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

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

For the fiscal year ended December 31, 2006

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	**38-3391345**
(State of other jurisdiction of incorporation or organization)	(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 [X]

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 [X]

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 [X] 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 file, 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 [X] Non-accelerated filer [ ]

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

As of June 30, 2006 the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $351,410,237 based on the closing sale price of $23.39 as reported on the National Association of Securities Dealers Automated Quotation System. As of March 14, 2007, there were 16,404,788 outstanding shares of the Company's common stock (no par value). Portions of the Company's Proxy Statement for the Annual Meeting of Shareholders to be held April 19, 2007 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, In. ("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-four 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, 2006, we had total assets of $2.07 billion, total deposits of $1.67 billion, approximately 96,000 deposit accounts and shareholders' equity of $156.8 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 24 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. This has enabled us to increase deposits from new, as well as existing customers, while maintaining a healthy net interest margin. We periodically purchase brokered deposits to supplement funding needs. These are time accounts originated outside of our local market area. Brokered deposits comprised approximately 16% of total deposits at December 31, 2006 and approximately 19% at December 31, 2005. We operate in a very competitive environment, competing with other local banks similar in size and 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.

(Dollars in thousands)	Average for the Year					
	2006		2005		2004	
	Amount	Average Rate	Amount	Average Rate	Amount	Average Rate
Noninterest bearing demand	$ 167,144	--	$ 164,184	--	$ 139,510	--
Interest bearing demand	655,549	3.3%	608,718	2.0%	587,834	1.2%
Savings	40,827	0.6%	40,674	0.5%	38,266	0.2%
Time	710,924	4.5%	576,843	3.5%	435,005	2.8%
Total deposits	$ 1,574,444	3.4%	$ 1,390,419	2.3%	$ 1,200,615	1.6%

The following table summarizes time deposits in amounts of $100,000 or more by time remaining until maturity as of December 31, 2006:

(Dollars in thousands)	Amount
Three months or less	$ 161,733
Over 3 months through 6 months	61,176
Over 6 months through 1 year	88,776
Over 1 year	192,589
Total	$ 504,274

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									
	2006		2005		2004		2003		2002	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Commercial real estate	$ 875,717	51%	$ 793,919	51%	$ 676,637	48%	$ 536,884	46%	$417,757	44%
Residential real estate	224,836	13%	223,390	15%	218,999	16%	172,647	15%	133,843	14%
Other commercial	416,135	25%	359,036	23%	338,398	24%	312,131	27%	279,923	29%
Consumer	194,762	11%	171,534	11%	162,353	12%	135,445	12%	129,515	13%
Total loans	$ 1,711,450	100%	$ 1,547,879	100%	$ 1,396,387	100%	$ 1,157,107	100%	$961,038	100%
Less:										
Allowance for loan losses	(23,259)		(20,992)		(19,251)		(16,093)		(13,472)	
Total loans receivable, net	$ 1,688,191		$ 1,526,887		$ 1,377,136		$ 1,141,014		$947,566	

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

	December 31				
(Dollars in thousands)	2006	2005	2004	2003	2002
Nonaccrual loans	$ 5,811	$ 3,977	$ 3,249	$ 1,717	$ 2,539
Loans 90 days or more delinquent and still accruing	16,479	227	772	2,308	259
Restructured loans	--	--	--	--	--
Total nonperforming loans	$ 22,290	$ 4,204	$ 4,021	$ 4,025	$ 2,798
Foreclosed assets	3,212	527	1,850	464	388
Repossessed assets	81	165	--	4	58
Total nonperforming assets	$ 25,583	$ 4,896	$ 5,871	$ 4,493	$ 3,244
Nonperforming loans to total loans	1.30%	.27%	.29%	.35%	.29%
Nonperforming assets to total assets	1.23%	.26%	.35%	.32%	.28%

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				
(Dollars in thousands)	**2006**	**2005**	**2004**	**2003**	**2002**
Loans:					
Average daily balance of loans for the year	$1,636,710	$1,473,558	$1,295,887	$1,046,723	$831,709
Amount of loans outstanding at end of period	1,711,450	1,547,879	1,396,387	1,157,107	961,038
Allowance for loan losses:					
Balance at beginning of year	$ 20,992	$ 19,251	$ 16,093	$ 13,472	$ 7,699
Balances from GBFC acquisition	--	--	--	--	3,464
Addition to allowance charged to operations	7,715	3,675	7,890	4,105	3,321
Loans charged-off:					
Commercial	(5,601)	(1,842)	(4,833)	(1,308)	(1,143)
Residential Real Estate	(43)	(24)	(21)	(50)	--
Consumer	(410)	(371)	(91)	(187)	(128)
Recoveries:					
Commercial	399	261	180	26	249
Residential Real Estate	10	17	11	17	--
Consumer	197	25	22	18	10
Balance at end of year	$ 23,259	$ 20,992	$ 19,251	$ 16,093	$ 13,472
Ratios:					
Net charge-offs to average loans outstanding	0.33%	.13%	.37%	.14%	.12%
Allowance for loan losses to loans outstanding at year end	1.36%	1.36%	1.38%	1.39%	1.40%

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.

(Dollars in thousands)	Year Ended December 31									
	2006		2005		2004		2003		2002	
	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	$ 21,417	75.5%	$ 18,883	74.5%	$ 17,324	72.7%	$ 14,371	73.4%	$ 11,207	72.6%
Real estate mortgages	502	13.1%	463	14.4%	476	15.7%	360	14.9%	326	13.9%
Consumer	1,340	11.4%	1,646	11.1%	1,243	11.6%	1,074	11.7%	950	13.5%
Unallocated	--	--	--	--	208	--	288	--	989	--
Total	$ 23,259	100%	$ 20,992	100%	$ 19,251	100%	$ 16,093	100.0%	$ 13,472	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, 2006 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	$ 335,543	$ 492,269	$ 47,905	$ 875,717
Residential real estate	57,551	40,233	127,052	224,836
Other commercial	240,629	173,888	1,618	416,135
Consumer	13,368	81,890	99,504	194,762
Totals	$ 647,091	$ 788,280	$ 276,079	$ 1,711,450
Allowance for loan losses				(23,259)
Total loans receivable, net				$ 1,688,191

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, 2006.

(dollars in thousands)	Fixed Rate (a)	Variable Rate (a)	Total
Due within 3 months	$ 49,874	$ 779,876	$ 829,750
Due after 3 months, but within 1 year	95,359	35,378	130,737
Due after one but within 5 years	533,001	115,532	648,533
Due after 5 years	94,714	1,905	96,619
Total	$ 772,948	$ 932,691	$ 1,705,639
Allowance for loan losses			(23,259)
Total loans receivable, net			$ 1,682,380

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

Residential Real Estate Loans. We originate 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 in the secondary market the majority of residential mortgage loans originated. 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 variable 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-, three- or five-year constant maturity treasury 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 may be convertible into fixed rate loans upon payment of a fee, do not contain prepayment penalties and do not produce negative amortization. Initial interest rates offered on our variable rate mortgage loans may be 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 currently sell long-term, conforming fixed-rate loans which we originated with terms of 15 years or greater, in the secondary market.

Generally we 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 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. 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 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 residential loans.

Construction 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 builders 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.

Construction and development loans are obtained principally through continued business from 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 to us. 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.

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.

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		
	2006	**2005**	**2004**
U.S. Treasury and U.S. Government Agencies	$ 146,910	$ 108,561	$ 91,399
State and municipal bonds	53,366	51,049	48,402
Other equity securities	981	993	---
Total	$ 201,257	$ 160,603	$ 139,801

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, 2006.

(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	$ 7,944	3.89%	$138,805	4.42%	$ 29	8.08%	$ 132	5.35%	--	--
Tax-exempt state and municipal bonds (1)	715	4.10%	3,418	6.52%	20,719	6.24%	28,514	6.02%	--	--
Other equity securities	--	--	--	--	--	--	--	--	981	4.28%
Total (1)	$ 8,659	3.91%	$142,223	4.47%	$ 20,748	6.24%	$ 28,646	6.02%	981	4.28%

(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 as of December 31, 2006, the Trust Department had assets of approximately $1.04 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, 2006, our personal trust assets totaled approximately $896.0 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, 2006, our retirement plan assets totaled approximately $143.3 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 tourism, office furniture, automotive components and assemblies, health services, pharmaceutical, transportation, equipment, food and construction supplies. Companies operating in the market area include 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 within our three county market area grew by 20.6% from 1990 to 2002. 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 principally through our ability to communicate effectively with our customers and to understand and meet their needs. Our management believes that our personal service philosophy enhances our ability to compete favorably in attracting individuals and small businesses. We actively solicit customers and compete for deposits 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, 2006, we had 357 full-time and 115 part-time employees. We have assembled a staff of experienced, dedicated and highly qualified professionals whose goal is to provide 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.

Acquisition of Grand Bank

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.

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 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 have been paying zero in deposit insurance premiums for the past ten years will now be required to pay premiums of 5 to 7 basis points in 2007. Under the new rate schedule, most well-capitalized banks will 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, 2006, 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 is subject to State usury and regulatory laws and to various federal statutes, including the privacy of consumer financial information provisions of the Gramm-Leach-Bliley Act 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 cashflow 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 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 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 effect 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 $20.39 and $25.07 for 2006. 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 35,148 shares during 2006, with daily volume ranging from a low of 5,824 shares to a high of 363,952 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, 2007, were as follows:

Location of Facility	Use
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

* 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 1,200. 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; Jorge Acevedo, et. al. v. Macatawa Bank Corporation, et. al.—filed Decemver 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.

The receiver has received court permission to pool the death benefits of any of the Trade Partners viaticated policies that mature and use the benefits to pay premiums on other viaticated policies. As of January 15, 2007, the receiver reported that he has received since the inception of the receivership cash payments for death benefit claims aggregating approximately $29.3 million. He reported at the same time that all premium payments were current. He also reported at that time that he had paid premiums on the portfolio approximating $14.0 million since the inception of the receivership. As of January 15, 2007 the receiver reported cash on hand of approximately $51.9 million. As additional viaticated policies mature, death benefits from those policies could provide a source of funding for continued premium payments, though the receiver's ability to so use such benefits may be limited or eliminated by the terms of the sale of the portfolio to Universal Settlements International, Inc., described below.

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, or approximately $43 million. 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 15, 2007 payments aggregating approximately $35.4 million had been received on policies transferred pursuant to the sale agreement.

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 January 15, 2007 that claims against the receivership estate totaling $169,244,173.13, and that all claims have now been processed.

The receiver reports that he commenced distributions on January 19, 2007. The initial distributions are approximately 26.987% of each allowed and approved claim. 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 2006 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.

Name	Age	Year Elected an Executive Officer	Positions Held
Benj. A. Smith, III	63	1997	Chairman of the Board and Chief Executive Officer of Macatawa Bank Corporation.
Philip J. Koning	52	1997	President and Chief Executive Officer of Macatawa Bank and Treasurer and Secretary of Macatawa Bank Corporation.
Ronald L. Haan	53	2005	Executive Vice President of Macatawa Bank
Jon W. Swets	41	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.

	2006			2005		
Quarter	**High**	**Low**	**Dividends Declared**	**High**	**Low**	**Dividends Declared**
First Quarter	$ 25.07	$ 22.31	$ 0.11	$ 20.80	$ 16.81	$ 0.08
Second Quarter	$ 24.19	$ 20.66	$ 0.12	$ 22.86	$ 16.83	$ 0.10
Third Quarter	$ 24.04	$ 20.99	$ 0.12	$ 25.40	$ 20.63	$ 0.10
Fourth Quarter	$ 23.78	$ 20.39	$ 0.13	$ 24.92	$ 20.13	$ 0.11

On February 22, 2007, there were approximately 738 owners of record and, in addition, approximately 7,888 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 $.14 were paid during 2001, and a 3% stock dividend was declared during the second quarter of 2001. Quarterly cash dividends totaling $.17 were paid during 2002, and a 4% stock dividend was declared during the second quarter of 2002. Quarterly cash dividends totaling $.22 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 $.39 were paid during 2005, and a 15% stock dividend was declared during the second quarter of 2005. Quarterly cash dividends totaling $.48 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. All of these cash dividend amounts have been retroactively adjusted to reflect the effect of the stock dividends.

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, 2006, is incorporated by reference and is filed as part of Exhibit 13 to this Form 10-K Annual Report.

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, 2006, 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, 2006, 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, 2006, 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 Financial Statements," "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, 2006, 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, 2006. 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, 2006, the Company's internal control over financial reporting is effective based on those criteria.

Management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2006, 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, 2006, 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 18 under the caption “Section 16(a) Beneficial Ownership Reporting Compliance” in our definitive Proxy Statement dated March 6, 2007, relating to our 2007 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 6, 2007, relating to our 2007 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 16 under the caption “Security Ownership of Management” in our definitive Proxy Statement dated March 6, 2007, relating to our 2007 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, 2006. The following information has been adjusted to reflect the effect of all stock dividends and stock splits.

Equity Compensation Plan Information

Plan Category	(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	977,152	$ 15.00	906,872
Equity compensation plans not approved by security holders	0	N/A	0
Total	977,152	$ 15.00	906,872

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

Information relating to certain relationships and related transactions is contained on page 17 under the caption “Transactions Involving Management” and on page 5 under the heading “Corporate Governance-Director Independence” in our definitive Proxy Statement dated March 6, 2007, relating to our 2007 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 19, under the caption “Principal Accounting Firm Fees” in our definitive Proxy Statement dated March 6, 2007, relating to our 2007 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 Financial Statements
   Consolidated Balance Sheets as of December 31, 2006 and 2005
   Consolidated Statements of Income for the years ended December 31, 2006, 2005 and 2004
   Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2006, 2005 and 2004
   Consolidated Statements of Cash Flows for the years ended December 31, 2006, 2005 and 2004
   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 15, 2007.

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 15, 2007 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 Benj. A. Smith, III, Principal Executive Officer and a Director	March 15, 2007
/s/ Jon W. Swets Jon W. Swets, Principal Financial and Accounting Officer	March 15, 2007
/s/ G. Thomas Boylan G. Thomas Boylan, Director	March 15, 2007
/s/ Robert E. DenHerder Robert E. DenHerder, Director	March 15, 2007
/s/ John F. Koetje John F. Koetje, Director	March 15, 2007
/s/ Philip J. Koning Philip J. Koning, Director and President	March 15, 2007
/s/ Arend D. Lubbers Arend D. Lubbers, Director	March 15, 2007

EXHIBIT INDEX

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	Employment Agreement between Benj. A Smith III and Macatawa Bank Corporation dated August 25, 2004, incorporated by reference to Exhibit 10.1 to the Macatawa Bank Corporation Report on Form 8-K dated August 26, 2004.
10.6	Agreement and Plan of Merger dated October 11, 2006 by and among Macatawa Bank 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	Employment Agreement between Macatawa Bank and Mr. Ray Tooker dated June 22, 2006, incorporated by reference to Exhibit 99 to the Macatawa Bank Corporation Current Report on Form 8-K dated June 22, 2006.
10.9	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.
10.10	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.
10.11	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.
10.12	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.
10.13	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.
10.14	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.
10.15	Form of Restricted Stock Agreement.
13	Annual Report to Shareholders for the year ended December 31, 2006. 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 29 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.

EXHIBIT 10.15

Employee: ______________________________

Number of Shares: ______________________________

Date of Award: ______________________________

Per share fair market value on grant date: ______________

Restrictions lapse on the Dates and as to the number of shares set forth below:

Date	Number of Shares
___________	___________

RESTRICTED STOCK AGREEMENT

This Restricted Stock Agreement ("Agreement") is made as of the award date set forth above, between MACATAWA BANK CORPORATION, a Michigan corporation ("Macatawa" or the "Company"), and the employee named above ("Employee"). The Employee is employed by Macatawa Bank, a wholly-owned subsidiary of the Company.

The Macatawa Bank Corporation Stock Compensation Plan (the "Plan") is administered by the Compensation Committee of Macatawa Bank Corporation's Board of Directors (the "Committee"). The Committee has determined that Employee is eligible to participate in the Plan. The Committee has awarded restricted stock to Employee, subject to the terms and conditions contained in this Agreement and in the Plan.

Employee acknowledges receipt of a copy of the Plan and accepts this restricted stock award subject to all of the terms, conditions, and provisions of this Agreement and the Plan.

1. Award. Macatawa Bank Corporation hereby awards to Employee shares of Macatawa Bank Corporation's common stock, no par value, as set forth above, and subject to restrictions imposed under this Agreement and the Plan ("Restricted Stock").

2. Transferability. Until the restrictions lapse as to shares of Restricted Stocks at the dates set forth above, the Restricted Stock granted under this Agreement is not transferable by Employee except (a) to the Company in the event of Employee's death or disability, or (b) by will or according to the laws of descent and distribution. If during the Restricted Period Employee assigns, pledges, transfers, or otherwise disposes of the Restricted Stock, voluntarily or involuntarily, except as permitted by this Agreement or the Plan, Employee shall lose all rights to the Restricted Stock, and all Restricted Stock shall promptly be surrendered to the Company. Macatawa Bank Corporation shall place an appropriate legend upon any certificate representing shares of Restricted Stock awarded under this Agreement.

3. Lapsing of Restrictions. Except as otherwise provided in this Agreement, the restrictions imposed on the shares of Restricted Stock awarded pursuant to this Agreement shall lapse on the dates set forth above. The period during which the Restricted Stock is subject to restrictions imposed by the Plan and under this Agreement shall be known as the “Restricted Period.”

4. Securities Laws. Employee hereby represents and warrants that Employee is acquiring the Restricted Stock award under this Agreement for Employee’s own account and investment and without any intent to resell or distribute the Restricted Stock. Employee shall not resell or distribute the Restricted Stock after the Restricted Period except in compliance with such conditions as Macatawa Bank Corporation may reasonably specify to ensure compliance with federal and state securities laws.

5. Termination of Employment.

(a) General. Employee’s right to the shares of Restricted Stock awarded under this Agreement as to which the restrictions have not lapsed shall cease and terminate immediately upon Employee’s termination of employment with Macatawa Bank Corporation or any of its subsidiaries during the Restricted Period for any reason other than Employee’s death or disability.

(b) Death or Disability. In the event Employee terminates employment during the Restricted Period because of death or disability, Employee’s right to the Restricted Stock shall vest as of the termination date, and Employee may then transfer the shares free of restrictions under the Plan or this Agreement, except for restrictions specified by the Company to ensure compliance with federal and state securities laws.

6. Corporate Changes. In the event of any stock dividend, stock split, recapitalization, merger, consolidation, combination, or exchange of shares, the aggregate number and class of shares awarded under this Agreement are subject to adjustment as provided in the Plan. No fractional shares shall be issued, and any fractional shares resulting from adjustments shall be eliminated, with an appropriate cash adjustment. The Restricted Stock shall vest upon the occurrence of a Change in Control, and the shares may be transferred free of the restrictions under the Plan and this Agreement, except for restrictions that the Company may reasonably specify to ensure compliance with federal and state securities laws; *provided, however,* that if the vesting, when considered with all payments and benefits from the Company to Employee, constitutes a “parachute payment” under Section 280G(b)(2) of the Code, then Employee’s rights to the Restricted Stock shall vest only to the extent that the aggregate present value of all payments and benefits in the nature of compensation to which Section 280G(b)(2) applies does not exceed two hundred ninety-nine percent of Employee’s Average Annual Compensation.

7. Employment by Macatawa Bank Corporation. The award of Restricted Stock under this Agreement shall not interfere with or limit in any way the right of the Company or any of its subsidiaries to terminate Employee at any time or confer upon Employee any right to continue in the employ of the Company or any of its subsidiaries.

8. Shareholder Rights. During the Restricted Period, Employee shall have all rights of a shareholder with respect to the Restricted Stock, including (a) the right to vote any shares at shareholders' meetings, (b) the right to receive, without restriction, all cash dividends paid with respect to the Restricted Stock, and (c) the right to participate with respect to the Restricted Stock in any stock dividend, stock split, recapitalization, or other adjustment in the common stock of the Company or any merger, consolidation, or other reorganization involving an increase or decrease or adjustment in the Company's common stock. Any new, additional, or different shares or other security received by Employee pursuant to any stock dividend, stock split, recapitalization, or reorganization shall be subject to the same terms, conditions, and restrictions as those relating to the Restricted Stock for which such shares were received. After the Restricted Stock vests, Employee shall have all shareholder rights, including the right to transfer the shares, subject to such conditions as the Company may reasonably specify to ensure compliance with federal and state securities laws.

9. Withholding. The Company or a subsidiary shall make such provisions as it deems appropriate for the withholding of any taxes determined to be required to be withheld in connection with the award of Restricted Stock to Employee or the lapse of restrictions. Withholding may be satisfied by delivery to the Company of previously owned common stock.

10. Effective Date. This award of Restricted Stock shall be effective as of the date first set forth above.

11. Amendment. This Agreement shall not be modified except in a writing executed by the parties hereto.

12. Plan Controls. The Plan is incorporated in this Agreement by reference. Capitalized terms not defined in this Agreement shall have those meanings provided in the Plan. In the event of any conflict between the terms of this Agreement and the terms of the Plan, the provisions of the Plan shall control.

This Restricted Stock has been awarded by Macatawa Bank Corporation by authority of its Compensation Committee.

MACATAWA BANK CORPORATION

By: ________________________________

EMPLOYEE

____

Signature

____

Print Name

Note to Employees: Important tax consequences are determined by whether the Employee receiving a Restricted Stock award files an election with the Internal Revenue Service pursuant to Section 83 of the Internal Revenue Code of 1986, as amended. By signing this Restricted Stock Agreement Employee agrees that he or she is not relying on the Company for any tax advice.

EXHIBIT 13

To Our Shareholders:

We thought 2006 was going to be a record year for Macatawa Bank.

The results were in, and our numbers looked great. Even though we were in a market experiencing economic challenges, with a difficult interest rate environment causing shrinking margins, we had once again delivered across-the-board improvements in all key areas.

But shortly before the end of the first quarter of 2007, we realized a fraud had been perpetrated against the bank by one of our commercial loan customers. With disbelief, we began to investigate.

What we found was not pretty: About $5.2 million in loans had become impaired. That means it is unlikely that the borrower will be able to repay us and that the collateral used to secure the loans won't be enough to cover them.

As soon as we became aware of this situation, we determined that most of the loan balance was a loss and took a corresponding charge to earnings of $4.7 million in the fourth quarter of 2006. This reduced what would have been record net income to $19.8 million for the year, down approximately 5 percent over 2005.

This is distressing to us and to you, our shareholders. It is also unacceptable. As part of our internal investigation, we began to review our loan policies and procedures. As a management team, we pledge that these procedures will be scrutinized and tightened to prevent a recurrence.

This certainly is not easy news to deliver or to hear. But it is important to note that Macatawa Bank is financially strong and well-capitalized. We have a solid foundation and, with the support of shareholders and employees, will continue to grow.

Despite this unwelcome fourth-quarter development, much happened according to our strategic plan in 2006:

- Macatawa Bank's total assets exceeded $2.0 billion in 2006.
- Our core deposits grew $171 million or 14 percent, well in excess of the growth rates of the markets within which we operate.
- We continue to attract new customers, adding nearly 10,000 net new deposit accounts in 2006.
- We remain number one in market share in Ottawa County, while steadily growing our Kent County market share. In addition, a consumer survey conducted by The Holland Sentinel ranked us as "Best Bank on the Lakeshore" for the sixth year in a row.

Real Performers, Real Growth

Looking forward, our focus remains on building the strongest franchise in West Michigan. While we continued to make great strides in expanding our reach during 2006, we see significant opportunity ahead of us, especially in the greater Grand Rapids market. We have aggressive plans to increase our physical presence in the Grand Rapids metropolitan market. In January 2007, we opened a Breton Village branch, which will serve parts of both East Grand Rapids and Kentwood. In February, we relocated our Byron Center storefront to a new, free standing, full-service branch designed to better position us in this growing market. This summer, we will open a Cascade branch on 28th Street east of I-96, which will complement and strengthen our position in Kent County.

While our branch network is critical to our success, we are exploring alternative delivery systems and enhanced technology that allows us to engage customers in new and more convenient ways. Today’s technology enables our customers to become much more sophisticated product users. For example, last year the number of customers using Macatawa Connect for bill payment increased 50 percent. This activity is an indication of how future generations will do their banking. We are committed to being a leader in this area by providing expanded capabilities, comprehensive security, and a high level of user friendliness.

Treasury Management is another area where we have achieved significant growth. We’re able to offer our larger customers state-of-the-art technology, such as remote deposit capture, which saves time, money and improves their cash flow. We deliver these products with a high level of personal service, creating a very compelling product. The latest technology is only effective when backed by first-rate personnel support. We believe customers still want a real person to answer the phone, address a question or solve a problem quickly. Macatawa provides “high-touch technology,” a unique blend of personal service and state-of-the-art technology.

We have taken significant steps this past year to enhance our Financial Services Group with the addition of Asset Management services. This strengthens our portfolio management capabilities and provides our Trust and Financial Service customers with increased investment options and more in-depth counseling. We believe we have a great opportunity to increase our business in this area. Last year the Trust group delivered a 23 percent increase in revenue over the prior year, and we feel we can do even better in the future.

At the core of our success remains our people, our ‘Real Performers’ and the values and principles they live by. Day in and day out, they provide a level of service that engages customers and builds the long-term relationships that deliver continued growth. It’s not just the people who work face to face with our customers, but also those who provide the underlying foundation in products and technology that continue to drive our business forward. It is also about the countless hours our employees donate in support of their local communities. We invite you to learn more about a few of our “Real Performers” in the following pages, knowing that they represent the 480 other employees that we have employed throughout the Macatawa Bank market area.

/s/ Benjamin A. Smith

Benjamin A. Smith III
CHAIRMAN & CEO / MACATAWA BANK CORPORATION

/s/ Philip J. Koning

Philip J. Koning
PRESIDENT / MACATAWA BANK CORPORATION
PRESIDENT & CEO / MACATAWA BANK

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, 2006 and 2005, and the Consolidated Statements of Income for the years ended December 31, 2006, 2005, and 2004, are included elsewhere in this Annual Report.

(Dollars in thousands, except per share data)	As of and For the Year Ended December 31				
	2006	2005	2004	2003	2002
Financial Condition					
Total assets	$ 2,074,816	$ 1,869,990	$ 1,672,606	$ 1,401,111	$ 1,176,583
Securities	201,257	160,603	139,801	109,673	90,170
Loans	1,711,450	1,547,879	1,396,387	1,157,107	961,038
Deposits	1,667,557	1,507,772	1,351,516	1,109,399	920,873
Other borrowed funds	192,018	145,161	123,985	145,680	106,897
Shareholders' equity	156,849	141,744	129,074	121,900	113,974
Share Information*					
Basic earnings per common share	$ 1.22	$ 1.30	$ .80	$ .74	$ .65
Diluted earnings per common share	1.20	1.27	.79	.73	.64
Book value per common share	9.65	8.80	8.07	7.66	7.23
Dividends per common share	.48	.39	.28	.22	.17
Weighted average dilutive shares outstanding	16,551,879	16,485,069	16,252,442	16,143,202	14,907,400
Shares outstanding at end of period	16,254,619	16,109,087	15,987,726	15,918,309	15,758,565
Operations					
Interest income	$ 133,506	$ 105,395	$ 78,329	$ 64,435	$ 57,252
Interest expense	66,089	42,558	26,309	22,341	22,902
Net interest income	67,417	62,837	52,020	42,094	34,350
Provision for loan losses	7,715	3,675	7,890	4,105	3,321
Net interest income after provision for loan losses	59,702	59,162	44,130	37,989	31,029
Total noninterest income	14,177	13,004	10,042	10,154	7,877
Total noninterest expense	44,913	41,423	35,400	30,575	24,741
Income before tax	28,966	30,743	18,772	17,568	14,165
Federal income tax	9,135	9,854	5,996	5,788	4,652
Net income	$ 19,831	$ 20,889	$ 12,776	$ 11,780	$ 9,513
Performance Ratios					
Return on average equity	13.09%	15.30%	10.15%	9.91%	9.46%
Return on average assets	1.01%	1.17%	.83%	.94%	.95%
Yield on average interest-earning assets	7.26%	6.37%	5.47%	5.55%	6.16%
Cost on average interest-bearing liabilities	4.01%	2.87%	2.07%	2.19%	2.82%
Average net interest spread	3.25%	3.50%	3.40%	3.36%	3.34%
Average net interest margin	3.67%	3.81%	3.64%	3.63%	3.69%
Efficiency ratio	55.04%	54.62%	57.04%	58.52%	58.59%
Capital Ratios					
Equity to assets	7.56%	7.58%	7.72%	8.70%	9.69%
Total risk-based capital ratio	10.85%	11.07%	11.12%	10.92%	9.89%
Credit Quality Ratios					
Allowance for loan losses to total loans	1.36%	1.36%	1.38%	1.39%	1.40%
Nonperforming assets to total assets	1.23%	.26%	.35%	.32%	.28%
Net charge-offs to average loans	.33%	.13%	.37%	.14%	.12%

*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, 2006 and 2005 follows:

(Dollars in thousands, except per share data)	Three Months Ended			
	March 31	**June 30**	**September 30**	**December 31**
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	0.32	0.36	0.37	0.18
Diluted	0.32	0.35	0.36	0.17
2005				
Interest income	$ 23,198	$ 25,357	$ 27,752	$ 29,087
Net Interest income	14,844	15,487	16,105	16,401
Provision for loan losses	900	1,125	855	795
Income before income tax expense	6,655	7,769	8,211	8,107
Net income	4,535	5,262	5,550	5,542
Net income per share*				
Basic	0.28	0.33	0.35	0.34
Diluted	0.28	0.32	0.34	0.34

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

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 as described in Note 1 - Recent Developments and Note 4 of the financial statements.

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-four 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.

While maintaining asset quality and improving profitability, we have experienced rapid and substantial growth since opening Macatawa Bank in November of 1997. We first became profitable in 1999 and have increased earnings each year since then with 2006 net income reaching $22.9 million. 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-fourth branch during the second quarter of 2006 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 $19.8 million, or $1.20 per diluted share for 2006 as compared to $20.9 million, or $1.27 per diluted share for 2005, and $12.8 million, or $.79 per diluted share for 2004. The results for 2006 include a charge against earnings of $4.7 million ($3.1 million after tax, or $0.18) per share. The results for 2004 include a charge against earnings of $2.3 million ($1.5 million after tax, or $0.09) per share. These losses are associated with two separate impaired commercial loan relationships described under Loan Portfolio and Asset Quality and Allowance for Loan Losses.

The trends in net income principally reflect strong growth in our net interest income due to our continuing growth in interest earning assets and growth in noninterest income, partially offset by increases in noninterest expense and provisions for loan losses.

Net Interest Income: Net interest income totaled $67.4 million during 2006 compared to $62.8 million during 2005 and $52.0 million during 2004. The growth in net interest income during 2006 compared to 2005 was driven by strong growth in average interest earning assets and 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 14 basis points to 3.67% for 2006 as the increase in the cost of funds exceeded the increase in the yield on earning assets.

The yield on earning assets increased 89 basis points to 7.26% for 2006 from 6.37% for 2005. The primary reason for this increase was the rise in the yield on our variable rate loan portfolio during the first half of 2006. The increases in short-term interest rates that began in mid-2004 continued through June of 2006 causing the increase in variable rate loan yields. The addition of new loans at generally higher rates during this period also contributed to the increase in asset yield. The increase in the yield on earning assets was offset by a 114 basis point increase in our overall cost of funds to 4.01% for 2006. The primary reasons for the increase can be attributed to increasing the rates paid on our deposit accounts consistent with market increases, the rollover of time deposits to higher rates within the rising rate environment during 2006, and a shift to higher costing sources of funds. The rates paid on higher yielding checking accounts, money market accounts and retail time deposits reached levels in 2006 that had not been seen in the past few years, causing deposit customers to shift funds from low or no yield checking accounts into these higher rate accounts.

The 21% growth in net interest income during 2005 compared to 2004 was also largely driven by significant growth in average interest earning assets which increased by $219.0 million, or 15%, to $1.65 billion for 2005. The net interest margin increased by 17 basis points to 3.81% for 2005, also contributing to the growth in net interest income.

The increases in short-term interest rates described above caused an increase in the yield on assets and the overall cost of funds in 2005 compared to 2004. The yield on earning assets increased 90 basis points and was largely offset by an 80 basis point increase in the overall cost of funds during 2005 when compared to 2004.

Anticipated growth in earning assets is expected to continue to increase levels of net interest income. We expect, however, that compression in the net interest margin that began when the Federal Open Market Committee stopped raising short-term interest rates during the third quarter of 2006, will continue as long as short-term and long-term rates remain within a narrow range. We continue to maintain derivative instruments, as discussed in the Notes to the Consolidated Financial Statements, to help balance our interest rate risk sensitivity considering our significant variable rate loan portfolio. This is discussed in further detail under the section Sensitivity to Market Risk.

The following table shows an analysis of net interest margin for the years ended December 31, 2006, 2005 and 2004.

(Dollars in Thousands)	2006 Average Balance	2006 Interest Earned or Paid	2006 Average Yield or Cost	2005 Average Balance	2005 Interest Earned or Paid	2005 Average Yield or Cost	2004 Average Balance	2004 Interest Earned or Paid	2004 Average Yield or Cost
Assets:									
Taxable securities	$ 128,833	$ 5,424	4.21%	$ 109,027	$ 4,392	4.03%	$ 84,151	$ 3,528	4.19%
Tax-exempt securities (1)	51,145	2,154	6.48%	49,285	2,084	6.53%	40,491	1,727	6.62%
Loans (2)	1,636,710	125,034	7.55%	1,473,558	98,031	6.58%	1,295,887	72,583	5.54%
Federal Home Loan Bank stock	13,394	656	4.83%	13,299	573	4.25%	9,857	430	4.29%
Federal funds sold and other short-term investments	4,591	238	5.12%	8,976	315	3.46%	4,787	61	1.25%
Total interest earning assets(1)	1,834,673	133,506	7.26%	1,654,145	105,395	6.37%	$1,435,173	$ 78,329	5.47%
Noninterest earning assets:									
Cash and due from banks	35,351			35,370			33,792		
Other	100,281			93,517			68,478		
Total assets	$1,970,305			$1,783,032			$1,537,443		
Liabilities and Shareholders' Equity:									
Deposits:									
NOW and money market accounts	$ 655,549	$ 21,427	3.27%	$ 608,718	$ 11,841	1.95%	$ 587,834	$ 6,916	1.18%
Savings	40,827	237	0.58%	40,674	183	0.45%	38,266	86	0.23%
IRAs	36,654	1,566	4.27%	30,536	1,092	3.58%	27,170	884	3.26%
Time deposits	674,270	30,367	4.50%	546,307	18,944	3.47%	407,835	11,185	2.74%
Borrowings:									
Other borrowed funds	176,796	8,209	4.58%	171,000	6,599	3.81%	145,346	5,223	3.59%
Long-term debt	41,238	3,346	8.00%	41,238	2,603	6.23%	36,742	1,659	4.52%
Federal funds purchased	18,528	937	4.99%	36,715	1,296	3.48%	22,837	356	1.54%
Total interest bearing liabilities	1,643,862	66,089	4.01%	1,475,188	42,558	2.87%	1,266,030	26,309	2.07%
Noninterest bearing liabilities:									
Noninterest bearing demand accounts	167,143			164,184			139,510		
Other noninterest bearing liabilities	7,821			7,148			5,973		
Shareholders' equity	151,479			136,512			125,930		
Total liabilities and Shareholders' equity	$1,970,305			$1,783,032			$1,537,443		
Net interest income		$ 67,417			$ 62,837			$ 52,020	
Net interest spread (1)			3.25%			3.50%			3.40%
Net interest margin (1)			3.67%			3.81%			3.64%
Ratio of average interest earning assets to average interest bearing liabilities	111.61%			112.13%			113.36%		

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

(2) Loan fees included in interest income are not material. 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.

(Dollars in thousands)	For The Year Ended December 31,					
	2006 vs 2005			2005 vs 2004		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest income						
Taxable securities	$ 827	$ 205	$ 1,032	$ 1,007	$ (143)	$ 864
Tax-exempt securities	86	(16)	70	387	(30)	357
Loans	11,542	15,461	27,003	10,914	14,534	25,448
FHLB stock	4	79	83	148	(5)	143
Fed funds sold and other short-term investments	(189)	112	(77)	84	170	254
Total interest income	$ 12,270	$ 15,841	$ 28,111	$ 12,540	$ 14,526	$ 27,066
Interest expense						
NOWs and MMDAs	$ 974	$ 8,612	$ 9,586	$ 254	$ 4,671	$ 4,925
Savings	1	53	54	6	91	97
IRAs	240	234	474	116	92	208
Time deposits	5,020	6,403	11,423	4,362	3,397	7,759
Other borrowed funds	230	1,380	1,610	970	406	1,376
Long-term debt	---	743	743	222	722	944
Fed funds purchased	(782)	423	(359)	305	635	940
Total interest expense	5,683	17,848	23,531	6,235	10,014	16,249
Net interest income	$ 6,587	$ (2,007)	$ 4,580	$ 6,305	$ 4,512	$ 10,817

Provision for Loan Losses: The provision for loan losses for 2006 was $7.7 million as compared to $3.7 million for 2005 and $7.9 million for 2004. For 2006 and 2004, the provision for loan losses included $4.7 million and $2.3 million, respectively, of additional provisions related to two separate commercial borrowers described below under Loan Portfolio and Asset Quality and Allowance for Loan losses. 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 $14.2 million during 2006, as compared to $13.0million during 2005 and **$**10.0 million in 2004. The $1.2 million increase over 2005 was a result of improvements in all individual components except gains on sold loans which decreased from $2.3 million to $1.7 million due to a decline in mortgage loan origination volume. The $3.0 million or 30% improvement over 2004 included increases in all individual components with the exception of trust fees which were unchanged.

Revenues from trust services increased $668,000 or 23% to $3.6 million for 2006. Trust fees are primarily based on the underlying values of trust assets managed. An increase in both the market valuation of assets held in trust accounts and a continued increase in new trust customers contributed to the strong increase in 2006. Despite also gaining new trust customers in 2005, trust fees remained relatively flat at $2.9 million for 2005 compared to 2004 due to a decline in the market valuation of assets held in the trust accounts.

Deposit service charge income increased $551,000 or 13% to $4.9 million for 2006 compared to $4.3 million for 2005 and $3.0 million for 2004. The increase in 2006 and 2005 reflects the continued expansion of our deposit customer account base as we have grown. An overdraft privilege service implemented at the beginning of the second quarter of 2005 was well received and was also a large contributor to the increase in deposit service charge income in 2005.

Other income increased $569,000 in 2006 and $1.5 million in 2005. The increase in other income for both years included increases in miscellaneous fee categories associated with volume increases as we have grown. These fee categories include debit card and ATM processing income and revenues from mutual fund and annuity sales. The increase in 2006 and 2005 also included an additional $373,000 and $499,000, respectively, of income earned on bank-owned life insurance purchased during the fourth quarter of 2004. Also included in other income for 2005 was $348,000 in gains on the sale of two commercial properties, one previously held as other real estate.

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 is as follows:

(Dollars in thousands)	For The Year Ended December 31		
	2006	**2005**	**2004**
Gain on the sale of SBA guaranteed loans	$ 60	$ 100	$ 122
Net gain on the sale of real estate mortgage loans	1,661	2,236	2,085
Gain on sales of loans	$ 1,721	$ 2,336	$ 2,207
Real estate mortgage loans originated for sale	$ 103,655	$ 137,028	$ 141,661
Real estate mortgage loans sold	106,100	140,083	144,772
Net gain on the sale of real estate mortgage loans as a percent of real estate mortgage loans sold ("Loan sales margin")	1.57%	1.60%	1.44%

Gain on sales of loans decreased $615,000 in 2006 compared to 2005, while 2005 increased $129,000 compared to 2004. Mortgage interest rate levels have steadily increased since 2004, resulting in a continued decline in the level of residential refinancing and loan originations. An improvement in the loan sales margin received on residential loans sold during 2005 offset the decline in volume from 2004. The general improvement in our loan sales margin since 2004 reflects an improvement in our competitive position with our secondary market investors and greater discipline in our pricing practices. Considering the higher level of mortgage interest rates, we expect the volume of originations going forward to be more consistent with 2006 levels.

Noninterest Expense: Noninterest expense totaled $44.9 million for 2006 as compared to $41.4 million for 2005 and $35.4 million for 2004. Salaries and benefits increased $2.4 million in 2006 over 2005 and $3.2 million in 2005 over 2004, comprising the majority of the increase in both years.

The increase in salaries and benefits for 2006 and 2005 is primarily related to additional staffing in each line of business and in support departments consistent with growth of the Bank. Effective January 1, 2006, we adopted FAS 123, Revised, and accordingly, we recorded stock option compensation expense of $657,000 in 2006. Increased incentives associated with strong performance also contributed to the increase in salaries and benefits during 2005. The consistent increase in salaries and benefits reflects our attention to properly managing and supporting our growth and our interest in creating a platform for strong future growth.

The increase in occupancy expense of $319,000 in 2006 and $586,000 in 2005 and the increase in furniture and equipment expense of $246,000 in 2006 and $207,000 in 2005 are consistent with our branch and facilities expansion during these periods. We would expect the level of increase in these expense categories to be commensurate with our plans for future branch expansion.

Data processing fees were up $172,000 in 2006 and $510,000 in 2005. In September of 2004, we outsourced our item processing function which was the primary reason for the increase in 2005. We expect future increases to be consistent with the Company's growth.

Other expense increased $279,000 in 2006 and $1.3 million in 2005. The increase in both periods includes increases in various expense categories consistent with the growth of our company. These categories include expenses associated with debit card and ATM processing, customer and internal courier, and various outside service contracts. The level of the increase in most expense categories moderated in 2006 as a result of our expense control and the continued improvement in the efficiency of our bank's operations as we have grown.

The level of the increase in most expense categories moderated in 2006 as a result of our expense control and the continued improvement in the efficiency of our bank's operations as we have grown.

Federal Income Tax Expense: Our federal income tax expense has increased generally commensurate with our increase in pre-tax earnings. Our federal income tax expense is lower than the amount computed by applying our statutory federal income tax rate to our pre-tax earnings primarily due to tax-exempt interest income. Our effective tax rate was 31.5%, 32.1% and 31.9% in 2006, 2005 and 2004, respectively.

FINANCIAL CONDITION

Summary: Our total assets were $2.07 billion at December 31, 2006, an increase of $204.8 million from $1.87 billion in total assets at December 31, 2005. We believe the continued strong asset growth reflects the acceptance of our full-service community banking philosophy in the growing 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. Total portfolio loans increased $163.6 million or 11% during 2006. The growth in total assets also included growth in our investment securities portfolio and premises and equipment.

The increase in total assets was principally funded by deposit growth. Deposits grew by $159.8 million during 2006, an 11% growth rate. We attribute the deposit growth to our quality customer service, the desire of our customers to bank with a locally run bank, and convenient accessibility through the expansion of our branch network and other delivery channels.

Cash and Cash Equivalents: Our cash and cash equivalents, which include federal funds sold and short-term investments, were $39.9 million at December 31, 2006, as compared to $49.1 million at December 31, 2005. The balance at the end of 2005 was elevated due to a large inflow of customer deposits that occurred right at the end of the year.

Securities: Securities increased $40.7 million or 25% to $201.3 million at December 31, 2006 from $160.6 million at December 31, 2005. We maintain our security portfolio at a level to provide diversity in the risk nature of our assets, 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 continued growth of our securities portfolio generally 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 to $1.71 billion at December 31, 2006 from $1.55 billion at December 31, 2005. The $163.6 million increase in portfolio loans continues our consistent pattern of growth. Each of our loan portfolios, including commercial and commercial real estate, residential real estate and consumer loans grew during 2006. The strongest growth was in the commercial and commercial real estate portfolios, which grew by 12%. We believe the continued growth we have experienced in each of our loan portfolios is a result of our focus on providing high quality customer service and reflects the acceptance of our full-service community banking philosophy in the growing communities we serve.

The majority of loans that we retain in our portfolio are to small and mid-sized businesses in the form of commercial and commercial real estate loans. Our combined commercial loan portfolios accounted for approximately 76% and 74% of our total portfolio loans at December 31, 2006 and 2005, respectively. The $1.29 billion in commercial and commercial real estate loans at December 31, 2006 represents an increase of $138.9 million over the $1.15 billion at December 31, 2005. A further breakdown in the composition of the commercial real estate loan portfolio is shown in the table below (in thousands):

	December 31, 2006	December 31, 2005
Construction/Land Development	$ 360,372	$ 305,066
Farmland and Agriculture	37,426	35,309
Nonfarm, Nonresidential	439,436	423,388
Multi-family	38,483	30,156
Total Commercial Real Estate Loans	$ 875,717	$ 793,919

Approximately two-thirds of the balance in the construction and land development category and the entire balance in the multi-family category are comprised of non-owner occupied loans as of both December 31, 2006 and December 31, 2005.

We feel the consistent growth in commercial loans that we have been able to achieve 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 focused around local decision-making.

The residential real estate portfolio increased from $223.4 million at December 31, 2005 to $224.8 million at December 31, 2006. Our residential real estate loan portfolio, which also includes residential construction loans made to individual homeowners, comprised approximately 13% of portfolio loans at the end of 2006. Our residential real estate portfolio represents only a small portion of our residential origination loan volume, as we sell the majority of our fixed-rate obligations on the secondary market with servicing released to reduce our exposure to interest rate risk. We originated for sale $103.7 million in residential mortgages in 2006, $137.0 million in 2005, and $141.7 million in 2004. Loans held for sale were $1.5 million at December 31, 2006 as compared to $2.3 million at December 31, 2005. The gradual decline in residential refinancing and loan originations is a result of the generally rising level of longer-term interest rates that has occurred since 2004.

Our consumer loan portfolio includes both loans secured by personal property, as well as home equity fixed term and line of credit loans. Our consumer loan portfolio increased to $194.8 million at December 31, 2006 from $171.5 million at December 31, 2005. Consumer loans comprised approximately 11% of our portfolio loans at the end of both 2006 and 2005.

As we continue to leverage our expansive branch network and strengthen our presence in the markets we serve, we anticipate further growth in each of our loan portfolios consistent with our historical growth patterns.

Nonperforming assets are comprised of nonperforming loans, foreclosed assets and repossessed assets. Our nonperforming loans include loans on non-accrual status, restructured loans and loans delinquent more than 90 days but still accruing. Nonperforming loans as of December 31, 2006 totaled $22.3 million or 1.30% of total portfolio loans compared to $4.2 million or 0.27% of total portfolio loans at December 31, 2005.

The balance of nonperforming loans at the end of 2006 includes one large commercial relationship totaling approximately $15.2 million. The loans for this relationship came due in September 2006 but were not renewed as of December 31, 2006 due to their size and complexity. The loans continued to accrue interest as we expected to collect all amounts owed. The Bank and the borrower, a land development partnership, have entered into an agreement and the new loans closed on January 31, 2007. The remaining balance of nonperforming loans at the end of 2006 and the balance of nonperforming loans at the end of 2005 consist of a number of smaller commercial loans most of which are on nonaccrual for which we consider to be well collateralized or adequately reserved. The majority of nonperforming loans at the end of 2004 related to one commercial borrower. The loans associated with this borrower became impaired due to fraud perpetrated by the borrower. The borrower has since ceased operations. Proceeds from the liquidation of collateral, payments on outstanding receivables and additional charge-offs reduced our balances from this relationship to zero at the end of 2006 and approximately $229,000 at the end of 2005, from $2.3 million at year-end 2004.

Our loan portfolio is reviewed regularly by an external 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.

Foreclosed assets include assets acquired in settlement of loans. As of December 31, 2006 foreclosed assets totaled $3.2 million compared to $527,000 as of December 31, 2005. The balance at the end of 2006 is comprised of several real estate properties for which no loss is expected upon disposition.

Total nonperforming assets amounted to $25.6 million or 1.23% of total assets as of December 31, 2006 compared to $4.9 million or 0.26% of total assets as of December 31, 2005. The following table shows the composition and amount of our nonperforming assets.

(Dollars in thousands)	**As of December 31**		
	2006	**2005**	**2004**
Nonaccrual loans	$ 5,811	$ 3,977	$ 3,249
Loans 90 days or more delinquent and still accruing	16,479	227	772
Restructured loans	--	--	--
Total nonperforming loans	$ 22,290	$ 4,204	$ 4,021
Foreclosed assets	3,212	527	1,850
Repossessed assets	81	165	--
Total nonperforming assets	$ 25,583	$ 4,896	$ 5,871
Nonperforming loans to total loans	1.30%	.27%	.29%
Nonperforming assets to total assets	1.23%	.26%	.35%

Allowance for Loan Losses: Our allowance for loan losses as of December 31, 2006 was $23.3 million, representing approximately 1.36% of total portfolio loans outstanding, compared to $21.0 million or 1.36% of total loans at December 31, 2005.

Our allowance for loan losses is maintained at a level considered appropriate based upon our regular, quarterly assessments 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, an unallocated reserve 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 $400,000 at December 31, 2006 and $333,000 at December 31, 2005.

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. Our loan portfolio has grown rapidly since our inception. As a result, a significant portion of our loan portfolio remains relatively unseasoned and our actual historical loan loss experience is limited. Accordingly, the determination of our loss factors includes consideration of the banking industry’s historical loan loss experience by loan type and the historical loan loss experience within our geographic markets, as well as our own loan loss experience and trends. These factors are regularly monitored and adjusted for significant factors that, in management’s judgment, affect the collectibility of the portfolio as of the analysis date. The commercial loan allowance was $21.0 million at December 31, 2006 compared to $18.6 million at December 31, 2005 and increased primarily in response to the continuing growth in the commercial loan portfolio. The increase of $2.3 million in the total allowance for loan losses during 2006 was primarily related to this $2.4 million increase in the commercial loan allowance.

Groups of homogeneous loans, such as residential real estate, open- and closed-end consumer loans, etc., receive general allowance allocations based on loss trends. In lieu of an established loan loss trend for Macatawa Bank, we use historical loss trends based on industry experience and peers in determining an adequate allowance for probable losses associated with these pools of loans. General economic and business conditions, credit quality trends, collateral values, seasoning of the portfolios and recent loss experience are conditions considered in connection with allocation factors for these similar pools of loans. The general allowance was $1.8 million at December 31, 2006 and $2.1 million at December 31, 2005.

The continued increase in the allowance was deemed necessary given the significant growth in loans. However, the allowance for loan losses as a percent of total loans remained unchanged at 1.36%. 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.

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.

(Dollars in thousands)	As of December 31					
	2006		2005		2004	
	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	$ 21,417	75.5%	$ 18,883	74.5%	$ 17,324	72.7%
Residential real estate	502	13.1%	463	14.4%	476	15.7%
Consumer	1,340	11.4%	1,646	11.1%	1,243	11.6%
Unallocated	---	---	---	---	208	---
Total	$ 23,259	100.0%	$ 20,992	100.0%	$ 19,251	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. The allowance amounted to $23.3 million at December 31, 2006. Of this total, 2% related to specific allocations on impaired loans, 90% related to commercial loan portfolio allocations and 8% related to general allocations.

Net charge-offs totaled $5.4 million, or 0.33% of average loans for 2006 compared to $1.9 million, or 0.13% of average loans for 2005 and $4.7 million, or 0.37% of average loans for 2004. Net charge-offs in 2006 include a $4.7 million charge-off related to $5.2 million in outstanding loans to one commercial borrower. The impairment of the loans to this borrower was discovered in March 2007 through internal investigations relating to the collateral. The collateral was not of sufficient value to cover the outstanding principal on these loans and it is likely that the borrower will be unable to meet the repayment terms of the loans. The internal investigation suggests that the borrower may have made misrepresentations to the Bank regarding the loan collateral and its financial condition. Because of these misrepresentations and the timing of our discovery of them, the allowance for loan losses did not contain sufficient allocations related to this borrower. As such, an additional provision for loan losses amounting to $4.7 million was recorded as of December 31, 2006 in order to maintain the allowance for loan losses at a level considered adequate in our judgment. The remaining balance of the loans to this borrower, amounting to $495,000, was included in non-accrual loans as of December 31, 2006. Net charge-offs in 2006, excluding this large single charge-off were low compared to the prior two years. Strong collateral positions on nonperforming loans that were resolved during 2006 allowed for this low level of net charge-offs. As previously noted under the section Loan Portfolio and Asset Quality, the level of net charge-offs for 2004 relates primarily to a $2.8 million charge-off associated with the impaired loans to one commercial borrower. The following is a summary of our loan balances, changes in the allowance for loan losses and related ratios.

(Dollars in thousands)	December 31		
	2006	2005	2004
Loans:			
Average daily balance of loans for the year	$ 1,636,710	$ 1,473,558	$ 1,295,887
Amount of loans outstanding at end of period	1,711,450	1,547,879	1,396,387
Allowance for loan losses:			
Balance at beginning of year	$ 20,992	$ 19,251	$ 16,093
Addition to allowance charged to operations	7,715	3,675	7,890
Loans charged-off:			
Commercial	(5,601)	(1,842)	(4,833)
Residential real estate	(43)	(24)	(21)
Consumer	(410)	(371)	(91)
Recoveries:			
Commercial	399	261	180
Residential real estate	10	17	11
Consumer	197	25	22
Balance at end of year	$ 23,259	$ 20,992	$ 19,251
Ratios:			
Net charge-offs to average loans outstanding	.33%	.13%	.37%
Allowance for loan losses to loans outstanding at year end	1.36%	1.36%	1.38%

Premises and Equipment: Premises and equipment totaled $60.7 million at December 31, 2006, an increase of $7.7 million from December 31, 2005. The increase included costs associated with the construction of a new regional facility in downtown Holland and a new branch site in Grand Rapids. Both are expected to open in the first quarter of 2007.

Deposits: Total deposits increased $159.8 million to $1.67 billion at December 31, 2006, as compared to $1.51 billion at December 31, 2005. The majority of growth during the year was in interest bearing deposits, including interest bearing checking, money market and time deposit accounts, as deposit customers preferred such accounts within the generally high rate environment. Interest bearing checking accounts increased $57.7 million to $265.7 million, money market accounts grew $79.0 million to $459.0 million and time deposits within our markets increased $43.5 million to $449.6 million at the end of 2006. Because of the strong growth from deposits within our markets, we were able to rely less on brokered deposits during 2006. Brokered deposits declined $11.3 million to $272.9 million at the end of 2006. 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 from deposits within our markets.

Noninterest bearing demand accounts comprised approximately 11% of total deposits at December 31, 2006, as compared to approximately 12% of total deposits at the end of 2005. Interest bearing demand, including money market, and savings accounts comprised approximately 46% of total deposits at December 31, 2006, as compared to 42% at the end of last year. Time accounts as a percentage of total deposits were approximately 43% at December 31, 2006, as compared to 46% at December 31, 2005.

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. Additionally, we have a $10.0 million credit facility available for general corporate needs including contributing capital to our subsidiary bank to enable it to maintain regulatory capital at well-capitalized levels. This credit facility was unused during all of 2006 and 2005.

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. Borrowed funds totaled $212.2 million at December 31, 2005 including $145.2 million of Federal Home Loan Bank advances, $41.2 million in long-term debt associated with trust preferred securities and $25.8 million in federal funds purchased. The increase in borrowed funds in 2006 was used to support growth in assets.

CAPITAL RESOURCES AND LIQUIDITY

Capital Resources: Total shareholders' equity was $156.8 million at December 31, 2006 compared to $141.7 million at December 31, 2005. The increase of $15.1 million was primarily the result of retained net income (net of cash dividends paid). Net income generated during 2006 of $19.8 million was partially offset by cash dividends of $7.9 million, or $.48 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 2006, resulting in a transfer of $15.1 million from retained earnings to common stock. In addition, a 3-for-2 stock split was paid in June 2006.

The change in accumulated other comprehensive income was due to an increase in both the market value of securities available for sale and the derivative instruments associated with the Company's interest rate swap arrangements due principally to the changes in interest rates during 2006. For more information regarding our interest rate swap arrangements, see the Notes to the Consolidated Financial Statements.

The Corporation was categorized as "well capitalized" for regulatory capital purposes at December 31, 2006 and 2005. The following table shows the Company's various capital ratios for 2006 and 2005.

As of and for the year ended December 31,	**2006**	**2005**
Average equity to average assets	7.7%	7.7%
Total risk-based capital	10.9%	11.1%
Tier 1 risk-based capital	9.5%	9.7%
Tier 1 capital to average assets	8.5%	8.7%

Growth in capital from strong earnings in 2006 was consistent with the growth in assets resulting in the stable capital ratios from 2005 to 2006. Of the $40.0 million of trust preferred securities outstanding at December 31, 2006, approximately $38.0 million qualified as Tier 1 capital with the remaining qualifying as Tier 2 capital. For more information regarding the trust preferred securities, please refer to the Notes to the Consolidated Financial Statements.

We believe the additional regulatory capital provided by the trust preferred security issuances, as supplemented by our improvement in earnings, will support our growth plans in the near future. Additional capital may be necessary within the next three to four years if our growth continues at its current pace. 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 as December 31, 2006.

(dollars in thousands)	1 year or less	1-3 years	4-5 years	After 5 years
Time deposit maturities	$ 480,991	$ 194,888	$ 46,457	120
Other borrowed funds	47,000	86,018	51,000	8,000
Federal funds purchased	11,990	---	---	---
Long-term debt	---	---	---	41,238
Total	$ 539,981	$ 280,906	$ 97,457	$ 49,358

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, 2006, we had a total of $470.9 million in unused lines of credit, $25.9 million in unfunded loan commitments, and $27.3 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. Our asset/liability management process aids us in providing liquidity while maintaining a balance between interest earning assets and interest bearing liabilities.

We use two interest rate risk measurement techniques in our interest rate risk management. We first use a static gap analysis to identify overall changes in the repricing periods of assets and liabilities. This measures the difference between the dollar amounts of interest sensitive assets and liabilities that may be refinanced or repriced during a given time period. A significant repricing gap could result in a negative impact to our net interest margin during periods of changing market interest rates. The following table illustrates our interest rate repricing gaps for selected maturity periods at December 31, 2006.

Static Gap Analysis (dollars in thousands)	0 to 3 months	4 to 12 months	1 to 5 years	Over 5 Years	Total
Assets:					
Taxable securities	$ ---	$ 7,944	$ 138,966	$ 981	$ 147,891
Tax exempt securities	---	715	3,257	49,394	53,366
FHLB stock	12,275	---	---	---	12,275
Loans-fixed (a)	49,874	95,359	533,001	94,714	772,948
Loans-variable (a)	779,876	35,378	115,532	1,905	932,691
Other assets, net	---	---	---	---	155,645
Total assets	$ 842,025	$ 139,396	$ 790,756	$ 146,994	$2,074,816
Liabilities:					
Noninterest bearing deposits	$ ---	$ ---	$ ---	$ ---	$ 180,032
Other interest bearing deposits	724,909	---	---	---	724,909
Savings	40,160	---	---	---	40,160
Time deposits	205,720	275,271	241,345	120	722,456
Other borrowings	73,228	47,000	117,018	8,000	245,246
Other liabilities & equity	---	---	---	---	162,013
Total liabilities & equity	$ 1,044,017	$ 322,271	$ 358,363	$ 8,120	$2,074,816
Period gap	$ (201,497)	$ (182,875)	$ 432,393	$ 138,874	
Cumulative gap	$ (201,497)	$ (384,372)	$ 48,021	$ 186,895	
Cumulative gap/total assets	(9.71)%	(18.53)%	2.31%	9.01%	

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

The above table shows that total liabilities maturing or repricing within three months exceeded assets maturing within the same time period. The analysis, however, does not consider the different rate sensitivities of certain assets or liabilities to changes in market rates or reflect the magnitude of interest rate changes on net interest income. In addition, cash flows and repricing characteristics for various categories of assets and liabilities are subject to competitive pressures, consumer sentiments and other influences that are beyond our control and are not reflected in this static analysis. As a result, various assets and liabilities indicated as maturing or repricing within a stated period may reprice at different levels and mature or reprice in other periods or at different volumes.

Accordingly, we also utilize a simulation model to assess 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 $80.0 million in variable rate loans repricing immediately into fixed rate loans repricing in one to five 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, 2006 (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	$ 145,580	(15.74)%	$ 68,304	1.36%
100 basis point rise	159,828	(7.49)	67,907	0.77
Base-rate scenario	172,776	-	67,387	-
100 basis point decline	182,932	5.88	66,736	(0.97)
200 basis point decline	190,255	10.12	66,012	(2.04)

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, 2006 and 2005 are set forth in the table below. This information has been restated to reflect the impact of all previously paid stock dividends and splits.

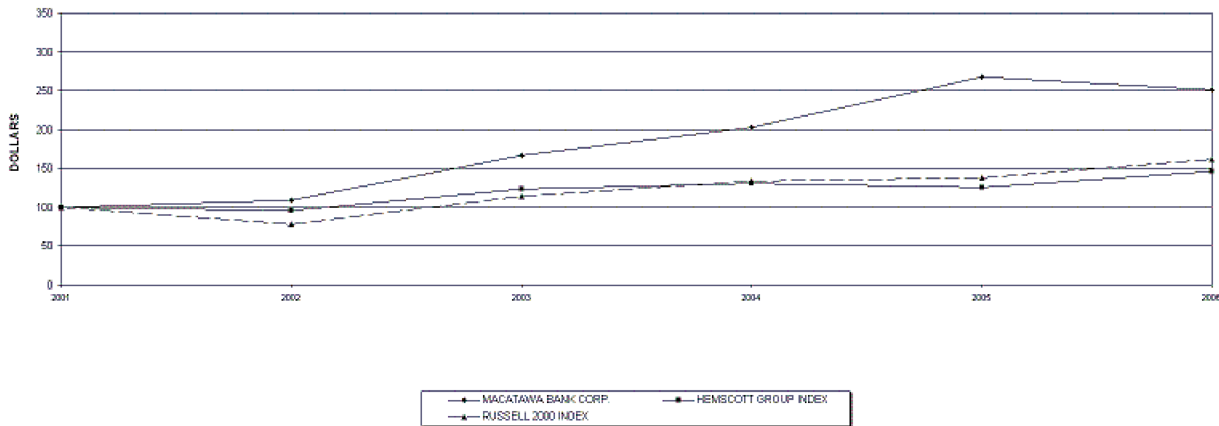
	2006		2005	
	High	**Low**	**High**	**Low**
Quarter				
First Quarter	$ 25.07	$ 22.31	$ 20.80	$ 16.81
Second Quarter	$ 24.19	$ 20.66	$ 22.86	$ 16.83
Third Quarter	$ 24.04	$ 20.99	$ 25.40	$ 20.63
Fourth Quarter	$ 23.78	$ 20.39	$ 24.92	$ 20.13

Quarterly cash dividends totaling $.28 were paid during 2004, and a 5% stock dividend was declared during the second quarter of 2004. Quarterly cash dividends totaling $.39 were paid during 2005, and a 15% stock dividend was declared during the second quarter of 2005. Quarterly cash dividends totaling $.48 were paid during 2006, a 5% stock dividend and a 3-for-2 stock split were declared during the second quarter of 2006.

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 and the Russell 2000 Index of Regional-Midwest Banks. The comparison assumes a $100 investment on December 31, 2001 at the initial price of $9.69 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.

COMPARE CUMULATIVE TOTAL RETURN
AMONG MACATAWA BANK CORPORATION,
RUSSELL 2000 INDEX AND HEMSCOTT GROUP INDEX



ASSUMES $100 INVESTED ON DEC. 31, 2001
ASSUMES DIVIDEND REINVESTED
FISCAL YEAR ENDING DEC. 31, 2006

	2001	2002	2003	2004	2005	2006
Macatawa Bank Corporation	100.00	109.20	167.01	203.29	267.91	251.48
Hemscott Group Index	100.00	95.70	123.04	131.19	125.96	146.02
Russell 2000 Index	100.00	78.42	114.00	133.94	138.40	162.02

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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, 2006. 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, 2006, the Company's internal control over financial reporting is effective based on those criteria.

The Company's independent auditors have issued an audit report on our assessment of the Company's internal control over financial reporting.

/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 management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Macatawa Bank Corporation maintained effective internal control over financial reporting as of December 31, 2006, 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. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of 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, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, 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, management's assessment that Macatawa Bank Corporation maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also in our opinion, Macatawa Bank Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, 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, 2006 and 2005 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, 2006 and our report dated March 16, 2007 expressed an unqualified opinion on those consolidated financial statements.

Grand Rapids, Michigan
March 16, 2007

Crowe Chizek and Company LLC

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, 2006 and 2005, 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, 2006. 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, 2006 and 2005, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, 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, 2006, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 16, 2007 expressed an unqualified opinion thereon.

Grand Rapids, Michigan
March 16, 2007

Crowe Chizek and Company LLC

MACATAWA BANK CORPORATION
CONSOLIDATED BALANCE SHEETS
December 31, 2006 and 2005
(Dollars in thousands)

	2006	2005
ASSETS		
Cash and due from banks	$ 39,882	$ 49,101
Total cash and cash equivalents	39,882	49,101
Securities available for sale, at fair value	198,546	156,696
Securities held to maturity (fair value 2006 - $2,762, 2005 - $3,974)	2,711	3,907
Federal Home Loan Bank (FHLB) stock	12,275	13,910
Loans held for sale	1,547	2,331
Total loans	1,711,450	1,547,879
Allowance for loan losses	(23,259)	(20,992)
	1,688,191	1,526,887
Premises and equipment - net	60,731	53,028
Accrued interest receivable	11,233	8,366
Goodwill	23,915	23,915
Acquisition intangibles	1,563	1,941
Bank-owned life insurance	21,843	20,814
Other assets	12,379	9,094
Total assets	$ 2,074,816	$ 1,869,990
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest-bearing	$ 180,032	$ 188,762
Interest-bearing	1,487,525	1,319,010
Total	1,667,557	1,507,772
Federal funds purchased	11,990	25,809
Other borrowed funds	192,018	145,161
Long-term debt	41,238	41,238
Accrued expenses and other liabilities	5,164	8,266
Total liabilities	1,917,967	1,728,246
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; 16,254,619 and 10,227,992 shares issued and outstanding at December 31, 2006 and 2005, respectively	153,728	136,583
Retained earnings	4,840	8,040
Accumulated other comprehensive income (loss)	(1,719)	(2,879)
Total shareholders' equity	156,849	141,744
Total liabilities and shareholders' equity	$ 2,074,816	$ 1,869,990

See accompanying notes to consolidated financial statements.

MACATAWA BANK CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2006, 2005 and 2004
(Dollars in thousands, except per share data)

	2006	2005	2004
Interest income			
Loans, including fees	$ 125,034	$ 98,031	$ 72,583
Securities			
Taxable	5,424	4,392	3,528
Tax-exempt	2,154	2,084	1,727
FHLB stock	656	573	430
Federal funds sold and other short-term investments	238	315	61
Total interest income	133,506	105,395	78,329
Interest expense			
Deposits	53,597	32,060	19,071
Other borrowings	8,209	6,599	5,223
Long-term debt	3,346	2,603	1,659
Federal funds purchased	937	1,296	356
Total interest expense	66,089	42,558	26,309
Net interest income	67,417	62,837	52,020
Provision for loan losses	7,715	3,675	7,890
Net interest income after provision for loan losses	59,702	59,162	44,130
Noninterest income			
Service charges and fees	4,874	4,323	2,962
Gain on sales of loans	1,721	2,336	2,207
Trust fees	3,589	2,921	2,945
Other	3,993	3,424	1,928
Total noninterest income	14,177	13,004	10,042
Noninterest expense			
Salaries and benefits	24,791	22,388	19,206
Occupancy of premises	3,558	3,239	2,653
Furniture and equipment	3,221	2,975	2,768
Legal and professional fees	927	786	679
Marketing and promotion	1,075	1,145	976
Data processing fees	1,756	1,584	1,074
Other	9,585	9,306	8,044
Total noninterest expenses	44,913	41,423	35,400
Income before income tax expense	28,966	30,743	18,772
Income tax expense	9,135	9,854	5,996
Net income	$ 19,831	$ 20,889	$ 12,776
Basic earnings per share	$ 1.22	$ 1.30	$ .80
Diluted earnings per share	$ 1.20	$ 1.27	$ .79
Cash dividends per share	$ .48	$ .39	$ .28

See accompanying notes to consolidated financial statements.

MACATAWA BANK CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years ended December 31, 2006, 2005 and 2004
(Dollars in thousands, except per share data)

	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, January 1, 2004	$ 114,568	$ 5,300	$ 2,032	$ 121,900
Net income		12,776		12,776
Other comprehensive income (loss):				
Net change in unrealized gain (loss) on derivative instruments, net of tax of ($366)			(679)	(679)
Net change in unrealized gain (loss) on securities available for sale, net of tax of ($509)			(945)	(945)
Comprehensive income				11,152
Issued 418,263 shares in payment of 5% stock dividend	9,330	(9,355)		(25)
Issued 35,566 shares for stock option exercises (net of 5,249 shares exchanged and including $97 of tax benefit)	491			491
Cash dividends at $.28 per share		(4,444)		(4,444)
Balance, December 31, 2004	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 $.39 per share		(6,228)		(6,228)
Balance, December 31, 2005	136,583	8,040	(2,879)	141,744

See accompanying notes to consolidated financial statements.

MACATAWA BANK CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (continued)
Years ended December 31, 2006, 2005 and 2004
(Dollars in thousands, except per share data)

	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
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 $.48 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 CASH FLOWS
Years ended December 31, 2006, 2005 and 2004
(Dollars in thousands)

	2006	2005	2004
Cash flows from operating activities			
Net income	$ 19,831	$ 20,889	$ 12,776
Adjustments to reconcile net income to net cash from operating activities			
Depreciation and amortization	3,385	3,100	2,971
Stock compensation expense	657	176	0
Stock dividends on FHLB stock	0	(249)	(414)
Provision for loan losses	7,715	3,675	7,890
Origination of loans for sale	(103,655)	(137,028)	(141,661)
Proceeds from sales of loans originated for sale	106,100	140,083	144,772
Gain on sales of loans	(1,721)	(2,336)	(2,207)
Net change in			
Accrued interest receivable and other assets	(2,217)	(487)	(3,032)
Bank-owned life insurance	(1,029)	(657)	(157)
Accrued expenses and other liabilities	(3,727)	5,374	1,060
Net cash from operating activities	25,339	32,540	21,998
Cash flows from investing activities			
Loan originations and payments, net	(172,510)	(156,004)	(245,862)
Purchase of FHLB stock	0	(1,422)	(3,446)
Repurchase by FHLB of FHLB stock	1,635	0	0
Purchases of securities available for sale	(42,669)	(37,770)	(68,554)
Purchases of securities held to maturity	0	(1,430)	0
Maturities and calls of securities available for sale	1,990	15,298	36,574
Maturities and calls of securities held to maturity	1,127	0	0
Principal paydowns on securities	241	133	413
Purchase of bank-owned life insurance	0	0	(20,000)
Additions to premises and equipment	(10,652)	(9,957)	(9,617)
Net cash from investing activities	(220,838)	(191,152)	(310,492)
Cash flows from financing activities			
Net increase in deposits	159,785	156,256	242,117
Net increase (decrease) in short-term borrowings	(13,819)	3,678	22,131
Proceeds from long-term debt	0	0	21,583
Proceeds from other borrowed funds	95,000	475,000	339,000
Repayments of other borrowed funds	(48,143)	(453,824)	(360,695)
Fractional shares purchased	(53)	(35)	(25)
Cash dividends paid	(7,851)	(6,228)	(4,444)
Proceeds from exercises of stock options, including tax benefit	1,361	1,155	491
Net cash from financing activities	186,280	176,002	260,158
Net change in cash and cash equivalents	(9,219)	17,390	(28,336)
Beginning cash and cash equivalents	49,101	31,711	60,047
Ending cash and cash equivalents	$ 39,882	$ 49,101	$ 31,711
Supplemental cash flow information:			
Interest paid	$ 65,149	$ 40,806	$ 25,816
Income taxes paid	12,130	9,000	6,525
Supplemental noncash disclosures:			
Transfers from loans to other real estate	3,551	2,677	1,850

See accompanying notes to consolidated financial statements.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Macatawa Bank, and its wholly-owned subsidiary, Macatawa Bank Mortgage Company; and Macatawa Investment Services, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Company also owns all of the common stock 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.

Nature of Operations: Macatawa Bank is a Michigan chartered bank with depository accounts insured by the Federal Deposit Insurance Corporation. The Bank operates 24 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.

Recent Developments: In March 2007 management decided to record an additional loan charge-off and corresponding loan loss provision of $4.7 million within the 2006 financial results of the Company. The charge-off and additional provision was based on information that became available after December 31, 2006, and was related to outstanding commercial loans of $5.2 million to one borrower.

Management has reason to believe that the borrower will be unable to meet the repayment terms of the loans. The loans have been secured by collateral, but the collateral likely will not be of sufficient value to cover the outstanding principal on these loans. The remaining balance of loans to this borrower, amounting to $495,000, is secured by identified collateral and is included in impaired loans at December 31, 2006.

The loan impairment was discovered in early March 2007 through internal investigations relating to the collateral and the borrower relationship. Our internal investigation suggests that the borrower may have made misrepresentations to the Bank regarding the loan collateral and its financial condition.

The after-tax impact on net income of the additional loan loss provision was approximately $3.1 million, or $0.18 per share. We will aggressively seek to recover funds associated with this borrower.

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 of 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.

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 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, 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 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 $3.2 million in foreclosed assets at December 31, 2006 and $527,000 in foreclosed assets at December 31, 2005.

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.

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.

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.

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.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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. For 2006, adopting this standard resulted in the Company recording compensation cost for stock options of $657,000 or $522,000 after tax, representing $0.03 per share for 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 and 2004, 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 would have been the pro forma amounts indicated below (dollars in thousands, except per share data).

	2005	2004
Net income as reported	$ 20,889	$ 12,776
Deduct: Stock-based compensation expense using fair value method	(508)	(431)
Pro forma net income	$ 20,381	$ 12,345
Basic earnings per share as reported	$ 1.30	$ .80
Pro forma basic earnings per share	1.27	.77
Diluted earnings per share as reported	1.27	.79
Pro forma diluted earnings per share	1.24	.76

The Company's stock compensation plan allows for the issuance of restricted stock awards. Compensation expense is based upon the market price of the Company's stock at the date of grant and is recognized over the vesting period of the awards. In December 2006, 21,440 shares of common stock were awarded under the plan with a vesting period of three years. During 2005, 7,875 shares of common stock were awarded under the plan and vested immediately upon grant. There were no stock awards in 2004. The compensation expense for stock awarded in 2006 was nominal. Compensation expense for stock awarded in 2005 amounted to $176,000 and was recognized immediately upon grant.

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.

(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.

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 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.

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.

Derivatives: Derivative financial instruments are recognized as assets or liabilities at fair value. 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.

At the start of a derivative contract, the Company designates the derivative as one of three types based on the Company's intentions and belief as to likely effectiveness as a hedge. These three types are (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value hedge"), (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"), or (3) an instrument with no hedging designation ("stand-alone derivative"). For a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item, are recognized in current earnings as fair values change. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. For both types of hedges, derivative gains and losses that are not effective in hedging the changes in fair value or expected cash flows of the hedged item are recognized immediately in current earnings. Changes in the fair value of derivatives that do not qualify for hedge accounting are reported currently in earnings, as noninterest income.

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

The Company formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions. This documentation includes linking fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. 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 fair values or cash flows of the hedged items. The Company discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative is settled or terminates, a hedged forecasted transaction is no longer probable, a hedged firm commitment is no longer firm, or treatment of the derivative as a hedge is no longer appropriate or intended.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 years. These assets are reviewed for impairment when events indicate the carrying amount may not be recoverable.

Stock Splits and Dividends: The fair value of shares issued in stock dividends for 20% or less is transferred from retained earnings to common stock, to the extent of available retained earnings. Any excess of fair value over available retained earnings is considered a return of capital. 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.

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

Adoption of New Accounting Standards:

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123(R), *Share-based Payment.* See "Stock Compensation" above for further discussion of the effect of adopting this standard.

In September 2006, the Securities and Exchange Commission (SEC) released Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108),* which is effective for fiscal years ending on or after November 15, 2006. SAB 108 provides guidance on how the effects of prior-year uncorrected financial statement misstatements should be considered in quantifying a current year misstatement. SAB 108 requires public companies to quantify misstatements using both an income statement (rollover) and balance sheet (iron curtain) approach and evaluate whether either approach results in a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. If prior year errors that had been previously considered immaterial now are considered material based on either approach, no restatement is required so long as management properly applied its previous approach and all relevant facts and circumstances were considered. Adjustments considered immaterial in prior years under the method previously used, but now considered material under the dual approach required by SAB 108, are to be recorded upon initial adoption of SAB 108. The adoption of SAB 108 did not have any effect on the financial statements.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Effect of Newly Issued But Not Yet Effective Accounting Standards:

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* (FIN 48), which prescribes a recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company has determined that the adoption of FIN 48 will not have a material effect on the financial statements.

(Continued)

NOTE 2 – ACQUISITION

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.

Smith & Associates is an investment advisory firm based in Holland, Michigan. Mr. Smith is the owner of Smith & Associates. Mr. Smith is also the founder and Chairman of Macatawa Bank Corporation. The transaction is structured as a merger of Smith & Associates into Macatawa, which in turn will contribute the business to Macatawa Bank.

The purchase price was $3,150,000, less any liabilities of Smith & Associates as of the closing date. In addition, one $300,000 contingent payment will 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. The purchase price and the contingent payments will be paid in common stock of Macatawa valued at the average closing price during the month of September, 2006 ($23.0035 per share).

The transaction will be accounted for using purchase accounting. The final allocation of the purchase price to goodwill and intangible assets is being determined. Any subsequent impairment is required to be reflected in the income statement at such time.

Mr. Smith will provide assistance with transitioning clients as reasonably requested from time to time. Under the Noncompetition Agreement, Mr. Smith agrees to a six year covenant not to compete with the acquired business.

All closing conditions were satisfied and the transaction closed effective as of January 1, 2007.

(Continued)

NOTE 3 — SECURITIES

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale 2006				
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
	$ 199,429	$ 1,224	$ (2,107)	$ 198,546
Held to Maturity 2006				
State and municipal bonds	$ 2,711	$ 56	$ (5)	$ 2,762
	$ 2,711	$ 56	$ (5)	$ 2,762
Available for Sale 2005				
U.S. Treasury and federal agency securities	$ 111,102	$ 103	$ (2,644)	$ 108,561
State and municipal bonds	46,878	609	(345)	47,142
Other equity securities	1,000	--	(7)	993
	$ 158,980	$ 712	$ (2,996)	$ 156,696
Held to Maturity 2005				
State and municipal bonds	$ 3,907	$ 80	$ (13)	$ 3,974
	$ 3,907	$ 80	$ (13)	$ 3,974

Securities with unrealized losses at year-end 2006 and 2005, 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):

	Less than 12 Months		12 Months or More		Total	
Description of Securities	**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)

(Continued)

NOTE 3 – SECURITIES (Continued)

	Less than 12 Months		12 Months or More		Total	
Description of Securities	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
December 31, 2005						
U.S. Treasury and federal agency securities	$ 70,531	$ (1,299)	$ 33,654	$ (1,345)	$ 104,185	$ (2,644)
State and municipal bonds	16,419	(153)	5,842	(205)	22,261	(358)
Other equity securities	993	(7)	--	--	993	(7)
Total temporarily impaired	$ 87,943	$ (1,459)	$ 39,496	$ (1,550)	$ 127,439	$ (3,009)

For unrealized losses on securities, no loss has been recognized into income in either 2006 or 2005 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, 2006 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	$ 715	$ 711	$ 8,000	$ 7,944
Due from one to five years	383	382	143,557	141,840
Due from five to ten years	--	--	20,268	20,748
Due after ten years	1,613	1,669	26,604	27,033
	$ 2,711	$ 2,762	$ 198,429	$ 197,565

There were no sales of securities for the years ended December 31, 2006, 2005 and 2004.

At December 31, 2006 and 2005, 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, 2006, securities with a carrying value of approximately $21,399,000 were pledged as collateral for securities sold under agreements to repurchase. In addition, securities totaling $107,581,000 at December 31, 2005 were used as collateral for advances from the Federal Home Loan Bank.

(Continued)

NOTE 4 — LOANS

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

	2006	2005
Commercial	$ 416,135	$ 359,036
Commercial mortgage	875,717	793,919
Residential mortgage	224,836	223,390
Consumer	194,762	171,534
	$ 1,711,450	$ 1,547,879

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

	2006	2005	2004
Beginning balance	$ 20,992	$ 19,251	$ 16,093
Provision for loan losses	7,715	3,675	7,890
Loans charged-off	(6,054)	(2,237)	(4,945)
Recoveries	606	303	213
Ending balance	$ 23,259	$ 20,992	$ 19,251

Loans charged-off in 2006 included a $4.7 million charge-off related to $5.2 million in outstanding loans to one commercial borrower. The impairment of the loans to this borrower was discovered in March 2007 through internal investigations relating to the collateral. The collateral was not of sufficient value to cover the outstanding principal on these loans and it is likely that the borrower will be unable to meet the repayment terms of the loans. The internal investigation suggests that the borrower may have made misrepresentations to the Bank regarding the loan collateral and its financial condition. Because of these misrepresentations and the timing of our discovery of them, the allowance for loan losses did not contain sufficient allocations related to this borrower. As such, an additional provision for loan losses amounting to $4.7 million was recorded as of December 31, 2006 in order to maintain the allowance for loan losses at a level considered adequate in our judgment. The remaining balance of the loans to this borrower is secured by identified collateral, amounting to $495,000, and was included in impaired loans as of December 31, 2006.

Loans charged-off for 2004 included a third quarter charge of $2,800,000 related to one borrower whose loans, totaling $5,900,000, became impaired due to fraud perpetrated by the borrower. After this charge-off, approximately $3,100,000 of the loan balances remained outstanding. Subsequent to this initial charge-off, proceeds from the liquidation of certain collateral, payments on outstanding receivables, and additional charge-offs of $125,000 in 2004 and $789,000 in 2005, reduced the balance to approximately $2,300,000 at December 31, 2004 and $229,000 at December 31, 2005. At December 31, 2006, all balances were paid with no additional losses.

Impaired loans were as follows (dollars in thousands):

	2006	2005
Loans with no allocated allowance for loan losses	$ 3,059	$ 2,061
Loans with allocated allowance for loan losses	2,718	1,297
	$ 5,777	$ 3,358
Amount of the allowance for loan losses allocated	$ 400	$ 333

(Continued)

NOTE 4 – LOANS (Continued)

	2006	2005	2004
Average of impaired loans during the period	$ 4,630	$ 2,833	$ 3,329
Interest income recognized during impairment	0	0	0
Cash-basis interest income recognized	0	0	0

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

	2006	2005
Loans past due over 90 days still on accrual	$ 16,479	$ 227
Nonaccrual loans	5,811	3,977
	$ 22,290	$ 4,204

Nonperforming loans include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. The balance of nonperforming loans at the end of 2006 includes one large commercial relationship totaling approximately $15.2 million. The loans came due in September 2006 but were not renewed as of December 31, 2006 due to their size and complexity. At no time were the loans placed in nonaccrual as we expected to collect all amounts owed. An agreement has occurred between the Bank and the borrower, a land development partnership, and the loans were renewed and closed as of January 31, 2007.

NOTE 5 — PREMISES AND EQUIPMENT — NET

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

	2006	2005
Land	$ 15,093	$ 14,252
Building	33,658	32,765
Leasehold improvements	1,277	1,231
Furniture and equipment	16,311	15,571
Construction in progress	8,558	925
	74,897	64,744
Less accumulated depreciation	(14,166)	(11,716)
	$ 60,731	$ 53,028

The balance of construction in progress at December 31, 2006 primarily relates to two facilities expected to open in the first quarter of 2007. Depreciation expense was $2,949,000, $2,713,000 and $2,546,000 for each of the years ending December 31, 2006, 2005 and 2004.

The Bank leases certain office and branch premises and equipment under operating lease agreements. Total rental expense for all operating leases aggregated to $382,000, $380,000 and $452,000 for each of the years ending December 31, 2006, 2005 and 2004. Future minimum rental expense under noncancelable operating leases as of December 31, 2006 is as follows (dollars in thousands):

2007	$ 307
2008	260
2009	38
2010	8
2011	6
	$ 619

(Continued)

NOTE 6 – ACQUISITION INTANGIBLES

Intangible assets recorded for the April 1, 2002 acquisition of Grand Bank Financial Corporation were as follows as of December 31 (dollars in thousands):

	2006	2005
Core deposits	$ 3,185	$ 3,185
Trust relationships	478	478
	$ 3,663	$ 3,663
Less accumulated amortization	(2,100)	(1,722)
	$ 1,563	$ 1,941

Both the core deposits and trust relationships intangibles are being amortized on an accelerated basis over a period of ten years. Amortization expense for the years ended December 31, 2006, 2005 and 2004 was $378,000, $406,000 and $440,000. Estimated amortization expense for the next five years is as follows (dollars in thousands):

2007	$ 340
2008	315
2009	297
2010	281
2011	266

NOTE 7 — DEPOSITS

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

	2006	2005
Noninterest-bearing demand	$ 180,032	$ 188,762
Money market	459,230	380,216
NOW and Super NOW	265,679	207,947
Savings	40,160	40,612
Certificates of deposit	722,456	690,235
	$ 1,667,557	$ 1,507,772

The following table depicts the maturity distribution of certificates of deposit at December 31, 2006 (dollars in thousands):

2007	$ 480,991
2008	123,569
2009	71,319
2010	44,438
2011	2,019
Thereafter	120
	$ 722,456

Approximately $504,274,000 and $515,772,000 in time certificates of deposit were in denominations of $100,000 or more at December 31, 2006 and 2005.

Brokered deposits totaled approximately $272,896,000 and $284,201,000 at December 31, 2006 and 2005. At December 31, 2006 and 2005, brokered deposits had interest rates ranging from 3.30% to 5.49% and 2.70% to 4.55%, respectively, and at year-end 2006, maturities ranging from two months to forty-three months.

(Continued)

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):

Principal Terms		Advance Amount	Range of Maturities	Weighted Average Interest Rate
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%
	$	172,018		
December 31, 2005				
Single maturity fixed rate advances	$	104,200	January 2006 to May 2010	3.25%
Putable advances		31,000	September 2009 to December 2010	5.80%
Amortizable mortgage advances		9,961	February 2008 to July 2018	3.90%
	$	145,161		

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 securities totaling $107,581,000 at December 31, 2005, and residential and commercial real estate loans totaling $596,829,000 and $526,066,000 under a blanket lien arrangement at December 31, 2006 and 2005.

Maturities as of December 31, 2006 were as follows (in thousands):

2007	$	47,000
2008		70,674
2009		5,344
2010		41,000
2011		--
Thereafter		8,000
	$	172,018

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase ("repo borrowings") are financing arrangements secured by U.S. federal agency securities. On August 16, 2006, the Company secured two $10 million repo borrowings at a floating rate of three-month LIBOR plus a margin. These borrowings were secured by securities that had a carrying amount of approximately $21,399,000 at December 31, 2006. At maturity, the securities underlying the arrangements are returned to the company. These borrowings at December 31, 2006 were as follows (in thousands):

Principal Terms		Amount	Maturity	Interest Rate
Floating rate repo borrowing	$	10,000	August 16, 2009	5.75%
Floating rate repo borrowing	$	10,000	August 16, 2010	5.81%
	$	20,000		

(Continued)

NOTE 8 — OTHER BORROWED FUNDS (Continued)

The Company has a $10,000,000 credit facility to provide liquidity for the parent company and additional capital for the Bank as necessary. There were no advances outstanding on this credit facility as of December 31, 2006 and 2005.

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 the 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 the 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, 2006 and 2005, 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 both December 31, 2006 and December 31, 2005, approximately $38 million of the $40 million of Preferred Securities issued qualified as Tier 1 capital for regulatory capital purposes.

NOTE 10 — RELATED PARTY TRANSACTIONS

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

	2006	2005
Beginning balance	$ 15,992	$ 14,778
New loans and renewals	15,570	12,781
Repayments and renewals	(18,976)	(11,567)
Ending balance	$ 12,586	$ 15,992

Deposits from principal officers, directors, and their affiliates at December 31, 2006 and 2005 were $4,324,000 and $6,199,000.

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.

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

(Continued)

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 1,825,890 shares of common stock. The Directors' Plans permit the grant of stock options or the issuance of restricted stock for up to 450,741 shares of common stock. Included in these totals, are additional shares approved for issuance from Employees' and Directors' Plans by the shareholders at their annual meeting in April, 2006. There were 739,530 shares under the Employees' Plans and 167,342 shares under the Directors' Plans available for future issuance as of December 31, 2006. 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 risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

The fair value of options granted was determined using the following weighted-average assumptions as of grant date.

	2006	2005	2004
Risk-free interest rate	4.52%	4.27%	3.89%
Expected option life	6.5 years	6.2 years	7 years
Expected stock price volatility	23.68%	23.98%	23.38%
Dividend yield	2.55%	2.01%	2.08%
Weighted average fair value of options granted	$ 5.04	$5.99	$ 3.92

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

Options	Number Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life in Years	Aggregate Intrinsic Value
Outstanding at January 1, 2006	1,019,559	$ 13.75		
Granted	97,987	20.76		
Exercised	(134,811)	9.62		
Forfeited	(5,583)	18.49		
Outstanding at December 31, 2006	977,152	$ 15.00	6.80	$ 6,635
Exercisable at December 31, 2006	733,362	$ 12.46	5.03	$ 6,568

(Continued)

NOTE 11 — STOCK-BASED COMPENSATION (Continued)

Information related to stock options during each year follows:

	2006	2005	2004
Intrinsic value of options exercised	$ 1,779	$ 1,623	$ 596
Cash received from option exercises	1,103	880	394
Tax benefit realized from option exercises	258	275	97

As of December 31, 2006, there was approximately $1,107,000 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 2.4 years.

Restricted Stock Awards

A summary of changes in the Company's nonvested stock awards for the year follows:

Nonvested Stock Awards	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2006	0	$ ---
Granted	21,440	20.50
Vested	0	---
Forfeited	0	---
Nonvested at December 31, 2006	21,440	$ 20.50

As of December 31, 2006, there was $439,000 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 3.0 years. There were no shares vested during the years ended December 31, 2006 and 2004. The total fair value of shares vested during the year ended December 31, 2005, was $176,000.

(Continued)

NOTE 12 – EMPLOYEE BENEFITS

The Company sponsors a 401(k) plan which covers substantially all employees. Employees may elect to contribute to the plan from 1% to 15% of their salary 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, 2006, 2005 and 2004 were approximately $691,000, $620,000 and $560,000.

The Company sponsors an employee stock purchase plan which allows employees to direct the Company to withhold payroll dollars and purchase Company stock for the employees at market price on a quarterly basis. The Company has reserved 51,422 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.

(Continued)

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):

	2006	2005	2004
Basic earnings per share			
Net income	$ 19,831	$ 20,889	$ 12,776
Weighted average common shares outstanding	16,201,514	16,060,600	15,949,600
Basic earnings per share	$ 1.22	$ 1.30	$ .80
Diluted earnings per share			
Net income	$ 19,831	$ 20,889	$ 12,776
Weighted average common shares outstanding	16,201,514	16,060,600	15,949,600
Add: Dilutive effects of assumed exercises of stock options	350,365	424,469	302,842
Weighted average common and dilutive potential common shares outstanding	16,551,879	16,485,069	16,252,442
Diluted earnings per share	$ 1.20	$ 1.27	$ .79

Stock options for 319,961, 226,012, and 175,782 shares of common stock were not considered in computing diluted earnings per share for December 31, 2006, 2005 and 2004, respectively, because they were antidilutive.

(Continued)

NOTE 14 — FEDERAL INCOME TAXES

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

	2006	2005	2004
Current	$ 10,226	$ 10,503	$ 5,919
Deferred (benefit) expense	(1,091)	(649)	77
	$ 9,135	$ 9,854	$ 5,996

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):

	2006	2005	2004
Statutory rate	35%	35%	35%
Statutory rate applied to income before taxes	$ 10,138	$ 10,760	$ 6,570
Add (deduct)			
Tax-exempt interest income	(634)	(647)	(554)
Bank-owned life insurance	(360)	(230)	(55)
Other, net	(9)	(29)	35
	$ 9,135	$ 9,854	$ 5,996

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

	2006	2005
Deferred tax asset		
Allowance for loan losses	$ 8,141	$ 7,347
Unrealized loss on derivative instruments	617	751
Unrealized loss on securities available for sale	309	800
Other	549	378
	9,616	9,276
Deferred tax liabilities		
Depreciation	(2,013)	(1,966)
Purchase accounting adjustments	(547)	(744)
Other	(625)	(602)
	(3,185)	(3,312)
Net deferred tax asset	$ 6,431	$ 5,964

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, 2006 or 2005.

(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 (dollars in thousands):

	December 31,	
	2006	2005
Commitments to make loans	$ 25,855	$ 48,254
Letters of credit	27,269	24,538
Unused lines of credit	470,882	460,829

At year-end 2006, approximately 68% 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.

The Bank conducts substantially all of its business operations in western Michigan.

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 1,200 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 – HEDGING ACTIVITIES

The Company has asset/liability management policies that include guidelines for measuring and monitoring interest rate risk. Within these guidelines, parameters have been established for maximum fluctuations in net interest income. Possible fluctuations are measured and monitored using simulation analysis. The policies provide for the use of derivative instruments and hedging activities to aid in managing interest rate risk to within the policy parameters.

The Company's assets are comprised of a large portion of loans on which the interest rates are variable. As such, the Company may periodically enter into derivative financial instruments to mitigate exposure to fluctuations in cash flows resulting from changes in interest rates. Interest rate swap arrangements may be utilized to hedge against these fluctuations in cash flows.

The Company has entered into interest rate swap arrangements, all of which are classified as cash flow hedges, that convert the variable rate cash inflows on certain of its loans to fixed rates of interest. These interest rate swaps pay interest to the Company at a fixed rate and require interest payments from the Company at a variable rate. All of these swaps were fully effective during 2006 and 2005. It is anticipated that approximately $567,000 net of tax, of unrealized losses on these cash flow hedges will be reclassified to earnings over the next twelve months.

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

	December 31	
	2006	**2005**
Notional amounts	$ 80,000	$ 80,000
Weighted average pay rates	8.25%	7.25%
Weighted average receive rates	6.42%	6.42%
Weighted average maturity	2.0 years	3.0 years
Unrealized loss related to interest rate swaps	$ (1,762)	$ (2,146)

(Continued)

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.

At December 31, 2006 and 2005, actual capital levels (dollars in thousands) and minimum required levels were:

	Actual		Minimum Required For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
December 31, 2006						
Total capital (to risk weighted assets)						
Consolidated	$ 196,256	10.9%	$ 144,677	8.0%	$ 180,846	10.0%
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	108,508	6.0
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	100,933	5.0
Bank	166,826	8.3	80,602	4.0	100,752	5.0
December 31, 2005						
Total capital (to risk weighted assets)						
Consolidated	$ 179,756	11.1%	$ 129,959	8.0%	$ 162,448	10.0%
Bank	173,481	10.7	129,733	8.0	162,167	10.0
Tier 1 capital (to risk weighted assets)						
Consolidated	157,450	9.7	64,979	4.0	97,469	6.0
Bank	153,210	9.5	64,867	4.0	97,300	6.0
Tier 1 capital (to average assets)						
Consolidated	157,450	8.7	72,799	4.0	90,999	5.0
Bank	153,210	8.4	72,677	4.0	90,846	5.0

The Company and Bank were categorized as well capitalized at December 31, 2006 and 2005. There are no conditions or events since December 31, 2006 that management believes have changed either institution's 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 2006. At December 31, 2006 and 2005, approximately $50,145,000 and $50,126,000 was available to pay dividends to the holding company.

(Continued)

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).

	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	$ 39,882	$ 39,882	$ 49,101	$ 49,101
Securities available for sale	198,546	198,546	156,696	156,696
Securities held to maturity	2,711	2,762	3,907	3,974
FHLB stock	12,275	12,275	13,910	13,910
Loans held for sale	1,547	1,569	2,331	2,331
Loans, net	1,688,191	1,685,658	1,526,887	1,515,525
Accrued interest receivable	11,233	11,233	8,366	8,366
Bank-owned life insurance	21,843	21,843	20,814	20,814
Financial liabilities				
Deposits	(1,667,557)	(1,665,010)	(1,507,772)	(1,501,266)
Federal funds purchased	(11,990)	(11,990)	(25,809)	(25,809)
Other borrowed funds	(192,018)	(191,582)	(145,161)	(143,372)
Long-term debt	(41,238)	(42,034)	(41,238)	(42,658)
Interest rate swaps	(1,762)	(1,762)	(2,146)	(2,146)
Accrued interest payable	(5,468)	(5,468)	(4,528)	(4,528)
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)

NOTE 20 – CONDENSED FINANCIAL STATEMENTS (PARENT COMPANY ONLY)

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

CONDENSED BALANCE SHEETS

	2006	2005
ASSETS		
Cash and cash equivalents	$ 6,562	$ 4,550
Investment in Bank subsidiary	190,049	175,511
Investment in other subsidiaries	1,606	2,103
Other assets	709	1,158
Total assets	$ 198,926	$ 183,322
LIABILITIES AND SHAREHOLDERS' EQUITY		
Long-term debt	$ 41,238	$ 41,238
Other liabilities	839	340
Total liabilities	42,077	41,578
Shareholders' equity		
Common stock	153,728	136,583
Retained earnings	4,840	8,040
Accumulated other comprehensive income (loss)	(1,719)	(2,879)
Total shareholders' equity	156,849	141,744
Total liabilities and shareholders' equity	$ 198,926	$ 183,322

(Continued)

NOTE 20 – CONDENSED FINANCIAL STATEMENTS (PARENT COMPANY ONLY) (Continued)

CONDENSED STATEMENTS OF INCOME

	2006	2005	2004
Income			
Dividends from subsidiaries	$ 10,099	$ 78	$ 43
Expense			
Interest expense	3,346	2,603	1,659
Other expense	804	661	567
Total expense	4,150	3,264	2,226
Income (Loss) before income tax and equity in undistributed net income of subsidiaries	5,949	(3,186)	(2,183)
Equity in undistributed net income of subsidiaries	12,409	22,932	14,179
Income before income tax	18,358	19,746	11,996
Income tax benefit	(1,473)	(1,143)	(780)
Net income	$ 19,831	$ 20,889	$ 12,776

(Continued)

NOTE 20 – CONDENSED FINANCIAL STATEMENTS (PARENT COMPANY ONLY) (Continued)

CONDENSED STATEMENTS OF CASH FLOWS

	2006	2005	2004
Cash flows from operating activities			
Net income	$ 19,831	$ 20,889	$ 12,776
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Equity in undistributed earnings of subsidiaries	(12,409)	(23,010)	(14,222)
Stock compensation expense	145	0	0
(Increase) decrease in other assets	449	(1,126)	119
Increase (decrease) in other liabilities	499	(45)	352
Net cash from operating activities	8,515	(3,292)	(975)
Cash flows from investing activities			
Investment in subsidiaries	(75)	(126)	(11,851)
Net cash received from dissolution of subsidiary	373	0	0
Net cash from investing activities	298	(126)	(11,851)
Cash flows from financing activities			
Proceeds from issuance of long-term debt	0	0	20,619
Proceeds from exercises of stock options	1,103	880	394
Fractional shares purchased	(53)	(35)	(25)
Cash dividends paid	(7,851)	(6,228)	(4,444)
Net cash from financing activities	(6,801)	(5,383)	16,544
Net change in cash and cash equivalents	2,012	(8,801)	3,718
Cash and cash equivalents at beginning of year	4,550	13,351	9,633
Cash and cash equivalents at end of year	$ 6,562	$ 4,550	$ 13,351

(Continued)

NOTE 21 — QUARTERLY FINANCIAL DATA (Unaudited)

	Interest Income	Net Interest Income	Net Income	Earnings Per Share Basic	Earnings Per Share Fully Diluted
	(Dollars in thousands except per share data)				
2006					
First quarter	$ 30,241	$ 16,314	$ 5,222	$ 0.32	$ 0.32
Second quarter	32,896	16,975	5,756	0.36	0.35
Third quarter	34,779	17,083	6,009	0.37	0.36
Fourth quarter	35,589	17,045	2,845	0.18	0.17
2005					
First quarter	$ 23,198	$ 14,844	$ 4,535	$ 0.28	$ 0.28
Second quarter	25,357	15,487	5,262	0.33	0.32
Third quarter	27,752	16,105	5,550	0.35	0.34
Fourth quarter	29,087	16,401	5,542	0.34	0.34

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 as described in Note 1- Recent Developments and Note 4 of the financial statements.

Exhibit 21 — Subsidiaries of Registrant

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

Macatawa Investment Services, Inc. - 100% owned
Incorporated as a Michigan 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

Exhibit 23

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 and File No. 333-134502) of our reports dated March 16, 2007 with respect to the 2006 consolidated financial statements of Macatawa Bank Corporation, Macatawa management's assessment of the effectiveness of internal control over financial reporting 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, 2006.

/s/Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

Grand Rapids, Michigan
March 16, 2007

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 liked 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 15, 2007

/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 liked 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 15, 2007

/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, 2006 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, 2006 fairly presents, in all material respects, the financial condition and results of operations of Macatawa Bank Corporation.

Dated: March 15, 2007

/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