FORM 10-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2002

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.)**

10717 Paw Paw 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 whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes☒ .

The registrant's revenues for 2002 were $64,575,000. The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, based on a per share price of $21.74 as of June 28, 2002, was $156,217,000 (common stock, no par value). As of March 10, 2003, there were outstanding 7,965,146 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 24, 2003 are incorporated by reference into Part II and Part III of this 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 two wholly owned banking subsidiaries, Macatawa Bank and Grand Bank, as well as Macatawa Bank Brokerage Services. 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. Both Macatawa Bank and Grand Bank are Michigan chartered banks with depository accounts insured by the Federal Deposit Insurance Corporation. The banks operate seventeen branch offices and three lending and operational service facilities offering commercial and personal banking services, including checking and savings accounts (including certificates of deposit), 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. Macatawa Bank Brokerage Services was formed in October 2001 and gained approval in June 2002 from the NASD to commence operations as a broker/dealer. Macatawa Bank Brokerage Services provides various brokerage services including discount brokerage, personal financial planning and consultation regarding mutual funds. Macatawa Bank Mortgage Company and Grand Bank Mortgage Company, subsidiaries of Macatawa Bank and Grand Bank, respectively, originate and sell residential mortgage loans into the secondary market on a servicing released basis. As of December 31, 2002, we had total assets of $1.2 billion, total deposits of $920.9 million, approximately 64,000 deposit accounts and shareholders' equity of $114.0 million.

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.

Our administrative office is located at 10717 Paw Paw 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 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 advances from Federal Home Loan Banks, conduit financing and the packaging of loans for securitization and sale.

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 in the secondary market, long-term, conforming fixed-rate loans with terms of 15 years or greater which we originated.

Generally we originate residential mortgage loans with loan-to-value ratios not to exceed 80%. For loans with loan-to-value ratios in excess of 80%, 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 fee 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 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 80% of the appraised value of the property or

80% 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.

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, 2002, the Trust Department had assets of approximately $838.0 million. Our types of service include both personal trust and employee benefit plans.

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 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, pharmaceutical, transportation, equipment, food and construction supplies. Companies operating in the market area include Steelcase, Herman Miller, Alticor, Haworth, Johnson Controls, General Motors, Gerber, SPX, Magna, and Meijers.

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 below state and national levels.

Competition

Our primary market area includes Ottawa County, northern Allegan County and southwestern Kent 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, 2002, we had 229 full-time and 88 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, and Macatawa Bank Brokerage Services, Inc., a subsidiary of Macatawa Bank Corporation, are 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 things, 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. On July 30, 2002, President Bush signed into law the Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act 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 nine 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”) requires the FDIC to establish assessment rates at levels which will maintain the Deposit Insurance Fund at a mandated reserve ratio of not less than 1.25% of estimated insured deposits. For several years, the BIF reserve ratio has been at or above the mandated ratio and assessments have ranged from 0% of deposits for institutions in the lowest risk category to .27% of deposits in the highest risk category. However, there is speculation that the reserve may fall below the mandated ratio resulting in increased assessments in 2003.

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, 2002, each of Macatawa Bank's and Grand Bank's ratios exceeded minimum requirements for the well capitalized category.

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

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

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

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

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

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

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

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

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

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

ITEM 2: Description of Property.

We own or lease facilities located in Ottawa County, Allegan County and Kent County, Michigan. Our administrative offices are located at 160 South Waverly Road, Holland, Michigan 49423. During 2001, we purchased approximately 17 acres of land located between Holland and Zeeland, and began construction on a three story building that will contain approximately 49,000 square feet. Upon completion in April of 2003, we will consolidate our administration, human resources, trust, loan underwriting and processing, and proof and deposit operations in the new facility. Leased facilities in several locations will subsequently be vacated.

Our facilities as of February 1, 2003, were as follows:

Location of Facility	Use
51 E. Main Street, Zeeland*	Main Branch
125 Ottawa Avenue N.W., Grand Rapids*	Trust and Mortgage Offices
126 Ottawa Avenue, N.W., Grand Rapids*	Branch Office
139 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
106 E. 8th Street, Holland*	Trust Department
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
348 South Waverly Road, Holland*	Loan Center
160 South Waverly Road, Holland*	Administrative Offices
4471 Wilson Avenue, S.W., Grandville*	Branch Office
250 E. 8th Street, Holland*	Operations Center
8233 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
10717 Paw Paw Drive, Holland**	Administrative and Loan Processing Offices

* Leased facility

** Under construction. We expect to complete this facility in April 2003.

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.

As the date hereof, 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 2002 to a vote of our shareholders.

ADDITIONAL ITEM: Executive Officers of the Registrant.

Certain information relating to Executive Officers of Macatawa Bank Corporation and Macatawa Bank are as follows:

Name	Age	Year Elected an Executive Officer	Positions Held
Benj. A. Smith, III	59	1997	Chairman of the Board and Chief Executive Officer of Macatawa Bank Corporation and a director of Macatawa Bank.
Kenneth Hoexum	59	2003	President and Chief Executive Officer of Macatawa Financial Services Group, Inc.
Philip J. Koning	48	1997	President and Chief Executive Officer of Macatawa Bank and Treasurer and Secretary of Macatawa Bank Corporation.
Jon Swets	37	2002	Chief Financial Officer of Macatawa Bank Corporation and Macatawa Bank.
Ray D. Tooker	59	2000	Senior Vice President Loan Administration of Macatawa Bank.
Thomas Wesholski	57	2003	Executive Vice President of Macatawa Bank Corporation

PART II

ITEM 5: Market for Common Equity and Related Stockholder Matters.

Our common stock has been quoted on the Nasdaq National Market since May 17, 2001. From December 27, 1999 through May 16, 2001, our common stock was quoted on the Nasdaq SmallCap Market. From the completion of our initial public offering in April 1998 through December 27, 1999, our common stock was quoted on the OTC Bulletin Board. High and low sales prices (as reported on the Nasdaq National Market and the Nasdaq SmallCap 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 including the 3% dividend paid in May 2001 and the 4% dividend paid in May 2002.

	2002			2001		
Quarter	High	Low	Dividends Declared	High	Low	Dividends Declared
First Quarter	$20.87	$18.13	$0.08	$14.00	$12.60	$.07
Second Quarter	$21.74	$18.46	$0.08	$17.31	$13.53	$.07
Third Quarter	$21.50	$17.00	$0.08	$17.55	$15.32	$.07
Fourth Quarter	$20.85	$17.14	$0.10	$18.51	$15.14	$.08

On February 26, 2003, there were approximately 749 owners of record and, in addition, approximately 3,664 beneficial owners of our common stock.

The Company declared its first cash dividend, amounting to $.07 per share, during the fourth quarter of 2000. Quarterly cash dividends totaling $.28 were paid during 2001, and a 3% stock dividend was declared during the second quarter of 2001. Quarterly cash dividends totaling $.34 were paid during 2002, and a 4% stock dividend was declared during the second quarter of 2002.

We intend to continue to declare quarterly cash dividends in the future. We may also consider declaring stock dividends on an annual basis. We are expecting to obtain the funds for the payment of future cash dividends 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.

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, 2002, 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 Financial Condition and Results of Operations.

The information set forth under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” in our Annual Report to Shareholders for the year ended December 31, 2002, 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 Financial Condition and Results of Operations – Market Risk Analysis" in our Annual Report to Shareholders for the year ended December 31, 2002, 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 Auditors," "Consolidated Balance Sheets," "Consolidated Statements of Income," "Consolidated Statements of Changes in Shareholders' Equity," "Consolidated Statements of Cash Flow," and "Notes to Consolidated Financial Statements" in our Annual Report to Shareholders for the year ended December 31, 2002, 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 and Financial Disclosure.

There have been no disagreements with our independent public accountants.

PART III

ITEM 10: Directors and Executive Officers of the Registrant.

The information set forth on pages 3-4, under the caption "Information About Directors" and on page 11 under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in our definitive Proxy Statement dated March 7, 2003, relating to our 2003 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.

ITEM 11: Executive Compensation.

Information relating to compensation of our executive officers and directors is contained under the captions "Director Compensation" and "Executive Compensation," in our definitive Proxy Statement dated March 7, 2003, relating to our 2003 Annual Meeting of Shareholders and the information within those sections is incorporated by reference.

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

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 9 under the caption "Security Ownership of Management" in our definitive Proxy Statement dated March 7, 2003, relating to our 2003 Annual Meeting of Shareholders and the information within that section is incorporated by reference.

Equity Compensation Plan Information

We maintain certain equity compensation plans under which common stock is authorized for issuance to employees, consultants and directors in exchange for services, including our Stock Compensation Plan, 1998 Directors' Stock Option Plan, the Grand Bank Financial Corporation 1988 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, 2002.

	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	369,851	$12.85	365,576
Equity compensation plans not approved by security holders	0	NA	0
Total	369,851	$12.85	365,576

(1) We had not granted warrants or rights applicable to this chart.

ITEM 13: Certain Relationships and Related Transactions.

Information relating to certain relationships and related transactions is contained on page 10, under the caption "Transactions Involving Management" in our definitive Proxy Statement dated March 7, 2003, relating to our 2003 Annual Meeting of Shareholders and the information within that section is incorporated by reference.

ITEM 14: 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-14(c) and 15d-14(c)) as of a date within 90 days of the filing date of this Form 10-K Annual Report (the "Evaluation Date"), have concluded that as of the Evaluation Date, 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) Changes in Internal Controls. There were no significant changes in the company's internal controls or in other factors that could significantly affect internal controls subsequent to the date of the most recent evaluation, nor any significant deficiencies or material weaknesses in such internal controls requiring corrective actions. As a result, no corrective actions were taken.

PART IV

ITEM 15: Exhibits, Financial Statements, Schedules, and Reports on Form 8-K.

(a) Financial Statements.

1. The following documents are filed as part of Item 7 of this report:

   Report of Independent Auditors
   Consolidated Balance Sheets as of December 31, 2002 and 2001
   Consolidated Statements of Income for the years ended December 31, 2002, 2001 and 2000
   Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2002, 2001 and 2000
   Consolidated Statements of Cash Flows for the years ended December 31, 2002, 2001 and 2000
   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 of Jon Swets, Macatawa Bank Corporation, 348 South Waverly Road, Holland, Michigan 49423.

(b) Reports on Form 8-K

During the last quarter of the period covered by this report, the Registrant filed no Current Reports on Form 8-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, dated March 20, 2003.

MACATAWA BANK CORPORATION

/s/ Benj. A. Smith, III

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

/s/ Jon Swets

Jon Swets
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 20, 2003, 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 20, 2003
/s/ Jon Swets Jon Swets, Principal Financial and Accounting Officer	March 20, 2003
/s/ G. Thomas Boylan G. Thomas Boylan, Director	March 20, 2003
/s/ Robert E. DenHerder Robert E. DenHerder, Director	March 20, 2003
/s/ John F. Koetje John F. Koetje, Director	March 20, 2003
/s/ Philip J. Koning Philip J. Koning, Director and President	March 20, 2003

CERTIFICATIONS

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-14 and 15d-14) for the registrant and we have:

   (a) designed such disclosure controls and procedures 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) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   (c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; 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; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 20, 2003

/s/ Benj. A. Smith, III
Benj. A Smith, III
Chief Executive Officer

I, Jon 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-14 and 15d-14) for the registrant and we have:

   (a) designed such disclosure controls and procedures 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) evaluated the effectiveness of the registrant’s disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the “Evaluation Date”); and

   (c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent function):

   (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant’s ability to record, process, summarize and report financial data and have identified for the registrant’s auditors any material weaknesses in internal controls; 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; and

6. The registrant’s other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 20, 2003

/s/ Jon Swets
Jon Swets
Chief Financial Officer

EXHIBIT INDEX

Exhibit Number and Description

2	Consolidation Agreement dated December 10, 1997, incorporated by reference to Exhibit 2 to the Macatawa Bank Corporation Registration Statement on Form SB-2 (Registration No. 333-45755).
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.
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).
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	Data Processing Agreement between Rurbanc Data Services, Inc. and Macatawa Bank dated July 1, 2000, incorporated by reference to Exhibit 10.6 to the Macatawa Bank Corporation Annual Report on Form 10-K for the year ended December 31, 2000.
10.4	MagicLine Product Services Agreement between MagicLine, Inc. and Macatawa Bank dated October 1, 1997, incorporated by reference to Exhibit 10.9 to the Macatawa Bank Corporation Registration Statement on Form SB-2 (Registration No. 333-45755).
10.5	FTB Participating Bank Agreement between First Tennessee Bank National Association and Macatawa Bank dated October 24, 1997, incorporated by reference to

	Exhibit 10.10 to the Macatawa Bank Corporation Registration Statement on Form SB-2 (Registration No. 333-45755).
13	Annual Report to Shareholders for the year ended December 31, 2002. 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 LLP, independent public accountants
24	Power of Attorney (included on the signature page on page 18 of the Annual Report on Form 10-K)
99.1	Certificate of the Chief Executive 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.
99.2	Certificate of the 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 13.1

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Selected Consolidated Financial Data

The following selected consolidated financial and other data are derived from the Company's Financial Statements and should be read with the Consolidated Financial Statements and Notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations. The Consolidated Balance Sheets as of December 31, 2002 and 2001, and the Consolidated Statements of Income for the years ended December 31, 2002, 2001, and 2000, are included elsewhere in this Annual Report.

<TABLE>
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At or For the Year Ended December 31 (Dollars in thousands, except share and per share data)	2002	2001	2000	1999	1998
<S>	<C>	<C>	<C>	<C>	<C>
Financial Condition					
Total assets	$1,176,583	$ 670,203	$ 499,813	$ 344,921	$ 189,229
Securities	90,170	64,316	48,669	28,281	27,007
Loans	961,038	545,693	410,676	285,374	137,882
Deposits	920,873	526,192	398,617	279,390	166,989
Shareholders' equity	113,974	66,502	38,128	34,526	19,611
Share Information					
Basic earnings/(loss) per common share	$ 1.29	$ 1.08	$ .87	$ .21	$ (1.13)
Diluted earnings/(loss) per common share	1.27	1.07	.87	.21	(1.13)
Book value per common share	14.44	12.03	9.91	8.98	7.52
Weighted average dilutive shares outstanding	7,465,260	4,795,992	3,859,493	3,345,290	2,187,305
Shares outstanding at end of period	7,891,502	5,519,489	3,844,661	3,843,881	2,644,303
Operations					
Interest income	$ 57,252	$ 42,685	$ 34,338	$ 20,000	$ 6,804
Interest expense	22,902	20,927	17,739	9,428	3,190
Net interest income	34,350	21,758	16,599	10,572	3,614
Provision for loan losses	3,321	2,285	1,931	1,967	2,023
Net interest income after provision for loan losses	31,029	19,473	14,668	8,605	1,591
Total noninterest income	7,323	3,683	2,052	1,528	683
Total noninterest expense	24,187	15,543	12,672	9,440	4,763
Income/(loss) before tax	14,165	7,613	4,048	693	(2,489)

Federal income tax	4,652	2,497	699	--	--
Net income/(loss)	$ 9,513	$ 5,116	$ 3,349	$ 693	$ (2,489)
Performance Ratios					
Return on average equity	9.46%	9.58%	9.31%	2.72%	(15.15)%
Return on average assets	0.95%	0.88%	0.80%	0.26%	(2.70)%
Yield on average interest-earning assets	6.16%	7.82%	8.85%	8.27%	7.93%
Cost on average interest-bearing liabilities	2.82%	4.39%	5.20%	4.51%	4.77%
Average net interest spread	3.34%	3.43%	3.65%	3.76%	3.16%
Average net interest margin	3.69%	3.98%	4.18%	4.37%	4.21%
Efficiency ratio	58.04%	61.09%	67.95%	78.02%	110.84%
Capital Ratios					
Equity to assets	9.69%	9.92%	7.63%	10.01%	10.36%
Total risk-based capital ratio	9.89%	12.85%	10.36%	14.16%	12.40%
Credit Quality Ratios					
Allowance for loan losses to total loans	1.40%	1.41%	1.43%	1.40%	1.47%
Nonperforming assets to total assets	0.28%	0.36%	0.04%	0.03%	0.00%
Net charge-offs to average loans	0.12%	0.09%	0.02%	0.00%	0.00%

</TABLE>

Quarterly Financial Data
(Unaudited)

A summary of selected quarterly results of operations for the years ended December 31, 2002 follows:

<TABLE>
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Three Months Ended (Dollars in thousands, except share and per share data)	March 31	June 30	September 30	December 31
<S>	<C>	<C>	<C>	<C>
2002				
Interest income	$10,522	$15,000	$15,810	$15,918
Net interest income	6,157	8,814	9,474	9,902
Provision for loan losses	705	921	705	990
Income before tax	2,244	3,495	4,080	4,346
Net income	1,514	2,350	2,735	2,915
Net income per share				
Basic	.28	.29	.34	.37
Diluted	.27	.29	.34	.36
2001				
Interest income	$10,280	$10,639	$11,108	$10,658
Net interest income	4,831	5,195	5,675	6,057
Provision for loan losses	522	502	565	696
Income before tax	1,637	1,784	2,003	2,189
Net income	1,091	1,202	1,351	1,471
Net income per share				
Basic	.29	.29	.25	.27
Diluted	.28	.29	.24	.26

</TABLE>

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

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

The following section presents additional information to assess the financial condition and results of operations 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 bank holding company for two wholly owned banking subsidiaries, Macatawa Bank and Grand Bank, as well as Macatawa Bank Brokerage Services. Effective January 9, 2002, Macatawa Bank Corporation elected to become a financial holding company pursuant to Title 1 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. Both Macatawa Bank and Grand Bank are Michigan chartered banks with depository accounts insured by the Federal Deposit Insurance Corporation. The banks operate seventeen branch offices and three lending and operational service facilities, providing a full range of commercial and consumer banking and trust services in Kent County, Ottawa County, and northern Allegan County, Michigan. Macatawa Bank Brokerage Services was formed in October 2001 and gained approval in June 2002 from the NASD to commence operations as a broker/dealer. Macatawa Bank Brokerage Services provides various brokerage services including discount brokerage, personal financial planning and consultation regarding mutual funds. Macatawa Bank Mortgage Company and Grand Bank Mortgage Company, subsidiaries of Macatawa Bank and Grand Bank, respectively, originate and sell residential mortgage loans into the secondary market on a servicing released basis.

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. This is expected to create more operational efficiencies and simplify service to customers.

While maintaining asset quality and improving profitability, we have experienced rapid and substantial growth since opening Macatawa Bank in November 1997. We first became profitable in 1999 with net income for that year of $693 thousand.

Net income for 2000 was $3.3 million, for 2001 was $5.1 million, and for 2002 was $9.5 million. Since our inception in 1997 we have raised approximately $60.6 million in capital through private and public common stock offerings to facilitate our growth and progress over these years. In conjunction with the acquisition of GBFC we issued 2,472,000 shares of stock in exchange for all of the outstanding stock of GBFC.

The West Michigan markets within which we operate are growing markets. Because of their growth and our ability to provide highly personalized service, these markets have provided significant expansion opportunities for us. In addition, acquisitions of banks within our markets by large banking institutions headquartered outside of West Michigan have provided us additional opportunity to gain market share. Grand Rapids is the largest market within West Michigan. It is also where we hold the lowest percent share of the market relative to the other markets within which we operate, and therefore presents great opportunity. In November 2002 we opened a new branch in Grand Rapids, and in Wyoming we opened an expanded branch allowing us to move from a small storefront office. We will continue this expansion focus in 2003 as we expect to open at least three new branches in other desirable locations within our market area. We have begun construction of a new branch in Grandville replacing a storefront location and intend to begin construction in March for a location on the northeast side of Grand Rapids. We anticipate that we will continue to experience growth in our balance sheet and in our earnings due to these expansion opportunities.

Financial Condition

Summary

With the acquisition effective April 1, 2002, the consolidated balance sheet as of December 31, 2002 includes the effect of GBFC. A schedule of the significant GBFC assets and liabilities acquired is contained in Note 2 to the Consolidated Financial Statements.

The acquisition was accounted for using the purchase method of accounting. As a result, certain purchase accounting adjustments were required to record the acquired assets and liabilities at market value. The value of the purchase accounting adjustments is being amortized over the respective lives of the varying assets and liabilities.

Based on SFAS 142, "Goodwill and Other Intangible Assets", we have recorded intangible assets for the estimated value of core deposit accounts and trust customer accounts acquired in the acquisition. The intangible values represent the present value of the estimated net revenue streams attributed to the respective intangibles. The intangible assets acquired are valued using certain assumptions for alternative

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

cost of funds, lives of respective core deposits or trust customers, discount rates and other applicable assumptions. The total of both core deposit intangibles and trust customer intangibles was $3.7 million, and is being amortized on an accelerated basis over 10 years. Amortization of intangibles during 2002 was $392 thousand on a pre-tax basis.

The balance of the acquisition price in excess of the fair market value of assets and liabilities acquired, including intangible assets, was recorded as goodwill and totaled $23.9 million. Under SFAS 142, goodwill is defined as an intangible asset with an indefinite useful life, and as such, is not amortized, but is required to be tested annually for impairment of the value. If impaired, an impairment loss must be recorded for the value equal to the excess of the asset's carrying value over its fair value.

The amount of goodwill recorded in this transaction compared to the smaller amounts of identified intangible assets and lack of intangibles related to loan and deposit customer lists reflects that the value of GBFC related primarily to the foundation it provides to further build our presence in the Grand Rapids market. The value of this foundation lies with the GBFC workforce, their customer service orientation and their relationships within the community. The amount of the core deposits intangible asset recorded is small compared to the total purchase price because the GBFC deposit portfolio was weighted towards higher interest rate account types.

Our total assets were $1.177 billion at December 31, 2002, an increase of $506.4 million from $670.2 million in total assets at December 31, 2001. In addition to the $312.0 million in assets added from the GBFC acquisition, assets grew by $194.4 million during the period. We believe the continued strong asset growth reflects the acceptance of our 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 despite the strong competition from other locally based community banks and larger regional banks. The asset growth was primarily in earning assets of loans and securities, but also included increased cash, premises, and equipment. The increase in total assets was principally funded by strong deposit growth. Deposits grew by $148.6 million during 2002, a 28.0% growth rate, excluding the $246.1 million in deposits added in the GBFC acquisition. Additional borrowings were used to a lesser extent to supplement the funding provided from deposit growth. We attribute the strong deposit growth to our quality customer service, the desire of our customers to bank with a local bank, and convenient accessibility through the expansion of our branch network.

Cash and Cash Equivalents

Our cash and cash equivalents, which include federal funds sold and short-term investments, were $47.9 million at December 31, 2002, as compared to $34.2 million at December 31, 2001. The increase was a result of having to maintain a higher level of bank balances right at the end of 2002. The higher balances were required to cover uncollected funds deposited in Macatawa Bank's correspondent bank accounts as a result of high customer deposit activity.

Securities

Our security portfolio is classified as either "available for sale" or "held to maturity". Securities classified as "available for sale" may be sold 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 earnings, liquidity and decreased overall exposure to changes in interest rates. Securities increased $25.9 million to $90.2 million at December 31, 2002 from $64.3 million at December 31, 2001. In addition to the $11.1 million in securities added from the GBFC acquisition, securities increased by $14.8 million as the result of purchasing additional securities as a means of strengthening our liquidity. We expect continued growth of our securities portfolio generally consistent with the growth of our company in order to maintain appropriate levels of liquidity.

Securities Portfolio

Year Ended December 31 (Dollars in thousands)	2002	2001	2000
U.S. Treasury and U.S. Government Agencies	$71,867	$55,287	$45,991
State and municipal bonds	18,303	9,029	2,678
	$90,170	$64,316	$48,669

Excluding our holdings of the investment portfolio in U.S. Treasury and U.S. Government Agency Securities, we had no investments in securities of any one issuer which exceeded 10.0% of shareholders' equity.

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

Schedule of Maturities of Investment Securities and Weighted Average Yields

The following is a schedule of maturities and their weighted average yield of each category of investment securities we held at December 31, 2002.

<TABLE>
<CAPTION>

(Dollars in thousands)	Due Within One Year		One to Five Years		Five to Ten Years		After Ten Years		Investments With No Contractual Maturity	
	Estimated Market Value	Average Yield	Estimated Market Value	Average Yield	Estimated Market Value	Average Yield	Estimated Market Value	Average Yield	Estimated Market Value	Average Yield
U.S. Treasury and U.S. Government Agencies	$5,472	5.45%	$63,237	5.08%	$1,987	4.05%	$ 1,170	7.18%	--	--
Tax-exempt State and municipal bonds	--	--	--	--	5,796	6.55%	12,587	6.11%	--	--
Total	$5,472	5.45%	$63,237	5.08%	$7,783	5.89%	$13,757	6.20%	--	--

</TABLE>

Loan Portfolio

Our total loan portfolio increased to $961.0 million at December 31, 2002, from $545.7 million at December 31, 2001. We also had loans held for sale of $18.7 million at December 31, 2002, as compared to $4.6 million at December 31, 2001. In addition to the $246.3 million in loans added from the GBFC acquisition, loans grew by $169.0 million during 2002 continuing our consistent pattern of growth. The majority of loans we make are to small and mid-sized businesses in the form of commercial and commercial real estate loans. Our combined commercial loans accounted for approximately 73.0% of our total portfolio loans at December 31, 2002, compared to 74.0% at December 31, 2001. Our residential real estate loan portfolio, which also includes residential construction loans made to the individual homeowners, comprised approximately 14.0% of portfolio loans. However, our residential loan origination volume is significantly higher, with only a small portion of residential home loans retained for our own portfolio. We sell the majority of fixed-rate obligations and do not retain servicing. We originated for sale $240.8 million in residential mortgages in 2002, $135.6 million in 2001, and $47.0 million in 2000. The lower overall market interest levels experienced during 2002 and 2001 resulted in significantly higher levels of residential refinancing and loan originations during these years as compared to 2000. Our consumer loan portfolio includes both loans secured by personal property, as well as home equity fixed term and line of credit loans. Home equity loans totaled $87.9 million at December 31, 2002, compared to $45.9 million at December 31, 2001. Approximately 89.0% of our home equity loans are underwritten at terms of a loan to value ratio of less than 90.0%, and are considered well collateralized. The types of loans and mix of the GBFC portfolio was very similar to our portfolio and as a result the overall mix of the combined loan portfolio did not change significantly upon acquisition. We anticipate further growth in the loan portfolio due to continuing opportunities within our market area.

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.

Loan Portfolio Composition

<TABLE>
<CAPTION>

Year Ended December 31 (Dollars in thousands)	2002		2001		2000	
	Amount	%	Amount	%	Amount	%

<S>	<C>	<C>	<C>	<C>	<C>	<C>
Commercial real estate	$356,310	37%	$133,428	25%	79,444	19%
Residential real estate	133,843	14%	67,655	12%	60,822	15%
Other commercial	341,370	36%	269,993	49%	214,098	52%
Consumer	129,515	13%	74,617	14%	56,312	14%
Total loans	$961,038	100%	545,693	100%	410,676	100%
Less:						
Allowance for loan losses	(13,472)		(7,699)		(5,854)	
Total loans receivable, net	$947,566		$537,994		$404,822	

</TABLE>

Maturities and Sensitivities of Loans to Changes in Interest Rates

The following table shows the amount of total loans outstanding as of December 31, 2002 which, based on remaining scheduled repayments of principal, are due in the periods indicated.

	Maturing			
(Dollars in thousands)	Within One Year	After One, But Within Five Years	After Five Years	Total
Commercial real estate	$ 76,313	$265,310	$ 14,680	$356,303
Residential real estate	39,480	35,778	58,643	133,901
Other commercial	199,157	136,738	5,424	341,319
Consumer	22,111	42,226	65,178	129,515
Totals	$337,061	$480,052	$143,925	$961,038
Allowance for loan losses				(13,472)
Total loans receivable, net				$947,566

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, 2002.

Interest Sensitivity

(Dollars in thousands)	Fixed Rate	Variable Rate	Total
Due within 3 months	$ 37,588	$590,829	$628,417
Due after 3 months, but within 1 year	61,937	2,349	64,286
Due after one but within five years	205,877	26,125	232,002
Due after five years	30,890	5,443	36,333
Total	$336,292	$624,746	$961,038
Allowance for loan losses			(13,472)
Total loans receivable, net			$947,566

Nonperforming Assets

Nonperforming assets are comprised of nonperforming loans and foreclosed assets. Our nonperforming loans include loans on non-accrual, restructured loans, as well as loans delinquent more than 90 days, but still accruing. Nonperforming loans as of December 31, 2002 totaled $2.8 million compared to $2.4 million at December 31, 2001. One credit comprises approximately one half of the balance in nonperforming loans at the end of 2002. While still paying, this borrower's weak financial condition warranted concern. Therefore, the loan was placed in non-accrual in 2001 and remained in this status throughout 2002. Our loan performance 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 at that time is reversed and charged against current earnings. Foreclosed assets include assets acquired in settlement of loans. As of December 31, 2002 foreclosed assets totaled $446,000. There were no foreclosed assets at December 31, 2001.

Total nonperforming assets amounted to $3.2 million as of December 31, 2002 and represented 0.28% of total assets, a level well below historical peer averages.

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

December 31 (Dollars in thousands)	2002	2001	2000
Nonaccrual loans	$2,539	$2,084	$155
Loans 90 days or more delinquent and still accruing	259	298	41
Restructured loans	--	--	--
Total nonperforming loans	$2,798	2,382	196
Foreclosed assets	446	--	--
Total nonperforming assets	$3,244	$2,382	$196
Nonperforming loans to total loans	0.29%	0.43%	0.05%
Nonperforming assets to total assets	0.28%	0.36%	0.04%

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.

<TABLE>
<CAPTION>

December 31 (Dollars in thousands)	2002	2001	2000
<S>	<C>	<C>	<C>
Loans:			
Average daily balance of loans for the year	$831,709	$474,318	$347,351
Amount of loans outstanding at end of period	961,038	545,693	410,676
Allowance for loan losses:			
Balance at beginning of year	$ 7,699	$ 5,854	$ 3,995
Balances from GBFC acquisition	3,464		
Addition to allowance charged to operations	3,321	2,285	1,931
Loans charged-off:			
Commercial	(1,143)	(485)	(67)
Residential Real Estate	--	(1)	--
Consumer	(128)	(27)	(20)
Recoveries:			
Commercial	249	63	14
Residential Real Estate	--	1	--
Consumer	10	9	1
Balance at end of year	$ 13,472	$ 7,699	$ 5,854
Ratios:			
Net charge-offs to average loans outstanding	0.12%	0.09%	0.02%
Allowance for loan losses to loans outstanding at year end	1.40%	1.41%	1.43%

</TABLE>

Allowance for Loan Losses

Our allowance for loan losses as of December 31, 2002 was $13.5 million, representing approximately 1.40% of total portfolio loans outstanding, compared to $7.7 million or 1.41% of total loans at December 31, 2001. Our allowance for loan losses is maintained at a level management considers 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 identified problem loans, formula allowance for graded loans, and general allocations based on historical trends for pools of similar loan types.

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 has been incurred. This amount is determined by methods prescribed by SFAS No. 114,"Accounting by Creditors for Impairment of a Loan". As of December 31, 2002 and 2001 the specific allowance was $883,000 and $539,000, respectively.

The formula allowance 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 grading assigned to a loan category, the greater the allocation percentage that is applied. Changes in risk grade of both performing and nonperforming loans affect the amount of the formula allowance. Loss factors are based on our loss experience, the banking industry's historical loan loss experience, and may be adjusted for significant factors that, in management's judgement, affect the collectibility of the portfolio as of the analysis date. As of December 31, 2002 and 2001 the formula allowance was $10.1 million and $5.9 million, respectively.

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 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. Since Grand Bank's loan portfolio is seasoned, its loan loss trends are used in determining an adequate allowance for these pools of loans in addition to industry experience and peer information. As of December 31, 2002 and 2001 the general allowance was $1.5 million and $760,000, respectively.

During 2002 the allowance for loan losses increased by 30.0% excluding the addition of $3.5 million with the acquisition of GBFC. The 30.0% increase was due primarily to increases in the formula and general allowance allocations. The increases in these allocations were the result of continued strong growth in loans which increased by 31.0% excluding the addition of GBFC loans. Changes in underlying loan performance measures were not significant and did not materially affect the allowance for loan losses in 2002 compared to the prior year. We believed it was prudent to continue increasing the allowance due to the unseasoned nature of our portfolio and current soft economic conditions both on a national basis and locally.

Net charge-offs for 2002 totaled $1.0 million compared to $440,000 for 2001. While our net charge-off experience was higher during the current year, our credit losses on loans continue to be low relative to comparable banks. However, we recognize that our loan portfolios remain relatively unseasoned, and no material trend of losses has been established. Given the newness of the portfolios and potential economic weakness, in our judgment, we have provided adequate reserves for loan losses, although there can be no assurance that the allowance for losses on loans will be adequate to cover all losses. We anticipate net charge-offs to increase as our loan portfolio grows and becomes more seasoned. In addition, net charge-offs may increase over levels experienced in 2002 due to the overall weakness in the economy.

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.

<TABLE>
<CAPTION>

Year Ended December 31 (Dollars in thousands)	2002		2001		2000	
	Allowance Amount	% of Each Category to Total Loans	Allowance Amount	% of Each Category to Total Loans	Allowance Amount	% of Each Category to Total Loans
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Commercial and commercial real estate	$11,207	72.6%	$6,391	73.9%	$3,902	71.5%
Residential real estate	326	13.9%	196	12.4%	176	14.8%
Consumer	950	13.5%	564	13.7%	435	13.7%
Unallocated	989	--	548	--	1,341	--
Total	$13,472	100.0%	$7,699	100.0%	$5,854	100.0%

</TABLE>

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 allocated portion of the allowance amounted to $12.5 million at December 31, 2002. Of this total, 7.0% related to specific allocations, 81.0% related to formula allocations, and 12.0% related to general allocations.

Premises and Equipment

Premises and equipment totaled $25.8 million at December 31, 2002, an increase of $10.9 million from December 31, 2001. The increase resulted from costs incurred with construction underway for our new headquarters building, as well as the completion of three new branch locations. The new headquarters location will allow us to consolidate our administration, human resources, trust, loan underwriting and processing, and proof and deposit operations to one location. We expect the new headquarters facility to be completed by April of 2003. The new branch sites allowed us to replace a leased storefront branch site in Wyoming with a full service branch, add a full service branch in a leased location in Byron Center, and add a new location in the Forest Hills area of Grand Rapids. The Byron Center branch opened for service in early April. The Wyoming and Forest Hills branches opened in November. Only $656,000 of the $10.9 million increase in premises and equipment related to the acquisition of GBFC.

Deposits

Deposits are gathered primarily from the communities we serve through our network of 17 branches. We offer business and consumer checking accounts, regular and money market savings accounts, and certificates of deposits having many options in their terms.

Total deposits increased $394.7 million to $920.9 million at December 31, 2002, as compared to $526.2 million at December 31, 2001. In addition to the $246.1 million in deposits added from the GBFC acquisition, deposits grew by $148.6 million during the year. This internal growth in deposits reflects primarily deposits from new customers. We continue to anticipate strong deposit growth based on our focus on quality customer service, the desire of customers to deal with a local bank, convenient accessibility through our growing branch network and our expanded opportunities in the Grand Rapids market as a result of the GBFC acquisition.

Noninterest bearing demand accounts comprised approximately 11.0% of total deposits at December 31, 2002, as compared to approximately 12.0% of total deposits at the end of 2001. Interest bearing demand and savings accounts comprised approximately 44.0% of total deposits at December 31, 2002, as compared to 50.0% at the end of last year. Time accounts as a percentage of total deposits were approximately 45.0% at December 31, 2002, and were approximately 38.0% at December 31, 2001. The changes in mix of the portfolio relate primarily to the differences in the mix of the GBFC deposit portfolio compared to our mix at the time of the acquisition. The GBFC portfolio had a higher concentration of time deposits and a lower level of noninterest bearing deposits.

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 12.0% of total deposits at December 31, 2002 and approximately 2.0% at December 31, 2001. The GBFC deposit portfolio contained a higher level of brokered deposits to total causing most of the increase in the ratio from the end of 2001 to the end of 2002. We operate in a very competitive environment, competing with other local banks similar in size and with significantly larger regional banks. We monitor rates at other financial institutions in the area to ascertain that our rates are competitive with the market. We also attempt to offer a wide variety of products to meet the needs of our customers.

Average Daily Deposits

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

<TABLE>
<CAPTION>

Average for the Year (Dollars in thousands)	2002		2001		2000	
	Amount	Average Rate	Amount	Average Rate	Amount	Average Rate
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Noninterest bearing demand	$ 82,757	--	$ 52,184	--	$ 38,525	--
NOW accounts	118,594	1.1%	55,951	1.8%	45,246	2.6%
MMDA/savings	260,206	1.9%	174,933	3.3%	131,069	4.7%
Time	328,715	3.6%	176,983	5.8%	123,756	6.4%
Total deposits	$790,272	2.6%	$460,051	3.7%	$338,596	4.5%

</TABLE>

Maturity Distribution of Time Deposits of $100,000 or More

The following table summarizes time deposits in amounts of $100,000 or more by time remaining until maturity as of December 31, 2002:

(Dollars in thousands)	Amount
Three months or less	$ 39,171
Over 3 months through 6 months	46,496
Over 6 months through 1 year	44,260
Over 1 year	127,589
	$257,516

Borrowed Funds

Borrowed funds consist principally of advances from the Federal Home Loan Bank. Borrowed funds also include federal funds purchased, which are utilized to settle our daily cash letter position with our correspondent banks. Additionally, we have a $10.0 million credit facility available for general corporate needs including contributing capital to the subsidiary banks to enable them to maintain regulatory capital at well-capitalized levels. Borrowed funds totaled $131.8 million at December 31, 2002 including $106.9 million of Federal Home Loan Bank advances, $20.0 million of federal funds purchased and $4.9 million in borrowing on the credit facility. At December 31, 2001 borrowed funds totaled $75.6 million comprised solely of Federal Home Loan Bank advances. Borrowed funds increased during 2002 partially due to the addition of borrowings from the GBFC acquisition, but also due to additional borrowing needs to fund our continued growth in assets.

Retained Earnings

We had a retained earnings balance of $5.9 million at December 31, 2002 as compared to $3.2 million at December 31, 2001. Retained earnings is comprised of net earnings, less dividends paid to shareholders. During 2002, we paid $2.5 million in cash dividends. A 4% stock dividend was also paid from retained earnings during May of 2002, resulting in the transfer of $4.3 million from retained earnings to our common stock.

Results of Operations

Summary of Results

Net income totaled $9.5 million for 2002 as compared to $5.1 million in 2001, and $3.3 million in 2000. The increase in net income principally reflects growth in our net interest income due to our continuing growth in interest earning assets, but also reflects improvement in noninterest income. Earnings per share on a diluted basis were $1.27 for 2002 compared to $1.07 for 2001 and $.87 for 2000. Diluted earnings per share increased by 19.0% for 2002 compared to 2001 despite a 45.0% increase in shares outstanding for the acquisition of GBFC in the second quarter of 2002.

Our net income for 2002 was impacted by the net income earned by Grand Bank. For pro forma information concerning the GBFC acquisition, please refer to Note 2 of the Consolidated Financial Statements.

Total revenues, consisting of net interest income and noninterest income, were $41.7 million during 2002, as compared to $25.4 million during 2001, and $18.6 million for 2000. Noninterest expense totaled $24.2 million for 2002, as compared to $15.5 million for 2001, and $12.7 million for 2000. Our federal income tax expense increased substantially during 2001 reflecting our fully taxable status for all of 2001. We initially became taxable during 2000 after utilizing all tax loss carry forwards from 1998 and 1997.

Analysis of Net Interest Income

The following schedule presents, for the periods indicated, information regarding:

- our total dollar amount of interest income from average earning assets and the resultant average yields;
- our total dollar amount of interest expense on average interest-bearing liabilities and the resultant average cost;
- our net interest income;
- our interest rate spread; and
- our net yield on average earning assets.

<TABLE>

<CAPTION>

For the Years Ended December 31	2002			2001		
(Dollars in thousands)	Average Balance	Interest Earned or Paid	Average Yield or Cost	Average Balance	Interest Earned or Paid	Average Yield or Cost
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Assets						
Taxable securities	$ 65,829	$ 3,477	5.28%	$ 49,771	$ 2,921	6.01%
Tax-exempt securities (1)	13,315	619	7.21%	6,784	320	7.20%
Loans (2)	831,709	52,687	6.27%	474,318	38,904	8.12%
Federal funds sold	10,213	175	1.67%	7,864	265	3.33%
Short-term investments	544	5	0.94%	1,575	39	2.44%
Federal Home Loan Bank stock	4,775	289	5.98%	3,187	236	7.30%
Total interest earning assets	$ 926,385	$57,252	6.16%	$543,499	$42,685	7.82%
Noninterest earning assets:						
Cash and due from banks	32,770			27,377		
Other	42,074			13,148		
Total assets	$1,001,229			$584,024		
Liabilities and Shareholders' Equity						
Deposits:						
NOW and money market accounts	$ 334,510	$ 5,159	1.14%	$204,863	$ 5,932	2.90%
Savings	24,800	272	1.10%	14,186	200	1.41%
IRAs	19,490	876	4.49%	11,834	700	5.91%
Time deposits	328,715	11,966	3.64%	176,983	10,177	5.75%
Short-term borrowings:						
Federal funds borrowed	5,392	102	1.87%	1,704	81	4.67%
Other borrowings	96,538	4,527	4.62%	65,586	3,837	5.77%
Total interest bearing liabilities	809,445	22,902	2.82%	475,156	20,927	4.39%
Noninterest bearing liabilities						
Noninterest bearing demand accounts	82,757			52,184		
Other noninterest bearing liabilities	8,503			3,259		
Shareholders' equity	100,524			53,425		
Total liabilities and Shareholders' equity	$1,001,229			$584,024		
Net interest income		$34,350			$21,758	
Net interest spread			3.34%			3.43%
Net interest margin			3.69%			3.98%
Ratio of interest earning assets to interest bearing liabilities		114.45%			114.38%	

<CAPTION>

For the Years Ended December 31	2000		
(Dollars in thousands)	Average Balance	Interest Earned or Paid	Average Yield or Cost
<S>	<C>	<C>	<C>
Assets			
Taxable securities	$ 35,459	$ 2,166	6.11%
Tax-exempt securities (1)	1,639	86	7.56%
Loans (2)	347,351	31,789	9.15%
Federal funds sold	1,616	99	6.13%
Short-term investments	169	6	3.55%
Federal Home Loan Bank stock	2,332	192	8.28%
Total interest earning assets	$388,566	$34,338	8.85%
Noninterest earning assets:			
Cash and due from banks	18,624		
Other	9,897		
Total assets	$417,087		
Liabilities and Shareholders' Equity			
Deposits:			
NOW and money market accounts	$159,419	$ 6,656	4.17%
Savings	9,222	177	1.92%
IRAs	7,674	465	6.06%
Time deposits	123,756	7,916	6.40%
Short-term borrowings:			
Federal funds borrowed	2,022	131	6.48%
Other borrowings	38,857	2,394	6.16%
Total interest bearing liabilities	340,950	17,739	5.20%
Noninterest bearing liabilities			
Noninterest bearing demand accounts	38,525		
Other noninterest bearing liabilities	1,557		
Shareholders' equity	36,055		
Total liabilities and Shareholders' equity	$417,087		
Net interest income		$16,599	

Net interest spread		3.65%
Net interest margin		4.18%
Ratio of interest earning assets to interest bearing liabilities	113.97%	

</TABLE>

(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.

Net interest income totaled $34.4 million during 2002, compared to $21.8 million during 2001 and $16.6 million during 2000. The 58.0% increase in net interest income during 2002 was driven entirely by growth in our earning assets. Average earning assets for 2002 totaled $926.4 million, as compared to $543.5 million for 2001. The acquisition of GBFC contributed $210.2 million to this increase in earning assets, however, the remaining $172.7 million was a result of our continued growth. Net interest margin on earning assets was 3.69% for 2002,down from 3.98% for 2001. The contraction in the net interest margin relates primarily to the lower net interest margin that GBFC carried compared to Macatawa, but also reflects a decrease in yield on earning assets resulting from the low and declining interest rate environment during 2002. We have continued to see strong loan growth, but customer preferences during 2002 have been for floating rate loans that bear interest rates on average of 225 basis points lower than fixed rate commercial loans. This preference has altered our mix of variable versus fixed rate commercial loans and has also contributed to the decline in net interest margin.

The 31.0% increase in net interest income during 2001 as compared to 2000 was principally due to an increase in average earning assets. The growth in income as a result of our continuing loan growth offset the impacts from contracting net interest margin. Our net interest margin of 3.98% for 2001 was down from 4.18% for 2000. As in 2002, the decrease in our net interest margin during 2001 reflected the impact of the decreasing interest rate environment. Interest rates, as measured by prime rate, fell from 9.50% at January 1, 2001, to 4.75% at December 31, 2001.

While the year over year comparisons reflect decreases, there was a 14 basis point increase in net interest margin from the second quarter of 2002 through the fourth quarter. This improvement was accomplished primarily through repositioning of certain assets and liabilities. During the latter half of 2002,approximately $5 million in noninterest earning assets were converted into interest earning assets and lower yielding assets were converted into higher yielding assets by investing some of our short-term investable funds into loans. In addition, growth in noninterest bearing deposits and continued downward repricing of higher costing time deposits contributed to margin improvement in this time period.

Anticipated growth in earning assets is expected to continue to increase levels of net interest income, however, net interest margin is not expected to increase until short-term market interest rates begin to increase. Helping margin, maturities in our time deposit portfolio continue to re-price at lower levels, however, to a lesser extent than earlier in the year. Derivative instruments as discussed in Note 16 to the Consolidated Financial Statements have also mitigated some of the decline in net interest margin.

Rate/Volume Analysis of Net Interest Income

The following schedule presents the dollar amount of changes in interest income and interest expense for major components of earning assets and interest-bearing liabilities, distinguishing between changes related to outstanding balances and changes due to interest rates.

<TABLE>
<CAPTION>

Year Ended December 31 (Dollars in thousands)	2002 vs 2001			2001 vs 2000		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
	Volume	Rate	Total	Volume	Rate	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Interest Income						
Taxable securities	$ 870	$ (314)	$ 556	$ 755	$ --	$ 755
Tax-exempt securities	304	(5)	299	270	(36)	234
Loans	24,188	(10,405)	13,783	12,340	(5,225)	7,115
Fed funds sold	64	(154)	(90)	338	(172)	166
Short term investments	(16)	(18)	(34)	34	(1)	33
FHLB stock	102	(49)	53	70	(26)	44

Total interest income	$25,512	$(10,945)	$14,567	$13,807	$(5,460)	$8,347
Interest Expense						
NOWs and MMDAs	$ 2,745	$ (3,518)	$ (773)	$ 1,847	$(2,571)	$ (724)
Savings	124	(52)	72	96	(73)	23
IRAs	374	(198)	176	253	(18)	235
Time deposits	6,483	(4,694)	1,789	3,323	(1,062)	2,261
Fed funds purchased	93	(72)	21	(20)	(30)	(50)
Other borrowings	1,557	(867)	690	1,663	(220)	1,443
Total interest expense	11,376	(9,401)	1,975	7,162	(3,974)	3,188
Net interest income	$14,136	$ (1,544)	$12,592	$ 6,645	$(1,486)	$5,159

</TABLE>

Composition of Average Interest Earning Assets and Interest Bearing Liabilities

Year Ended December 31 (Dollars in thousands)	2002	2001	2000
As a Percent of Average Interest Earning Assets			
Loans	89.78%	87.27%	89.39%
Other earning assets	10.22%	12.73%	10.61%
Average interest earning assets	$926,385	$543,499	$388,566
As a Percent of Average Interest Bearing Liabilities			
Savings, MMS, IRA, and NOW accounts	46.80%	48.59%	51.71%
Time deposits	40.61%	37.25%	36.30%
Other borrowings	12.59%	14.16%	11.99%
Average Interest Bearing Liabilities	$809,445	$475,156	$340,950
Earning asset ratio	114.45%	114.38%	113.97%

Provision for Loan Losses

Our provision for loan losses for 2002 was $3.3 million as compared to $2.3 million for 2001 and approximately $1.9 million for 2000. Some of the increase in provision was due to the increase in charge-offs in 2002 compared to 2001. However, 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 earlier discussion under Financial Condition. Along with other financial institutions, management shares a concern for the possible continuing weak economic conditions. Should the economic climate remain soft, borrowers may experience more difficulty in making loan payments, and the level of non-performing loans, charge-offs, and delinquencies could rise and require further increases in the provision.

While we sustained higher loan charge-offs during 2002 as compared to prior years, our losses as a percent of average loans totaled only 12 basis points, a level far below historic peer averages.

Noninterest Income

Noninterest income totaled $7.3 million during 2002, as compared to $3.7 million in 2001, and $2.1 million for 2000. The level of noninterest income for 2002 was up 99.0% over 2001. All components of noninterest income increased compared to 2001. The increased deposit service charge income in 2002 is reflective of our expanded customer account base. Our mortgage banking function was well-positioned to capitalize on the favorable mortgage refinance environment caused by low interest rates during 2002 and achieved high loan sales volume resulting in gains of $2.4 million for the year. While mortgage interest rates remain at low levels, it is expected that refinance activity will slow down resulting in a possible decline in our loan sales volume during 2003. Revenues from trust services grew to $2.1 million for 2002 compared to $659,000 for 2001. Trust fees are, to a great extent, based on the underlying values of trust assets managed. Despite a generally downward trend in market valuation of securities during 2002, trust fees increased as compared to the prior year due to our success in gaining new trust customers and the addition of Grand Bank's trust services. We believe trust fee income will continue to increase as the amount of trust assets under our management increases.

Service charges and fees increased by $768,000 during 2001 as compared to 2000 and reflected the growth in our customer base. Gain on sale of loans increased by $710,000 over the 2000 level due to the favorable mortgage refinance environment in 2001 compared to 2000. Trust fees increased in 2001 compared to 2000 due to the increase in the amount of trust assets under management. The following table details major components of noninterest income for the years 2002, 2001, and 2000.

Noninterest Income

Year Ended December 31 (Dollars in thousands)	2002	2001	2000
Deposit service charges	$2,247	$1,912	$1,144
Net gains on sales of loans	2,382	1,071	361
Trust fees	2,118	659	531
Other	576	41	16
Total noninterest income	$7,323	$3,683	$2,052

Net Gains on the Sale of Residential Real Estate Mortgage Loans

Year Ended December 31 (Dollars in thousands)	2002	2001	2000
Real estate mortgage loan originations for sale	$240,819	$135,615	$47,007
Real estate mortgage loan sales	229,047	132,115	47,368
Net gains on the sale of real estate mortgage loans	$ 2,382	$ 1,071	$ 361
Net gains as a percent of real estate mortgage loan sales	1.04%	0.81%	.76%

We sell the majority of the fixed-rate mortgage loans we originate. We do not retain the servicing rights for the loans we sell.

Noninterest Expense

Noninterest expense totaled $24.2 million for 2002, as compared to $15.5 million for 2001, and $12.7 million for 2000. Salaries and benefits increased by $4.5 million for 2002 compared to the prior year and was the primary category of increase in noninterest expense. Most of this increase related to the addition of the Grand Bank workforce, however, our continued growth required additional staff as compared to 2001. The staff growth reflected the expansion required to handle the growing lending portfolios and operational personnel necessary to support increased customer activity. Other increases included occupancy and equipment expense, data

processing, and other support related expenses, such as courier, telephone, postage, and outside services, all of which increased partially due to the GBFC acquisition. All of these costs relate to customer activity and branch infrastructure, and increased as a result of new customer activity being generated. Total noninterest expense increased by 56.0% for 2002 whereas net interest income and noninterest income in total grew by 64.0%. The greater revenue growth versus expense growth resulted in an improved efficiency ratio of 58.0% for 2002 as compared to 61.1% for 2001. This improvement was a direct result of synergies achieved in the GBFC acquisition as well as continued better capacity usage of the branch network and operations.

During 2002 we opened two new branches and moved from a small leased location to a new expanded branch location. These new branches are in premier locations and have already experienced strong growth in new customer relationships. We plan to continue this expansion focus primarily in Grand Rapids where we hold the lowest share of the market compared to others we serve. During 2003 we plan to open at least three new branches in strategic locations within our market area. Although these new locations increase occupancy and equipment costs, we expect the benefits from the customer relationship growth opportunities they offer will outweigh the additional costs.

We integrated the systems and operations of Grand Bank into ours during the second quarter of 2002. By utilizing the same systems at both Macatawa Bank and Grand Bank, we realized operational efficiencies, primarily in data processing, during the year. On January 1, 2003 we completed the final step of the integration with the name change of Grand Bank to Macatawa Bank by merging the two bank charters into one. This charter merger allows for more operational efficiencies and simplifies service to our customers.

Increases in salaries and benefits during 2001 reflected the addition of new lending staff, lending and operations support staff, as well as additional branch staff for new locations. Other expense increases in 2001 were principally due to supporting our expanding customer base. These included advertising, data processing, legal and professional service fees, postage, and office supply expenses. The following table details major components of noninterest expense for the years of 2002, 2001, and 2000.

Noninterest Expense

Year Ended December 31 (Dollars in thousands)	2002	2001	2000
Salaries and employee benefits	$12,838	$ 8,359	$ 6,865
Occupancy and equipment	1,861	1,230	1,094
Furniture and equipment expense	2,161	1,580	1,244
Legal and professional fees	617	359	248
Advertising	722	537	366
Supplies	486	392	348
Data processing fees	829	715	561
Other operating expenses	4,673	2,371	1,946
Total noninterest expense	$24,187	$15,543	$12,672

Liquidity and Capital Resources

Equity Capital. In conjunction with the acquisition of GBFC we issued 2,472,000 shares of stock in exchange for all of the outstanding stock of GBFC. GBFC's regulatory capital ratios were at similar levels to ours upon acquisition and as a result, had minimal impact on our combined ratios of regulatory capital. At December 31,2002, our Tier I Capital as a percent of average assets was 7.6%, and our total capital to risk-weighted assets was 9.9%, as compared to 10.1% and 12.9% respectively at December 31,2001. The decrease in these regulatory capital ratios reflects our continued internal growth in assets. Additional capital will be necessary within the next year if our growth continues at its current pace. Alternative capital sources include additional common stock offerings, trust preferred securities offerings and subordinated debt. Macatawa Bank Corporation was categorized as "adequately capitalized" for regulatory capital purposes while Macatawa Bank and Grand Bank were categorized as "well-capitalized" as of December 31, 2002.

During the second quarter of 2001, we completed a common stock offering, issuing 1,610,000 additional shares of common stock, resulting in net proceeds to us of $23.7 million after offering commissions and expenses. We used a portion of the proceeds from the capital offering to pay off some borrowings, as well as to contribute additional capital to Macatawa Bank to maintain regulatory capital levels.

We declared our first cash dividend during the fourth quarter of 2000 in the amount of $.07 per share. We subsequently paid a quarterly cash dividend of $.07 per share during 2001. During the fourth quarter of 2001, the cash dividend was increased to $.08 per share and had continued at this level through the third quarter of 2002. In the fourth quarter of 2002 we increased the cash dividend by 25.0% to $.10. It is anticipated that we will continue to pay quarterly cash dividends in the future. On May 8, 2002, we distributed a 4% stock dividend to our shareholders. This was the second consecutive annual stock dividend, and was an increase over the 3.0% dividend paid in May of 2001.

One stock repurchase transaction in the amount of 115,000 shares took place during the third quarter of 2002. Further stock repurchase activity is not anticipated in the foreseeable future.

The following table shows various capital ratios as of December 31, 2002.

Capital Resources

	Tier I Leverage Ratio	Tier I Capital Ratio	Total Risk-Based Capital Ratio
Minimum regulatory requirement for capital adequacy	4.0%	4.0%	8.0%
Well capitalized regulatory level	5.0%	6.0%	10.0%
Consolidated	7.6%	8.6%	9.9%
Macatawa Bank	7.7%	8.8%	10.0%
Grand Bank	7.1%	7.8%	10.7%

Liquidity. The liquidity of a financial institution reflects its ability to provide funds to meet loan requests, to accommodate possible outflows of deposits and to take advantage of interest rate market opportunities. Our sources of liquidity include loan payments by our borrowers, maturity and sales of our securities available for sale, growth of our deposits and deposit equivalents, federal funds sold, our borrowings from the Federal Home Loan Bank, and our issuance of common stock. 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.

Market Risk Analysis

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 and Grand Bank have only limited agricultural-related loan assets, and therefore have no significant exposure to changes in commodity prices. As a result, 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. for 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. The first is static gap analysis. This measures the difference between the dollar amounts of interest sensitive assets and liabilities that will 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, 2002.

<TABLE>
<CAPTION>

Static Gap Analysis (Dollars in thousands)	0 to 3 Months	4 to 12 Months	1 to 5 Years	Over 5 Years	Total
<S>	<C>	<C>	<C>	<C>	<C>
Assets					
Loans-fixed	$ 37,588	$ 61,937	$205,877	$ 30,890	$ 336,292
Loans-variable	590,829	2,349	26,125	5,443	624,746
Taxable securities	189	5,271	63,236	3,171	71,867
Tax exempt securities	--	--	--	18,303	18,303
Short term investments	--	--	--	--	--
Fed funds sold	--	--	--	--	--
Other securities	--	--	--	5,391	5,391
Loan loss reserve	--	--	--	--	(13,472)
Cash & due from banks	--	--	--	--	47,874
Acquisition intangibles	--	--	--	--	27,186
Loans held for sale	--	--	--	--	18,726
Fixed assets	--	--	--	--	25,751
Other assets	--	--	--	--	13,919
Total assets	$628,606	$ 69,557	$295,238	$ 63,198	$1,176,583
Liabilities					
Time deposits	$ 58,928	$143,926	$203,957	$ 3,844	$ 410,655
Savings	28,730	--	--	--	28,730
Other interest bearing deposits	378,458	--	--	--	378,458
Other borrowings	48,936	9,454	40,429	33,014	131,833
Noninterest bearing deposits	--	--	--	--	103,030
Other liabilities & equity	--	--	--	--	

					123,877
Total liabilities & equity	$515,052	$153,380	$244,386	$ 36,858	$1,176,583
Period gap	$113,554	$(83,823)	$ 50,852	$ 26,340	
Cumulative gap	$113,554	$ 29,731	$ 80,583	$106,923	
Cumulative gap/total assets	9.65%	2.53%	6.85%	9.09%	

</TABLE>

The above table shows that total assets maturing or repricing within one year exceed liabilities maturing or repricing within one year by $29.7 million indicating that we are asset sensitive in this time horizon. However, the repricing and cash flows of various categories of assets and liabilities are subject to competitive and other influences that are beyond our control. Gap analysis also does not reflect the magnitude of interest rate changes on net interest income as a result of the various assets and liabilities shown as repriceable within twelve months. As a result, various assets and liabilities indicated above as maturing or repricing within a stated period may, in fact, mature or reprice in other periods or at different volumes.

The second interest rate risk measurement used is simulation analysis. We use a computer-based earnings simulation model to estimate the effects of various interest rate environments on the balance sheet structure and net interest income. The simulation model assesses the direction and magnitude of variations in net interest income resulting from potential changes in market interest rates. Key assumptions in the model include repayment speeds on various loan and investment assets, cash flows and maturities of interest-sensitive assets, cash flows and maturities of interest-sensitive liabilities, and changes in market conditions impacting loan and deposit pricing. We also include pricing caps and floors on discretionary priced liability products which limit both how low various checking and savings products could go under declining interest rates, as well as how high they could go in a rising interest rate environment. These caps and floors reflect our pricing philosophy in response to changing interest rates.

In running the simulation model, we first forecast the next twelve months of net interest income under an assumed environment of constant market interest rates. Next, immediate and parallel interest rate shocks are constructed in the model.

These rate shocks reflect changes of equal magnitude to all market interest rates. The next twelve months of net interest income are then forecast under each of the rate shock scenarios. The resulting change in net interest income is an indication of the sensitivity of our earnings to directional changes in market interest rates. This model is based solely on parallel changes in market rates and does not reflect the levels of interest rate risk that may arise from other factors such as changes in the spreads between key market rates or in the shape of the Treasury yield curve. The net interest income sensitivity is monitored by the Asset/Liability Committee which evaluates the results in conjunction with acceptable interest rate risk parameters. The quarterly rate simulation results are reported to the board of directors. The simulation also measures the change in the Economic Value of Equity. This represents the change in the net present value of our assets and liabilities under the same parallel shifts in interest rates, as calculated by discounting the estimated future cash flows using a market-based discount rate. Cash flow estimates incorporate anticipated changes in prepayment speeds of loans and securities.

The following table shows the suggested impact on net interest income over the next twelve months and Economic Value of Equity based on our balance sheet as of December 31,2002.

Changes in Economic Value of Equity and Net Interest Income

(Dollars in thousands)	Economic Value of Equity (EVE)	Percent Change	Net Interest Income	Percent Change
Change in Interest Rates				
200 basis point rise	$112,158	1.9%	$48,944	13.6%
100 basis point rise	112,557	2.2%	45,999	6.8%
Base-rate scenario	110,093	--	43,077	--
100 basis point decline	108,504	(1.4%)	40,176	(6.7)%
200 basis point decline	110,783	0.6%	35,434	(17.7)%

The net interest income fluctuations in the above table reiterate our asset sensitive position identified by the gap table. The acquisition of GBFC did not significantly impact our interest rate risk profile as Grand Bank's asset and liability make-up was similar to ours. If interest rates were to increase, this analysis suggests that we are well positioned for improvements in net interest income. Further, our balanced sensitivity in time horizons beyond one year results in little fluctuation in economic value of equity in the various rate shock scenarios.

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.

Recent Regulatory Developments

Federal legislation (the Gramm-Leach-Bliley Act of 1999) eliminates many federal and state law barriers to affiliations among banks and other financial services providers. The legislation, which took effect March 11, 2000, establishes a statutory framework pursuant to which full affiliations can occur between banks and securities firms, insurance companies, and other financial companies. The legislation provides some degree of flexibility in structuring these new affiliations, although certain activities may only be conducted through a holding company structure. The legislation preserves the role of the Board of Governors of the Federal Reserve System as the umbrella supervisor for holding companies, but incorporates a system of functional regulation pursuant to which the various federal and state financial supervisors will continue to regulate the activities traditionally within their jurisdictions. The legislation specifies that banks may not participate in the new affiliations unless they are well-capitalized, well-managed and maintain a rating under the Community Reinvestment Act of 1977 of at least satisfactory among all affiliates.

We have elected to become a financial holding company pursuant to Title I of the Gramm-Leach-Bliley Act, effective January 9, 2002. At the present time, we have no plans to engage in any of the expanded activities permitted under the new regulations.

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, are examples of inherently forward-looking statements in that they involve judgements 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.

Report of Independent Auditors

Board of Directors and Shareholders
Macatawa Bank Corporation
Zeeland, Michigan

[LOGO] CROWE CHIZEK

We have audited the accompanying consolidated balance sheets of Macatawa Bank Corporation as of December 31,2002 and 2001 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, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Macatawa Bank Corporation at December 31, 2002 and 2001, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

/s/ Crowe, Chizek and Company LLP

Crowe, Chizek and Company LLP

Grand Rapids, Michigan
January 24, 2003

Consolidated Balance Sheets

<TABLE>
<CAPTION>

December 31 (Dollars in thousands)	2002	2001
<S>	<C>	<C>
Assets		
Cash and due from banks	$ 47,874	$ 29,680
Federal funds sold	--	4,000
Short term investments	--	518
Total cash and cash equivalents	47,874	34,198
Securities available for sale, at fair value	86,109	63,606
Securities held to maturity (fair value 2002 - $4,140;2001 - $649)	4,061	710
Federal Home Loan Bank stock	5,391	3,782
Loans held for sale	18,726	4,571
Total loans	961,038	545,693
Allowance for loan losses	(13,472)	(7,699)
	947,566	537,994
Premises and equipment - net	25,751	14,850
Accrued interest receivable	4,411	3,247
Goodwill	23,915	--
Intangible assets	3,271	--
Other assets	9,508	7,245
Total assets	$1,176,583	$670,203
Liabilities and Shareholders' Equity		
Deposits		
Noninterest-bearing	$ 103,030	$ 60,829
Interest-bearing	817,843	465,363
Total	920,873	526,192
Federal Home Loan Bank advances	106,897	75,638
Other borrowings	4,936	--
Federal funds purchased	20,000	--
Accrued expenses and other liabilities	9,903	1,871
Total liabilities	$1,062,609	$603,701
Shareholders' equity		
Preferred stock, no par value, 500,000 shares authorized; no shares issued and outstanding		
Common stock, no par value, 20,000,000 shares authorized; 7,891,502 and 5,307,201 shares issued and outstanding at December 31,2002 and 2001, respectively	105,201	62,334
Retained earnings	5,931	3,180
Accumulated other comprehensive income	2,842	988
Total shareholders' equity	113,974	66,502
Total liabilities and shareholders' equity	$1,176,583	$670,203

</TABLE>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

<TABLE>
<CAPTION>

December 31 (Dollars in thousands)	2002	2001	2000
<S>	<C>	<C>	<C>
Interest income			
Loans, including fees	$52,687	$38,903	$31,787
Securities	4,565	3,782	2,551
Total interest income	57,252	42,685	34,338
Interest expense			
Deposits	18,273	17,009	15,213
Other	4,629	3,918	2,526
Total interest expense	22,902	20,927	17,739
Net interest income	34,350	21,758	16,599
Provision for loan losses	3,321	2,285	1,931
Net interest income after provision for loan losses	31,029	19,473	14,668
Noninterest income			
Service charges and fees	2,247	1,912	1,144
Mortgage production revenue	2,382	1,071	361
Trust fees	2,118	659	531
Other	576	41	16
Total noninterest income	7,323	3,683	2,052
Noninterest expense			
Salaries and benefits	12,838	8,359	6,865
Occupancy expense of premises	1,861	1,230	1,094
Furniture and equipment expense	2,161	1,580	1,244
Legal and professional fees	617	359	248
Advertising	722	537	366
Supplies	486	392	348
Data processing fees	829	715	561
Other	4,673	2,371	1,946
Total noninterest expense	24,187	15,543	12,672
Income before income tax expense	14,165	7,613	4,048
Income tax expense	4,652	2,497	699
Net income	$ 9,513	$ 5,116	$ 3,349
Basic earnings per share	$ 1.29	$ 1.08	$ 0.87
Diluted earnings per share	$ 1.27	$ 1.07	$ 0.87

</TABLE>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

<TABLE>
<CAPTION>

Years Ended December 31 (Dollars in thousands)	Common Stock	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
<S>	<C>	<C>	<C>	<C>
Balance, January 1, 2000	$ 36,883	$(1,961)	$ (396)	$ 34,526
Net income	--	3,349	--	3,349
Other comprehensive income (loss):				
Net change in unrealized gain (loss) on securities available for sale, net of tax of $256	--	--	497	

				497
Comprehensive income				3,846
Common stock issued upon exercise of stock options (750 shares)	7	--	--	7
Cash dividends at $.07 per share	--	(251)	--	(251)
Balance, December 31, 2000	36,890	1,137	101	38,128
Net income	--	5,116	--	5,116
Other comprehensive income (loss):				
Net change in unrealized gain (loss) on securities available for sale, net of tax of $457	--	--	887	887
Comprehensive income				6,003
Proceeds from sale of 1,610,000 shares of common stock, net of offering costs	23,677	--	--	23,677
Issued 107,474 shares in payment of 3% stock dividend	1,763	(1,766)	--	(3)
Common stock issued upon exercise of stock options (412 shares)	4	--	--	4
Cash dividends at $.28 per share	--	(1,307)	--	(1,307)
Balance, December 31, 2001	62,334	3,180	988	66,502
Net income	--	9,513	--	9,513
Other comprehensive income (loss):				
Net change in unrealized gain (loss) on derivative instruments, net of tax of $338	--	--	656	656
Net change in unrealized gain (loss) on securities available for sale, net of tax of $617	--	--	1,198	1,198
Comprehensive income				11,367
Issued 2,472,015 shares for acquisition of GBFC, adjusted for stock dividend	39,817	--	--	39,817
Conversion of GBFC stock options	987	--	--	987
Repurchase of 115,000 shares	(2,300)	--	--	(2,300)
Issued 212,355 shares in payment of 4% stock dividend	4,270	(4,277)	--	(7)
Common stock issued upon exercise of stock options (14,931 shares)	93	--	--	93
Cash dividends at $.34 per share	--	(2,485)	--	(2,485)
Balance, December 31, 2002	$105,201	$ 5,931	$2,842	$113,974

</TABLE>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

<TABLE>
<CAPTION>

Years Ended December 31 (Dollars in thousands)	2002	2001	2000
<S>	<C>	<C>	<C>
Cash flows from operating activities			
Net income	$ 9,513	$ 5,116	$ 3,349
Adjustments to reconcile net income to net cash from operating activities			
Depreciation and amortization	2,368	1,473	1,232
Provision for loan losses	3,321	2,285	1,931
Origination of loans for sale	(240,819)	(135,615)	(47,007)
Proceeds from sales of loans originated for sale	229,047	132,115	47,368
Gain on sales of loans	(2,382)	(1,071)	(362)
Net change in			
Accrued interest receivable and other assets	1,708	(5,289)	(3,010)
Accrued expenses and other liabilities	2,086	(454)	810

Net cash from operating activities	4,842	(1,440)	4,311
Cash flows from investing activities			
Loan originations and payments, net	(166,549)	(135,457)	(125,373)
Purchase of FHLB stock	(815)	(1,232)	(238)
Purchases of securities held to maturity	--	(710)	--
Purchases of securities available for sale	(29,083)	(46,690)	(19,598)
Maturities and calls of securities available for sale	13,584	33,030	--
Principal paydowns on investments	2,469	--	--
Cash received from acquisition of GBFC	21,390	--	--
Additions to premises and equipment	(12,109)	(3,992)	(3,534)
Net cash from investing activities	(171,113)	(155,051)	(148,743)
Cash flows from financing activities			
Net increase in deposits	148,621	127,575	119,227
Net increase (decrease) in short-term borrowings	20,000	(6,200)	6,200
Proceeds from other borrowings	4,936	--	4,000
Repayments on other borrowings	--	(4,000)	--
Proceeds from FHLB advances	29,328	35,166	56,000
Repayments on FHLB advances	(18,239)	(10,528)	(35,000)
Fractional shares purchased	(7)	(3)	--
Cash dividends paid	(2,485)	(1,307)	(251)
Shares repurchased	(2,300)	--	--
Proceeds from sale of stock and exercises of options	93	23,681	7
Net cash from financing activities	179,947	164,384	150,183

</TABLE>

See accompanying notes to consolidated financial statements

(Continued)

Consolidated Statements
of Cash Flows (Continued)

<TABLE>
<CAPTION>

Years Ended December 31 (Dollars in thousands)	2002	2001	2000
<S>	<C>	<C>	<C>
Net change in cash and cash equivalents	13,676	7,893	5,751
Beginning cash and cash equivalents	34,198	26,305	20,554
Ending cash and cash equivalents	$ 47,874	$34,198	$26,305
Supplemental disclosures of cash flow information			
Cash paid during the period for			
Interest	$ 22,525	$20,984	$17,100
Income taxes	5,450	3,178	1,975
Noncash investing and financing activities:			
GBFC acquisition:			
Securities acquired (including FHLB stock)	11,864		
Loans acquired	246,344		
Premises and equipment acquired	656		
Acquisition intangibles recorded	27,578		
Other assets acquired	4,142		
Deposits assumed	246,060		
Borrowings assumed	20,170		
Other liabilities assumed	4,940		
Value of common stock issued and converted stock options	40,804		

</TABLE>

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

NOTE 1 -- Summary of Significant Accounting Policies

Principles of Consolidation. The 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; Grand Bank, and its wholly-owned subsidiary, Grand Bank Mortgage Company; and Macatawa Bank Brokerage Services, after elimination of intercompany accounts and transactions.

Nature of Operations. Macatawa Bank Corporation (the "Company") became the bank holding company for Macatawa Bank on February 23, 1998. Macatawa Bank commenced operations on November 25, 1997. The Company completed an underwritten initial public offering of common stock on April 7,1998,which resulted in net proceeds to the Company of $14.1 million. On April 30,1999,the Company had another common stock offering and sold 1,188,043 shares,raising $14.6 million. The Company completed an additional common stock offering in July 2001 and sold 1,610,000 shares, raising $23.6 million. 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.

Both Macatawa Bank and Grand Bank are Michigan chartered banks with depository accounts insured by the Federal Deposit Insurance Corporation. The banks operate seventeen branch offices and three lending and operational service facilities, providing a full range of commercial and consumer banking and trust services in Kent County, Ottawa County,and northern Allegan County, Michigan. Effective January 1, 2003 Grand Bank was merged into Macatawa Bank with the combined bank named Macatawa Bank. Macatawa Bank Mortgage Company and Grand Bank Mortgage Company originate and sell residential mortgage loans into the secondary market on a servicing released basis. Macatawa Bank Brokerage Services was formed in October 2001 and gained approval in June 2002 from NASD to commence operations as a broker/dealer. Macatawa Bank Brokerage Services provides various brokerage services including discount brokerage, personal financial planning and consultation regarding individual stocks and mutual funds.

The Company elected to become a financial holding company pursuant to Title I of the Gramm-Leach-Bliley Act, effective January 9, 2002. At the present time, the Company has no plans to engage in any of the expanded activities permitted under the new regulations.

Use of Estimates. To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided,and future results could differ. The allowance for loan losses, the fair value of intangible assets 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.

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. Gains and losses on sales are based on the amortized cost of the security sold. Securities are written down to fair value when a decline in fair value is not temporary.

Loans. Loans are reported at the principal balance outstanding, net of the allowance for loan losses,and charge-offs. 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 reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term. 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). Payments received on such loans are reported as principal reductions.

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.

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.

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 $388,000 in foreclosed assets at December 31, 2002 and $66,000 in foreclosed assets at December 31, 2001.

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 (or accelerated) method with useful lives ranging from three to five 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.

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.

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

Stock Compensation. Employee compensation expense under stock option plans is reported using the intrinsic value method. No compensation cost related to stock options was recognized during 2002, 2001 or 2000, 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). The pro forma effect may increase in the future if more options are granted.

	2002	2001	2000
Net income as reported	$9,513	$5,116	$3,349
Pro forma net income	9,299	5,080	3,280
Basic earnings per share as reported	1.29	1.08	.87
Pro forma basic earnings per share	1.26	1.07	.86

Diluted earnings per share as reported	1.27	1.07	.87
Pro forma diluted earnings per share	1.25	1.06	.85
Weighted-average fair value of options granted during the period	3.48	4.84	2.38

The pro forma effects are computed using option pricing models, using the following weighted-average assumptions as of grant date.

	2002	2001	2000
Risk-free interest rate	4.83%	4.78%	5.26%
Expected option life	7 years	7 years	7 years
Expected stock price volatility	7.29%	21.58%	26.87%
Dividend yield	1.78%	1.79%	2.00%

Comprehensive Income. Comprehensive income consists of net income and other comprehensive income. Other comprehensive income 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 Banks, 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.

Off Balance Sheet Financial Instruments. Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and standby 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.

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

Derivative Instruments and Hedging Activities. All derivative instruments are recorded at their fair values. If derivative instruments are designated as hedges of fair values, both the change in the fair value of the hedge and the hedged item are included in current earnings. Fair value adjustments related to cash flow hedges are recorded in other comprehensive income and reclassified to earnings when the hedged transaction is reflected in earnings. Ineffective portions of hedges are reflected in income currently.

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 over their estimated useful lives.

Newly Issued But Not Yet Effective Accounting Standards. New accounting standards on asset retirement obligations, restructuring activities and exit costs, operating leases, and early extinguishment of debt were issued in 2002. Management determined that when the new accounting standards are adopted in 2003 they will not have a material impact on the Company's financial condition or results of operations.

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.

NOTE 2 -- Acquisition

On April 1, 2002, the Company completed the acquisition of Grand Bank Financial Corporation ("GBFC"), a commercial bank headquartered in Grand Rapids, Michigan. Under the terms of this transaction, the Company acquired all of the outstanding stock of GBFC in exchange for approximately 2.5 million common shares, adjusted for the 4.0%stock dividend paid in May 2002. The value of the common shares issued was determined using the Company's quoted market price per share at the time the terms of the acquisition agreement were agreed to and announced. Further, options to acquire GBFC stock were converted to options to acquire Company stock. The value of these options for purposes of determining the total cost to the Company for the acquisition was approximately $1.0 million. Accordingly, the total cost of the transaction considering common stock and converted options was approximately $40.8 million.

The acquisition was accounted for using the purchase method of accounting, and accordingly, the purchase price was allocated to the assets purchased and the liabilities assumed based upon the estimated fair values at the date of acquisition. The purchase accounting fair value adjustments are being amortized under various methods and over the lives of the corresponding assets and liabilities. Goodwill recorded for the acquisition amounted to $23.9 million. Intangible assets recorded for the acquisition that are subject to amortization were as follows in thousands of dollars as of December 31, 2002:

	Gross Amount	Accumulated Amortization
Core deposits	$3,185	$286
Trust relationships	478	106

The amount of goodwill recorded in this transaction relative to the smaller amounts of identified intangible assets reflects that the value of GBFC related primarily to the foundation it provides to further build our presence in the Grand Rapids market. The value of this foundation lies with the GBFC workforce, their customer service orientation and their relationships within the community. The amount of the core deposits intangible asset recorded was small relative to the total purchase price and reflects that the GBFC deposit portfolio was weighted towards higher interest rate account types.

Both the core deposits and trust relationships intangibles are being amortized on an accelerated basis over a period of ten years. Amortization expense through December 31, 2002 was $392,000. Estimated amortization expense for the next five years is as follows in thousands of dollars:

2003	$484
2004	440
2005	406
2006	378
2007	340

In conjunction with the acquisition, the fair values of significant assets and liabilities assumed were as follows as of April 1, 2002, stated in thousands of dollars:

Cash and cash equivalents	$ 21,390
Securities	11,070
Loans	246,344
Acquisition intangibles	27,578
Deposits	(246,060)
Other borrowings	(20,170)

The consolidated statements of income reflect the operating results of GBFC since the effective date of the acquisition. The following table presents pro forma information for year ended December 31 as if the acquisition of GBFC had occurred at the beginning of both 2002 and 2001. The pro forma information includes adjustments for the amortization of intangibles arising from the transaction, the elimination of acquisition related expenses, and the related income tax effects. The pro forma financial information is not necessarily indicative of the results of operations as they would have been, had the transactions been effected on the assumed dates.

Years Ended December 31 (Dollars in thousands) Pro Forma	2002	2001
Interest income	$60,780	$58,778
Interest expense	24,496	28,371
Net interest income	36,284	30,407
Provision for loan losses	3,694	2,755
Net interest income after provision	32,590	27,652
Noninterest income	8,336	7,149

Noninterest expense	26,107	23,733
Income before federal income tax	14,819	11,068
Federal income tax expense	4,865	3,530
Net income	$ 9,954	$ 7,538
Basic earnings per share	$ 1.25	$ 1.04
Diluted earnings per share	$ 1.23	$ 1.04

NOTE 3 -- Cash and Due from Banks

The Company was required to have $1,290,000 and $8,352,000 of cash on hand or on deposit with the Federal Reserve Bank to meet regulatory reserve and clearing requirements at year-end 2002 and 2001. These balances do not earn interest.

NOTE 4 -- Securities

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

	Amortized Cost	Unrealized Gains	Gross Unrealized Losses	Gross Fair Values
Available for Sale 2002				
U.S.Treasury securities and obligations of U.S. Government agencies	$67,747	$2,752	$ (1)	$70,498
State and municipal bonds	15,050	611	(50)	15,611
	$82,797	$3,363	$(51)	$86,109
Held to Maturity 2002				
U.S.Treasury securities and obligations of U.S. Government agencies	$ 1,369	$ 12	$ --	$ 1,381
State and municipal bonds	2,692	79	(12)	2,759
	$ 4,061	$ 91	$ (12)	$ 4,140
Available for Sale 2001				
U.S.Treasury securities and obligations of U.S. Government agencies	$53,875	$1,412	$ --	$55,287
State and municipal bonds	8,234	112	(27)	8,319
	$62,109	$1,524	$ (27)	$63,606
Held to Maturity 2001				
State and municipal bonds	$ 710	$ --	$ (61)	$ 649

Contractual maturities of debt securities at December 31, 2002 were as follows (dollars in thousands):

<TABLE>
<CAPTION>

	Held to Maturity Securities		Available for Sale Securities	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
<S>	<C>	<C>	<C>	<C>
Due in one year or less	$1,292	$1,304	$ 4,069	$ 4,168
Due from one to five years	76	78	60,513	63,159
Due from five to ten years	641	628	6,855	7,155
Due after ten years	2,052	2,130	11,360	11,627
	$4,061	$4,140	$82,797	$86,109

</TABLE>

There were no sales of securities for the years ended December 31, 2002, 2001 and 2000.

At December 31, 2002 and 2001, securities with a carrying value of approximately $3,052,000 and $1,000,000 were pledged as security for public deposits and for other purposes required or permitted by law. In addition, securities totaling $70,768,000 and $54,233,000 at December 31, 2002 and 2001 were used as collateral for advances from the Federal Home Loan Bank.

NOTE 5 -- Loans

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

	2002	2001
Commercial	$341,370	$269,993
Commercial mortgage	356,310	133,428
Residential mortgage	133,843	67,655
Consumer	129,515	74,617
	$961,038	$545,693

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

	2002	2001	2000
Beginning balance	$ 7,699	$5,854	$3,995
Balances from GBFC acquisition	3,464	--	--
Provision for loan losses	3,321	2,285	1,931
Loans charged-off	(1,271)	(513)	(87)
Recoveries	259	73	15
Ending balance	$13,472	$7,699	$5,854

Impaired loans were as follows (dollars in thousands):

	2002	2001
Loans with no allocated allowance for loan losses	$ --	$1,798
Loans with allocated allowance for loan losses	2,477	1,821
	$2,477	$3,619
Amount of the allowance for loan losses allocated	$ 883	$ 539

	2002	2001	2000
Average of impaired loans during the period	$2,594	$1,013	$472
Interest income recognized during impairment	144	51	33
Cash-basis interest income recognized	162	62	27

NOTE 6 -- Premises and Equipment -- Net

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

	2002	2001
Land	$ 5,410	$ 3,819
Building	9,399	6,596
Leasehold improvements	1,870	1,286
Furniture and equipment	9,857	6,668
Construction in progress	6,224	116
	32,760	18,485
Less accumulated depreciation	(7,009)	(3,635)
	$25,751	$14,850

Depreciation expense was $1,872,000, $1,406,000 and $1,268,000 for each of the years ending December 31, 2002, 2001 and 2000.

The Banks lease certain office and branch premises and equipment under operating lease agreements. Total rental expense for all operating leases aggregated $648,000, $311,000 and $244,000 for each of the years ending December 31, 2002, 2001 and 2000. Future minimum rentals under noncancelable operating leases as of December 31, 2002 are as follows (dollars in thousands):

2003	$491
2004	222
2005	140
2006	11
2007	--
	$864

NOTE 7 -- Deposits
Deposits at year-end were as follows (dollars in thousands):

	2002	2001
Noninterest-bearing demand	$103,030	$ 60,829
Money market	237,636	175,835
NOW and Super NOW	140,822	71,544
Savings	28,730	18,397
Certificates of deposit	410,655	199,587
	$920,873	$526,192

The following table depicts the maturity distribution of certificates of deposits at December 31, 2002 (dollars in thousands):

2003	$202,564
2004	113,576
2005	66,999
2006	6,850
2007	20,438
Thereafter	228
	$410,655

The Banks had approximately $257,516,000 and $100,504,000 in time certificates of deposit, which were in denominations of $100,000 or more at December 31, 2002 and 2001.

Brokered deposits totaled approximately $107,083,000 and $11,504,000 at December 31, 2002 and 2001. At December 31, 2002 and 2001, brokered deposits had interest rates ranging from 2.10% to 7.25% and 3.0% to 7.30% respectively, and maturities ranging from one month to three years.

NOTE 8 -- Federal Home Loan Bank Advances
At year-end, advances from the Federal Home Loan Bank were as follows (dollars in thousands):

	2002	2001
Maturities from March 2003 through December 2010, rates from 1.80% to 6.95%, averaging 5.19% at December 31, 2002	$106,897	
Maturities from February 2002 through December 2010, rates from 2.76% to 6.68%, averaging 5.30% at December 31, 2001		$75,638

Each advance was payable at its maturity date and contains a prepayment penalty. The advances were collateralized by securities totaling $70,768,000 and $54,233,000 and first mortgage loans totaling $95,530,000 and $65,496,000 under a blanket lien arrangement at December 31, 2002 and 2001. Advances with put options held by the Federal Home Loan Bank amounted to $41,000,000 at December 31, 2002 and 2001.

Maturities over the next five years are as follows (dollars in thousands):

2003	$ 33,454
2004	22,929
2005	17,500
2006	--
2007	--
Thereafter	33,014
	$106,897

NOTE 9 -- Other Borrowings
The Company has a $10,000,000 credit facility to provide liquidity for the parent company and additional capital for the bank subsidiaries as necessary. Maturity dates and interest rates on advances of this credit facility are as follows (dollars in thousands):

Maturity Date	Interest Rate	2002	2001
April 30, 2003	2.92%	$4,500	$ --

These borrowings were secured with 235,000 shares of common stock of Macatawa Bank.

NOTE 10 -- Related Party Transactions

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

	2002	2001
Beginning balance	$ 14,215	$ 14,239
Balances from Grand Bank acquisition	1,974	--
New loans and renewals	15,151	8,835
Repayments and renewals	(10,681)	(8,525)
Effect of changes in related parties	--	(334)
Ending balance	$ 20,659	$ 14,215

Deposits from principal officers, directors, and their affiliates at December 31, 2002 and 2001 were $5,758,000 and $5,482,000.

NOTE 11 -- Stock Options

Options to buy stock are granted to officers and employees under the Employee Stock Option Plan (the Employees' Plan), which provides for issue of up to 520,000 options. Options are also granted to directors under the Directors' Stock Option Plan (the Directors' Plan), which provides for issuance of up to 146,848 options. In conjunction with the acquisition of Grand Bank Financial Corporation during the first quarter 2002, an additional 86,040 in options were authorized to exchange existing GBFC options outstanding. The exercise price is the market price at the date of grant for both plans. The maximum option term is ten years with options vesting over a one-year period for both the Employees' Plan and the Directors' Plan.

A summary of the activity in the plans is as follows:

	Options Outstanding	Weighted Average Exercise Price
Balance at January 1, 2000	150,282	$12.19
Granted	25,280	11.81
Exercised	(803)	9.34
Forfeited	--	--
Balance at December 31, 2000	174,759	12.15
Granted	26,322	16.96
Exercised	(428)	9.62
Forfeited	(696)	10.91
Balance at December 31, 2001	199,957	12.80
Granted	104,830	19.31
GBFC options exchanged	86,040	4.34
Exercised	(15,256)	6.07
Forfeited	(5,720)	19.68
Balance at December 31, 2002	369,851	$12.85

Options outstanding at year-end 2002 were as follows:

<TABLE>
<CAPTION>

	Outstanding			Exercisable	
Range of Exercise Prices	Number	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>
$2.50 - $5.00	56,262	2.0	$ 3.16	56,262	$ 3.16
$5.01 - $10.00	85,265	5.6	9.09	85,265	9.09
$10.01 - $15.00	56,024	7.1	12.80	56,024	12.80
$15.01 - $21.00	172,300	8.7	17.90	73,188	15.96
Outstanding at year end	369,851	6.7	$12.85	270,739	$10.48

</TABLE>

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 1.0% to 15.0% of their salary subject to statutory limitations. The Company makes matching contributions equal to 100.0% of the first 3.0% of employee contributions. Effective July 1,2002 the plan was amended to establish additional Company matching contributions equal to 50.0% of employee contributions in excess of 3.0% and up to 6.0%. The Company's contribution for the years ended December 31,2002 and 2001 were approximately $294,000 and $165,000.

The Company sponsors an employee stock purchase plan which allows employees to defer after-tax payroll dollars and purchase Company stock on a quarterly basis. The Company has reserved 25,000 shares of common stock to be issued and purchased under the plan, however, the plan allows for shares to be purchased directly from the Company or on the open market.

Grand Bank has a defined benefit pension plan covering substantially all of its employees.This plan was curtailed in conjunction with the acquisition of Grand Bank effective April 1, 2002. Financial information regarding the plan was as follows subsequent to the acquisition through and as of December 31, 2002.

Benefit obligation at year-end	$(833,060)
Fair value of plan assets at year-end	805,950
Funded status	$ (27,110)
Net benefit cost	$ (8,567)
Employer contributions	165,564
Benefits paid	521,581

The weighted average discount rate used in determining the actuarial present value of the benefit obligation was 7.0% and the weighted average expected return on plan assets was 8.0%.

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):

<TABLE>
<CAPTION>

<S>	2002 <C>	2001 <C>	2000 <C>
Basic earnings per share			
Net income	$ 9,513	$ 5,116	$ 3,349
Weighted average common shares outstanding	7,352,671	4,757,578	3,844,201
Basic earnings per share	$ 1.29	$ 1.08	$ 0.87
Diluted earnings per share			
Net income	$ 9,513	$ 5,116	$ 3,349
Weighted average common shares outstanding	7,352,671	4,757,578	3,844,201
Add: Dilutive effects of assumed exercises of stock options	112,589	38,414	15,292
Weighted average common and dilutive potential common shares outstanding	7,465,260	4,795,992	3,859,493
Diluted earnings per share	$ 1.27	$ 1.07	$ 0.87

</TABLE>

Stock options for 39,000, 24,180, and 81,411 shares of common stock were not considered in computing diluted earnings per share for December 31, 2002, 2001 and 2000 because they were antidilutive.

NOTE 14 -- Federal Income Taxes

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

	2002	2001	2000
Current	$5,348	$3,139	$1,889
Deferred benefit	(696)	(642)	(534)
Change in valuation allowance	--	--	(656)
	$4,652	$2,497	$ 699

The difference between the financial statement tax expense and amount computed by applying the statutory federal tax rate of 34.0% to pretax income was reconciled as follows (dollars in thousands):

	2002	2001	2000
Statutory rate applied to income before taxes	$4,816	$2,588	$1,376
Add (deduct)			
Tax-exempt interest income	(187)	(90	(24)
Change in valuation allowance	--	--	(656)
Other	23	(1)	3
	$4,652	$2,497	$ 699

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

	2002	2001
Deferred tax asset		
Allowance for loan losses	$ 4,364	$2,472
Accrued expenses	321	38
Organization costs	18	14
Other	30	21
	4,733	2,545
Deferred tax liabilities		
Depreciation	(401)	(338)
Purchase accounting adjustments	(1,031)	--
Unrealized gain on securities available for sale	(1,126)	(509)
Unrealized gain on derivative instruments	(338)	--
Accretion	(14)	(16)
Other	(20)	--
	(2,930)	(863)
Net deferred tax asset	$ 1,803	$1,682

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, 2002 or 2001.

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	2002	2001
Commitments to make loans	$ 58,636	$ 83,272
Unused lines of credit and letters of credit	307,595	187,422

Approximately 34.0% 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 -- 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 modeling. The policies provide for the use of derivative instruments and hedging activities to aid in managing interest rate risk 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.

In May 2002,the Company entered into a three-year interest rate swap arrangement that converted the variable rate cash inflows on certain loans to fixed rates of interest. This interest rate swap bears a notional amount of $20 million, pays interest to the Company at a fixed rate, and requires interest payments from the Company at a variable rate. It is anticipated that approximately $276,000,net of tax, of unrealized gains on this cash flow hedge at December 31,2002 will be reclassified to earnings over the next twelve months.

NOTE 17 -- Regulatory Matters

The Company and the Banks 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. For the Banks, if only adequately capitalized, regulatory approval is required to accept brokered deposits; and if undercapitalized, capital distributions are limited, as is asset growth and expansion, and plans for capital restoration are required.

At December 31, 2002 and 2001, actual capital levels (dollars in thousands) and minimum required levels were:

<TABLE>
<CAPTION>

	Actual		Minimum Required For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<S>	<C>	<C>	<C>	<C>	<C>	<C>
December 31, 2002						
Total capital (to risk weighted assets)						
Consolidated	$97,449	9.9%	$78,860	8.0%	$98,576	10.0%
Macatawa Bank	71,618	10.0	57,197	8.0	71,496	10.0
Grand Bank	28,879	10.7	21,628	8.0	27,035	10.0
Tier 1 capital (to risk weighted assets)						
Consolidated	85,127	8.6	39,430	4.0	59,145	6.0
Macatawa Bank	62,681	8.8	28,599	4.0	42,898	6.0
Grand Bank	21,000	7.8	10,814	4.0	16,221	6.0
Tier 1 capital (to average assets)						
Consolidated	85,127	7.6	44,657	4.0	55,821	5.0
Macatawa Bank	62,681	7.7	32,628	4.0	40,785	5.0
Grand Bank	21,000	7.1	11,879	4.0	14,849	5.0
December 31, 2001						
Total capital (to risk weighted assets)						
Consolidated	$72,573	12.9%	$45,175	8.0%	$56,468	10.0%
Macatawa Bank	58,264	10.3	45,159	8.0	56,449	10.0
Tier 1 capital (to risk weighted assets)						
Consolidated	65,514	11.6	22,587	4.0	33,881	6.0
Macatawa Bank	51,208	9.1	22,579	4.0	33,869	6.0
Tier 1 capital (to average assets)						
Consolidated	65,514	10.1	25,838	4.0	32,297	5.0
Macatawa Bank	51,208	7.9	25,830	4.0	32,287	5.0

</TABLE>

The Banks were categorized as well capitalized at December 31, 2002 and 2001.

Banking regulations limit capital distributions. Generally, capital distributions are limited to undistributed net income for the current and prior two years. At December 31, 2002 and 2001, approximately $10,947,000 and

$1,815,000 was available to pay dividends to the holding company.

NOTE 18 -- Fair Values of Financial Instruments
Carrying amount and estimated fair values of financial instruments were as follows at year-end (dollars in thousands):

<TABLE>
<CAPTION>

	2002		2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<S>	<C>	<C>	<C>	<C>
Financial assets				
Cash and cash equivalents	$ 47,874	$ 47,874	$ 34,198	$ 34,198
Securities available for sale	86,109	86,109	63,606	63,606
Securities held to maturity	4,061	4,140	710	649
Federal Home Loan Bank stock	5,391	5,391	3,782	3,782
Loans held for sale	18,726	18,781	4,571	4,571
Loans, net	947,566	958,531	537,994	542,169
Accrued interest receivable	4,411	4,411	3,247	3,247
Financial liabilities				
Deposits	(920,873)	(928,180)	(526,192)	(528,249)
Other borrowings	(4,936)	(4,936)	--	--
Federal funds purchased	(20,000)	(20,000)	--	--
Federal Home Loan Bank advances	(106,897)	(119,110)	(75,638)	(82,432)
Accrued interest payable	(2,858)	(2,858)	(1,266)	(1,266)
Interest rate swaps	993	993	--	--

</TABLE>

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, 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.

NOTE 19 -- Condensed Financial Statements (Parent Company Only)
Following are condensed parent company only financial statements (dollars in thousands):

Condensed Balance Sheets	2002	2001
Assets		
Cash and cash equivalents	$ 910	$14,011
Investment in subsidiaries	112,996	52,296
Total loans	4,500	--
Other assets	105	196
Total assets	$118,511	$66,503
Liabilities and Shareholders' Equity		
Other borrowings	$ 4,500	$ --
Other liabilities	37	1
Total liabilities	4,537	1
Shareholders' equity		
Common stock	105,201	62,334
Retained earnings	5,931	3,180
Accumulated other comprehensive income	2,842	988
Total shareholders' equity	113,974	66,502

Total liabilities and shareholders' equity	$118,511	$66,503

Condensed Statements of Income	2002	2001	2000
Income			
Interest income	$ 121	$ --	$ --
Dividends from subsidiaries	1,000	625	--
Total income	1,121	625	--
Expense			
Interest expense	120	--	--
Other expense	435	387	231
Total expense	555	387	231
Income (loss) before income tax and equity in undistributed net income of subsidiaries	566	238	(231)
Equity in undistributed net income of subsidiaries	8,799	4,746	3,434
Income before income tax	9,365	4,984	3,203
Federal income tax expense (benefit)	(148)	(132)	(146)
Net income	$9,513	$5,116	$3,349

<TABLE>
<CAPTION>

Condensed Statements of Cash Flows (Dollars in thousands)	2002	2001	2000
<S>	<C>	<C>	<C>
Cash flows from operating activities			
Net income	$ 9,513	$ 5,116	$ 3,349
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Equity in undistributed earnings of subsidiaries	(8,799)	(4,746)	(3,434)
(Increase) decrease in other assets	91	(51)	(146)
Increase (decrease) in other liabilities	36	(2)	3
Net cash from operating activities	841	317	(228)
Cash flows from investing activities			
Origination of loan to subsidiary	(4,500)	--	--
Investment in subsidiaries	(9,243)	(5,100)	(8,000)
Net cash from investing activities	(13,743)	(5,100)	(8,000)
Cash flows from financing activities			
Other borrowings	4,500	(4,000)	4,000
Proceeds from issuance of common stock	93	23,681	7
Fractional shares purchased	(7)	(3)	--
Shares repurchased	(2,300)		
Cash dividends paid	(2,485)	(1,307)	(251)
Net cash from financing activities	(199)	18,371	3,756
Net change in cash and cash equivalents	(13,101)	13,588	(4,472)
Cash and cash equivalents at beginning of year	14,011	423	4,895
Cash and cash equivalents at end of year	$ 910	$14,011	$ 423

</TABLE>

NOTE 20 -- Quarterly Financial Data (Unaudited)

<TABLE>
<CAPTION>

				Earnings Per Share	
(Dollars in thousands except per share data)	Interest Income	Net Interest Income	Net Income	Basic	Fully Diluted
<S>	<C>	<C>	<C>	<C>	<C>
2002					
First quarter	$10,522	$6,157	$1,514	$0.28	$0.27
Second quarter	15,000	8,814	2,350	0.29	0.29
Third quarter	15,810	9,474	2,735	0.34	0.34
Fourth quarter	15,918	9,902	2,915	0.37	0.36
2001					
First quarter	$10,280	$4,831	$1,091	$0.29	$0.28

Second quarter	10,639	5,195	1,202	0.29	0.29
Third quarter	11,108	5,675	1,351	0.25	0.24
Fourth quarter	10,658	6,057	1,472	0.27	0.26

</TABLE>

Board of Directors and Management Team

Board of Directors of Macatawa Bank

Benj.A. Smith III*	Chairman/CEO - Macatawa Bank Corporation President - Smith & Associates
Philip J. Koning*	President/CEO - Macatawa Bank
James L. Batts	Vice Chairman - Belfry Development Corporation
G.Thomas Boylan*	President - Light Metals Corporation
Jessie F. Dalman	Former Representative Michigan - House of Representatives
Robert Den Herder*	President - Premovation Audio
Wayne J. Elhart	President - Elhart Pontiac GMC Jeep; Vice President - Elhart Dodge Nissan
James L. Jurries	President - Jurries Capital Management, Inc.
John F. Koetje*	Partner - John F.Koetje and Associates

* Also serve as director of Macatawa Bank Corporation

Board of Directors of Grand Bank

Thomas Wesholski	Chairman/CEO - Grand Bank
Henry Bouma	Chairman - Lumbermen's, Inc.
Lawrence Leigh	President - Leigh's of Western Michigan, Inc.
Gary Vos	Chairman - Dan Vos Construction
Bill Hardiman	Mayor - City of Kentwood
Douglas F.Meijer	Co-Chairman - Meijer, Inc.
J.C.Huizenga	Chairman - Westwater Group
Owen Pyle Jr.	President - Concord Enterprises, Inc.
Birgit M. Klohs	President - The Right Place Program
Dana E. Sommers	President - The Grotenhuis Group
Harvey J. Koning	President - Grand Oldsmobile
Gordon L. Stauffer	President - Northland Corporation

Bank Management Team

Philip J. Koning	President/CEO - Macatawa Bank
Thomas Wesholski	Chairman/CEO - Grand Bank
Kenneth J. Hoexum	President/COO - Grand Bank
Jon Swets	Senior Vice President/Chief Financial Officer - Macatawa Bank
Ray D. Tooker	Senior Vice President Loan Administration - Macatawa Bank
Jill A. Walcott	Senior Vice President Branch Administration - Macatawa Bank
Richard D. Wieringa	Senior Vice President Commercial Loans - Macatawa Bank
Brian Downs	Senior Vice President Trust - Grand Bank
Vicki K. DenBoer	Vice President Consumer Loans - Macatawa Bank
Linda Elenbaas	Vice President Operations and Technology - Macatawa Bank
Steven L. Germond	Vice President/Financial Officer - Grand Bank
Colette S. Neumann	Vice President Controller - Macatawa Bank
Judith A. Swanson	Vice President Human Resources - Macatawa Bank
Sandy Tanis	Vice President Trust Operations - Macatawa Bank

Macatawa Bank Branch Locations

Allendale	6299 Lake Michigan Drive - 616.895.9892
Byron Center	8233 Byron Center Avenue, Suite Q - 616.583.2244
Douglas	132 South Washington - 269.857.8398
Grand Rapids	4590 Cascade Road, SE - 616.942.3710
Grandville	4471 Wilson Avenue, SW - 616.531.2209
Hamilton	4758 136th Avenue - 269.751.2505
Holland	139 East 8th Street - 616.820.1320 701 Maple Avenue - 616.820.1330 489 Butternut Drive - 616.786.9555 699 East 16th Street - 616.393.8527 20 E.Lakewood Boulevard - 616.594.2100
Hudsonville	3526 Chicago Drive - 616.379.1375
Jenison	2020 Baldwin Street - 616.662.5419
Wyoming	5271 Clyde Park Avenue, SW - 616.531.0051
Zeeland	51 East Main - 616.748.9491 41 North State Street - 616.748.9847

Grand Bank Location

Grand Rapids	126 Ottawa Avenue, NW - 616.235.7000

Administrative Offices

160 South Waverly Road, Holland - 616.820.1444

Trust Department
106 East 8th Street, Holland - 616.820.1350
126 Ottawa Avenue, NW, Grand Rapids - 616.235.7000

Commercial Lending Center
348 South Waverly Road, 2-D, Holland - 616.820.1438

Retail Lending Center
348 South Waverly Road, 2-A, Holland - 616.393.0583

Corporate Data

Quarterly Stock Price Information

The Company's common stock has been quoted on the Nasdaq National Market since May 17, 2001. Previous to that, the stock was traded on the Nasdaq SmallCap Market. High and low sales prices (as reported on the Nasdaq National Market) for each quarter for the years ended December 31, 2002 and 2001, are set forth in the table below. This information has been restated for the 3% stock dividend paid in May 2001 and the 4% stock dividend paid in May 2002.

	2002		2001	
	High	Low	High	Low
Quarter				
First Quarter	$20.87	$18.13	$14.00	$12.60
Second Quarter	$21.74	$18.46	$17.31	$13.53
Third Quarter	$21.50	$17.00	$17.55	$15.32
Fourth Quarter	$20.85	$17.14	$18.51	$15.14

On February 26, 2003 there were approximately 749 owners of record and, in addition, approximately 0000 beneficial owners of the Company's common stock.

The Company declared its first cash dividend, amounting to $.07 per share, during the fourth quarter of 2000. Quarterly cash dividends totaling $.28 were paid during 2001, and a 3% stock dividend was declared during the second quarter of 2001. Quarterly cash dividends totaling $.34 were paid during 2002, and a 4% stock dividend was declared during the second quarter of 2002.

Shareholder Information

Administrative Offices   10717 Paw Paw Drive, Holland, MI 49424 - 616.820.1444

Annual Meeting   Ridgepoint Community Church, 340 - 104th Avenue
Holland, MI 49423
Date: April 24, 2003
Time: 10:00 a.m.

Investor Relations and Form 10-K

Questions regarding corporate earnings releases, financial information, and other investor data should be addressed to:

Macatawa Bank
10717 Paw Paw Drive
Holland, MI 49424
616.820.1435

Forms 10-K, 10-Q and others can be accessed through our website at www.macatawabank.com.

Transfer Agent   Registrar and Transfer Company
10 Commerce Drive,
Cranford, New Jersey 07016-3572
1.800.368.5948
E-mail Info@RTCo.com
Internet www.RTCO.com

General Counsel   Varnum, Riddering, Schmidt & Howlett LLP

Independent Auditor   Crowe, Chizek and Company LLP

Online Information

For the most current news releases and Macatawa Bank Corporation financial reports and product information, visit our website at www.macatawabank.com.

Exhibit 21 - Subsidiaries of Registrant

Macatawa Bank - 100% owned
Incorporated as a Michigan Banking Corporation
51 E. Main Street
Zeeland, Michigan 49464

Grand Bank - 100% owned
(Grand Bank was merged into Macatawa Bank
effective January 1, 2003)

Macatawa Bank Brokerage Services, Inc. - 100% owned
Incorporated as a Michigan corporation
160 South Waverly Road
Holland, Michigan 49423

Macatawa Bank Mortgage Company
100% owned by Macatawa Bank
Incorporated as a Michigan corporation
160 South Waverly Road
Holland, Michigan 49423

Grand Bank Mortgage Company
100% owned by Macatawa Bank
(In process of being merged into Macatawa Bank
Mortgage Company)

Macatawa Financial Services Group, Inc. - 100% owned
Incorporated as a Michigan corporation effective January 2003

EXHIBIT 23

INDEPENDENT AUDITOR'S CONSENT

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 and File No. 333-88574) of our report dated January 24, 2003, on our audit of the Macatawa Bank Corporation consolidated financial statements as of December 31, 2002 and 2001, and for the years ended December 31, 2002, 2001 and 2000, which report is included in this Annual Report on Form 10-K.

Grand Rapids, Michigan
March 19, 2003

/s/ Crowe, Chizek and Company LLP
Crowe, Chizek and Company LLP

EXHIBIT 99-1

I, Benj. A. Smith III, Chief Executive Officer of Macatawa Bank Corporation, 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, 2002 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, 2002 fairly presents, in all material respects, the financial condition and results of operations of Macatawa Bank Corporation.

Dated: March 20, 2003

/s/ Benj. A. Smith, III

Benj. A. Smith, III
Chief Executive Officer

EXHIBIT 99-2

I, Jon Swets, Chief Financial Officer of Macatawa Bank Corporation, 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, 2002 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, 2002 fairly presents, in all material respects, the financial condition and results of operations of Macatawa Bank Corporation.

Dated: March 20, 2003

/s/ Jon Swets

Jon Swets
Chief Financial Officer