smith & Associates acquisition became effective on January 1, 2007 and that business is now part of Macatawa Bank. Macatawa Statutory Trusts I and II are grantor trusts and issued \$20.0 million each of pooled trust preferred securities. These trusts are not consolidated in the Corporation's financial statements. For further information regarding consolidation, see the Notes to the Consolidated Financial Statements included herein. Macatawa Bank Mortgage Company, a subsidiary of Macatawa Bank, originates and sells residential mortgage loans into the secondary market on a servicing released basis.

We have experienced rapid and substantial growth since opening Macatawa Bank in November of 1997 with assets reaching \$2.1 billion as of December 31, 2007. Since our inception in 1997, we have raised approximately \$100.6 million in capital through private and public common stock offerings and trust preferred offerings to facilitate our growth and progress over these years.

We believe that growth in core deposits is key to our long-term success and is our primary funding source for asset growth. Establishing a branching network in our markets has been of high importance in order to facilitate this core deposit growth. We have gained community awareness and acceptance in our markets through this expanding branch network and our high quality service standards.

The West Michigan markets within which we operate continue to provide significant expansion opportunities for us. We opened our twenty-sixth branch during the second quarter of 2007 on the southeast side of the greater Grand Rapids area. Because of the significance of the greater Grand Rapids market and as it represents the greatest opportunity for market share growth, we anticipate additional branch openings in this market within the next few years. We also continue to enjoy success in building new and existing relationships in the Holland/Zeeland and Grand Haven markets. We anticipate that we will continue to experience growth in our balance sheet and in our earnings due to these expansion opportunities.

RESULTS OF OPERATIONS

Summary: Net income totaled \$9.3 million or \$0.54 per diluted share for 2007 compared to \$19.8 million or \$1.14 per diluted share for 2006 and \$20.9 million or \$1.21 per diluted share for 2005. The results for 2007 include charges against earnings of approximately \$11.6 million (\$7.5 million after tax, or approximately \$0.44 per share) for additional provisions for loan losses to address risks associated with loans to residential developers. The results for 2006 include a charge against earnings of \$4.7 million (\$3.1 million after tax, or approximately \$0.18 per share), for a loss associated with an impaired commercial loan relationship. Circumstances associated with these losses are described under Loan Portfolio and Asset Quality and Allowance for Loan Losses.

Net Interest Income: Net interest income totaled \$62.9 million during 2007 compared to \$67.4 million during 2006 and \$62.8 million during 2005. The decrease in net interest income during 2007 compared to 2006 was primarily due to a decline in the net interest margin partially offset by an increase in average earning assets. Average interest earning assets increased by \$120.5 million, or 7%, to \$1.96 billion for 2007. The net interest margin decreased 46 basis points to 3.21% for 2007 from 3.67% for 2006 from both a decrease in the yield on earning assets and an increase in the cost of funds.

The yield on earning assets decreased 15 basis points to 7.11% for 2007 from 7.26% for 2006. The impact of rising balances of nonperforming loans during 2007 resulted in a decline of approximately 18 basis points and was the primary reason for the overall decline. In addition, a shift to generally lower rate fixed rate loans offset the impact of an increase in the yield on the variable rate loan portfolio during the period from 2006 to 2007. The shift to fixed rate loan products occurred throughout most of this period as long-term fixed rates were generally lower than short-term rates. The impact from this shift was offset by a general rise in the yield on variable rate loans from the increase in short-term rates that occurred through June of 2006. The recent 100 basis point decline in the prime rate that resulted from the Federal funds rate cuts that began in late September of 2007 partially offset the increase in yield on the variable rate loan portfolio.

The cost of funds increased 31 basis points to 4.32% in 2007 from 4.01% in 2006. The general increase in rates paid on our deposit accounts, the rollover of time deposits at higher rates and a shift to higher costing funds within the generally high interest rate environment that occurred throughout 2006 and through the third quarter of 2007 are the primary reasons for the increase. The rates paid on time deposits and other rate sensitive deposit products reached attractive levels throughout most of 2007 causing deposit customers to shift funds from transaction accounts, primarily non-interest demand and money market accounts, into these higher rate accounts. The recent decrease in market rates that began in late September of 2007, however, led to a decline in our cost of funds during the fourth quarter, partially offsetting the increase in our cost of funds for the year.

The growth in net interest income during 2006 compared to 2005 was largely driven by strong growth in average interest earning assets, partially offset by a decline in the net interest margin. Average interest earning assets increased by \$180.5 million, or 11%, to \$1.83 billion for 2006. The net interest margin decreased by 14 basis points to 3.67% for 2006 from 3.81% for 2005 as the increase in the cost of funds exceeded the increase in the yield on assets. The increases in short-term market rates, including the Federal funds and prime rates, that continued through the first half of 2006 was the primary reason for the increase in the yield on interest earning assets of 89 basis points and the increase in the overall cost of funds of 114 basis points during this period.

Anticipated growth in earning assets is expected to continue at lower levels than we have experienced in the past due to the generally weak economic conditions in Michigan. The declines in the Federal funds and prime rates that began in September of 2007 and have continued into 2008 and potential future rate cuts will have a negative impact on net interest income in the near term, although over a full twelve month period the overall impact on earnings is expected to be neutral. Our variable rate loan portfolio exceeds the level of variable rate funding, but the fixed rate funding portfolio that reprices over the next twelve months is expected to offset this excess.

The following table shows an analysis of net interest margin for the years ended December 31, 2007, 2006 and 2005.

(Dollars in Thousands)

	For the years ended December 31,								
	2007			2006			2005		
	Average Balance	Interest Earned or Paid	Average Yield or Cost	Average Balance	Interest Earned or Paid	Average Yield or Cost	Average Balance	Interest Earned or Paid	Average Yield or Cost
Assets:									
Taxable securities	\$ 149,530	\$ 6,665	4.46%	\$ 128,833	\$ 5,424	4.21%	\$ 109,027	\$ 4,392	4.03%
Tax-exempt securities (1)	51,861	2,185	6.48%	51,145	2,154	6.48%	49,285	2,084	6.53%
Loans (2)	1,726,576	129,183	7.40%	1,636,710	125,034	7.55%	1,473,558	98,031	6.58%
Federal Home Loan Bank stock	12,275	559	4.49%	13,394	656	4.83%	13,299	573	4.25%
Federal funds sold and other short-term investments	14,912	780	5.16%	4,591	238	5.12%	8,976	315	3.46%
Total interest earning assets(1)	1,955,154	139,372	7.11%	1,834,673	133,506	7.26%	1,654,145	105,395	6.37%
Noninterest earning assets:									
Cash and due from banks	31,189			35,351			35,370		
Other	116,198			100,281			93,517		
Total assets	\$2,102,541			\$1,970,305			\$1,783,032		
Liabilities and Shareholders' Equity:									
Deposits:									
NOW and money market accounts	\$ 704,723	\$ 24,868	3.53%	\$ 655,549	\$ 21,427	3.27%	\$ 608,718	\$ 11,841	1.95%
Savings	40,957	236	0.58%	40,827	237	0.58%	40,674	183	0.45%
IRAs	42,836	2,033	4.75%	36,654	1,566	4.27%	30,536	1,092	3.58%
Time deposits	653,923	31,818	4.87%	674,270	30,367	4.50%	546,307	18,944	3.47%
Borrowings:									
Other borrowed funds	263,009	13,091	4.91%	176,796	8,209	4.58%	171,000	6,599	3.81%
Long-term debt	41,238	3,441	8.23%	41,238	3,346	8.00%	41,238	2,603	6.23%
Federal funds purchased	19,427	979	4.92%	18,528	937	4.99%	36,715	1,296	3.48%
Total interest bearing liabilities	1,766,113	76,456	4.32%	1,643,862	66,089	4.01%	1,475,188	42,558	2.87%
Noninterest bearing liabilities:									
Noninterest bearing demand accounts	165,059			167,143			164,184		
Other noninterest bearing liabilities	6,639			7,821			7,148		
Shareholders' equity	164,730			151,479			136,512		
Total liabilities and Shareholders' equity	\$2,102,541			\$1,970,305			\$1,738,032		
Net interest income		\$ 62,916			\$ 67,417			\$ 62,837	
Net interest spread (1)			2.79%			3.25%			3.50%
Net interest margin (1)			3.21%			3.67%			3.81%
Ratio of average interest earning assets to average interest bearing liabilities	110.70%			111.61%			112.13%		

(1) Yields are adjusted for tax-exempt interest.

(2) Loan fees are included in interest income. Nonaccrual loans are included in average loans outstanding.

The following table presents the dollar amount of changes in net interest income due to changes in volume and rate.

For The Year Ended December 31

(Dollars in thousands)

	2007 vs 2006			2006 vs 2005		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest income						
Taxable securities	\$ 909	\$ 332	\$ 1,241	\$ 827	\$ 205	\$ 1,032
Tax-exempt securities	30	1	31	86	(16)	70
Loans	6,711	(2,562)	4,149	11,542	15,461	27,003
FHLB stock	(53)	(44)	(97)	4	79	83
Fed funds sold and other short-term investments	540	2	542	(189)	112	(77)
Total interest income	\$ 8,137	\$ (2,271)	\$ 5,866	\$ 12,270	\$ 15,841	\$ 28,111
Interest expense						
NOWs and MMDAs	\$ 1,669	\$ 1,772	\$ 3,441	\$ 974	\$ 8,612	\$ 9,586
Savings	1	(2)	(1)	1	53	54
IRAs	282	185	467	240	234	474
Time deposits	(936)	2,387	1,451	5,020	6,403	11,423
Other borrowed funds	4,254	628	4,882	230	1,380	1,610
Long-term debt	---	95	95	---	743	743
Fed funds purchased	45	(13)	32	(782)	423	(359)
Total interest expense	5,315	5,052	10,367	5,683	17,848	23,531
Net interest income	\$ 2,822	\$ (7,323)	\$ (4,501)	\$ 6,587	\$ (2,007)	\$ 4,580

Provision for Loan Losses: The provision for loan losses for 2007 was \$15.8 million as compared to \$7.7 million for 2006 and \$3.7 million for 2005. The provision for loan losses in 2007 includes approximately \$11.6 million of extra provisions related primarily to loans to residential developers. The provision for loan losses in 2006 includes a \$4.7 million additional provision for one commercial borrower whose loans were allegedly falsely secured by nonexistent collateral. The amount of the loan loss provision in all periods is a byproduct of establishing our allowance for loan losses at levels deemed necessary in our methodology for determining the adequacy of the allowance. For more information about our allowance for loan losses and our methodology for establishing its level, see the discussion under the section Allowance for Loan Losses.

Noninterest Income: Noninterest income totaled \$16.1 million during 2007 compared to \$14.2 million during 2006 and \$13.0 million in 2005. The \$1.9 million increase in 2007 included increases from each major service category except gains on sold loans which decreased \$431,000 from \$1.7 million to \$1.3 million. The \$1.2 million increase in 2006 also included increases in each major service category except gains on sold loans which decreased \$615,000 from \$2.3 million to \$1.7 million.

Revenues from trust services increased \$1.3 million or 37% to \$4.9 million for 2007 and \$668,000 or 23% to \$3.6 million for 2006. The majority of the increase in trust fees in 2007 was related to the impact of customer relationships added from the Smith & Associates acquisition on January 1 and from the addition of new trust customers throughout 2007. In addition to customer account levels, trust fees are also based on the underlying values of trust assets managed. For 2006, the increase in revenue was from both an increase in the market valuation of assets held in trust accounts and an increase in new trust customers.

Deposit service charge income increased \$213,000 or 4% to \$5.1 million for 2007 compared to \$4.9 million for 2006 and \$4.3 million for 2005. The increase in each period primarily reflects the continued expansion of our deposit customer account base.

Other income increased \$822,000 in 2007 and \$569,000 in 2006. Debit and ATM card processing income increased \$443,000 in 2007 and \$362,000 in 2006, representing the majority of the increase in other income. The increase in debit and ATM card processing income reflects both an increase in usage from current customers and an overall increase in the number of debit and ATM card customers. Other fee categories included in other income that experienced growth in each period include credit card commissions and fees from brokerage services. Also included in other income for 2007 was a \$288,000 unrealized gain on the Company's interest rate swaps as more fully disclosed in the Notes to the Consolidated Financial Statements. The increase in other income in 2007 was partially offset by a \$171,000 decline in income from bank-owned life insurance ("BOLI") while the increase in 2006 included a \$373,000 increase in income from BOLI.

Gain on sales of loans primarily includes gains on the sale of real estate mortgage loans, and to a lesser extent, gains on the sale of the SBA guaranteed portion of certain commercial loans. We sell the majority of the fixed-rate mortgage loans we originate. We do not retain the servicing rights for the loans we sell. A summary of gain on sales of loans and related volume was as follows:

(Dollars in thousands)

	For The Year Ended December 31		
	2007	2006	2005
Gain on the sale of SBA guaranteed loans	\$ --	\$ 60	\$ 100
Net gain on the sale of real estate mortgage loans	1,290	1,661	2,236
Gain on sales of loans	\$ 1,290	\$ 1,721	\$ 2,336
Real estate mortgage loans originated for sale	\$ 86,440	\$ 103,655	\$ 137,028
Real estate mortgage loans sold	86,150	106,100	140,083
Net gain on the sale of real estate mortgage loans as a percent of real estate mortgage loans sold ("Loan sales margin")	1.50%	1.57%	1.60%

Gain on sales of loans decreased \$431,000 and \$615,000, respectively, in 2007 and 2006. The decline in both years was impacted by lower sales volumes and a declining sales margin. Mortgage interest rate levels had steadily increased since 2004, resulting in a continued decline in the level of residential refinancing and new loan originations. As sales volumes have steadily declined, competition has increased and resulted in a slight decline in our sales margin since 2005. The decline in 2007 also reflects the Company's interest in holding more of its mortgage loan volume in its portfolio as discussed more fully below under Loan Portfolio and Asset Quality.

Noninterest Expense: Noninterest expense totaled \$50.3 million for 2007 as compared to \$44.9 million for 2006 and \$41.4 million for 2005. The increase of \$5.4 million in 2007 included increases across each major expense category. The primary increase in 2006 was a \$2.4 million increase in salaries and benefits.

Salaries and benefits increased \$708,000 in 2007 largely from an increase in staff associated with the opening of two new branch locations and the addition of the new Asset Management Group from the acquisition of Smith & Associates on January 1. The costs associated with these staffing increases were partially offset by a reduction in performance incentives. The \$2.4 million increase in 2006 was related to additional staffing in each line of business and in support departments consistent with growth of the Bank and from increased incentives associated with strong operating performance in 2006. The 2006 increase also included \$657,000 of stock compensation expense associated with the adoption of FAS 123, Revised, on January 1, 2006.

Occupancy expense increased \$627,000 in 2007 and \$319,000 in 2006 and furniture and equipment expense increased \$735,000 in 2007 and \$246,000 in 2006. The increase in occupancy expense was consistent with our branch and facility expansion. The Company opened four new facilities in 2007, including two new branches and two branch relocations, and one new branch in 2006. The increase in furniture and equipment expense relates to costs associated with improving our internal and customer technologies, as well as costs associated with our facility expansion.

The \$141,000 increase in legal and professional fees in 2007 was primarily related to increased costs associated with higher non-performing assets. Data processing fees were up \$156,000 in 2007 and \$172,000 in 2006, consistent with new account growth.

Other expense increased \$2.8 million in 2007 and \$279,000 in 2006. The increase in 2007 includes approximately \$889,000 of additional FDIC assessments related to a change by the FDIC in their charges for all banks effective January 1, 2007. Costs associated with an increase in nonperforming assets increased by approximately \$609,000 and include losses on disposition, costs of property appraisals and other carrying costs. The remaining increase in other expense includes increases in various categories consistent with our customer account growth. These costs include debit card and ATM processing, customer and internal courier, brokerage account processing and outside service support.

Although we expect noninterest expense levels to generally rise with our growth, we expect efficiency to improve by better utilizing our capacity as we grow. We believe the additional capacity within our branch network will continue to provide future growth opportunities without significant additional costs.

Federal Income Tax Expense: Our federal income tax expense has fluctuated generally commensurate with changes in pre-tax earnings. Our federal income tax expense was lower than the amount computed by applying our statutory federal income tax rate of 35% to our pre-tax earnings primarily due to tax-exempt interest income and income from bank-owned life insurance. Our effective tax rate was 28.7%, 31.5% and 32.1% in 2007, 2006 and 2005, respectively.

FINANCIAL CONDITION

Summary: Total assets were \$2.13 billion at December 31, 2007, an increase of \$55.2 million from \$2.08 billion at December 31, 2006. We believe the continued asset growth reflects the acceptance of our full-service community banking philosophy in the communities we serve. Our asset growth consists primarily of growth in our loan portfolio as we continue to attract new loan customers and deepen relationships with existing customers despite the strong competition from other locally based community banks and larger regional banks. The growth in total assets was principally funded by growth in deposits from within the Company's markets as discussed below.

Cash and Cash Equivalents: Our cash and cash equivalents, which include federal funds sold and short-term investments, were \$49.8 million at December 31, 2007 compared to \$39.9 million at December 31, 2006. The balance at year-end 2007 was elevated due to a large inflow of customer deposits that occurred at the end of the year.

Securities: Securities increased \$2.2 million to \$203.4 million at December 31, 2007 from \$201.3 million at December 31, 2006. We maintain our security portfolio at a level to provide diversity in the level of credit risk within our asset base, to support our liquidity needs and to balance our interest rate risk. Our portfolio consists primarily of high quality U.S government agency and state and local municipal bonds classified as available for sale. These securities are generally purchased at fixed rates to help offset the interest sensitivity of our variable rate loan portfolio. We expect growth of our securities portfolio to be consistent with the growth of our company to maintain the diversity of our assets and support our liquidity and interest rate risk management.

Loan Portfolio and Asset Quality: Our total loan portfolio increased \$39.2 million to \$1.75 billion at December 31, 2007 from \$1.71 billion at December 31, 2006.

During 2007, residential mortgage loans led our loan portfolio growth. Because of the relatively short duration of our assets, we viewed the improvement in rates on residential mortgage loans as an opportunity to hold more of these higher quality loans in our portfolio. The residential mortgage loan portfolio grew \$41.5 million to \$266.3 million at December 31, 2007. Our residential real estate loan portfolio, which also includes residential construction loans made to individual homeowners, comprised approximately 15% and 13% of portfolio loans at the end of 2007 and 2006, respectively.

Our residential real estate portfolio represents only a portion of our residential origination loan volume, as we also sell a portion of our fixed-rate obligations on the secondary market with servicing released. We originated for sale \$86.4 million in residential mortgages in 2007, \$103.7 million in 2006 and \$137.0 million in 2005. Loans held for sale were \$3.1 million at December 31, 2007 compared to \$1.5 million at December 31, 2006.

In our remaining portfolios, commercial and industrial loans increased \$22.6 million, commercial real estate loans declined \$19.8 million and consumer loans declined \$5.1 million for 2007. The slower loan growth in our commercial and consumer loan portfolios during 2007 was a reflection of the weak economic conditions in West Michigan. In particular, deterioration in residential land development has impacted both asset growth and asset quality.

Total commercial and commercial real estate loans were \$1.29 billion and \$1.29 billion at December 31, 2007 and 2006, respectively. This portfolio remains our largest loan segment and accounted for approximately 74% and 76% of the total loan portfolio at December 31, 2007 and 2006, respectively. Our commercial and commercial real estate portfolios are made up of loans to small and mid-sized business. The commercial loan portfolio we have built reflects the acceptance of our lending approach by our customers and the ability of our lending team to respond to their needs effectively. Our commercial loan department is built around a well-seasoned officer team and our lending approach involves an efficient loan approval process.

During 2007, we focused more of our resources on growing our commercial and industrial loans to help diversify our commercial loan portfolio. Our commercial and industrial portfolio was \$438.7 million at December 31, 2007 and represented 34% of our commercial portfolio, up from 32% at December 31, 2006. A further breakdown of the composition of the commercial loans portfolio is shown in the table below (in thousands):

	December 31, 2007	December 31, 2006
	<u> </u>	<u> </u>
Construction/Land Development	\$ 335,366	\$ 360,372
Farmland and Agriculture	30,371	37,426
Nonfarm, Nonresidential	454,764	439,436
Multi-family	35,381	38,483
	<u> </u>	<u> </u>
Total Commercial Real Estate Loans	855,882	875,717
	<u> </u>	<u> </u>
Commercial and Industrial	438,743	416,135
	<u> </u>	<u> </u>
Total Commercial Loans	\$ 1,294,625	\$ 1,291,852
	<u> </u>	<u> </u>

Approximately 42% of the balance of commercial real estate loans at December 31, 2007 was owner-occupied while 58% was non-owner occupied.

Loans for the development or sale of 1-4 family residential properties was approximately \$235.8 million at December 31, 2007, representing approximately 70% of the construction and land development portfolio. Of this total, approximately \$29.5 million was secured by vacant land, \$125.6 million was secured by developed residential land and \$80.7 million was secured by 1-4 family properties held for speculative purposes. Vacant land is land zoned for residential purposes but with no further development. Developed residential land is land that has been further developed for future residential construction, including but not limited to completed lot surveys, road work, water, sewer and other utility preparation and general land grade. 1-4 family properties held for speculative purposes are on developed residential lots and include completed residential homes or residential homes in the process of construction.

Our consumer loan portfolio includes loans secured by personal property and home equity fixed term and line of credit loans. Our consumer loan portfolio decreased to \$189.7 million at December 31, 2007 from \$194.8 million at December 31, 2006. Consumer loans comprised approximately 11% of our portfolio loans at the end of both 2007 and 2006.

Our loan portfolio is reviewed regularly by an independent, internal loan review team, our own loan officers, and our senior management. When reasonable doubt exists concerning collectibility of interest or principal of one of our loans, that loan is placed in non-accrual status. Any interest previously accrued but not collected is reversed and charged against current earnings.

Nonperforming assets are comprised of nonperforming loans, foreclosed assets and repossessed assets. Nonperforming loans include loans on non-accrual status, restructured loans and loans delinquent more than 90 days but still accruing. Foreclosed and repossessed assets include assets acquired in settlement of loans.

Nonperforming loans as of December 31, 2007 totaled \$73.9 million or 4.22% of total portfolio loans compared to \$22.3 million or 1.30% of total portfolio loans at December 31, 2006.

Loans for the development or sale of 1-4 family residential properties were approximately \$57.4 million or 78% of total non-performing loans at December 31, 2007. Of this total, approximately \$3.2 million was secured by vacant land, \$40.8 million was secured by developed residential land and \$13.4 million was secured by 1-4 family properties held for speculative purposes. The remaining balance of nonperforming loans at the end of 2007 consist of a number of commercial loans most of which are on nonaccrual for which we consider to be well collateralized or adequately reserved.

The majority of the balance of nonperforming loans at December 31, 2006 related to one commercial relationship totaling approximately \$15.2 million. At December 31, 2007, approximately \$15 million remained outstanding for this borrower and was included in the balance of nonperforming loans.

Foreclosed assets totaled \$5.7 million at December 31, 2007 compared to \$3.2 million at December 31, 2006. The balance at the end of 2007 was comprised of a number of real estate properties for which no loss is expected upon disposition.

Total nonperforming assets amounted to \$79.8 million or 3.75% of total assets compared to \$25.6 million or 1.23% as of December 31, 2006. The following table shows the composition and amount of our nonperforming assets.

(Dollars in thousands)

	As of December 31		
	2007	2006	2005
Nonaccrual loans	\$ 70,999	\$ 5,811	\$ 3,977
Loans 90 days or more delinquent and still accruing	2,872	16,479	227
Restructured loans	38	--	--
Total nonperforming loans	73,909	22,290	4,204
Foreclosed assets	5,704	3,212	527
Repossessed assets	172	81	165
Total nonperforming assets	\$ 79,785	\$ 25,583	\$ 4,896
Nonperforming loans to total loans	4.22%	1.30%	.27%
Nonperforming assets to total assets	3.75%	1.23%	.26%

Allowance for Loan Losses: Our allowance for loan losses at December 31, 2007 was \$33.4 million, or 1.91% of total portfolio loans, compared to \$23.3 million or 1.36% of total portfolio loans at December 31, 2006.

The increase in the level of the allowance was primarily related to the migration of loans to residential developers for the development or sale of 1-4 family residential properties to an impaired status, and a related increase in the level of reserves for these loans. During the third and fourth quarters of 2007, the allowance for loan losses was increased by approximately \$11.6 million of additional provisions for loan losses associated with these loans. Based upon our internal analysis, in our judgment, we have provided adequate allowances for loan losses, although there can be no assurance that the allowance for losses on loans will be adequate to cover all losses.

Our allowance for loan losses is maintained at a level considered appropriate based upon our regular, quarterly assessment of the probable estimated losses inherent in the loan portfolio. Our methodology for measuring the appropriate level of allowance relies on several key elements, which include specific allowances for loans considered impaired, formula allowance for graded loans, general allocations based on historical trends for pools of similar loan types and under certain circumstances, reserves related to current market conditions that are pertinent to certain aspects of the loan portfolio.

During the fourth quarter of 2006, regulatory authorities reached a conceptual consensus on the method for determining the allowance. In addition to reaffirming the importance of experience grounded, objectively determinable amounts, they acknowledged the appropriateness of considering other subjective factors in determining the proper level of the allowance. We believe our process conforms to this guidance.

Specific allowances are established in cases where senior credit management has identified significant conditions or circumstances related to an individually impaired credit that we believe indicates the probability that a loss may be incurred. This amount is determined by methods prescribed by SFAS No. 114, "Accounting by Creditors for Impairment of a Loan". The specific allowance for impaired loans was \$15.8 million at December 31, 2007 and \$400,000 at December 31, 2006. The increase in the specific allowance for impaired loans was primarily related to the increase in impaired loans associated with the development or sale of 1-4 family residential properties.

Impaired loans increased \$93.2 million to \$99.0 million at December 31, 2007. Approximately \$62.3 million or 63% of impaired loans were for the development or sale of 1-4 family residential properties. Of this total, approximately \$3.3 million was secured by vacant land, \$42.5 million was secured by developed residential land and \$16.5 million was secured by 1-4 family properties held for speculative purposes.

The allowance allocated to commercial loans that are not considered to be impaired is calculated by applying loss factors to outstanding loans based on the internal risk grade of such loans. We use a loan rating method based upon an eight point system. Loans are assigned a loss allocation factor for each loan classification category. The lower the grade assigned to a loan category, the greater the allocation percentage that is applied. Changes in risk grade of loans affect the amount of the allowance allocation. The determination of our loss factors is based upon our actual loss history by loan grade, and adjusted for consideration of significant factors that, in management's judgment, affect the collectibility of the portfolio as of the analysis date. The commercial loan allowance was \$15.3 million at December 31, 2007 compared to \$21.0 million at December 31, 2006. The decrease in the commercial loan allowance was driven primarily by the migration of loans and allocated allowance to impaired status.

Groups of homogeneous loans, such as residential real estate, open- and closed-end consumer loans, etc., receive general allowance allocations based on a review of loss trends by specific loan segments. These loss allocations are then adjusted based upon past due status, and consideration for general economic and business conditions, collateral values, seasoning of the portfolios and most recent loss experience for similar pools of loans. The general allowance was \$2.3 million at December 31, 2007 and \$1.8 million at December 31, 2006. The increase was largely related to an increase in the balance of residential real estate loans and a slight increase in the past due status of these loans.

The following table shows the allocation of the allowance for loan loss at the dates indicated to the extent specific allocations have been determined relative to particular loans.

		As of December 31					
(Dollars in Thousands)		2007		2006		2005	
		Allowance Amount	% of Each Category to Total Loans	Allowance Amount	% of Each Category to Total Loans	Allowance Amount	% of Each Category to Total Loans
Commercial and commercial							
real estate		\$ 31,132	74.0%	\$ 21,417	75.5%	\$ 18,883	74.5%
Residential real estate		699	15.2%	502	13.1%	463	14.4%
Consumer		1,591	10.8%	1,340	11.4%	1,646	11.1%
Unallocated		---	---	---	---	---	---
Total		\$ 33,422	100.0%	\$ 23,259	100.0%	\$ 20,992	100.0%

The above allocations are not intended to imply limitations on usage of the allowance. The entire allowance is available for any loan losses without regard to loan type. Of the \$33.4 million allowance at December 31, 2007, 47% related to specific allocations on impaired loans, 46% related to commercial loan portfolio allocations and 7% related to general allocations for homogeneous loans.

Net charge-offs totaled \$5.6 million or 0.32% of average loans for 2007 compared to \$5.4 million, or 0.33% of average loans for 2006 and \$1.9 million or 0.13% of average loans for 2005. Net charge-offs in 2007 include charges associated with various loans, primarily related to impaired loans to residential developers. These charge-offs were considered necessary to bring loan balances to levels considered collectible based upon current information. Net charge-offs in 2006 include a \$4.7 million charge-off related to one commercial borrower whose loans were allegedly falsely secured by nonexistent collateral. The Company filed a lawsuit against this borrower in 2007 that is still pending.

The following is a summary of our portfolio loan balances and changes in the allowance for loan losses and related ratios.

(Dollars in thousands)

	December 31		
	2007	2006	2005
Portfolio Loans:			
Average daily balance of loans for the year	\$ 1,725,453	\$ 1,635,391	\$ 1,471,404
Amount of loans outstanding at end of period	1,750,632	1,711,450	1,547,879
Allowance for loan losses:			
Balance at beginning of year	\$ 23,259	\$ 20,992	\$ 19,251
Addition to allowance charged to operations	15,750	7,715	3,675
Loans charged-off:			
Commercial	(5,065)	(5,601)	(1,842)
Residential real estate	(139)	(43)	(24)
Consumer	(716)	(410)	(371)
Recoveries:			
Commercial	263	399	261
Residential real estate	2	10	17
Consumer	68	197	25
Balance at end of year	<u>\$ 33,422</u>	<u>\$ 23,259</u>	<u>\$ 20,992</u>
Ratios:			
Net charge-offs to average loans outstanding	.32%	.33%	.13%
Allowance for loan losses to loans outstanding at year end	1.91%	1.36%	1.36%

Premises and Equipment: Premises and equipment totaled \$64.6 million at December 31, 2007, an increase of \$3.8 million from December 31, 2006. The increase included costs associated with the opening of four new facilities in 2007, including a new regional facility in downtown Holland, the relocation of a branch site and two new branches in Kent County.

Deposits: Total deposits decreased \$144.0 million to \$1.52 billion at December 31, 2007, as compared to \$1.67 billion at December 31, 2006. The decrease was primarily due to a decline of \$147 million in money market balances from one of the Company's institutional depositors during the last half of 2007. The withdrawals were associated with planned distributions and the depositor remains an excellent customer for the Company.

The Company also reduced its holdings of deposits generated from out-of-market brokers during the year. Brokered deposits declined \$70.1 million during 2007. Accordingly, growth from deposits within the Company's markets was approximately \$73.1 million during 2007. The increase in local deposits, combined with an increase in other borrowings at more attractive terms and pricing, allowed the Company to reduce its reliance on brokered deposits. The growth in deposits within the Company's markets was primarily from an increase of \$25.1 million in money market accounts and an increase of \$34.4 million in certificates of deposit, as deposit customers preferred such accounts within the generally high rate environment. With our continued focus on quality customer service, the desire of customers to deal with a local bank, and the convenience of our expanding and maturing branch network, we expect further growth in our core transaction deposits.

Noninterest bearing demand accounts comprised approximately 12% of total deposits at December 31, 2007, as compared to approximately 11% of total deposits at the end of 2006. Interest bearing demand, including money market and savings accounts, comprised approximately 43% of total deposits at December 31, 2007, as compared to 46% at the end of 2006. Time accounts as a percentage of total deposits were approximately 45% at December 31, 2007, as compared to 43% at the end of 2006.

Borrowed Funds: Borrowed funds consist of advances from the Federal Home Loan Bank, securities sold under agreements to repurchase (“repo borrowings”), long-term debt associated with the issuance of trust preferred securities and federal funds purchased provided by our correspondent banks.

Borrowed funds totaled \$441.8 million at December 31, 2007, including \$244.1 million of Federal Home Loan Bank advances, \$110.0 million in repo borrowings, \$41.2 million in long-term debt associated with trust preferred securities and \$46.5 million in federal funds purchased. Borrowed funds totaled \$245.2 million at December 31, 2006 including \$172.0 million of Federal Home Loan Bank advances, \$20.0 million in repo borrowings, \$41.2 million in long-term debt associated with trust preferred securities and \$12.0 million in federal funds purchased. The increase in borrowed funds in 2007 was used primarily to offset a large portion of the decline in brokered deposits and institutional deposits discussed above.

CAPITAL RESOURCES AND LIQUIDITY

Capital Resources: Total shareholders’ equity was \$160.6 million at December 31, 2007 compared to \$156.8 million at December 31, 2006. The increase of \$3.8 million was primarily from a \$3.0 million increase in accumulated other comprehensive income. Net income generated during 2007 of \$9.3 million was primarily offset by cash dividends of \$8.8 million, or \$.51 per share. We began paying cash dividends at the end of 2000 and have increased the amount of the dividend each year since. It is anticipated that we will continue to pay quarterly cash dividends in the future. We have also paid a stock dividend each year beginning in 2001. A 5% stock dividend was paid in May 2007, resulting in a transfer of \$9.5 million from retained earnings to common stock.

The increase in accumulated other comprehensive income was due to an increase in the market value of both securities available for sale and the derivative instruments associated with the Company’s interest rate swap arrangements. The market value increases were related to a decrease in market interest rates for similar instruments. For more information regarding our interest rate swaps, see the Notes to the Consolidated Financial Statements.

Capital levels for the Company continue to be maintained at levels well in excess of regulatory minimums for bank holding companies. The following table shows the Company’s various capital ratios for 2007 and 2006.

As of and for the year ended December 31,	2007	2006
Average equity to average assets	7.8%	7.7%
Total risk-based capital	10.7%	10.9%
Tier 1 risk-based capital	9.4%	9.5%
Tier 1 capital to average assets	8.3%	8.5%

The regulatory ratios declined slightly in 2007 as assets grew slightly faster than retained capital for 2007. The entire \$40.0 million of trust preferred securities outstanding at December 31, 2007 qualified as Tier 1 capital. For more information regarding the trust preferred securities, please refer to the Notes to the Consolidated Financial Statements.

Capital sources include, but are not limited to, additional common stock offerings, trust preferred securities offerings and subordinated debt.

Liquidity: The liquidity of a financial institution reflects its ability to manage a variety of sources and uses of funds. Our Consolidated Statements of Cash Flows categorize these sources and uses into operating, investing and financing activities. We primarily focus on developing access to a variety of borrowing sources to supplement our deposit gathering activities and provide funds for growing our investment and loan portfolios. Our sources of liquidity include our borrowing capacity with the Federal Home Loan Bank, federal funds purchased lines and other secured borrowing sources with our correspondent banks, loan payments by our borrowers, maturity and sales of our securities available for sale, growth of our deposits and deposit equivalents, federal funds sold, and the various capital resources discussed above. Liquidity management involves the ability to meet the cash flow requirements of our customers. Our customers may be either borrowers with credit needs or depositors wanting to withdraw funds. We feel our liquidity position is sufficient to meet these needs.

In the normal course of business, we enter into certain contractual obligations including obligations which are considered in our overall liquidity management. The table below summarizes our significant contractual obligations at December 31, 2007.

(dollars in thousands)	<u>1 year or less</u>	<u>2-3 years</u>	<u>4-5 years</u>	<u>After 5 years</u>
Time deposit maturities	\$ 553,120	\$ 129,226	\$ 4,319	\$ 108
Other borrowed funds	140,482	206,237	--	7,333
Federal funds purchased	46,467	--	--	--
Long-term debt	--	--	--	41,238
	<u>740,069</u>	<u>335,463</u>	<u>4,319</u>	<u>48,679</u>
Total	\$ 740,069	\$ 335,463	\$ 4,319	\$ 48,679

In addition to normal loan funding, we also maintain liquidity to meet customer financing needs through unused lines of credit, unfunded loan commitments and standby letters of credit. The level and fluctuation of these commitments is also considered in our overall liquidity management. At December 31, 2007, we had a total of \$424.6 million in unused lines of credit, \$44.0 million in unfunded loan commitments and \$21.6 million in standby letters of credit.

SENSITIVITY TO MARKET RISK

Our primary market risk exposure is interest rate risk and, to a lesser extent, liquidity risk. All of our transactions are denominated in U.S. dollars with no specific foreign exchange exposure. Macatawa Bank has only limited agricultural-related loan assets, and therefore has no significant exposure to changes in commodity prices.

Our market risk exposure is mainly comprised of our sensitivity to interest rate risk. Our balance sheet has sensitivity, in various categories of assets and liabilities, to changes in prevailing rates in the U.S., including the Federal funds rate, the prime rate, mortgage rates, U.S. Treasury rates and various money market indexes. As part of our asset/liability management process, we identify and evaluate opportunities to structure our balance sheet to maximize our earnings while balancing our liquidity and interest rate risk within established parameters.

We utilize a simulation model as our primary measurement technique in our interest rate risk management. Our simulation analyses monitors the direction and magnitude of variations in net interest income and the economic value of equity ("EVE") resulting from potential changes in market interest rates.

Key assumptions in the model include the repricing of cash flows and maturities of interest-sensitive assets and interest-sensitive liabilities at current market rates, prepayment speeds on certain assets, and changes in market conditions impacting loan and deposit pricing. We also assume certain levels of rate sensitivity to changes in market rates of our non-maturing transaction deposits based upon our historical sensitivity under previous interest rate cycles, and we include pricing floors on discretionary priced liability products which limit how low various checking and savings products could go under declining interest rates. These assumptions reflect our pricing philosophy in response to changing interest rates.

The simulation analysis also considers the interest rate swaps we have entered into which have the effect of converting \$60.0 million in variable rate loans repricing immediately into fixed rate loans with a weighted average maturity of 1.5 years. The interest rate swaps are more fully discussed in the Notes to the Consolidated Financial Statements.

We forecast the next twelve months of net interest income under an assumed environment of gradual changes in market interest rates under various scenarios. The resulting change in net interest income is an indication of the sensitivity of our earnings to directional changes in market interest rates. The simulation also measures the change in EVE, or the net present value of our assets and liabilities, under the same shifts in interest rates, as calculated by discounting the estimated future cash flows using a market-based discount rate.

The following table shows the impact of changes in interest rates on net interest income over the next twelve months and EVE based on our balance sheet as of December 31, 2007 (dollars in thousands).

Interest Rate Scenario	Economic Value of Equity	Percent Change	Net Interest Income	Percent Change
Change in Interest Rates				
200 basis point rise	\$ 163,685	(15.25)%	\$ 60,464	0.11%
100 basis point rise	180,190	(6.70)	60,491	0.16
Base-rate scenario	193,137	---	60,396	---
100 basis point decline	199,241	3.16	60,134	(0.43)
200 basis point decline	203,161	5.19	59,690	(1.17)

This analysis suggests that we are well-balanced, with limited fluctuations in net interest income under each scenario over the next twelve months. Further, our balanced sensitivity in time horizons beyond one year results in little fluctuation in EVE under the various rate shock scenarios.

We also forecast the impact of immediate and parallel interest rate shocks on net interest income under various scenarios to measure the sensitivity of our earnings under extreme conditions.

The quarterly simulation analysis is monitored against acceptable interest rate risk parameters by the Asset/Liability Committee and reported to the Board of Directors.

In addition to changes in interest rates, the level of future net interest income is also dependent on a number of other variables, including: the growth, composition and absolute levels of loans, deposits, and other earning assets and interest-bearing liabilities; economic and competitive conditions; potential changes in lending, investing and deposit gathering strategies; and client preferences.

CRITICAL ACCOUNTING AND POLICIES ESTIMATES:

To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and future results could differ. The allowance for loan loss and the status of contingencies are deemed critical due to the required level of management judgment and the use of estimates, making them particularly subject to change.

Our methodology for determining the allowance for loan loss and the related provision for loan losses is described above in the "Allowance for Loan Loss" discussion. This area of accounting requires significant judgment due to the number of factors which can influence the collectibility of a loan. Unanticipated changes in these factors could significantly change the level of the allowance for loan losses and the related provision for loan losses. Although, based upon our internal analysis, and in our judgment, we have provided an adequate allowance for loan losses, there can be no assurance that our analysis has properly identified all of the probable losses in our loan portfolio.

Loss contingencies, including the legal actions involving Trade Partners as described in Note 16 of the financial statements, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. This, too, is an accounting area that involves significant judgment. Although, based upon our judgment and internal analysis we have properly accounted for loss contingencies, future changes in the status of such contingencies could result in a significant change in the level of contingent liabilities and a related impact to operating earnings.

Forward-Looking Statements: This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Reform Act of 1995, and are including this statement for purposes of these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies, and expectations are generally identifiable by use of the words believe, expect, intend, anticipate, estimate, project, may or similar expressions. The presentation and discussion of the provision and allowance for loan losses, statements concerning future profitability or future growth or increases, and statements about the adequacy of our capital resources are examples of inherently forward-looking statements in that they involve judgments and statements of belief as to the outcome of future events. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse affect on our operations and future prospects include, but are not limited to, changes in: interest rates, general economic conditions, legislative/regulatory changes, monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board, the quality or composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, demand for financial services in our market area and accounting principles, policies, and guidelines. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Further information concerning us and our business, including additional factors that could materially affect our financial results, is included in our filings with the Securities and Exchange Commission.

Quarterly Stock Price Information: The Company's common stock is quoted on the Nasdaq Global Select Market under the symbol MCBC. High and low sales prices (as reported on the Nasdaq Global Select Market) for each quarter for the years ended December 31, 2007 and 2006 are set forth in the table below. This information has been restated to reflect the impact of all previously paid stock dividends and splits.

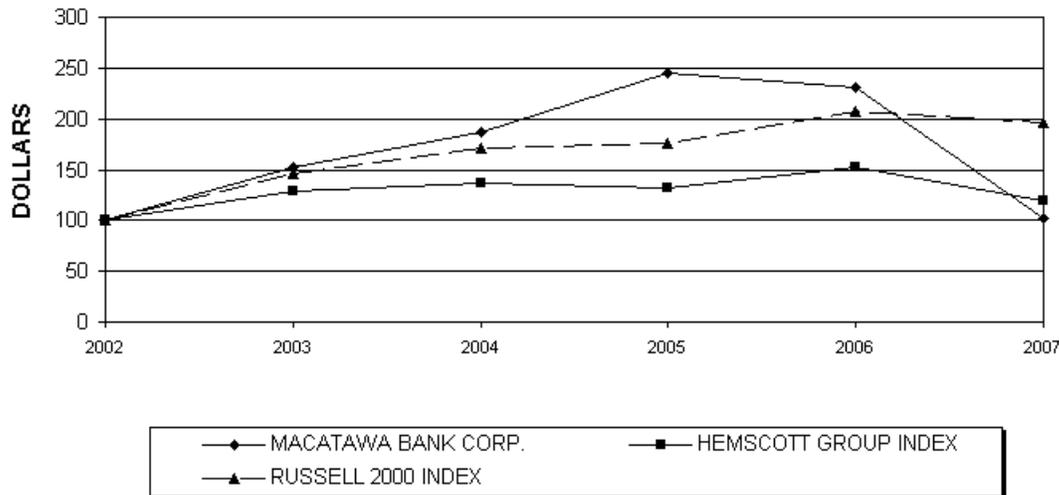
	2007		2006	
	High	Low	High	Low
Quarter				
First Quarter	\$ 20.28	\$ 17.01	\$ 23.88	\$ 21.25
Second Quarter	\$ 17.90	\$ 14.70	\$ 23.04	\$ 19.68
Third Quarter	\$ 16.44	\$ 11.04	\$ 22.90	\$ 19.99
Fourth Quarter	\$ 14.44	\$ 7.56	\$ 22.65	\$ 19.42

Quarterly cash dividends totaling \$.37 were paid during 2005, and a 15% stock dividend was declared during the second quarter of 2005. Quarterly cash dividends totaling \$.46 were paid during 2006, and a 5% stock dividend and a 3-for-2 stock split were declared during the second quarter of 2006. Quarterly cash dividends totaling \$.51 were paid during 2007, and a 5% stock dividend was declared during the second quarter of 2007.

SHAREHOLDER RETURN PERFORMANCE GRAPH

The following graph shows the cumulative total shareholder return on an investment in the Company's common stock compared to the Hemscott Group Index of Regional-Midwest Banks and the Russell 2000 Index. The comparison assumes a \$100 investment on December 31, 2002 at the initial price of \$9.90 per share (adjusted for all stock dividends and splits) and assumes that dividends are reinvested. The comparisons in this table are set forth in response to Securities and Exchange Commission (SEC) disclosure requirements, and therefore are not intended to forecast or be indicative of future performance of the common stock.

COMPARISON OF 5-YEAR TOTAL CUMULATIVE TOTAL RETURN AMONG MACATAWA BANK CORPORATION, RUSSELL 2000 INDEX AND HEMSCOTT GROUP INDEX



ASSUMES \$100 INVESTED ON DEC. 31, 2002
ASSUMES DIVIDEND REINVESTED
FISCAL YEAR ENDED DEC. 31, 2007

	2002	2003	2004	2005	2006	2007
Macatawa Bank Corporation	100.00	152.95	186.17	245.35	230.30	101.49
Hemscott Group Index	100.00	128.56	137.08	131.62	152.58	119.51
Russell 2000 Index	100.00	145.37	170.81	176.48	206.61	196.40

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**MANAGEMENT'S REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING**

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system was designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Company management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2007. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on our assessment we believe that, as of December 31, 2007, the Company's internal control over financial reporting is effective based on those criteria.

/s/ Benj. A. Smith, III

Benj. A. Smith, III
Chief Executive Officer

/s/ Jon W. Swets

Jon W. Swets
Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Macatawa Bank Corporation
Holland, Michigan

We have audited Macatawa Bank Corporation's internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Macatawa Bank Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Macatawa Bank Corporation maintained in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Macatawa Bank Corporation as of December 31, 2007 and 2006 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, 2007 and our report dated February 21, 2008 expressed an unqualified opinion on those consolidated financial statements.

/s/ Crowe Chizek and Company LLC

Grand Rapids, Michigan
February 21, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Macatawa Bank Corporation
Holland, Michigan

We have audited the accompanying consolidated balance sheets of Macatawa Bank Corporation as of December 31, 2007 and 2006, and the related statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2007. 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 Macatawa Bank Corporation at December 31, 2007 and 2006, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Macatawa Bank Corporation's internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 21, 2008 expressed an unqualified opinion thereon.

/s/ Crowe Chizek and Company LLC

Grand Rapids, Michigan
February 21, 2008

MACATAWA BANK CORPORATION
CONSOLIDATED BALANCE SHEETS
December 31, 2007 and 2006
(Dollars in thousands)

	2007	2006
ASSETS		
Cash and due from banks	\$ 49,816	\$ 39,882
Securities available for sale, at fair value	201,498	198,546
Securities held to maturity (fair value 2007 - \$1,961, 2006 - \$2,762)	1,917	2,711
Federal Home Loan Bank (FHLB) stock	12,275	12,275
Loans held for sale	3,127	1,547
Total loans	1,750,632	1,711,450
Allowance for loan losses	(33,422)	(23,259)
	1,717,210	1,688,191
Premises and equipment - net	64,564	60,731
Accrued interest receivable	10,003	11,233
Goodwill	25,919	23,915
Acquisition intangibles	3,023	1,563
Bank-owned life insurance	22,703	21,843
Other assets	17,911	12,379
	1,717,210	1,688,191
Total assets	\$ 2,129,966	\$ 2,074,816
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest-bearing	\$ 185,681	\$ 180,032
Interest-bearing	1,337,872	1,487,525
	1,523,553	1,667,557
Federal funds purchased	46,467	11,990
Other borrowed funds	354,052	192,018
Long-term debt	41,238	41,238
Accrued expenses and other liabilities	4,031	5,164
	1,969,341	1,917,967
Total liabilities	1,969,341	1,917,967
Shareholders' equity		
Preferred stock, no par value, 500,000 shares authorized; no shares issued and outstanding		
Common stock, no par value, 40,000,000 shares authorized; 16,968,398 and 16,254,619 shares issued and outstanding at December 31, 2007 and 2006, respectively	163,522	153,728
Retained earnings (deficit)	(4,208)	4,840
Accumulated other comprehensive income (loss)	1,311	(1,719)
	160,625	156,849
Total shareholders' equity	160,625	156,849
Total liabilities and shareholders' equity	\$ 2,129,966	\$ 2,074,816

See accompanying notes to consolidated financial statements.

MACATAWA BANK CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2007, 2006 and 2005
(Dollars in thousands, except per share data)

	2007	2006	2005
Interest income			
Loans, including fees	\$ 129,183	\$ 125,034	\$ 98,031
Securities			
Taxable	6,665	5,424	4,392
Tax-exempt	2,185	2,154	2,084
FHLB stock	559	656	573
Federal funds sold and other short-term investments	780	238	315
	139,372	133,506	105,395
Total interest income			
Interest expense			
Deposits	58,955	53,597	32,060
Other borrowings	13,091	8,209	6,599
Long-term debt	3,441	3,346	2,603
Federal funds purchased	969	937	1,296
	76,456	66,089	42,558
Total interest expense			
Net interest income	62,916	67,417	62,837
Provision for loan losses	15,750	7,715	3,675
	47,166	59,702	59,162
Net interest income after provision for loan losses			
Noninterest income			
Service charges and fees	5,087	4,874	4,323
Gain on sales of loans	1,290	1,721	2,336
Trust fees	4,906	3,589	2,921
Other	4,815	3,993	3,424
	16,098	14,177	13,004
Total noninterest income			
Noninterest expense			
Salaries and benefits	25,499	24,791	22,388
Occupancy of premises	4,185	3,558	3,239
Furniture and equipment	3,956	3,221	2,975
Legal and professional fees	1,068	927	786
Marketing and promotion	1,261	1,075	1,145
Data processing fees	1,912	1,756	1,584
Other	12,378	9,585	9,306
	50,259	44,913	41,423
Total noninterest expenses			
Income before income tax expense	13,005	28,966	30,743
Income tax expense	3,736	9,135	9,854
	9,269	19,831	20,889
Net income	\$ 9,269	\$ 19,831	\$ 20,889
Basic earnings per share	\$.54	\$ 1.17	\$ 1.24
Diluted earnings per share	\$.54	\$ 1.14	\$ 1.21
Cash dividends per share	\$.51	\$.46	\$.37

See accompanying notes to consolidated financial statements.

MACATAWA BANK CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years ended December 31, 2007, 2006 and 2005
(Dollars in thousands, except per share data)

	Common Stock	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, January 1, 2005	\$ 124,389	\$ 4,277	\$ 408	\$ 129,074
Net income		20,889		20,889
Other comprehensive income (loss):				
Net change in unrealized gain (loss) on derivative instruments, net of tax of (\$725)			(1,346)	(1,346)
Net change in unrealized gain (loss) on securities available for sale, net of tax of (\$1,046)			(1,941)	(1,941)
Comprehensive income				17,602
Stock compensation expense (includes 5,000 shares earned under Stock Compensation Plan)	176			176
Issued 1,328,409 shares in payment OF 15% stock dividend	10,863	(10,898)		(35)
Issued 70,681 shares for stock option exercises (net of 6,017 shares exchanged and including \$275 of tax benefit)	1,155			1,155
Cash dividends at \$.37 per share		(6,228)		(6,228)
Balance, December 31, 2005	136,583	8,040	(2,879)	141,744
Net income		19,831		19,831
Other comprehensive income (loss):				
Net change in unrealized gain (loss) on derivative instruments, net of tax of \$135			250	250
Net change in unrealized gain (loss) on securities available for sale, net of tax of \$490			910	910
Comprehensive income				20,991
Issued 513,283 shares in payment of 5% stock dividend	15,127	(15,180)		(53)
Issued 5,401,190 shares in payment of 3-for-2 stock split				
Stock compensation expense	657			657
Issued 90,714 shares for stock option exercises (net of 4,994 shares exchanged and including \$258 of tax benefit)	1,361			1,361
Cash dividends at \$.46 per share		(7,851)		(7,851)
Balance, December 31, 2006	\$ 153,728	\$ 4,840	\$ (1,719)	\$ 156,849

See accompanying notes to consolidated financial statements.

MACATAWA BANK CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (continued)
Years ended December 31, 2007, 2006 and 2005
(Dollars in thousands, except per share data)

	<u>Common Stock</u>	<u>Retained Earnings (Deficit)</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Shareholders' Equity</u>
Net income		9,269		9,269
Other comprehensive income (loss):				
Net change in unrealized gain (loss) on derivative instruments, net of tax of \$617			1,145	1,145
Net change in unrealized gain (loss) on securities available for sale, net of tax of \$1,015			1,885	1,885
Comprehensive income				12,299
Issued 819,223 shares in payment of 5% stock dividend	9,518	(9,536)		(18)
Issued 136,936 shares for acquisition of Smith & Associates	3,150			3,150
Stock compensation expense	591			591
Issued 54,272 shares for stock option exercises (net of 3,833 shares exchanged and including \$89 of tax benefit)	431			431
Repurchase 298,500 shares of stock	(3,896)			(3,896)
Cash dividends at \$.51 per share		(8,781)		(8,781)
Balance, December 31, 2007	<u>\$ 163,522</u>	<u>\$ (4,208)</u>	<u>\$ 1,311</u>	<u>\$ 160,625</u>

See accompanying notes to consolidated financial statements.

MACATAWA BANK CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2007, 2006 and 2005
(Dollars in thousands)

	2007	2006	2005
Cash flows from operating activities			
Net income	\$ 9,269	\$ 19,831	\$ 20,889
Adjustments to reconcile net income to net cash from operating activities			
Depreciation and amortization	3,702	3,385	3,100
Stock compensation expense	591	657	176
Stock dividends on FHLB stock	0	0	(249)
Provision for loan losses	15,750	7,715	3,675
Origination of loans for sale	(86,440)	(103,655)	(137,028)
Proceeds from sales of loans originated for sale	86,150	106,100	140,083
Gain on sales of loans	(1,290)	(1,721)	(2,336)
Net change in			
Accrued interest receivable and other assets	2,113	(2,217)	(487)
Bank-owned life insurance	(860)	(1,029)	(657)
Accrued expenses and other liabilities	(3,437)	(3,727)	5,374
Net cash from operating activities	25,548	25,339	32,540
Cash flows from investing activities			
Loan originations and payments, net	(49,524)	(172,510)	(156,004)
Purchase of FHLB stock	0	0	(1,422)
Repurchase by FHLB of FHLB stock	0	1,635	0
Purchases of securities available for sale	(22,154)	(42,669)	(37,770)
Purchases of securities held to maturity	0	0	(1,430)
Maturities and calls of securities available for sale	22,135	1,990	15,298
Maturities and calls of securities held to maturity	715	1,127	0
Principal paydowns on securities	94	241	133
Additions to premises and equipment	(7,123)	(10,652)	(9,957)
Net cash from investing activities	(55,857)	(220,838)	(191,152)
Cash flows from financing activities			
Net increase (decrease) in deposits	(144,004)	159,785	156,256
Net increase (decrease) in short-term borrowings	34,477	(13,819)	3,678
Proceeds from other borrowed funds	440,000	95,000	475,000
Repayments of other borrowed funds	(277,966)	(48,143)	(453,824)
Fractional shares purchased	(18)	(53)	(35)
Cash dividends paid	(8,781)	(7,851)	(6,228)
Repurchase of stock	(3,896)	0	0
Proceeds from exercises of stock options, including tax benefit	431	1,361	1,155
Net cash from financing activities	40,243	186,280	176,002
Net change in cash and cash equivalents	9,934	(9,219)	17,390
Beginning cash and cash equivalents	39,882	49,101	31,711
Ending cash and cash equivalents	\$ 49,816	\$ 39,882	\$ 49,101

See accompanying notes to consolidated financial statements.

MACATAWA BANK CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
Years ended December 31, 2007, 2006 and 2005
(Dollars in thousands)

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Supplemental cash flow information:			
Interest paid	\$ 76,341	\$ 65,149	\$ 40,806
Income taxes paid	6,350	12,130	9,000
Supplemental noncash disclosures:			
Transfers from loans to other real estate	4,755	3,551	2,677
Acquisition of Smith & Associates:			
Acquisition intangibles recorded			
Other liabilities assumed	3,924	---	---
Value of common stock issued	774	---	---
	3,150	---	---

See accompanying notes to consolidated financial statements.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principles of Consolidation: The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Macatawa Bank and Macatawa Investment Services, Inc., as well as Macatawa Bank's wholly-owned subsidiary, Macatawa Bank Mortgage Company. Macatawa Investment Services, Inc. ceased doing business effective November 1, 2006 as discussed below. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Company also owns all of the common securities of Macatawa Statutory Trust I and Macatawa Statutory Trust II. These are grantor trusts that issued trust preferred securities and are discussed in a separate note.

Macatawa Bank is a Michigan chartered bank with depository accounts insured by the Federal Deposit Insurance Corporation. The Bank operates 26 full service branch offices providing a full range of commercial and consumer banking and trust services in Kent County, Ottawa County, and northern Allegan County, Michigan. Macatawa Bank Mortgage Company originates and sells residential mortgage loans into the secondary market on a servicing released basis. Macatawa Investment Services, a broker/dealer that provided various brokerage services including discount brokerage, personal financial planning and consultation regarding individual stocks and mutual funds ceased doing business as a registered broker-dealer effective November 1, 2006. On November 1, 2006, Macatawa Bank began offering brokerage services to its customers through an arrangement with Infinex Investments, Inc. ("Infinex"). Infinex is a full service investment provider, a registered broker-dealer and a member of the National Association of Securities Dealers (NASD) and the Securities Investor Protection Corporation (SIPC). As more fully discussed in the company's Form 8-K dated October 11, 2006, on October 11, 2006, Macatawa Bank Corporation entered into an Agreement and Plan of Merger with Benj. A. Smith & Associates, Ltd. and Benj. A. Smith, III. Smith & Associates is an investment advisory firm based in Holland, Michigan. The transaction was structured as a merger of Smith & Associates into Macatawa, which in turn contributed the business to Macatawa Bank. The transaction closed effective as of January 1, 2007. Macatawa Statutory Trust I and Macatawa Statutory Trust II are grantor trusts that were established on July 15, 2003 and March 18, 2004 through which trust preferred securities were issued. Under generally accepted accounting principles, these trusts are not consolidated into the financial statements of the Company.

The Company is a financial holding company pursuant to Title I of the Gramm-Leach-Bliley Act. At the present time, the Company has no plans to engage in any of the expanded activities permitted under these regulations.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes 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. The allowance for loan losses, the fair value of intangible assets, the status of contingencies and the fair values of financial instruments are particularly subject to change.

Concentration of Credit Risk: Loans are granted to, and deposits are obtained from, customers primarily in the western Michigan area as described above. Substantially all loans are secured by specific items of collateral, including residential real estate, commercial real estate, commercial assets and consumer assets. Other financial instruments, which potentially subject the Company to concentrations of credit risk, include deposit accounts in other financial institutions.

Cash Flow Reporting: Cash and cash equivalents include cash on hand, demand deposits with other financial institutions and short-term securities (securities with maturities equal to or less than 90 days and federal funds sold). Cash flows are reported net for customer loan and deposit transactions, interest-bearing time deposits with other financial institutions and short-term borrowings with maturities of 90 days or less.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 available for sale consist of those securities which might be sold prior to maturity due to changes in interest rates, prepayment risks, yield and availability of alternative investments, liquidity needs or other factors. Securities classified as available for sale are reported at their fair value and the related unrealized holding gain or loss is reported in other comprehensive income, net of tax.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level yield method without anticipating prepayments. Gains and losses on sales are based on the amortized cost of the security sold.

Declines in the fair value of securities below their cost that are other than temporary are reflected as realized losses. In estimating other-than-temporary losses, management considers: the length of time and extent that fair value has been less than cost, the financial condition and near term prospects of the issuer, and the Company's ability and intent to hold the security for a period sufficient to allow for any anticipated recovery in fair value.

Federal Home Loan Bank (FHLB) Stock: The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment. Because this stock is viewed as a long term investment, impairment is based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

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. Loans are sold servicing released; therefore no mortgage servicing right assets are established.

Interest income is accrued on the unpaid principal balance and includes amortization of net deferred loan fees and costs over the loan term using the level yield method without anticipating prepayments. Interest income is not reported when full loan repayment is in doubt, typically when the loan is impaired or payments are past due over 90 days (180 days for residential mortgages). Consumer loans are typically charged-off no later than 120 days past due. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. 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.

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 recoveries, and decreased by charge-offs. Management estimates the allowance balance required based on known and inherent risks in the portfolio, past loan loss experience, 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.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired or loans otherwise classified substandard or doubtful. The general component covers non-classified loans and is based on historical loss experience adjusted for current factors.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loan impairment is reported when full payment under the loan terms is not expected. 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. Loans are evaluated for impairment when payments are delayed, typically 90 days or more, or when the internal grading system indicates a doubtful classification. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures.

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

Foreclosed Assets: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. If fair value declines, a valuation allowance is recorded through expense. Costs after acquisition are expensed. The Company held \$5.7 million in foreclosed assets at December 31, 2007 and \$3.2 million in foreclosed assets at December 31, 2006.

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Buildings and related components are depreciated using the straight-line method with useful lives ranging from 5 to 40 years.

Furniture, fixtures and equipment are depreciated using the straight-line method with useful lives ranging from 3 to 15 years. Maintenance, repairs and minor alterations are charged to current operations as expenditures occur and major improvements are capitalized. These assets are reviewed for impairment when events indicate the carrying amount may not be recoverable.

Bank-Owned Life Insurance: The Bank has purchased life insurance policies on certain officers. Bank-owned life insurance is recorded at its currently realizable cash surrender value. Changes in cash surrender value are recorded in other income.

Goodwill: Goodwill results from prior business acquisitions and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Goodwill is assessed at least annually for impairment and any such impairment will be recognized in the period identified.

Acquisition Intangibles: Acquisition intangibles consist of core deposit and acquired customer relationship intangible assets arising from acquisitions. They are initially measured at fair value and then are amortized on an accelerated method with estimated useful lives of ten to sixteen years. These assets are reviewed for impairment when events indicate the carrying amount may not be recoverable.

Long-term Assets: Premises and equipment, core deposit and other intangible assets, 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.

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial 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.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivatives: Derivative financial instruments are recognized as assets or liabilities at fair value. The accounting for changes in the fair value of derivatives depends on the use of the derivatives and whether the derivatives qualify for hedge accounting. The Company's derivatives consist of interest rate swap agreements, which are used as part of its asset liability management to help manage interest rate risk. The Company does not use derivatives for trading purposes.

Changes in the fair value of derivatives that are designated as a hedge of the variability of cash flows to be received on various loans and are effective are reported in other comprehensive income and later reclassified into earnings in the same periods during which the hedged transaction affects earnings. If hedge accounting does not apply, changes in the fair value of derivatives are recognized immediately in current earnings as noninterest income or loss.

If designated as a hedge, the Company formally documents the relationship between derivatives as hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions. This documentation includes linking cash flow hedges to specific assets on the balance sheet. If designated as a hedge, the Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are used are highly effective in offsetting changes in cash flows of the hedged items. The Company discontinues hedge accounting when it determines the derivative is no longer effective in offsetting changes in the cash flows of the hedged item, the derivative is settled or terminates, or treatment of the derivative as a hedge is no longer appropriate or intended.

During 2007, the Company determined that its use of hedge accounting for five interest rate swaps was in error. See Note 17 for additional details.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock-Based Compensation: Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards (“SFAS”) No. 123(R), *Share-based Payment*, using the modified prospective transition method. Accordingly, the Company has recorded stock-based compensation cost using the fair value method starting in 2006.

Prior to January 1, 2006, employee compensation expense for stock options was reported using the intrinsic value method. Accordingly, no compensation cost related to stock options was recognized during 2005, as all options granted had an exercise price equal to or greater than the market price of the underlying common stock at date of grant.

Had compensation cost for stock options been measured using the fair value method, net income and basic and diluted earnings per share for the year ended December 31, 2005 would have been the pro forma amounts indicated below (dollars in thousands, except per share data).

Net income as reported	\$	20,889
Deduct: Stock-based compensation expense using fair value method		(508)
		<hr/>
Pro forma net income	\$	20,381
		<hr/>
Basic earnings per share as reported	\$	1.24
Pro forma basic earnings per share		1.21
Diluted earnings per share as reported		1.21
Pro forma diluted earnings per share		1.18

All share and per share amounts under stock compensation plans are restated for all stock splits and dividends through the date of issue of the financial statements.

The Company’s stock compensation plan allows for the issuance of restricted stock awards. Compensation cost is based upon the market price of the Company’s stock at the date of grant and is recognized over the vesting period.

Income Taxes: Income tax expense is the sum of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

The Company adopted FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes* (“FIN 48”), as of January 1, 2007. A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. The adoption had no effect on the Company’s financial statements.

The Company recognizes interest and/or penalties related to income tax matters in income tax expense.

Earnings Per Share: Basic earnings per share is net income divided by the weighted average number of common shares outstanding during the period, excluding unvested restricted stock awards. Diluted earnings per common share include the dilutive effect of additional potential common shares issuable under stock options and restricted stock awards. Earnings and dividends per share are restated for all stock splits and dividends through the date of issue of the financial statements.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and unrealized gains and losses on cash flow hedges 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.

Restrictions on Cash: Cash on hand or on deposit with the Federal Reserve Bank was required to meet regulatory reserve and clearing requirements. These balances do not earn interest.

Stock Splits and Dividends: The fair value of shares issued for stock dividends of 20% or less is transferred from retained earnings to common stock, to the extent of available retained earnings. No transfer is recorded for stock dividends or splits in excess of 20%. All share and per share amounts are retroactively adjusted for stock splits and dividends.

Dividend Restriction: Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the Company or by the 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 separately. 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. The fair value estimates of existing on- and off-balance sheet financial instruments do not include the value of anticipated future business or the values of assets and liabilities not considered financial instruments.

Segment Reporting: The Company, through the branch network of the Bank, provides a broad range of financial services to individuals and companies in western Michigan. These services include demand, time and savings deposits; lending; ATM processing; cash management; and trust and brokerage services. While the Company's management team monitors the revenue streams of the various Company products and services, operations are managed and financial performance is evaluated on a Company-wide basis. Accordingly, all of the Company's banking operations are considered by management to be aggregated in one reportable operating segment.

Reclassifications: Some items in the prior year financial statements were reclassified to conform to the current presentation.

Adoption of New Accounting Standards:

In February 2006, the FASB issued Statement of Financial Accounting Standards No. 155, *Accounting for Certain Hybrid Financial Instruments* (SFAS No. 155), which permits fair value remeasurement for hybrid financial instruments that contain an embedded derivative that otherwise would require bifurcation. Additionally, SFAS No. 155 clarifies the accounting guidance for beneficial interests in securitizations. Under SFAS No. 155, all beneficial interests in a securitization will require an assessment in accordance with SFAS No. 133 to determine if an embedded derivative exists within the instrument. In January 2007, the FASB issued Derivatives Implementation Group Issue B40, *Application of Paragraph 13(b) to Securitized Interests in Prepayable Financial Assets* (DIG Issue B40). DIG Issue B40 provides an exemption from the embedded derivative test of paragraph 13(b) of SFAS No. 133 for instruments that would otherwise require bifurcation if the test is met solely because of a prepayment feature included within the securitized interest and prepayment is not controlled by the security holder. SFAS No. 155 and DIG Issue B40 did not have a material impact on the Company's consolidated financial position or results of operations.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Effect of Newly Issued But Not Yet Effective Accounting Standards:

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements*. This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The standard is effective for fiscal years beginning after November 15, 2007. The impact of adoption is not expected to be material.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. The standard provides companies with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The new standard is effective for the Company on January 1, 2008. The Company did not elect the fair value option for any financial assets or financial liabilities as of January 1, 2008.

On November 5, 2007, the SEC issued Staff Accounting Bulletin No. 109, *Written Loan Commitments Recorded at Fair Value through Earnings* ("SAB 109"). Previously, SAB 105, *Application of Accounting Principles to Loan Commitments*, stated that in measuring the fair value of a derivative loan commitment, a company should not incorporate the expected net future cash flows related to the associated servicing of the loan. SAB 109 supersedes SAB 105 and indicates that the expected net future cash flows related to the associated servicing of the loan should be included in measuring fair value for all written loan commitments that are accounted for at fair value through earnings. SAB 105 also indicated that internally-developed intangible assets should not be recorded as part of the fair value of a derivative loan commitment, and SAB 109 retains that view. SAB 109 is effective for derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007. The Company does not expect the impact of this standard to be material.

NOTE 2 – ACQUISITION

On January 1, 2007, the Company completed the acquisition of Benj. A. Smith & Associates, Ltd. ("Smith & Associates").

Under the terms of the transaction, Smith & Associates was merged into the Company in exchange for 143,783 shares of common stock. The Company in turn contributed the business to Macatawa Bank. The value of the common stock was based on the average closing price during the month of September 2006 (\$21.91 per share). Share and per share amounts have been adjusted for the 5% stock dividend distributed on May 30, 2007.

The acquisition was accounted for under the purchase method of accounting. Accordingly, customer relationship intangibles valued at \$1,920,000 are being amortized in proportion to estimated future revenue over its estimated useful life. The resulting goodwill was \$2,004,000 which will be assessed annually for impairment, with any subsequent impairment recognized in the income statement.

Under the terms of the transaction, one \$300,000 contingent payment will also be made if revenue from transferred account balances, principal additions to transferred account balances generated by Mr. Smith and new accounts generated by Mr. Smith exceeds \$1,600,000 in 2007 and an additional \$300,000 contingent payment will be paid if such revenue exceeds \$1,700,000 in 2008. If the contingencies are met, payments will be paid in the form of common stock of Macatawa Bank Corporation. For 2007 revenue did not exceed the \$1,600,000 target, therefore the contingent payment for this period will not be made.

(Continued)

NOTE 3 — SECURITIES

The amortized cost and fair value of securities at year-end were as follows (dollars in thousands):

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<u>Available for Sale 2007</u>				
U.S. Treasury and federal agency securities	\$ 149,021	\$ 1,169	\$ (145)	\$ 150,045
State and municipal bonds	49,460	1,056	(56)	50,460
Other equity securities	1,000	--	(7)	993
	<u>\$ 199,481</u>	<u>\$ 2,225</u>	<u>\$ (208)</u>	<u>\$ 201,498</u>
<u>Held to Maturity 2007</u>				
State and municipal bonds	\$ 1,917	\$ 45	\$ (1)	\$ 1,961
	<u>\$ 1,917</u>	<u>\$ 45</u>	<u>\$ (1)</u>	<u>\$ 1,961</u>
<u>Available for Sale 2006</u>				
U.S. Treasury and federal agency securities	\$ 148,753	\$ 182	\$ (2,025)	\$ 146,910
State and municipal bonds	49,676	1,042	(63)	50,655
Other equity securities	1,000	--	(19)	981
	<u>\$ 199,429</u>	<u>\$ 1,224</u>	<u>\$ (2,107)</u>	<u>\$ 198,546</u>
<u>Held to Maturity 2006</u>				
State and municipal bonds	\$ 2,711	\$ 56	\$ (5)	\$ 2,762
	<u>\$ 2,711</u>	<u>\$ 56</u>	<u>\$ (5)</u>	<u>\$ 2,762</u>

Securities with unrealized losses at year-end 2007 and 2006, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows (dollars in thousands):

<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>
December 31, 2007						
U.S. Treasury and federal agency securities	\$ --	\$ --	\$ 37,104	\$ (145)	\$ 37,104	\$ (145)
State and municipal bonds	1,777	(6)	4,479	(51)	6,256	(57)
Other equity securities	--	--	993	(7)	993	(7)
	<u>\$ 1,777</u>	<u>\$ (6)</u>	<u>\$ 42,576</u>	<u>\$ (203)</u>	<u>\$ 44,353</u>	<u>\$ (209)</u>

(Continued)

NOTE 3 – SECURITIES (Continued)

Description of Securities	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2006						
U.S. Treasury and federal agency securities	\$ 5,079	\$ (15)	\$ 104,727	\$ (2,010)	\$ 109,806	\$ (2,025)
State and municipal bonds	864	--	5,561	(68)	6,425	(68)
Other equity securities	--	--	981	(19)	981	(19)
Total temporarily impaired	\$ 5,943	\$ (15)	\$ 111,269	\$ (2,097)	\$ 117,212	\$ (2,112)

For unrealized losses on securities, no loss has been recognized into income in either 2007 or 2006 because management has the intent and ability to hold these securities for the foreseeable future and the declines are largely due to differences in market interest rates as compared to those of the underlying securities. The declines in fair value are considered temporary and are expected to recover as the bonds approach their maturity date.

Contractual maturities of debt securities at December 31, 2007 were as follows (dollars in thousands):

	Held-to-Maturity Securities		Available-for-Sale Securities	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ --	\$ --	\$ 26,250	\$ 26,189
Due from one to five years	313	312	126,935	128,129
Due from five to ten years	238	251	27,018	27,658
Due after ten years	1,366	1,398	18,278	18,529
	\$ 1,917	\$ 1,961	\$ 198,481	\$ 200,505

There were no sales of securities for the years ended December 31, 2007, 2006 and 2005.

At December 31, 2007 and 2006, securities with a carrying value of approximately \$1,000,000 were pledged as security for public deposits and for other purposes required or permitted by law. At December 31, 2007 and 2006, securities with a carrying value of approximately \$120,263,000 and \$21,399,000 were pledged as collateral for securities sold under agreements to repurchase.

(Continued)

NOTE 4 — LOANS

Year-end loans were as follows (dollars in thousands):

	<u>2007</u>	<u>2006</u>
Commercial	\$ 438,743	\$ 416,135
Commercial mortgage	855,882	875,717
Residential mortgage	266,325	224,836
Consumer	189,682	194,762
	<u>\$ 1,750,632</u>	<u>\$ 1,711,450</u>

Activity in the allowance for loan losses was as follows (dollars in thousands):

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Beginning balance	\$ 23,259	\$ 20,992	\$ 19,251
Provision for loan losses	15,750	7,715	3,675
Loans charged-off	(5,920)	(6,054)	(2,237)
Recoveries	333	606	303
	<u>\$ 33,422</u>	<u>\$ 23,259</u>	<u>\$ 20,992</u>

The provision for loan losses in 2007 includes approximately \$11.6 million of extra provisions made in the third and fourth quarters for losses related primarily to loans to residential developers. Loans charged off in 2006 include a \$4.7 million charge related to one commercial borrower whose loans were allegedly falsely secured by nonexistent collateral. Accordingly, the provision for loan losses for 2006 also included a \$4.7 million additional provision related to this borrower. The Company filed a lawsuit against this borrower in 2007 that is still pending.

Impaired loans were as follows (dollars in thousands):

	<u>2007</u>	<u>2006</u>	
Loans with no allocated allowance for loan losses	\$ 17,580	\$ 3,059	
Loans with allocated allowance for loan losses	81,440	2,718	
	<u>\$ 99,020</u>	<u>\$ 5,777</u>	
Amount of the allowance for loan losses allocated	<u>\$ 15,831</u>	<u>\$ 400</u>	
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Average of impaired loans during the period	\$ 38,166	\$ 4,630	\$ 2,833
Interest income recognized during impairment	782	0	0
Cash-basis interest income recognized	189	0	0

(Continued)

MACATAWA BANK CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 4 – LOANS (Continued)

Nonperforming loans were as follows at year-end (dollars in thousands):

	2007	2006
Loans past due over 90 days still on accrual	\$ 2,872	\$ 16,479
Nonaccrual loans	70,999	5,811
Renegotiated loans	38	--
	\$ 73,909	\$ 22,290

Nonperforming loans include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

The balance of impaired and nonperforming loans at the end of 2007 includes approximately \$62.3 and \$57.4 million, respectively, of loans for the development or sale of 1-4 family residential properties. The balance of nonperforming loans at the end of 2006 includes one commercial relationship with loans totaling approximately \$15.2 million for the development or sale of 1-4 family residential properties. Approximately \$15.0 million remained outstanding for this borrower and is included in the balance of nonperforming loans at December 31, 2007.

NOTE 5 — PREMISES AND EQUIPMENT — NET

Year-end premises and equipment were as follows (dollars in thousands):

	2007	2006
Land	\$ 17,060	\$ 15,093
Building	43,857	33,658
Leasehold improvements	1,219	1,277
Furniture and equipment	18,947	16,311
Construction in progress	664	8,558
	81,747	74,897
Less accumulated depreciation	(17,183)	(14,166)
	\$ 64,564	\$ 60,731

The balance of construction in progress at December 31, 2007 primarily relates to a facility expected to open in 2008. The balance of construction in progress at December 31, 2006 primarily related to four facilities that opened in 2007. Depreciation expense was \$3,290,000, \$2,949,000 and \$2,713,000 for each of the years ending December 31, 2007, 2006 and 2005.

The Bank leases certain office and branch premises and equipment under operating lease agreements. Total rental expense for all operating leases aggregated to \$359,000, \$382,000 and \$380,000 for each of the years ending December 31, 2007, 2006 and 2005. Future minimum rental expense under noncancelable operating leases as of December 31, 2007 is as follows (dollars in thousands):

2008	\$	298
2009		166
2010		104
2011		84
2012		6
		658

(Continued)

MACATAWA BANK CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2007 and 2006

NOTE 6 – ACQUISITION INTANGIBLES

Intangible assets were as follows at year-end (dollars in thousands):

	2007	2006
Core deposits	\$ 3,185	\$ 3,185
Trust relationships	478	478
Customer relationships	1,920	--
	\$ 5,583	\$ 3,663
Less accumulated amortization	(2,560)	(2,100)
	\$ 3,023	\$ 1,563

Amortization expense for the years ended December 31, 2007, 2006 and 2005 was \$460,000, \$378,000 and \$406,000. Estimated amortization expense for the next five years is as follows (dollars in thousands):

2008	\$ 435
2009	417
2010	401
2011	386
2012	186

NOTE 7 — DEPOSITS

Deposits at year-end were as follows (dollars in thousands):

	2007	2006
Noninterest-bearing demand	\$ 185,681	\$ 180,032
Money market	337,322	459,230
NOW and Super NOW	273,658	265,679
Savings	40,119	40,160
Certificates of deposit	686,773	722,456
	\$ 1,523,553	\$ 1,667,557
	\$ 1,523,553	\$ 1,667,557

The following table depicts the maturity distribution of certificates of deposit at December 31, 2007 (dollars in thousands):

2008	\$ 553,120
2009	82,099
2010	47,127
2011	2,222
2012	2,097
Thereafter	108
	\$ 686,773
	\$ 686,773

(Continued)

MACATAWA BANK CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2007 and 2006

NOTE 7 – DEPOSITS (Continued)

Approximately \$457,769,000 and \$504,274,000 in certificates of deposit were in denominations of \$100,000 or more at December 31, 2007 and 2006.

Brokered deposits totaled approximately \$202,839,000 and \$272,896,000 at December 31, 2007 and 2006. At December 31, 2007 and 2006, brokered deposits had interest rates ranging from 3.65% to 5.20% and 3.30% to 5.49%, respectively, and at year-end 2007, maturities ranging from March 2008 to August 2010.

NOTE 8 — OTHER BORROWED FUNDS

Other borrowed funds include advances from the Federal Home Loan Bank and securities sold under agreements to repurchase.

Federal Home Loan Bank Advances

At year-end, advances from the Federal Home Loan Bank were as follows (dollars in thousands):

<u>Principal Terms</u>	<u>Advance Amount</u>	<u>Range of Maturities</u>	<u>Weighted Average Interest Rate</u>
December 31, 2007			
Single maturity fixed rate advances	\$ 135,000	March 2008 to November 2010	4.77%
Daily variable rate advance	70,000	June 2008	4.32%
Putable advances	31,000	September 2009 to December 2010	5.80%
Amortizable mortgage advances	8,052	February 2008 to July 2018	3.81%
	<u>\$ 244,052</u>		
December 31, 2006			
Single maturity fixed rate advances	\$ 132,000	April 2007 to May 2010	4.63%
Putable advances	31,000	September 2009 to December 2010	5.80%
Amortizable mortgage advances	9,018	February 2008 to July 2018	3.86%
	<u>\$ 172,018</u>		

Each advance is payable at its maturity date and contains a prepayment penalty. Putable advances are fixed rate advances that can be changed to a variable rate at the option of the FHLB. If the FHLB exercises that option, these advances may be repaid without penalty. These advances were collateralized by residential and commercial real estate loans totaling \$611,055,000 and \$596,829,000 under a blanket lien arrangement at December 31, 2007 and 2006.

Maturities as of December 31, 2007 were as follows (in thousands):

2008	\$ 140,482
2009	40,237
2010	56,000
2011	--
2012	--
Thereafter	7,333
	<u>\$ 244,052</u>

(Continued)

NOTE 8 — OTHER BORROWED FUNDS (Continued)

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase (“repo borrowings”) are financing arrangements secured by U.S. federal agency securities. These borrowings were collateralized by securities that had a carrying amount of approximately \$120,263,000 and \$21,399,000 at December 31, 2007 and 2006. At maturity, the securities underlying the arrangements are returned to the company. At year-end, these borrowings were as follows (dollars in thousands):

<u>Principal Terms</u>	<u>Amount</u>	<u>Range of Maturities</u>	<u>Weighted Average Interest Rate</u>
December 31, 2007			
Fixed rate borrowings	\$ 90,000	February 2009 to November 2010	4.66%
Floating rate borrowings	20,000	August 2009 to August 2010	5.72%
	<u>\$ 110,000</u>		
December 31, 2006			
Floating rate borrowings	<u>\$ 20,000</u>	August 2009 to August 2010	5.78%

Maturities as of December 31, 2007 were as follows (in thousands):

2009	\$ 60,000
2010	50,000
	<u>\$ 110,000</u>

NOTE 9 – LONG-TERM DEBT

The Company has issued \$40.0 million of pooled trust preferred securities (“Preferred Securities”) through its wholly-owned subsidiary grantor trusts. Macatawa Statutory Trust I issued \$619,000 of common securities to the Company and \$20.0 million of Preferred Securities on July 15, 2003 at a floating interest rate of three-month LIBOR plus 3.05%. Macatawa Statutory Trust II issued \$619,000 of common securities and \$20.0 million of Preferred Securities on March 18, 2004 at a floating interest rate of three-month LIBOR plus 2.75%.

The Company issued subordinated debentures (“Debentures”) to each trust in exchange for the proceeds of the offerings, which Debentures represent the sole asset of each trust. The Preferred Securities represent an interest in the Company’s subordinated debentures, which have terms that are similar to the Preferred Securities. As provided in each trust’s indenture, the Preferred Securities accrue and pay distributions quarterly at a specified rate and are subject to mandatory redemption upon the maturity of the Debentures, 30 years from the date of issuance, or upon earlier redemption. The Company has the right to redeem the Debentures in whole or in part beginning five years from the date of issuance at a redemption price specified in each trust’s indenture.

At December 31, 2007 and 2006, the Debentures totaling \$41,238,000 are reported in liabilities as Long-term debt, and the common securities of \$1,238,000 and unamortized debt issuance costs are included in other assets.

At December 31, 2007 and 2006, \$40 million and \$38 million, respectively, of the \$40 million of Preferred Securities issued qualified as Tier 1 capital for regulatory capital purposes.

(Continued)

NOTE 10 — RELATED PARTY TRANSACTIONS

Loans to principal officers, directors, and their affiliates were as follows (dollars in thousands).

	<u>2007</u>	<u>2006</u>
Beginning balance	\$ 13,905	\$ 15,992
New loans and renewals	20,513	16,906
Repayments and renewals	(14,810)	(18,993)
	<u> </u>	<u> </u>
Ending balance	<u>\$ 19,608</u>	<u>\$ 13,905</u>

Deposits from principal officers, directors, and their affiliates at December 31, 2007 and 2006 were \$5,787,000 and \$4,324,000.

On October 11, 2006, Macatawa Bank Corporation (“Macatawa”) entered into an Agreement and Plan of Merger with Benj. A. Smith & Associates, Ltd. (“Smith & Associates”) and Benj. A. Smith, III (“Mr. Smith”). On October 11, 2006, Macatawa also entered into a Noncompetition Agreement with Mr. Smith. Macatawa completed the acquisition of Smith & Associates on January 1, 2007.

Smith & Associates was an investment advisory firm based in Holland, Michigan. Mr. Smith was the owner of Smith & Associates. Mr. Smith is also the founder and Chairman of Macatawa Bank Corporation. The transaction was structured as a merger of Smith & Associates into Macatawa, which in turn contributed the business to Macatawa Bank. For further details regarding the transaction, refer to Note 2, Acquisition.

NOTE 11 — STOCK-BASED COMPENSATION

The Company has stock-based compensation plans for its employees (the Employees’ Plans) and directors (the Directors’ Plans). The Employees’ Plans permit the grant of stock options or the issuance of restricted stock for up to 1,917,210 shares of common stock. The Directors’ Plans permit the grant of stock options or the issuance of restricted stock for up to 473,278 shares of common stock. There were 783,588 shares under the Employees’ Plans and 175,711 shares under the Directors’ Plans available for future issuance as of December 31, 2007. The Company issues new shares under its stock-based compensation plans from its authorized but unissued shares.

Stock Options

Option awards are granted with an exercise price equal to the market price at the date of grant. Option awards have vesting periods ranging from one to three years and have ten year contractual terms.

The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model that uses the assumptions noted in the table below. Expected volatilities are based on historical volatilities of the Company’s common stock. The Company uses historical data to estimate option exercise and post-vesting termination behavior. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The Company expects that all options granted will vest and become exercisable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

(Continued)

MACATAWA BANK CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 11 — STOCK-BASED COMPENSATION (Continued)

There were no options granted during 2007. The fair value of options granted during 2006 and 2005 was determined using the following weighted-average assumptions as of grant date.

	<u>2006</u>	<u>2005</u>
Risk-free interest rate	4.52%	4.27%
Expected option life	6.5 years	6.2 years
Expected stock price volatility	23.68%	23.98%
Dividend yield	2.55%	2.01%
Weighted average fair value of options granted	\$ 4.80	\$ 5.70

A summary of option activity in the plans is as follows (dollars in thousands, except per option data):

<u>Options</u>	<u>Number Outstanding</u>	<u>Weighted- Average Exercise Price</u>	<u>Weighted- Average Remaining Contractual Life in Years</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at January 1, 2007	1,025,771	\$ 14.29		
Exercised	(59,106)	7.05		
Forfeited	(8,900)	21.80		
Outstanding at December 31, 2007	<u>957,765</u>	<u>\$ 14.66</u>	<u>6.02</u>	<u>\$ 300</u>
Exercisable at December 31, 2007	<u>709,626</u>	<u>\$ 12.26</u>	<u>5.19</u>	<u>\$ 300</u>

Information related to stock options during each year follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Intrinsic value of options exercised	\$ 464	\$ 1,779	\$ 1,623
Cash received from option exercises	342	1,103	880
Tax benefit realized from option exercises	89	258	275

Compensation cost for stock options was \$446,000 or \$400,000 after tax, representing \$0.02 per share for 2007 and \$657,000 or \$522,000 after tax, representing \$0.03 per share for 2006.

As of December 31, 2007, there was approximately \$555,000 of total unrecognized compensation cost related to nonvested stock options granted under the Company's stock-based compensation plans. The cost is expected to be recognized over a weighted-average period of 1.4 years.

Stock Awards

Stock awards have vesting periods of up to four years. A summary of changes in the Company's nonvested stock awards for the year follows:

<u>Nonvested Stock Awards</u>	<u>Shares</u>	<u>Weighted-Average Grant-Date Fair Value</u>
Outstanding at January 1, 2007	22,491	\$ 19.52
Granted	4,157	14.35
Vested	---	---
Forfeited	(2,309)	19.52
Outstanding at December 31, 2007	<u>24,339</u>	<u>\$ 18.64</u>

(Continued)

MACATAWA BANK CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 11 — STOCK-BASED COMPENSATION (Continued)

Compensation cost for stock awarded in 2007 and 2005 was \$145,000 and \$176,000. Compensation cost for stock awarded in 2006 was nominal.

As of December 31, 2007, there was \$309,000 of total unrecognized compensation cost related to nonvested shares granted under the Company's stock-based compensation plans. The cost is expected to be recognized over a weighted-average period of 2.0 years. There were no shares vested during the years ended December 31, 2007 and 2006. The total fair value of shares vested during the year ended December 31, 2005 was \$176,000.

NOTE 12 – EMPLOYEE BENEFITS

The Company sponsors a 401(k) plan which covers substantially all employees. Employees may elect to contribute to the plan up to the maximum percentage of compensation and dollar amount subject to statutory limitations. The Company makes matching contributions equal to 100% of the first 3% of employee contributions and 50% of employee contributions in excess of 3%, up to 6%. The Company's contributions for the years ended December 31, 2007, 2006 and 2005 were approximately \$767,000, \$691,000 and \$620,000.

The Company sponsors an Employee Stock Purchase Plan which covers substantially all employees. Employees are allowed to direct the Company to withhold payroll dollars and purchase Company stock at market price on a payroll by payroll basis. The Company has reserved 210,000 shares of common stock to be issued under the plan. The plan allows for shares to be issued directly from the Company or purchased on the open market.

NOTE 13– EARNINGS PER SHARE

A reconciliation of the numerators and denominators of basic and diluted earnings per share are as follows (dollars in thousands except per share data):

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Basic earnings per share			
Net income	\$ 9,269	\$ 19,831	\$ 20,889
Weighted average common shares outstanding	<u>17,109,664</u>	<u>17,011,590</u>	<u>16,863,630</u>
Basic earnings per share	<u>\$.54</u>	<u>\$ 1.17</u>	<u>\$ 1.24</u>
Diluted earnings per share			
Net income	\$ 9,269	\$ 19,831	\$ 20,889
Weighted average common shares outstanding	17,109,664	17,011,590	16,863,630
Add: Dilutive effects of assumed exercises of stock options	<u>173,680</u>	<u>367,883</u>	<u>445,692</u>
Weighted average common and dilutive potential common shares outstanding	<u>17,283,344</u>	<u>17,379,473</u>	<u>17,309,322</u>
Diluted earnings per share	<u>\$.54</u>	<u>\$ 1.14</u>	<u>\$ 1.21</u>

Stock options and nonvested stock awards for 507,562, 335,959, and 237,313 shares of common stock were not considered in computing diluted earnings per share for December 31, 2007, 2006 and 2005, respectively, because they were antidilutive.

(Continued)

MACATAWA BANK CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 14 — FEDERAL INCOME TAXES

The consolidated provision for income taxes was as follows (dollars in thousands):

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Current	\$ 7,606	\$ 10,226	\$ 10,503
Deferred (benefit) expense	(3,870)	(1,091)	(649)
	<u>\$ 3,736</u>	<u>\$ 9,135</u>	<u>\$ 9,854</u>

The difference between the financial statement tax expense and amount computed by applying the statutory federal tax rate to pretax income was reconciled as follows (dollars in thousands):

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Statutory rate	35%	35%	35%
Statutory rate applied to income before taxes	\$ 4,552	\$ 10,138	\$ 10,760
Add (deduct)			
Tax-exempt interest income	(633)	(634)	(647)
Bank-owned life insurance	(301)	(360)	(230)
Other, net	118	(9)	(29)
	<u>\$ 3,736</u>	<u>\$ 9,135</u>	<u>\$ 9,854</u>

The net deferred tax asset recorded included the following amounts of deferred tax assets and liabilities (dollars in thousands):

	<u>2007</u>	<u>2006</u>
Deferred tax asset		
Allowance for loan losses	\$ 11,698	\$ 8,141
Nonaccrual loan interest	956	136
Unrealized loss on derivative instruments	---	617
Unrealized loss on securities available for sale	---	309
Other	597	413
	<u>13,251</u>	<u>9,616</u>
Deferred tax liabilities		
Depreciation	(2,069)	(2,013)
Purchase accounting adjustments	(1,058)	(547)
Unrealized gain on derivative instruments	(101)	---
Unrealized gain on securities available for sale	(706)	---
Other	(648)	(625)
	<u>(4,582)</u>	<u>(3,185)</u>
Net deferred tax asset	<u>\$ 8,669</u>	<u>\$ 6,431</u>

A valuation allowance related to deferred tax assets is required when it is considered more likely than not that all or part of the benefit related to such assets will not be realized. Based on the levels of taxable income in the current and prior years which would be available to absorb the benefit, management has determined that no valuation allowance was required at December 31, 2007 or 2006.

There were no unrecognized tax benefits at December 31, 2007, and the Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next twelve months.

The Company is no longer subject to examination by the Internal Revenue Service for years before 2004.

(Continued)

NOTE 15 — COMMITMENTS AND OFF-BALANCE-SHEET RISK

Some financial instruments are used to meet customer financing needs and to reduce exposure to interest rate changes. These financial instruments include commitments to extend credit and standby letters of credit. These involve, to varying degrees, credit and interest-rate risk in excess of the amount reported in the financial statements.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the commitment, and generally have fixed expiration dates. Standby letters of credit are conditional commitments to guarantee a customer's performance to a third party. Exposure to credit loss if the other party does not perform is represented by the contractual amount for commitments to extend credit and standby letters of credit. Collateral or other security is normally not obtained for these financial instruments prior to their use, and many of the commitments are expected to expire without being used.

A summary of the notional or contractual amounts of financial instruments with off-balance-sheet risk was as follows at year-end (dollars in thousands):

	<u>2007</u>	<u>2006</u>
Commitments to make loans	\$ 43,949	\$ 25,855
Letters of credit	21,554	27,269
Unused lines of credit	424,582	470,882

At year-end 2007, approximately 61% of the Bank's commitments to make loans were at fixed rates, offered at current market rates. The majority of the variable rate commitments noted above were tied to prime and expire within 30 days. The majority of the unused lines of credit were at variable rates tied to prime.

NOTE 16 – CONTINGENCIES

The Company and its subsidiaries periodically become defendants in certain claims and legal actions arising in the ordinary course of business.

On July 8, 2003, the Company filed a Form 8-K (dated July 1, 2003) with the Securities and Exchange Commission reporting events related to a former trust customer, Trade Partners, Inc. ("Trade Partners"), of the former Grand Bank, which the Company acquired effective April 1, 2002. Trade Partners was involved in purchasing and selling interests in viaticals, which are interests in life insurance policies of the terminally ill or elderly. Beginning in 1996, Grand Bank served as a custodian and escrow agent with respect to viaticals purchased by Trade Partners and sold to investors. Two lawsuits were filed, one in December 2002 and another in March 2003, against Trade Partners, Grand Bank and the Company alleging that Grand Bank breached certain escrow agreements related to viatical settlement contracts. Both of these lawsuits have been dismissed although the plaintiffs reserved the right to pursue the claims in the future. A third lawsuit was filed in April 2003 by two individual investors against Grand Bank, the Company, Trade Partners and certain individuals and entities associated with Trade Partners. The claims against Grand Bank and the Company in this lawsuit have been settled and dismissed with prejudice. In May 2003 a purported class action complaint was filed against the Company. As amended, this suit alleges that Grand Bank breached escrow agreements and fiduciary duties and violated the Michigan Uniform Securities Act with respect to the investments secured by the purported class in viaticals and in interests in limited partnerships which made loans to Trade Partners secured by viaticals, and with respect to loans made by purported class members directly to Trade Partners. The Company has answered the complaint denying the material allegations and raising certain affirmative defenses. In November 2006 the court denied class certification in this case. The Company believes that the class action, if it had been approved by the court, might have involved as many as 2,000 to 3,000 individual claimants. Since that denial of class certification, nine new actions, none of which is a class action, raising substantially the same allegations as the former class action have been filed in several jurisdictions on behalf of approximately 1,300 Trade Partners investors. Management believes the Company has strong defenses and will vigorously defend the cases.

(Continued)

NOTE 16 – CONTINGENCIES (Continued)

Trade Partners is now in receivership. The supervising court authorized the receiver to borrow money from Macatawa Bank to pay premiums, if needed. Macatawa Bank extended a \$4 million line of credit to the receiver, conditioned upon obtaining a security interest in the viaticals. No draws were made against the line, and the line expired during the fourth quarter of 2004.

It is possible that one or more additional legal actions may be initiated involving the custodial and escrow agent services provided by Grand Bank in connection with Trade Partners. If any such legal actions are commenced, the Company intends to defend them vigorously. To the extent any pending or future claims allege errors or omissions on the part of Grand Bank or Macatawa Bank, management believes that some or all liability, if any is proven or established, will be covered by errors and omissions insurance maintained by Grand Bank and Macatawa Bank. The Company has reported the Trade Partners matter to its two insurance carriers. Federal Insurance Company has assumed the Company's defense and has advanced a portion of its defense costs pursuant to a reservation of rights letter asserting certain coverage defenses, and an Interim Funding Agreement. Federal Insurance Company on July 21, 2006 notified the Company that it had filed an Arbitration Demand with the American Arbitration Association, seeking a declaration that based on its asserted coverage defenses its policy does not cover this matter. The Company and Federal Insurance Company have agreed to defer any proceedings with respect to this Arbitration Demand. The Company believes that Federal Insurance Company is obligated to provide coverage, and the Company intends to vigorously pursue its rights under the insurance policy. The other carrier has taken the position that the duty of defense rests solely with the first carrier, and reserves its rights with respect to indemnity.

The legal actions involving Trade Partners have not progressed to trial and the outcome of such actions is uncertain. While we are therefore unable to determine at this time whether or to what extent these actions may impact the Company, the Company believes it has strong defenses and fully intends to defend any and all such actions vigorously.

(Continued)

NOTE 17 – INTEREST RATE SWAPS

The Company entered into five interest rate swap agreements, each with a notional amount of \$20,000,000 during 2002, 2003, and 2004. Swaps with a notional amount of \$60,000,000 remained in effect at December 31, 2007. A large portion of the Company's assets are loans on which the interest rates are variable. The Company entered into these interest rate swap agreements to convert the variable rate interest cash inflows on certain of its loans to fixed rates of interest. These interest rate swap agreements pay interest to the Company at a fixed rate and require interest payments from the Company at a variable rate.

Prior to December 31, 2007, these interest rate swap agreements were reported, and had been since their inception, as cash flow hedges as the Company believed the critical terms of the swap agreements matched the critical terms of the variable rate loans and concluded that interest rate swap agreements were effective cash flow hedges. As of December 31, 2007, the Company has now determined that accounting for these agreements as cash flow hedges was in error because the Company did not de-designate existing swap agreements as hedges when a new swap agreement was added and then redesignate the agreements as hedges. Additionally, a critical term did not match because the Company did not designate the swap agreements to pools of variable rate loans with like spreads to prime rate, such as prime plus .25%, prime plus .50%, etc., but did so only in total. Therefore, fluctuations in the fair value of the interest rate swaps should have been recorded in other income instead of in other comprehensive income. As of December 31, 2007, the remaining interest rate swaps had a fair value of \$288,000, which amount has been reversed out of other comprehensive income and is reported in noninterest income. Changes in the fair value of these interest rate swaps in the future will be recorded as noninterest income or loss. The Company has determined the effect on prior periods of its use of hedge accounting for these interest rate swap agreements was not material and, accordingly, prior period financial statements have not been restated to correct the error.

Summary information about interest rate swaps at year-end follows (dollars in thousands).

	December 31	
	2007	2006
Notional amounts	\$ 60,000	\$ 80,000
Weighted average pay rates	7.25%	8.25%
Weighted average receive rates	6.65%	6.42%
Weighted average maturity	1.5 years	2.0 years
Fair value of interest rate swaps	\$ 288	\$ (1,762)

(Continued)

MACATAWA BANK CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 18 — REGULATORY MATTERS

The Company and the Bank are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and 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 about components, risk weightings, and other factors, and the regulators can lower classifications in certain cases. Failure to meet various capital requirements can initiate regulatory action that could have a direct material effect on the financial statements.

The prompt corrective action regulations provide five classifications, including well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If the Bank is only adequately capitalized, regulatory approval is required to accept brokered deposits; and if the Bank is undercapitalized, capital distributions are limited, as is asset growth and expansion, and plans for capital restoration are required.

Actual capital levels (dollars in thousands) and minimum required levels were as follows at year-end:

	Actual		Minimum Required For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<u>December 31, 2007</u>						
Total capital (to risk weighted assets)						
Consolidated	\$ 194,362	10.7%	\$ 145,898	8.0%	N/A	N/A
Bank	192,677	10.6	145,715	8.0	\$ 182,143	10.0%
Tier 1 capital (to risk weighted assets)						
Consolidated	171,434	9.4	72,949	4.0	N/A	N/A
Bank	169,778	9.3	72,857	4.0	109,286	6.0
Tier 1 capital (to average assets)						
Consolidated	171,434	8.3	82,850	4.0	N/A	N/A
Bank	169,778	8.2	82,754	4.0	103,443	5.0
<u>December 31, 2006</u>						
Total capital (to risk weighted assets)						
Consolidated	\$ 196,256	10.9%	\$ 144,677	8.0%	N/A	N/A
Bank	189,403	10.5	144,492	8.0	\$ 180,615	10.0%
Tier 1 capital (to risk weighted assets)						
Consolidated	171,650	9.5	72,338	4.0	N/A	N/A
Bank	166,826	9.2	72,246	4.0	108,369	6.0
Tier 1 capital (to average assets)						
Consolidated	171,650	8.5	80,746	4.0	N/A	N/A
Bank	166,826	8.3	80,602	4.0	100,752	5.0

The Bank was categorized as well capitalized at December 31, 2007 and 2006. There are no conditions or events since December 31, 2007 that management believes have changed its category.

Banking regulations limit capital distributions. Generally, capital distributions are limited to undistributed net income for the current and prior two years. The Bank paid dividends to the holding company totaling \$10 million in 2007 and 2006. At December 31, 2007 and 2006, approximately \$37,659,000 and \$50,145,000 was available to pay dividends to the holding company.

(Continued)

MACATAWA BANK CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 19 — FAIR VALUES OF FINANCIAL INSTRUMENTS

Carrying amount and estimated fair values of financial instruments were as follows at year-end (dollars in thousands).

	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	\$ 49,816	\$ 49,816	\$ 39,882	\$ 39,882
Securities available for sale	201,498	201,498	198,546	198,546
Securities held to maturity	1,917	1,961	2,711	2,762
FHLB stock	12,275	12,275	12,275	12,275
Loans held for sale	3,127	3,145	1,547	1,569
Loans, net	1,717,210	1,735,745	1,688,191	1,690,358
Accrued interest receivable	10,003	10,003	11,233	11,233
Interest rate swaps	288	288	---	---
Bank-owned life insurance	22,703	22,703	21,843	21,843
Financial liabilities				
Deposits	(1,523,553)	(1,526,458)	(1,667,557)	(1,665,010)
Federal funds purchased	(46,467)	(46,467)	(11,990)	(11,990)
Other borrowed funds	(354,052)	(356,764)	(192,018)	(191,582)
Long-term debt	(41,238)	(41,011)	(41,238)	(42,034)
Interest rate swaps	---	---	(1,762)	(1,762)
Accrued interest payable	(5,584)	(5,584)	(5,468)	(5,468)
Off-balance sheet credit-related items				
Loan commitments	0	0	0	0

The methods and assumptions used to estimate fair value are described as follows.

Carrying amount is the estimated fair value for cash and cash equivalents, short-term borrowings, Federal Home Loan Bank stock, accrued interest receivable and payable, bank-owned life insurance, demand deposits, short-term debt, and variable rate loans or deposits that reprice frequently and fully. Security fair values are based on market prices or dealer quotes, and if no such information is available, on the rate and term of the security and information about the issuer. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. Fair values for impaired loans are estimated using discounted cash flow analysis or underlying collateral values. Fair value of loans held for sale is based on market quotes. Fair value of debt is based on current rates for similar financing. The fair value of interest rate swaps is based on market prices or dealer quotes. The fair value of off-balance sheet credit-related items is not significant.

(Continued)

MACATAWA BANK CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 20 – CONDENSED FINANCIAL STATEMENTS (PARENT COMPANY ONLY)

Following are condensed parent company only financial statements (dollars in thousands):

CONDENSED BALANCE SHEETS

	<u>2007</u>	<u>2006</u>
ASSETS		
Cash and cash equivalents	\$ 1,000	\$ 6,562
Investment in Bank subsidiary	198,977	190,049
Investment in other subsidiaries	1,592	1,606
Other assets	674	709
	<u> </u>	<u> </u>
Total assets	<u>\$ 202,243</u>	<u>\$ 198,926</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Long-term debt	\$ 41,238	\$ 41,238
Other liabilities	380	839
	<u> </u>	<u> </u>
Total liabilities	41,618	42,077
Total shareholders' equity	<u>160,625</u>	<u>156,849</u>
	<u> </u>	<u> </u>
Total liabilities and shareholders' equity	<u>\$ 202,243</u>	<u>\$ 198,926</u>

CONDENSED STATEMENTS OF INCOME

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Income			
Dividends from subsidiaries	\$ 10,104	\$ 10,099	\$ 78
Expense			
Interest expense	3,441	3,346	2,603
Other expense	1,034	804	661
	<u> </u>	<u> </u>	<u> </u>
Total expense	4,475	4,150	3,264
Income (Loss) before income tax and equity in undistributed net income of subsidiaries	5,629	5,949	(3,186)
Equity in undistributed net income of subsidiaries	<u>2,108</u>	<u>12,409</u>	<u>22,932</u>
Income before income tax	7,737	18,358	19,746
Income tax benefit	<u>(1,532)</u>	<u>(1,473)</u>	<u>(1,143)</u>
Net income	<u>\$ 9,269</u>	<u>\$ 19,831</u>	<u>\$ 20,889</u>

(Continued)

MACATAWA BANK CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 20 – CONDENSED FINANCIAL STATEMENTS (PARENT COMPANY ONLY)

(Continued)

CONDENSED STATEMENTS OF CASH FLOWS

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Cash flows from operating activities			
Net income	\$ 9,269	\$ 19,831	\$ 20,889
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Equity in undistributed earnings of subsidiaries	(2,108)	(12,409)	(23,010)
Stock compensation expense	54	145	0
(Increase) decrease in other assets	35	449	(1,126)
Increase (decrease) in other liabilities	(459)	499	(45)
Net cash from operating activities	<u>6,791</u>	<u>8,515</u>	<u>(3,292)</u>
Cash flows from investing activities			
Investment in subsidiaries	0	(75)	(126)
Net cash received from dissolution of subsidiary	0	373	0
Net cash from investing activities	<u>0</u>	<u>298</u>	<u>(126)</u>
Cash flows from financing activities			
Proceeds from exercises of stock options	342	1,103	880
Fractional shares purchased	(18)	(53)	(35)
Cash dividends paid	(8,781)	(7,851)	(6,228)
Repurchase of stock	(3,896)	0	0
Net cash from financing activities	<u>(12,353)</u>	<u>(6,801)</u>	<u>(5,383)</u>
Net change in cash and cash equivalents	(5,562)	2,012	(8,801)
Cash and cash equivalents at beginning of year	<u>6,562</u>	<u>4,550</u>	<u>13,351</u>
Cash and cash equivalents at end of year	<u>\$ 1,000</u>	<u>\$ 6,562</u>	<u>\$ 4,550</u>

(Continued)

MACATAWA BANK CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 21 — QUARTERLY FINANCIAL DATA (Unaudited)
(Dollars in thousands except per share data)

	<u>Interest Income</u>	<u>Net Interest Income</u>	<u>Net Income</u>	<u>Earnings Per Share</u>	
				<u>Basic</u>	<u>Fully Diluted</u>
2007					
First quarter	\$ 34,931	\$ 16,059	\$ 4,835	\$ 0.28	\$ 0.28
Second quarter	35,683	16,335	4,590	0.27	0.26
Third quarter	35,391	15,835	2,457	0.14	0.14
Fourth quarter	33,368	14,687	(2,612)	(0.15)	(0.15)
2006					
First quarter	\$ 30,241	\$ 16,314	\$ 5,222	\$ 0.31	\$ 0.30
Second quarter	32,896	16,975	5,756	0.34	0.33
Third quarter	34,779	17,083	6,009	0.35	0.35
Fourth quarter	35,589	17,045	2,845	0.17	0.16

Net income for the third and fourth quarters of 2007 includes the impact of \$2.1 million (\$1.4 million after tax, or \$0.08 per share) and \$9.5 million (\$6.2 million after tax, or \$0.36 per share), respectively, of charges against earnings for additional provisions for loan losses primarily to address risks associated with loans to residential developers.

Net income for the fourth quarter of 2006 includes the impact of a \$4.7 million (\$3.1 million after tax, or \$0.18 per share) charge against earnings related to a commercial borrower whose loans became impaired.

Exhibit 21 — Subsidiaries of Registrant

Macatawa Bank — 100% owned
Incorporated as a Michigan Banking Corporation
10753 Macatawa Drive
Holland, Michigan 49424

Macatawa Statutory Trust I – 100% owned
Statutory Trust under the laws of the State of Connecticut
10753 Macatawa Drive
Holland, Michigan 49424

Macatawa Statutory Trust II – 100% owned
Statutory Trust under the laws of the State of Delaware
10753 Macatawa Drive
Holland, Michigan 49424

Macatawa Bank Mortgage Company
100% owned by Macatawa Bank
Incorporated as a Michigan corporation
10753 Macatawa Drive
Holland, Michigan 49424

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the registration statements on Form S-8 (File No. 333-53593, File No. 333-53595, File No. 333-94207, File No. 333-85288, File No. 333-88572, File No. 333-88574, File No. 333-134502, and File No. 333-141438) of our reports dated February 21, 2008 with respect to the 2007 consolidated financial statements of Macatawa Bank Corporation and the effectiveness of internal control over financial reporting, which reports are included in this Annual Report on Form 10-K for the year ended December 31, 2007.

/s/Crowe Chizek and Company LLC
Crowe Chizek and Company LLC

Grand Rapids, Michigan
March 12, 2008

EXHIBIT 31.1

**Certification Pursuant to Section 302 of
the Sarbanes-Oxley Act of 2002**

I, Benj. A. Smith, III, certify that:

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

Date: March 10, 2008

/s/ Benj. A. Smith, III

Benj. A. Smith, III
Chief Executive Officer

EXHIBIT 31.2

**Certification Pursuant to Section 302
of the Sarbanes-Oxley Act of 2002**

I, Jon W. Swets, certify that:

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

Date: March 10, 2008

/s/ Jon W. Swets

Jon W. Swets
Senior Vice President and
Chief Financial Officer

EXHIBIT 32-1

Benj. A. Smith III, Chief Executive Officer of Macatawa Bank Corporation, and Jon W. Swets, Senior Vice President and Chief Financial Officer of Macatawa Bank Corporation, each certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Annual Report on Form 10-K for the year ended December 31, 2007 which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and

(2) the information contained in the Annual Report on Form 10-K for the year ended December 31, 2007 fairly presents, in all material respects, the financial condition and results of operations of Macatawa Bank Corporation.

Dated: March 10, 2008

/s/ Benj. A. Smith, III

Benj. A. Smith, III
Chief Executive Officer

/s/ Jon W. Swets

Jon W. Swets
Senior Vice President and Chief Financial Officer