

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2002

OR

TRANSITION REPORT UNDER 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 issuer as specified in its charter)

Michigan

\_\_\_\_\_  
(State of other  
jurisdiction of  
incorporation or  
organization)

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

**160 South Waverly Road, Holland, Michigan 49423**

(Address of principal executive offices) (Zip Code)

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

Check whether the issuer: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No \_\_\_\_\_

The number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 7,891,508 shares of the Company's Common Stock (no par value) were outstanding as of November 8, 2002.

---

**INDEX**

Page  
Number(s)

Part I. Financial Information (unaudited):

<u>Item 1.</u>	
Consolidated Financial Statements.....	3
Notes to Consolidated Financial Statements.....	8
<u>Item 2.</u>	
Management's Discussion and Analysis of Financial Condition and Results of Operations.....	17
<u>Item 3.</u>	
Quantitative and Qualitative Disclosures About Market Risk.....	24
<u>Item 4.</u>	
Controls and Procedures.....	26
Part II. Other Information:	
<u>Item 1.</u>	
Legal Proceedings.....	27
<u>Item 2.</u>	
Changes in Securities and Use of Proceeds.....	27
<u>Item 3.</u>	
Defaults Upon Senior Securities.....	27
<u>Item 4.</u>	
Submission of Matters to a Vote of Security Holders.....	27
<u>Item 5.</u>	
Other Information.....	27
<u>Item 6.</u>	
Exhibits and Reports on Form 8-K.....	27
Signatures.....	28

**Part I Financial Information**  
**Item 1.**

MACATAWA BANK CORPORATION  
CONSOLIDATED BALANCE SHEETS  
As of September 30, 2002 (unaudited) and December 31, 2001

(dollars in thousands except share data)	September 30, 2002 ----- (unaudited)	December 31, 2001 -----
<b>ASSETS</b>		
Cash and due from banks.....	\$35,238	\$29,680
Federal funds sold.....	---	4,000
Short-term investments.....	---	518
	-----	-----
Cash and cash equivalents.....	35,238	34,198
Securities available for sale.....	85,125	63,606
Securities held to maturity.....	4,345	710
Federal Home Loan Bank stock.....	5,160	3,782
Loans held for sale.....	13,905	4,571
Total loans.....	924,380	545,693
Allowance for loan losses.....	(12,925)	(7,699)
	-----	-----

	911,455	537,994
Premises and equipment - net.....	20,868	14,850
Accrued interest receivable.....	4,588	3,247
Acquisition intangibles.....	27,317	---
Other assets.....	6,835	7,245
	-----	-----
Total assets.....	\$1,114,836	\$670,203
	=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits		
Noninterest-bearing.....	\$90,937	\$60,829
Interest-bearing.....	787,037	465,363
	-----	-----
Total.....	877,974	526,192
Federal funds purchased.....	12,200	---
Federal Home Loan Bank advances.....	97,309	75,638
Note payable.....	5,009	---
Accrued expenses and other liabilities.....	10,473	1,871
	-----	-----
Total liabilities.....	1,002,965	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; 7,888,066 shares and 5,307,201 issued and outstanding as of September 30, 2002 and December 31, 2001, respectively.....	105,169	62,334
Retained earnings.....	3,805	3,180
Accumulated other comprehensive income.....	2,897	988
	-----	-----
Total shareholders' equity.....	111,871	66,502
	-----	-----
Total liabilities and shareholders' equity.....	\$1,114,836	\$670,203
	=====	=====

See accompanying notes to consolidated financial statements

**MACATAWA BANK CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME**  
Three and Nine Month Periods Ended September 30, 2002 and 2001  
(unaudited)

(dollars in thousands except per share data)	Three Months Ended September 30, 2002 ----	Three Months Ended September 30, 2001 ----	Nine Months Ended September 30, 2002 ----	Nine Months Ended September 30, 2001 ----
Interest income	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Loans, including fees.....	\$14,559	\$9,998	\$37,934	\$29,215
Securities.....	1,251	1,110	3,399	2,812
	-----	-----	-----	-----
Total interest income.....	15,810	11,108	41,333	32,027
Interest expense				
Deposits.....	5,135	4,503	13,452	13,396
Other.....	1,201	930	3,435	2,930
	-----	-----	-----	-----
Total interest expense.....	6,336	5,433	16,887	16,326
<b>Net interest income.....</b>	<b>9,474</b>	<b>5,675</b>	<b>24,446</b>	<b>15,701</b>
Provision for loan losses.....	705	565	2,331	1,589
	-----	-----	-----	-----
<b>Net interest income after provision for loan losses.....</b>	<b>8,769</b>	<b>5,110</b>	<b>22,115</b>	<b>14,112</b>

Noninterest income				
Service charges on deposit accounts	609	447	1,615	1,149
Mortgage production revenue.....	684	222	1,327	709
Trust fees.....	621	170	1,365	507
Other.....	155	85	432	224
	-----	-----	-----	-----
Total noninterest income.....	2,069	924	4,739	2,589
Noninterest expense				
Salaries and benefits.....	3,580	2,231	8,984	6,138
Occupancy .....	504	308	1,353	879
Furniture and equipment .....	595	389	1,571	1,116
Legal and professional fees.....	181	99	462	236
Advertising.....	166	98	442	344
Data processing.....	214	107	539	309
Shareholder services.....	65	38	181	120
Supplies.....	125	110	347	287
Other .....	1,328	651	3,156	1,848
	-----	-----	-----	-----
Total noninterest expenses.....	6,758	4,031	17,035	11,277
<b>Income before federal income tax.....</b>	<b>4,080</b>	<b>2,003</b>	<b>9,819</b>	<b>5,424</b>
Federal income tax.....	1,345	652	3,221	1,780
	-----	-----	-----	-----
<b>Net income.....</b>	<b>\$ 2,735</b>	<b>\$ 1,351</b>	<b>\$ 6,598</b>	<b>\$ 3,644</b>
	=====	=====	=====	=====
Basic earnings per share.....	\$.34	\$.25	\$.92	\$.81
Diluted earnings per share.....	\$.34	\$.24	\$.91	\$.80

See accompanying notes to consolidated financial statements

4

MACATAWA BANK CORPORATION  
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
Nine Month Periods Ended September 30, 2002 and 2001  
(unaudited)

(dollars in thousands except per share data)	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
	-----	-----	-----	-----
Balance, January 1, 2001.....	\$36,890	\$1,137	\$ 101	\$38,128
Net income for nine months ended September 30, 2001.....		3,644		3,644
Other comprehensive income, net of tax: Unrealized gains/losses on securities			1,260	1,260
Comprehensive income.....				----- 4,904
Net proceeds from sale of stock.....	23,679			23,679
Proceeds from exercise of stock options..	2			2
Issued 111,773 shares in payment of 3% stock dividend.....	1,763	(1,766)		(3)
Cash dividends at \$.20 per share.....		(882)		(882)
	-----	-----	-----	-----
Balance, September 30, 2001.....	\$62,334	\$ 2,133	\$ 1,361	\$65,828
	=====	=====	=====	=====
Balance, January 1, 2002.....	\$62,334	\$3,180	\$ 988	\$66,502
Net income for nine months ended September 30, 2002.....		6,598		6,598

Other comprehensive income, net of tax:				
Unrealized gains/losses on securities.		1,299		1,299
Unrealized gain on derivative instruments		610		610
				-----
Comprehensive income.....				8,507
Issued 2,472,015 shares for acquisition of GBFC, adjusted for stock dividend.....	39,817			39,817
Conversion of GBFC stock options.....	987			987
Proceeds from exercise of 11,495 stock options	61			61
Repurchase of 115,000 shares.....	(2,300)			(2,300)
Issued 212,355 shares in payment of 4% stock dividend.....	4,270	(4,277)		(7)
Cash dividends at \$.24 per share.....		(1,696)		(1,696)
	-----	-----	-----	-----
Balance, September 30, 2002.....	\$105,169	\$ 3,805	\$ 2,897	\$111,871
	=====	=====	=====	=====

See accompanying notes to consolidated financial statements

**MACATAWA BANK CORPORATION**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**Nine Month Periods Ended September 30, 2002 and 2001**  
**(unaudited)**

(dollars in thousands)

	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001
	----- (unaudited)	----- (unaudited)
<b>Cash flows from operating activities</b>		
Net income.....	\$6,598	\$3,644
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization.....	1,737	1,012
Provision for loan losses.....	2,331	1,589
Gain on sale of loans.....	(1,327)	(709)
Loans originated for sale.....	(132,573)	(85,859)
Proceeds from sales of loans.....	124,566	86,568
Net change in:		
Accrued interest receivable and other assets.....	3,820	(326)
Accrued expenses and other liabilities.....	2,993	378
	-----	-----
Net cash from operating activities.....	8,145	6,297
<b>Cash flows from investing activities</b>		
Net increase in loans.....	(129,448)	(96,259)
Purchase of Federal Home Loan Bank Stock.....	(584)	(579)
Purchases of securities available for sale.....	(24,505)	(45,371)
Proceeds from maturities and calls of securities available for sale.....	10,599	31,000
Principal paydowns on securities.....	1,678	---
Cash received from acquisition of GBFC.....	21,390	---
Additions to premises and equipment.....	(6,725)	(2,953)
	-----	-----
Net cash used in investing activities.....	(127,595)	(114,162)
<b>Cash flows from financing activities</b>		
Net increase in deposits.....	105,722	103,871
Net (decrease) increase in short term borrowings.....	12,200	(6,200)
Proceeds from Federal Home Loan Bank advances.....	20,264	16,852
Repayments of Federal Home Loan Bank advances.....	(13,754)	(5,264)
Repayments of notes payable.....	---	(4,000)
Cash dividends paid.....	(1,703)	(885)
Shares repurchased.....	(2,300)	---
Proceeds from sale of stock and exercises of options.....	61	23,681
	-----	-----
Net cash from financing activities.....	120,490	128,055
Net change in cash and cash equivalents.....	1,040	20,190

Cash and cash equivalents at beginning of period.....	34,198	26,305
	-----	-----
<b>Cash and cash equivalents at end of period.....</b>	<b>\$ 35,238</b>	<b>\$ 46,495</b>
	=====	=====

6

---

MACATAWA BANK CORPORATION  
CONSOLIDATED STATEMENT OF CASH FLOWS (continued)  
Nine Month Periods Ended September 30, 2002 and 2001  
(unaudited)

---

(dollars in thousands)	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001
	-----	-----
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest.....	\$16,690	\$16,148
Income taxes.....	1,900	2,494
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	---

---

See accompanying notes to consolidated financial statements

7

---

MACATAWA BANK CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

---

**NOTE 1 - BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended September 30, 2002, are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. For further information, refer to the consolidated financial statements and footnotes thereto included in Macatawa Bank Corporation's (the "Company") 2001 Annual Report containing financial statements for the year ended December 31, 2001.

All per share amounts and average shares outstanding have been adjusted for all periods presented to reflect the 4% stock dividend distributed on

May 8, 2002, and the 3% stock dividend distributed on May 4, 2001. The Statement of Changes in Shareholders' Equity reflects the change in retained earnings and common stock for the value of the dividends paid.

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.

**NOTE 2 - PRINCIPLES OF CONSOLIDATION**

The accompanying consolidated financial statements include the accounts of the Company, and its wholly-owned subsidiaries, Macatawa Bank and Grand Bank (the "Banks") and Macatawa Bank Brokerage Services. All significant intercompany accounts and transactions have been eliminated in consolidation.

**NOTE 3 - NEW ACCOUNTING PRONOUNCEMENTS**

A new accounting standard dealing with asset retirement obligations will apply for 2003. The Company does not believe this standard will have a material affect on its financial position or results of operations.

Effective January 1, 2002, the Company adopted a new accounting standard that requires all business combinations to be recorded using the purchase method of accounting for any transaction initiated after June 30, 2001. Under the purchase method, all identifiable tangible and intangible assets and liabilities of the acquired company are recorded at fair value at date of acquisition, and the excess of cost over fair value of net assets acquired is recorded as goodwill. Identifiable intangible assets are separated from goodwill. Identifiable assets with finite useful lives are amortized under the new standard, whereas goodwill, both amounts previously recorded and future amounts purchased, cease being amortized starting in 2002. Annual impairment testing will be required for goodwill with impairment being recorded if the carrying amount of goodwill exceeds its implied fair value. As a result of this new standard, the Company's acquisition of Grand Bank Financial Corporation was accounted for using the purchase method of accounting.

Effective January 1, 2002, the Company adopted a new standard issued by the FASB on impairment and disposal of long-lived assets. The effect of this on the financial position and results of operations of the Company was not material.

---

MACATAWA BANK CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited)

---

**NOTE 4 - 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% 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 has been accounted for using the purchase method of accounting, and, accordingly, the purchase price has been 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 are as follows in thousands of dollars as of September 30, 2002:

	Gross Amount	Accumulated Amortization
Core deposit intangible.....	\$3,185	\$191
Trust relationships.....	478	70

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 is 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 September 30, 2002 was \$261,000. Estimated amortization expense for the next five years is as follows in thousands of dollars:

2002.....	\$392
2003.....	484
2204.....	440
2005.....	406
2006.....	378

MACATAWA BANK CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

In conjunction with the acquisition, the fair values of significant assets and liabilities assumed were as follows, 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 the nine months ended September 30 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.

	Nine Months Ended September 30, 2002 ----	(proforma) Nine Months Ended September 30, 2001 ----
Interest income	\$44,861	\$44,351
Interest expense	18,481	22,115
	-----	-----
Net interest income	26,380	22,236
Provision for loan losses	2,704	2,118
	-----	-----
Net interest income after provision	23,676	20,118
Noninterest income	5,752	4,950
Noninterest expense	18,955	16,768
	-----	-----
Income before federal income tax	10,473	8,300
Federal income tax expense	3,434	2,792
	-----	-----
Net income	\$7,039	\$5,508
	=====	=====
Basic earnings per share	\$.88	\$.79
Diluted earnings per share	\$.87	\$.79



MACATAWA BANK CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

**NOTE 5 - EARNINGS PER SHARE**

A reconciliation of the numerators and denominators of basic and diluted earnings per share for the quarters and nine months ended September 30, 2002 and September 30, 2001 are as follows (dollars in thousands except per share data):

	Three Months Ended September 30, ----- 2002 ----	Three Months Ended September 30, ----- 2001 ----	Nine Months Ended September 30, ----- 2002 ----	Nine Months Ended September 30, ----- 2001 ----
Basic earnings per share				
Net income.....	\$ 2,735	\$ 1,351	\$ 6,598	\$ 3,644
	-----	-----	-----	-----
Weighted average common shares outstanding.....	7,965,566	5,490,933	7,171,163	4,500,816
	-----	-----	-----	-----
Basic earnings per share.....	\$ 0.34	\$ 0.25	\$ 0.92	\$ 0.81
	=====	=====	=====	=====
Diluted earnings per share				
Net income.....	\$ 2,735	\$ 1,351	\$ 6,598	\$ 3,644
	-----	-----	-----	-----
Weighted average common shares outstanding.....	7,965,566	5,490,933	7,171,163	4,500,816
Add: Dilutive effects of assumed exercise of stock options.....	130,711	47,569	109,311	36,772
	-----	-----	-----	-----
Weighted average common and dilutive potential common shares outstanding.....	8,096,277	5,538,502	7,280,474	4,537,588
	-----	-----	-----	-----
Diluted earnings per share.....	\$ .34	\$ 0.24	\$ 0.91	\$ 0.80
	=====	=====	=====	=====

Stock options for 10,000 shares of common stock were not considered in computing diluted earnings per share for the quarter and nine months ended September 30, 2002 because they were antidilutive. Stock options for 2,080 shares of common stock were not considered in computing diluted earnings per share for the nine months ended September 30, 2001 because they were antidilutive. There were no antidilutive shares for the quarter ended September 30, 2001.

MACATAWA BANK CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

**NOTE 6 - SECURITIES**

The amortized cost and fair values of securities available for sale were as follows (in thousands):

	Amortized Cost -----	Gross Unrealized Gains -----	Gross Unrealized Losses -----	Fair Values -----
September 30, 2002				
- - - - -				
Available for sale:				
U.S. Treasury securities and obligations of U. S. Government agencies.....	\$69,189	\$ 2,689	\$ (1)	\$71,877
State and municipal bonds.....	12,471	777		13,248

	----- \$81,660 =====	----- \$ 3,466 =====	----- \$ (1) =====	----- \$85,125 =====
Held to maturity:				
U.S. Treasury securities and obligations of U. S. Government agencies.....	\$1,650	\$12	\$ ---	\$1,662
State and municipal bonds.....	2,695	103	---	2,798
	----- \$4,345 =====	----- \$ 115 =====	----- \$ --- =====	----- \$4,460 =====
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Values
	-----	-----	-----	-----
December 31, 2001 -----				
Available for sale:				
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:				
State and municipal bonds.....	\$ 710	---	\$ (61)	\$ 649
	=====	-----	=====	=====

Contractual maturities of debt securities at September 30, 2002 were as follows (in thousands). Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Held to Maturity Securities		Available for Sale Securities	
	Amortized Cost	Fair Values	Amortized Cost	Fair Values
	-----	-----	-----	-----
Due before to five years.....	\$1,650	\$1,662	\$64,733	\$67,330
Due from five to ten years....	640	640	7,703	8,138
Due after ten years.....	2,055	2,158	9,224	9,657
	-----	-----	-----	-----
Total	\$ 4,345	\$ 4,460	\$81,660	\$85,125
	=====	=====	=====	=====

---

MACATAWA BANK CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

---

**NOTE 7 – LOANS**

Loans were as follows (in thousands):

	September 30, 2002	December 31, 2001
	-----	-----
Commercial.....	\$700,243	\$403,421
Mortgage.....	95,105	67,655
Consumer.....	129,032	74,617
	-----	-----
Allowance for loan losses.....	924,380 (12,925)	545,693 (7,699)
	----- \$911,455 =====	----- \$537,994 =====

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

	Three months ended September 30, 2002 -----	Three months ended September 30, 2001 -----	Nine months ended September 30, 2002 -----	Nine months ended September 30, 2001 -----
Balance at beginning of period.	\$12,430	\$6,653	\$7,699	\$5,854
Balances from GBFC acquisition	---	---	3,464	---
Provision for loan losses.	705	565	2,331	1,589
Charge-offs.....	(285)	(79)	(800)	(337)
Recoveries.....	75	38	231	71
Balance at end of period.....	\$12,925 =====	\$7,177 =====	\$12,925 =====	\$7,177 =====

**NOTE 8 - DEPOSITS.**

Deposits are summarized as follows (in thousands):

	September 30, 2002 -----	December 31, 2001 -----
Noninterest-bearing demand deposit accounts.....	90,937	60,829
Money market accounts.....	238,496	175,835
NOW and Super NOW accounts.....	126,333	71,544
Savings accounts.....	27,593	18,397
Certificates of deposit.....	394,615	199,587
	\$877,974 =====	\$526,192 =====

(Continued)

MACATAWA BANK CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

**NOTE 9 – FEDERAL HOME LOAN BANK BORROWINGS**

Advances from the Federal Home Loan Bank were as follows (in thousands):

	September 30, 2002 -----	December 31, 2001 -----
Maturities from November 2002 through December 2010, fixed rates from 2.76% to 6.95%, averaging 5.21%.....	\$97,309 =====	
Maturities from April 2002 through December 2010, fixed rates from 2.76% to fixed rates from 2.76% to 6.68%, averaging 5.22% .....		\$75,638 =====

Each advance is payable at its maturity date and contains a prepayment penalty. These advances were collateralized by securities totaling \$74,497,000 and \$54,233,000 at September 30, 2002 and December 31, 2001, and first mortgage loans totaling \$110,013,000 and \$65,496,000 under a blanket lien arrangement at September 30, 2002 and December 31, 2001, respectively.

Maturities as of September 30, 2002 were as follows (in thousands):

2002.....	\$4,000
2003.....	19,455
2004.....	23,312

2005.....	17,500
2008.....	1,346
2009.....	5,696
2010.....	26,000
	-----
	\$97,309
	=====

---

(Continued)

MACATAWA BANK CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

---

**NOTE 10 – 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 to within the policy parameters.

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

In May 2002 the Company entered into a three-year interest rate swap arrangement that converts the variable rate cash inflows on certain of its 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 \$232,000 net of tax, of unrealized gains on this cash flow hedge at September 30, 2002 will be reclassified to earnings over the next twelve months.

**NOTE 11 - 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 measurements 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 weighting, and other factors, and the regulators can lower classifications in certain cases. Failure to meet various capital requirements can initiate regulatory action that could have a direct material effect on the financial statements.

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

MACATAWA BANK CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

---

At September 30, 2002 and December 31, 2001, actual capital levels and minimum required levels for the Company and the Banks were (in thousands):

	Actual		Minimum Required For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	-----	-----	-----	-----	-----	-----
September 30, 2002						
-----						
Total capital (to risk weighted assets)						
Consolidated.....	\$94,533	10.1%	\$74,849	8.0%	\$93,561	10.0%
Macatawa Bank.....	68,949	10.4	53,233	8.0	66,542	10.0
Grand Bank.....	28,729	10.6	21,632	8.0	27,040	10.0
Tier 1 capital (to risk weighted assets)						
Consolidated.....	82,838	8.9	37,425	4.0	56,137	6.0
Macatawa Bank.....	60,631	9.1	26,617	4.0	39,925	6.0
Grand Bank.....	20,849	7.7	10,816	4.0	16,224	6.0
Tier 1 capital (to average assets)						
Consolidated.....	82,838	7.7	43,216	4.0	54,020	5.0
Macatawa Bank.....	60,631	7.7	31,566	4.0	39,457	5.0
Grand Bank.....	20,849	7.2	11,516	4.0	14,395	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

The Company and the Banks were categorized as well capitalized at September 30, 2002 and year-end 2001.

## Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 I of the Gramm-Leach-Bliley Act. Macatawa Bank commenced operations on November 25, 1997. Grand Bank was formed in 1987 and operates 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 sixteen 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 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, the Company plans to merge 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 the year ended December 31, 2000 and 2001 was \$3.3 million and \$5.1 million, respectively. 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 vibrant and 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 far away have provided us additional opportunity to gain market share. Grand Rapids is the largest market within West Michigan. It is also the market where we hold the least share in percent relative to the other markets within which we operate, and therefore presents great opportunity. We will be opening a new location in the Forest Hills area of Grand Rapids and anticipate at least two additional branch openings in Grand Rapids over the next two years. We also have plans for branch openings in other key areas of our markets that we are not yet fully servicing. We anticipate that we will continue to experience growth in our balance sheet and in our earnings due to all of these expansion opportunities.

### Financial Condition

With the acquisition effective April 1, 2002, the consolidated balance sheet as of September 30, 2002 includes the effect of GBFC. A schedule of the significant GBFC assets and liabilities acquired is contained in Note 4 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 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 is estimated to be approximately \$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 relative 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 relative to the total purchase price and reflects that the GBFC deposit portfolio was weighted towards higher interest rate account types.

Our total assets were \$1.115 billion at September 30, 2002, an increase of \$444.6 million as compared to \$670.2 million at December 31, 2001. In addition to the \$313.0 million in assets added from the GBFC acquisition, assets grew by \$131.6 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.

Securities available for sale totaled \$85.1 million at September 30, 2002, which is an increase of \$21.5 million from \$63.6 million at December 31, 2001. Of the increase, \$11.1 million relates to securities from the GBFC acquisition and the remaining relates to additional purchases of securities as a means of strengthening our liquidity. We expect continued growth of our securities portfolio generally consistent with growth of our company in order to maintain appropriate levels of liquidity.

Our total portfolio loans at September 30, 2002 were \$924.4 million, an increase of \$378.7 million as compared to December 31, 2001. In addition to the \$246.3 million in loans added from the GBFC acquisition, loans grew by \$132.4 million during the nine months ended September 30, 2002 continuing our consistent pattern of growth. Most of the growth was in commercial and commercial real estate loans. Commercial and commercial real estate loans accounted for approximately 76% of the Banks' total loan portfolio at September 30, 2002, up from 74% at December 31, 2001. Consumer loans comprised 14% of the portfolio, while residential mortgage loans were 10% of total loans at September 30, 2002. 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.

The allowance for loan losses as of September 30, 2002 was \$12.9 million, or 1.40% of total portfolio loans, 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 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".

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

18

---

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.

Groups of homogeneous loans, such as residential real estate, open- and closed-end consumer loans, etc., receive an allowance allocation 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.

The allowance for loan losses increased by \$3.5 million with the acquisition of GBFC and then continued to increase through September 30, 2002 due to increases in the formula allowance. The increase in formula allowance was as a result of the continued strong growth in loans. Asset quality improved during the nine months ended September 30, 2002 with the ratio of nonperforming loans to total loans decreasing to .26% compared to .43% at December 31, 2001. The decrease was attributable to the improved quality of individual credits previously deemed nonperforming and the low level of nonperforming loans in the Grand Bank portfolio. The continued increase in the allowance was deemed necessary despite the improvement in nonperforming loans to total loans given the growth in loans, the unseasoned nature of our portfolio and current soft economic conditions both on a national basis and locally.

Net charge-offs for the three and nine months ended September 30, 2002 totaled \$210 thousand and \$569 thousand, as compared to \$41 thousand and \$266 thousand for the same periods in 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 continue at levels consistent with the first nine months for the balance of the year due to the overall weakness in the economy as well as delinquency trends in our commercial loan portfolio.

Premises and equipment totaled \$20.9 million at September 30, 2002, an increase of \$6.0 million from December 31, 2001. The increase resulted from costs incurred with construction underway for the company's new headquarters building, as well as 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 at one location. We expect the new headquarters facility to be completed by March of 2003. The new branch sites allow 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 Forest Hills branch is expected to begin operations in early November 2002 and the relocated Wyoming branch is expected to begin operations by the end of November 2002. Only \$656 thousand of the \$6.0 million increase in premises and equipment related to the acquisition of GBFC.

Total deposits increased \$351.8 million to \$878.0 million at September 30, 2002, as compared to \$526.2 million at December 31, 2001. In addition to the \$242.4 million in deposits added from the GBFC acquisition, deposits grew by \$109.4 million during the first nine months of this year. This internal growth in deposits was substantially a result of 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.

Federal Home Loan Bank Advances totaled \$97.3 million at September 30, 2002 as compared to \$75.6 million at December 31, 2001. We use FHLB Advances as an additional funding source to support asset growth. The GBFC acquisition added \$15.7 million in FHLB Advances to the total which comprises most of the increase.

19

---

## Results of Operations

Our income for the third quarter and the remainder of 2002 was and will continue to be impacted by the net income earned by Grand Bank. For pro forma information relative to the GBFC acquisition, please refer to Note 4 to the Consolidated Financial Statements.

Net income for the quarter ended September 30, 2002, was \$2.74 million, an increase of 102% over the third quarter 2001. Diluted earnings per share for the third quarter of 2002 was \$.34, a 42% increase over the third quarter of the prior year, reflecting both the increase in earnings but also the increase in outstanding shares. Average diluted shares outstanding increased by 46% over the third quarter of the prior year resulting from the issuance of common shares to acquire GBFC. Net income for the nine months ended September 30, 2002 was up 81% to \$6.60 million compared to \$3.64 million for the same period in the prior year. Earnings per share on a diluted basis were \$.91 for the nine months year-to-date compared to \$.80 for the same period in the prior year.

Net interest income for the third quarter of 2002 totaled \$9.5 million, a 67% increase as compared to \$5.7 million for the comparable period in 2001. Net interest income for the nine months ended September 30, 2002 was \$24.4 million as compared to \$15.7 million for the same period in the prior year. The net interest income growth for the three and nine month periods was driven entirely by growth of our earning assets. Average earning assets during the third quarter totaled \$1.022 billion, as compared to \$576.7 million during the same quarter in 2001. The acquisition of GBFC contributed \$280.2 million to this increase in earning assets, however, the remaining \$165.5 million was a result of our continued, steady growth. Net interest margin on earning assets was 3.67% for the third quarter of 2002, down from 3.91% in the third quarter of 2001. Net interest margin for the nine months ended September 30, 2002 was 3.68% compared to 3.97% for the same period in the prior year. The contraction in the net interest margin for the quarter and the nine months 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 lowest prime rate level in over 40 years. We have continued to see strong loan growth, but customer preferences 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 had also contributed to the decline in net interest margin.

While the year over year comparisons reflect decreases, there was a 9 basis point increase in net interest margin from the second quarter of this year to the third quarter. This improvement was accomplished primarily through repositioning of certain assets and liabilities. During the quarter, 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 short-term investable funds into loans.

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 certificate of 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 10 to the consolidated financial statements have also mitigated some of the decline in net interest margin.

The following table shows an analysis of net interest margin for the three-month periods ending September 30, 2002 and 2001.

	For the three months ended September 30,					
	2002			2001		
	Average Balance	Interest Earned or paid	Average Yield Or cost	Average balance	Interest Earned Or paid	Average yield or cost
(Dollars in thousands)						
<b>Assets</b>						
Taxable securities.....	\$70,940	\$ 929	5.25%	\$54,646	\$ 782	5.95%
Tax-exempt securities (1).....	14,016	166	7.31%	8,075	94	7.13%
Loans.....	914,738	14,559	6.25%	490,208	9,998	8.02%
Fed funds sold.....	17,537	75	1.66%	20,451	177	3.35%
Federal Home Loan Bank stock.....	5,160	81	6.16%	3,129	57	7.15%
<b>Total interest earning assets.....</b>	<b>1,022,391</b>	<b>15,810</b>	<b>6.12%</b>	<b>576,509</b>	<b>11,108</b>	<b>7.64%</b>
<b>Noninterest earning assets</b>						
Cash and due from banks.....	34,086			31,448		
Other.....	50,056			13,679		
<b>Total assets.....</b>	<b>\$1,106,533</b>			<b>\$621,636</b>		
<b>Liabilities</b>						
NOWs and MMDAs.....	\$367,531	1,507	1.63%	\$217,470	1,590	2.89%
Savings.....	27,326	69	1.01%	15,281	52	1.35%
IRAs.....	22,171	245	4.39%	12,354	183	5.90%
Time deposits.....	373,342	3,314	3.52%	189,648	2,678	5.60%
Fed funds borrowed.....	2,022	10	2.00%	---	---	0.00%
Other borrowings.....	104,387	1,191	4.46%	62,588	930	5.82%



Total interest bearing liabilities.....	896,779	6,336	2.79%	497,341	5,433	4.32%
Noninterest bearing liabilities						
Noninterest bearing demand accounts....	87,411			54,900		
Other noninterest bearing liabilities..	10,334			4,578		
Shareholders' equity.....	112,009			64,817		
Total liabilities and shareholders' equity.....						
	\$1,106,533			\$621,636		
Net interest income.....						
		\$9,474			\$5,675	
Net interest spread.....						
			3.32%			3.32%
Net interest margin.....						
			3.67%			3.91%
Ratio of average interest earning assets to						
Average interest bearing liabilities...						
		114.01%		115.92%		
(1) Yield adjusted to fully tax equivalent.						

The following table shows an analysis of net interest margin for the nine-month periods ending September 30, 2002 and 2001.

For the nine months ended September 30,						
	2002			2001		
	Average Balance	Interest Earned or paid	Average Yield Or cost	Average Balance	Interest Earned Or paid	Average yield or cost
(Dollars in thousands)						
<b>Assets</b>						
-----						
Taxable securities.....	\$ 64,506	\$ 2,587	5.35%	\$ 48,686	\$ 2,172	6.03%
Tax-exempt securities (1).....	12,346	433	7.24%	6,056	214	7.20%
Loans.....	788,749	37,933	6.36%	457,661	29,215	8.44%
Fed funds sold.....	13,190	166	1.64%	9,227	249	3.57%
Federal Home Loan Bank stock.....	4,645	214	6.10%	3,088	177	7.55%
	-----	-----		-----	-----	
Total interest earning assets.....	883,436	41,333	6.23%	524,718	32,027	8.12%
Noninterest earning assets						
Cash and due from banks.....	32,960			25,377		
Other.....	37,120			12,334		
	-----			-----		
Total assets.....	\$953,516			\$562,429		
=====						
<b>Liabilities</b>						
-----						
NOWs and MMDAs.....	\$321,877	3,926	1.63%	\$194,819	4,829	3.31%
Savings.....	23,742	223	1.26%	13,236	157	1.59%
IRAs.....	18,055	630	4.67%	11,352	516	6.08%
Time deposits.....	309,697	8,673	3.74%	175,409	7,894	6.02%
Fed funds borrowed.....	4,795	71	1.96%	1,668	69	5.44%
Other borrowings.....	94,638	3,364	4.69%	64,237	2,861	5.87%
	-----	-----		-----	-----	
Total interest bearing liabilities.....	772,804	16,887	2.91%	460,721	16,326	4.73%
Noninterest bearing liabilities						
Noninterest bearing demand accounts....	77,091			49,111		
Other noninterest bearing liabilities..	7,481			3,574		
Shareholders' equity.....	96,140			49,023		
	-----			-----		
Total liabilities and shareholders' equity.....	\$953,516			\$562,429		
=====						

Net interest income.....	\$24,446 =====	\$15,701 =====
Net interest spread.....	3.31%	3.39%
Net interest margin.....	3.68%	3.97%
Ratio of average interest bearing assets to Average interest bearing liabilities...	114.32%	113.89%
(1) Yield adjusted to fully tax equivalent.		

The provision for loan losses for the three and nine month periods ended September 30, 2002 were \$705 thousand and \$2.3 million, as compared to \$565 thousand and \$1.6 million for the same periods in the prior year. The amount

of loan loss provision in all periods was 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 soft economy during 2002. Should the economic climate continue to deteriorate borrowers may experience difficulty, and the level of non-performing loans, charge-offs, and delinquencies could rise and require further increases in the provision.

Noninterest income for the three and nine month periods ended September 30, 2002 were \$2.1 million and \$4.7 million, as compared to \$924 thousand and \$2.6 million for the same periods last year. All components of noninterest income increased compared to the prior year. The increased deposit service charge income is reflective of the expanded customer account base. Gain on sale of mortgage loans increased due to the continued refinancing activity from the low interest rate environment and the additional loan sale volume from Grand Bank. With long-term rates decreasing once again during the third quarter, we anticipate that our pipeline of mortgages is sufficient to sustain the level of mortgage sale gains achieved in the third quarter for the remainder of 2002. Trust fee income increased dramatically compared to the prior year primarily due to the addition of Grand Bank's trust services. We continue to have success in building new trust customer relationships. Since trust fees are based upon the value of trust assets, the growth in customer relationships should result in increased fees; however, the increases due to new relationships are being offset by asset value decreases resulting from stock market declines experienced in 2002.

Noninterest expense totaled \$6.8 million and \$17.0 million for the three and nine month periods ended September 30, 2002 as compared to \$4.0 million and \$11.3 million for the same periods in the prior year. Salary and benefits increased by \$1.3 million for the quarter and \$2.8 million for the year-to-date period and was the primary category of increase in noninterest expense during these periods. Most of the increase for the quarter relates to the addition of the Grand Bank workforce, however, our continued growth has required additional staff as compared to the 2001 periods. The staff growth reflects 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 are customer activity and branch infrastructure related, and increase as a result of new customer activity being generated. Noninterest expense increased by 68% for the quarter whereas net interest income and noninterest income in total grew by 75%. The greater revenue growth versus expense growth resulted in an improved efficiency ratio of 58.6% for the third quarter as compared to 61.1% for the third quarter of last year. This improvement is a direct result of synergies achieved in the GBFC acquisition as well as continued better capacity usage of the branch network and operations.

#### Liquidity and Capital Resources

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 September 30, 2002, our Tier I Capital as a percent of average assets was 7.5%, and our total capital to risk-weighted assets was 10.1%, 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 may be required within the next year if our growth continues at its current pace.

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 during 2002. 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% 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 due to unusual shareholder circumstances. Further stock repurchase activity is not anticipated in the foreseeable future.

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 securities available for sale, growth of 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.

### Forward Looking Statements

This report includes “forward-looking statements” as that term is used in the securities laws. All statements regarding our expected financial position, business and strategies are forward-looking statements. In addition, the words “anticipates,” “believes,” “estimates,” “seeks,” “expects,” “plans,” “intends,” and similar expressions, as they relate to us or our management, are intended to identify forward-looking statements. The presentation and discussion of the provision and allowance for loan losses and statements concerning future profitability or future growth or increases, are examples of inherently forward looking statements in that they involve judgments and statements of belief as to the outcome of future events. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse affect on our operations and our 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.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### 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. Therefore, 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 may be refinanced or repriced during a given time period. A significant repricing gap could result in a negative impact to our net interest margin during periods of changing market interest rates.

The following table summarizes our interest rate repricing gaps (in thousands) for selected maturity periods as of September 30, 2002.

	< 3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
<b>Assets:</b>					
Fixed rate loans.....	\$ 32,000	\$69,011	\$224,276	\$31,964	\$357,251
Variable rate loans.....	532,800	2,067	27,800	4,462	567,129
Taxable Securities.....	1,012	3,641	64,327	4,548	73,528
Tax-Exempt Securities.....	---	---	---	15,942	15,942
Other Securities.....	---	---	---	5,160	5,160
Short term investments.....	---	---	---	---	---
Federal Funds Sold.....	---	---	---	---	---
Loan Loss Reserve.....	---	---	---	---	(12,925)
Cash & Due From Banks.....	---	---	---	---	35,238
Fixed Assets.....	---	---	---	---	20,868
Other Assets.....	---	---	---	---	52,645
	-----	-----	-----	-----	-----
TOTAL	\$565,812	\$ 74,719	\$316,403	\$62,076	\$1,114,836
	=====	=====	=====	=====	=====
<b>Liabilities:</b>					
Time deposits \$100,000 and over....	54,058	73,877	119,441	--	247,376
Time deposits under \$100,000	18,545	41,593	64,348	--	124,486
Repo's & Borrowed Money.....	26,708	11,954	42,812	33,043	114,517
Savings & IRAs.....	30,959	5,880	13,905	--	50,744
NOW & money market accounts	364,431	---	---	--	364,431
Non-Interest Bearing Deposits.....	---	---	---	--	90,937
Other Liabilities & Equity.....	---	---	---	--	122,345

TOTAL	----- \$494,701 -----	----- \$133,304 -----	----- \$240,506 -----	----- \$33,043 -----	----- \$1,114,836 -----
Period interest rate gap:.....	71,111	(58,585)	75,897	29,033	
Cumulative interest rate gap:.....	71,111	12,526	88,423	117,456	
Cumulative interest rate gap to total assets.....	6.38%	1.12%	7.93%	10.54%	
Rate sensitive assets to rate Sensitive liabilities.....	1.14	0.56	1.32	1.88	
Cumulative rate sensitive assets to Rate sensitive liabilities.....	1.14	1.02	1.10	1.13	

The above table shows that total assets maturing or repricing within one year exceeded liabilities maturing within the same time period by \$12.5 million indicating that we are asset sensitive in this time horizon. However, 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 re-priceable within twelve months. As a result, various assets and liabilities indicated 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 the Economic Value of Equity based on our balance sheet as of September 30, 2002 (dollars in thousands).

Interest Rate Scenario	Economic Value of Equity	Percent Change	Net Interest Income	Percent Change
Interest rates up 300 basis points	\$102,420	(3.42)%	\$52,011	17.66%
Interest rates up 200 basis points	104,690	(1.28)	49,387	11.73
Interest rates up 100 basis points	106,463	0.40	46,785	5.84
No change in interest rates	106,044		44,203	
Interest rates down 100 basis points	105,720	(0.31)	40,974	(7.30)
Interest rates down 200 basis points	108,801	2.60	36,720	(16.93)
Interest rates down 300 basis points	115,785	9.19	31,385	(29.00)

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 very similar to Macatawa's. 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.

#### Item 4: 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-Q Quarterly 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-Q Quarterly 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 II - OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

None.

### **Item 2. Changes in Securities and Use of Proceeds.**

None.

### **Item 3. Defaults Upon Senior Securities.**

None.

### **Item 4. Submission of Matters to a Vote of Securities Holders.**

None.

### **Item 5. Other Information.**

The Audit Committee of the Board of Directors approved the categories of all non-audit services performed by the company's independent accountants during the period covered by this report.

### **Item 6. Exhibits and Reports on Form 8-K.**

(a) Exhibits -

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 Senior Vice President and Chief Financial Officer of Macatawa Bank Corporation pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on 8-K - None

---

## SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Quarterly Report on Form 10-Q for the quarter ended September 30, 2002, to be signed on its behalf by the undersigned, thereunto duly authorized.

/s/ Benj. A. Smith, III

---

Benj. A. Smith, III  
Chairman and Chief Executive Officer

/s/ Jon Swets

---

Jon Swets  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

DATE: November 12, 2002

---

**CERTIFICATIONS**

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

1. I have reviewed this quarterly report on Form 10-Q of Macatawa Bank Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly 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 quarterly 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 quarterly report (the "Evaluation Date"); and
  - (c) presented in this quarterly 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 quarterly 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: November 12, 2002

/s/ Benj. A. Smith, III

---

Benj. A. Smith, III  
Chief Executive Officer

29

---

I, Jon Swets, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Macatawa Bank Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly 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 quarterly 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 quarterly report (the "Evaluation Date"); and
  - (c) presented in this quarterly 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 quarterly 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: November 12, 2002

/s/ Jon Swets

---

Jon Swets  
Chief Financial Officer

---

 EXHIBIT INDEX

<u>Exhibit</u>	<u>Description</u>
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 Senior Vice President and Chief Financial Officer of Macatawa Bank Corporation pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

---

 EXHIBIT 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 Quarterly Report on Form 10-Q for the quarterly period ended September 30, 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 Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2002 fairly presents, in all material respects, the financial condition and results of operations of Macatawa Bank Corporation.

Dated: November 12, 2002

/s/ Benj. A. Smith, III

---

Benj. A. Smith, III  
Chief Executive Officer

---

 EXHIBIT 99-2

I, Jon Swets, Senior Vice President and 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 Quarterly Report on Form 10-Q for the quarterly period ended September 30, 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 Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2002 fairly presents, in all material respects, the financial condition and results of operations of Macatawa Bank Corporation.



Dated: November 12, 2002

/s/ Jon Swets

---

Jon Swets  
Senior Vice President and Chief Financial Officer