

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, 2004

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.)

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

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

Indicate by check whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 8,817,338 shares of the Company's Common Stock (no par value) were outstanding as of October 28, 2004.

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Part I Financial Information
Item 1.

MACATAWA BANK CORPORATION
CONSOLIDATED BALANCE SHEETS
As of September 30, 2004 (unaudited) and December 31, 2003

(dollars in thousands except share data)	September 30, 2004	December 31, 2003
ASSETS		
Cash and due from banks	\$ 38,258	\$ 41,633
Federal funds sold	3,322	18,414
	41,580	60,047
Cash and cash equivalents	41,580	60,047
Securities available for sale	132,860	107,049
Securities held to maturity	2,554	2,624
Federal Home Loan Bank stock	10,344	8,793
Loans held for sale	1,942	4,054
Total loans	1,361,017	1,157,107
Allowance for loan losses	(18,600)	(16,093)
	1,342,417	1,141,014
Premises and equipment - net	44,558	38,713
Accrued interest receivable	6,352	5,095
Goodwill	23,915	23,915
Acquisition intangibles	2,454	2,787
Other assets	8,018	7,020
	\$ 1,616,994	\$ 1,401,111
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest-bearing	\$ 149,343	\$ 139,557
Interest-bearing	1,173,220	969,842
	1,322,563	1,109,399
Total	1,322,563	1,109,399
Federal Home Loan Bank advances	121,616	145,680
Long-term debt	41,238	19,655
Accrued expenses and other liabilities	4,761	4,477
	1,490,178	1,279,211
Total liabilities	1,490,178	1,279,211
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; 8,812,591 shares and 8,370,073 issued and outstanding as of September 30, 2004 and December 31, 2003, respectively	124,114	114,568
Retained earnings	1,152	5,300
Accumulated other comprehensive income	1,550	2,032
	126,816	121,900
Total shareholders' equity	126,816	121,900
Total liabilities and shareholders' equity	\$ 1,616,994	\$ 1,401,111

See accompanying notes to consolidated financial statements

MACATAWA BANK CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
Three and Nine Month Periods Ended September 30, 2004 and 2003
(unaudited)

(dollars in thousands except per share data)	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
Interest income				
Loans, including fees	\$18,838	\$15,228	\$52,073	\$44,262
Securities	1,506	1,145	4,212	3,405
Total interest income	20,344	16,373	56,285	47,667
Interest expense				
Deposits	4,835	4,040	13,467	13,064
Other	1,890	1,397	5,238	3,772
Total interest expense	6,725	5,437	18,705	16,836
Net interest income	13,619	10,936	37,580	30,831
Provision for loan losses	3,900	1,040	6,565	2,905
Net interest income after provision for loan losses	9,719	9,896	31,015	27,926
Noninterest income				
Service charges on deposit accounts	795	648	2,175	1,900
Loan production revenue	340	1,319	1,617	3,278
Trust fees	684	620	2,255	1,806
Other	442	199	1,263	509
Total noninterest income	2,261	2,786	7,310	7,493
Noninterest expense				
Salaries and benefits	4,950	4,418	14,285	12,117
Occupancy	675	628	2,014	1,702
Furniture and equipment	689	680	2,095	1,915
Legal and professional fees	155	295	469	603
Advertising	295	270	867	752
Data processing	247	179	744	564
Supplies	137	145	407	420
Other	1,785	1,495	5,241	4,141
Total noninterest expenses	8,933	8,110	26,122	22,214
Income before federal income tax	3,047	4,572	12,203	13,205
Income tax expense	931	1,509	3,875	4,400
Net income	\$ 2,116	\$ 3,063	\$ 8,328	\$ 8,805
Basic earnings per share	\$.24	\$.35	\$.95	\$ 1.00
Diluted earnings per share	.24	.34	.93	.99
Dividends per share	.12	.10	.35	.28

See accompanying notes to consolidated financial statements

MACATAWA BANK CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Three and Nine Month Periods Ended September 30, 2004 and 2003
(unaudited)

(dollars in thousands)	Three Months ended September 30, 2004	Three Months ended September 30, 2003	Nine Months ended September 30, 2004	Nine Months ended September 30, 2003
Net income	\$2,116	\$ 3,063	\$ 8,328	\$ 8,805
Other comprehensive income, net of tax:				
Net unrealized gains/(losses) on securities	2,220	(1,108)	(281)	(856)
Net unrealized gains/(losses) on derivative instruments	921	436	(201)	441
Comprehensive income	\$5,257	\$ 2,391	\$ 7,846	\$ 8,390

See accompanying notes to consolidated financial statements

MACATAWA BANK CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Nine Month Periods Ended September 30, 2004 and 2003
(unaudited)

(dollars in thousands except per share data)	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance, January 1, 2003	\$ 105,201	\$ 5,931	\$ 2,842	\$ 113,974
Net income for nine months ended September 30, 2003		8,805		8,805
Other comprehensive income, net of tax:				
Net unrealized losses on securities			(856)	(856)
Net unrealized gains on derivative instruments			441	441
Comprehensive income				8,390
Issued 78,219 shares for stock option exercises	403			403
Issued 397,664 shares in payment of 5% stock dividend	8,927	(8,941)		(14)
Cash dividends at \$.28 per share		(2,466)		(2,466)
Balance, September 30, 2003	\$ 114,531	\$ 3,329	\$ 2,427	\$ 120,287
Balance, January 1, 2004	\$ 114,568	\$ 5,300	\$ 2,032	\$ 121,900
Net income for nine months ended September 30, 2004		8,328		8,328
Other comprehensive income, net of tax:				
Net unrealized losses on securities			(281)	(281)
Net unrealized losses on derivative instruments			(201)	(201)
Comprehensive income				7,846
Issued 24,255 shares for stock option exercises (net of 4,718 shares exchanged)	216			216
Issued 418,263 shares in payment of 5% stock dividend	9,330	(9,355)		(25)
Cash dividends at \$.35 per share		(3,121)		(3,121)
Balance, September 30, 2004	\$ 124,114	\$ 1,152	\$ 1,550	\$ 126,816

See accompanying notes to consolidated financial statements

MACATAWA BANK CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Nine Month Periods Ended September 30, 2004 and 2003
(unaudited)

(dollars in thousands)	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
Cash flows from operating activities		
Net income	\$ 8,328	\$ 8,805
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	2,214	2,166
Provision for loan losses	6,565	2,905
Loan production revenue	(1,617)	(3,278)
Origination of loans for sale	(103,559)	(283,075)
Proceeds from sales of loans originated for sale	107,288	296,589
Net change in:		
Accrued interest receivable and other assets	(2,255)	2,717
Accrued expenses and other liabilities	234	(4,451)
	17,198	22,378
Cash flows from investing activities		
Loan originations and payments, net	(207,968)	(129,281)
Purchase of Federal Home Loan Bank Stock	(1,551)	(1,648)
Purchases of securities available for sale	(57,074)	(28,996)
Maturities and calls of securities available for sale	30,575	14,069
Principal paydowns on securities	353	2,365
Additions to premises and equipment	(7,752)	(12,737)
	(243,417)	(156,228)
Cash flows from financing activities		
Net increase in deposits	213,164	79,073
Net increase (decrease) in short term borrowings	---	(3,541)
Proceeds from Federal Home Loan Bank advances	184,000	86,000
Repayments of Federal Home Loan Bank advances	(208,065)	(54,998)
Proceeds from long-term debt and other borrowings	21,583	22,152
Repayments of other borrowings	---	(7,218)
Cash dividends paid	(3,146)	(2,480)
Proceeds from exercise of stock options	216	403
	207,752	119,391
Net change in cash and cash equivalents	(18,467)	(14,459)
Cash and cash equivalents at beginning of period	60,047	47,874
Cash and cash equivalents at end of period	\$ 41,580	\$ 33,415

See accompanying notes to consolidated financial statements

MACATAWA BANK CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
Nine Month Periods Ended September 30, 2004 and 2003
(unaudited)

(dollars in thousands)	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest	\$18,610	\$17,353
Income taxes	4,125	4,600

See accompanying notes to consolidated financial statements

MACATAWA BANK CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(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, 2004, are not necessarily indicative of the results that may be expected for the year ending December 31, 2004. For further information, refer to the consolidated financial statements and footnotes thereto included in Macatawa Bank Corporation's (the "Company") 2003 Annual Report containing financial statements for the year ended December 31, 2003.

All per share amounts and average shares outstanding have been adjusted for all periods presented to reflect the 5% stock dividends distributed on May 28, 2004 and May 30, 2003.

Employee compensation expense under stock option plans is reported using the intrinsic value method. No compensation cost related to stock options was recognized during the three and nine month periods ended September 30, 2004 and 2003, 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.

	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
Net income as reported	\$ 2,116	\$ 3,063	\$ 8,328	\$ 8,805
Stock-based compensation cost, net of tax	(60)	(48)	(189)	(131)
Pro forma net income	2,056	3,015	8,139	8,674
Basic earnings per share as reported	.24	.35	.95	1.00
Pro forma basic earnings per share	.23	.34	.92	.99
Diluted earnings per share as reported	.24	.34	.93	.99
Pro forma diluted earnings per share	.23	.34	.91	.97

NOTE 2 — PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of the Company, and its wholly-owned subsidiaries, Macatawa Bank and Macatawa Investment Services. All significant intercompany accounts and transactions have been eliminated in consolidation. The Company also owns all of the common stock of Macatawa Statutory Trust I and Macatawa Statutory Trust II. These are grantor trusts that issued trust preferred securities and, under FASB Interpretation No. 46, are not consolidated with the Company. Accordingly, the securities issued by these trusts are not reported as liabilities; however, the subordinated debentures issued by the Company and held by the trust are reported as liabilities under the caption "Long-term debt".

MACATAWA BANK CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

NOTE 3 — NEW ACCOUNTING PRONOUNCEMENTS

Under the new standard for certain liabilities and equity instruments, mandatorily redeemable instruments such as trust preferred securities are considered liabilities and not part of mezzanine (or temporary) equity. Accordingly, the trust preferred securities issued by the Company on July 15, 2003 and March 18, 2004 were classified as liabilities for Generally Accepted Accounting Principles, and as a component of capital for regulatory purposes, see Note 10.

NOTE 4 — EARNINGS PER SHARE

A reconciliation of the numerators and denominators of basic and diluted earnings per share for the three and nine month periods ended September 30, 2004 and September 30, 2003 are as follows (dollars in thousands except per share data):

	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
Basic earnings per share				
Net income	\$ 2,116	\$ 3,063	\$ 8,328	\$ 8,805
Weighted average common shares outstanding	8,809,971	8,783,415	8,801,346	8,766,776
Basic earnings per share	\$ 0.24	\$ 0.35	\$ 0.95	\$ 1.00
Diluted earnings per share				
Net income	\$ 2,116	\$ 3,063	\$ 8,328	\$ 8,805
Weighted average common shares outstanding	8,809,971	8,783,415	8,801,346	8,766,776
Add: Dilutive effects of assumed exercise of stock options	156,341	139,891	153,859	132,647
Weighted average common and dilutive potential common shares outstanding	8,966,312	8,923,306	8,955,205	8,899,423
Diluted earnings per share	\$ 0.24	\$ 0.34	\$ 0.93	\$ 0.99

Stock options for 4,200 shares of common stock were not considered in computing diluted earnings per share for the quarter and nine months ended September 2003 because they were antidilutive. There were no antidilutive shares for the three and nine month periods ended September 30, 2004.

MACATAWA BANK CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

NOTE 5 — SECURITIES

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Values
<u>September 30, 2004</u>				
Available for sale:				
U.S. Treasury securities and obligations				
Of U. S. Government agencies	\$ 87,459	\$ 916	\$ (174)	\$ 88,201
State and municipal bonds	43,676	1,135	(152)	44,659
	<u>\$131,135</u>	<u>\$ 2,051</u>	<u>\$ (326)</u>	<u>\$132,860</u>
Held to maturity:				
State and municipal bonds	\$ 2,554	\$ 132	\$ ---	\$ 2,686
	<u>\$ 2,554</u>	<u>\$ 132</u>	<u>\$ ---</u>	<u>\$ 2,686</u>
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Values
<u>December 31, 2003</u>				
Available for sale:				
U. S. Treasury securities and obligations				
Of U. S. Government agencies	\$ 74,804	\$ 1,535	\$ (114)	\$ 76,225
State and municipal bonds	30,088	945	(209)	30,824
	<u>\$104,892</u>	<u>\$ 2,480</u>	<u>\$ (323)</u>	<u>\$107,049</u>
Held to maturity:				
State and municipal bonds	\$ 2,624	\$ 77	---	\$ 2,701
	<u>\$ 2,624</u>	<u>\$ 77</u>	<u>---</u>	<u>\$ 2,701</u>

Contractual maturities of debt securities at September 30, 2004 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 less than one year	\$ ---	\$ ---	\$ 4,064	\$ 4,142
Due one year to five years	---	---	77,536	78,191
Due five years to ten years	517	523	15,590	16,228
Due after ten years	2,037	2,163	33,945	34,299
Total	<u>\$2,554</u>	<u>\$2,686</u>	<u>\$131,135</u>	<u>\$132,860</u>

MACATAWA BANK CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

NOTE 6 – LOANS

Loans were as follows (in thousands):

	September 30, 2004	December 31, 2003
Commercial	\$ 328,096	\$ 381,097
Commercial mortgage	652,232	467,918
Residential mortgage	220,135	172,647
Consumer	160,554	135,445
	1,361,017	1,157,107
Allowance for loan losses	(18,600)	(16,093)
	<u>\$ 1,342,417</u>	<u>\$ 1,141,014</u>

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

	Three months Ended September 30, 2004	Three months Ended September 30, 2003	Nine months Ended September 30, 2004	Nine months Ended September 30, 2003
Balance at beginning of period	\$ 17,907	\$ 14,513	\$ 16,093	\$ 13,472
Provision for loan losses	3,900	1,040	6,565	2,905
Charge-offs	(3,291)	(436)	(4,237)	(1,292)
Recoveries	84	24	179	56
Balance at end of period	<u>\$ 18,600</u>	<u>\$ 15,141</u>	<u>\$ 18,600</u>	<u>\$ 15,141</u>

	September 30, 2004	December 31, 2003
Impaired loans were as follows (in thousands):		
Loans with no allocated allowance for loan losses	\$3,079	\$ 807
Loans with allocated allowance for loan losses	5,929	2,533
	<u>\$9,008</u>	<u>\$3,340</u>
Amount of allowance for loan losses allocated	\$1,140	\$ 792
Nonperforming loans were as follows (in thousands):		
Nonaccrual loans	\$7,224	\$2,308
Loans past due over 90 days still on accrual	377	1,717
	<u>\$7,601</u>	<u>\$4,025</u>

The increase in both impaired loans and nonperforming loans from December 31, 2003 to September 30, 2004 is primarily the result of the addition of two nonaccrual commercial loan relationships during the third quarter of 2004. One of the loan relationships represents a \$3.1 commercial loan for which an additional \$2.3 million provision for loan losses and a related \$2.8 million charge-off were recorded at the end of the third quarter. The other loan relationship represents a \$2.2 million commercial real estate loan that is considered well-secured.

MACATAWA BANK CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

NOTE 7 – DEPOSITS

Deposits are summarized as follows (in thousands):

	September 30, 2004	December 31, 2003
Noninterest-bearing demand deposit accounts	\$ 149,343	\$ 139,557
Money market accounts	532,196	355,271
NOW and Super NOW accounts	165,406	148,682
Savings accounts	38,247	37,004
Certificates of deposit	437,371	428,885
	\$1,322,563	\$1,109,399

NOTE 8 – FEDERAL HOME LOAN BANK BORROWINGS

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

Principal Terms	Advance Amount	Range of Maturities	Weighted Average Interest Rate
September 30, 2004			
Single maturity fixed rate advances	\$ 69,364	October 2004 to July 2007	2.88%
Putable advances	41,000	January 2005 to December 2010	5.98%
Amortizable mortgage advances	11,252	November 2004 to July 2018	3.92%
	\$ 121,616		
December 31, 2003			
Single maturity fixed rate advances	\$ 67,173	January 2004 to January 2006	2.85%
Putable advances	41,000	January 2005 to December 2010	5.98%
Short-term variable	25,000	May 2004 to July 2004	1.11%
Amortizable mortgage advances	12,507	February 2004 to July 2018	3.98%
	\$ 145,680		

Each advance is payable at its maturity date and contains a prepayment penalty. These advances were collateralized by securities totaling \$84,393,000 and \$74,789,000 at September 30, 2004 and December 31, 2003, and residential and commercial real estate loans totaling \$754,611,000 and \$598,214,000 under a blanket lien arrangement at September 30, 2004 and December 31, 2003, respectively.

MACATAWA BANK CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
 (Unaudited)

NOTE 8 - FEDERAL HOME LOAN BANK BORROWINGS (Continued)

Maturities as of September 30, 2004 were as follows (in thousands):

2004	\$	17,598
2005		22,900
2006		22,200
2007		17,000
2008		1,052
Thereafter		40,866
		40,866
	\$	121,616

NOTE 9 – 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.

The Company has entered into interest rate swap arrangements ("swaps"), all of which are classified as cash flow hedges that convert the variable rate cash inflows on certain of its loans to fixed rates of interest. These swaps pay interest to the Company at a fixed rate and require interest payments from the Company at a variable rate. All of these swaps were fully effective during 2003 and the first nine months of 2004. At September 30, 2004, there were five swaps outstanding each with a notional amount of \$20 million. It is anticipated that approximately \$ 186,000 net of tax, of net unrealized gains on these cash flow hedges will be reclassified to earnings over the next twelve months.

Summary information about interest rate swaps were as follows (dollars in thousands).

	September 30, 2004		December 31, 2003
Notional amounts	\$ 100,000	\$	60,000
Weighted average pay rates	4.42%		4.00%
Weighted average receive rates	6.54%		6.64%
Weighted average maturity	3.5 years		3.9 years
Unrealized (loss) gain related to interest rate swaps	\$ 660	\$	970

MACATAWA BANK CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

NOTE 10 — REGULATORY MATTERS

The Company and the Bank are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations involve quantitative 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.

At September 30, 2004 and December 31, 2003, actual capital levels and minimum required levels for the Company and the Bank 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
<u>September 30, 2004</u>						
Total capital (to risk weighted assets)						
Consolidated	\$ 157,495	11.1%	\$ 113,529	8.0%	\$ 141,911	10.0%
Macatawa Bank	141,819	10.1	112,216	8.0	140,270	10.0
Tier 1 capital (to risk weighted assets)						
Consolidated	131,756	9.3	56,764	4.0	85,147	6.0
Macatawa Bank	124,285	8.9	56,108	4.0	84,162	6.0
Tier 1 capital (to average assets)						
Consolidated	131,756	8.5	62,397	4.0	77,996	5.0
Macatawa Bank	124,285	8.0	62,314	4.0	77,892	5.0
<u>December 31, 2003</u>						
Total capital (to risk weighted assets)						
Consolidated	\$ 128,900	10.9%	\$ 94,454	8.0%	\$ 118,067	10.0%
Macatawa Bank	118,301	10.0	94,404	8.0	118,005	10.0
Tier 1 capital (to risk weighted assets)						
Consolidated	114,142	9.7	47,227	4.0	70,840	6.0
Macatawa Bank	103,550	8.8	47,202	4.0	70,803	6.0
Tier 1 capital (to average assets)						
Consolidated	114,142	8.8	52,144	4.0	65,180	5.0
Macatawa Bank	103,550	8.0	52,040	4.0	65,049	5.0

The Company and the Bank were categorized as well capitalized at September 30, 2004 and December 31, 2003.

NOTE 10 — REGULATORY MATTERS (Continued)

On March 18, 2004 the Company issued \$20.0 million of pooled trust preferred securities (“Preferred Securities”) through one issuance by a wholly-owned subsidiary grantor trust, Macatawa Statutory Trust II (the “Trust”). This was in addition to the \$20.0 million of pooled trust preferred securities previously issued in July, 2003. The Preferred Securities accrue and pay distributions quarterly at a specified rate as provided in the indenture, three-month LIBOR plus 2.75%. The Trust used the net proceeds from the offering to purchase a like amount of Junior Subordinated Debentures (the “Debentures”) of the Company. The Debentures are the sole assets of the Trust. The Company’s obligations under the Debentures and related documents, taken together, constitute a full and unconditional guarantee by the Company of the obligations of the Trust. The Preferred Securities are mandatorily redeemable upon the maturity of the Debentures which is March 18, 2034, or upon earlier redemption as provided in the indenture. The Company has the right to redeem the Debentures in whole or in part on or after March 18, 2009, at a redemption price specified in the indenture plus any accrued but unpaid interest to the redemption date. The initial interest rate on the Preferred Securities was 3.86%. Approximately \$12.0 million of this \$20.0 million issued in 2004 qualified as Tier 1 capital for regulatory capital purposes as of September 30, 2004.

NOTE 11 – CONTINGENCIES

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

On July 8, 2003 the Company filed a Form 8-K (dated July 1, 2003) with the Securities and Exchange Commission reporting events related to a former trust customer, Trade Partners, Inc. (“Trade Partners”), of the former Grand Bank. Trade Partners was involved in purchasing and selling interests in viaticals which are interests in life insurance policies of the terminally ill or elderly. Beginning in 1996, Grand Bank served as a custodian and escrow agent with respect to viaticals purchased by Trade Partners and sold to investors. Two lawsuits were filed, one in December 2002 and another in March 2003, against Trade Partners, Grand Bank and the Company alleging that Grand Bank breached certain escrow agreements related to viatical settlement contracts. Both of these lawsuits have been dismissed although the plaintiffs reserved the right to pursue the claims in the future. A third lawsuit was filed in April 2003 by two individual investors against Grand Bank, the Company, Trade Partners and certain individuals and entities associated with Trade Partners. The complaint seeks damages for the asserted breach of certain escrow agreements for which Grand Bank served as custodian and escrow agent. In addition, in May 2003 a purported class action complaint was filed against the Company alleging that Grand Bank breached escrow agreements and its fiduciary duties and violated the Michigan Uniform Securities Act with respect to the investments secured by the purported class in viaticals or in interests in limited partnerships which made loans to Trade Partners secured by viaticals. The Company has answered the complaint denying the material allegations and raising certain affirmative defenses. Management believes the Company has strong defenses and will vigorously defend the cases.

Trade Partners is now in receivership. The receiver has been authorized to borrow money from Macatawa Bank to pay premiums, if needed. Macatawa Bank extended a \$4 million line of credit to the receiver, conditioned upon obtaining a security interest in the viaticals. As of September 30, 2004 no draws had yet been made on the line of credit.

NOTE 11 – CONTINGENCIES (Continued)

It is possible that one or more additional legal actions may be initiated involving the custodial and escrow agent services provided by Grand Bank in connection with Trade Partners. If any such legal actions are commenced, the Company intends to defend them vigorously. To the extent any pending or future claims allege errors or omissions on the part of Grand Bank or Macatawa Bank, Management believes that some or all liability, if any is proven or established, will be covered by errors and omissions insurance maintained by Grand Bank and Macatawa Bank. The Company has reported the Trade Partners matter to its two insurance carriers. One carrier has assumed the Company's defense and has advanced a portion of its defense costs pursuant to a reservation of rights letter asserting certain coverage defenses, and an Interim Funding Agreement. The other carrier has taken the position that the duty of defense rests solely with the first carrier, and reserves its rights with respect to indemnity.

The legal actions involving Trade Partners are at an early stage and the outcome of such actions is uncertain. While we are therefore unable to determine at this time whether or to what extent these actions may impact the Company, the Company believes it has strong defenses and fully intends to defend any and all such actions vigorously.

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

Macatawa Bank Corporation is a Michigan corporation and is the holding company for two wholly owned subsidiaries, Macatawa Bank and Macatawa Investment Services, Inc. and for two trusts, Macatawa Statutory Trust I and Macatawa Statutory Trust II. 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. On April 1, 2002 Macatawa Bank Corporation acquired Grand Bank Financial Corporation ("GBFC") and its wholly owned banking subsidiary, Grand Bank. Its results are included in the consolidated statements of income since this effective date. Grand Bank was merged into Macatawa Bank effective January 1, 2003 with the combined bank named Macatawa Bank. Macatawa Bank is a Michigan chartered bank with depository accounts insured by the Federal Deposit Insurance Corporation. The bank operates twenty-two branch offices and a lending and operational service facility, providing a full range of commercial and consumer banking and trust services in Kent County, Ottawa County, and northern Allegan County, Michigan. Macatawa Investment Services was formed in October 2001 and gained approval in June 2002 from NASD to commence operations as a broker/dealer. Macatawa Investment Services provides various services including discount brokerage, personal financial planning, and consultation regarding mutual funds and annuities. Macatawa Statutory Trusts I and II are grantor trusts and issued \$20.0 million each of pooled trust preferred securities. These trusts are not consolidated in the Corporation's financial statements. For further information regarding consolidation, see Note 2 to the Consolidated Financial Statements. Macatawa Bank Mortgage Company, a subsidiary of Macatawa Bank, originates and sells residential mortgage loans into the secondary market on a servicing released basis.

While maintaining asset quality and improving profitability, we have experienced rapid and substantial growth since opening Macatawa Bank in November 1997. We first became profitable in 1999 and have increased earnings each year since then with 2003 net income reaching \$11.8 million. Since our inception in 1997 we have raised approximately \$100.6 million in capital through private and public common stock offerings and trust preferred offerings to facilitate our growth and progress over these years. When we acquired GBFC we issued 2,472,000 shares of common stock in exchange for all of the outstanding stock of GBFC.

We believe that growth in core deposits is key to our long-term success and is our primary funding source for asset growth. Establishing a branching network in our markets has been of high importance in order to facilitate this core deposit growth. We have gained community awareness and acceptance in our markets through this expanding branch network and our high service quality standards. Since our inception in 1997, core deposits have increased at an annual rate exceeding 20% each year.

The West Michigan markets within which we operate continue to provide significant expansion opportunities for us. We opened our ninth branch on the south side of the greater Grand Rapids area during the third quarter of 2004. Because of the significance of the greater Grand Rapids market and as it represents the greatest opportunity for market share growth, we anticipate additional branch openings in this market within the next year. We also continue to enjoy success in building new and existing relationships in the Holland/Zeeland area, and our entrance into the Grand Haven market during the third quarter of 2003 has produced excellent growth results. 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: Our total assets were \$1.62 billion at September 30, 2004, an increase of \$215.9 million from \$1.40 billion at December 31, 2003. The growth in assets was primarily from growth in total portfolio loans. Total portfolio loans increased \$203.9 million to \$1.36 billion at September 30, 2004 from \$1.16 billion at December 31, 2003.

The growth in assets was primarily funded by an increase in deposits. Total deposits increased \$213.2 million to \$1.32 billion at September 30, 2004 from \$1.11 billion at December 31, 2003.

Portfolio Loans and Asset Quality: We believe the continued strong loan growth we have experienced reflects the acceptance of our community banking philosophy in the growing communities we serve. We continue to attract new loan customers and expand existing relationships despite the strong competition from other locally based community banks and larger regional banks.

The majority of the growth in our loan portfolio has been driven by our commercial loan department. Of the \$215.9 million in growth during the first nine months of 2004, \$131.3 million was from our commercial loan portfolios. Commercial and commercial real estate loans accounted for approximately 72% of the total loan portfolio at September 30, 2004 and 73% at December 31, 2003. Consumer loans comprised 12% of the portfolio, while residential mortgage loans were 16% of total loans at September 30, 2004.

At the end of the third quarter of 2004, we recorded an additional \$2.3 million provision for loan losses against earnings and a related \$2.8 million charge-off related to one commercial loan borrower which has become impaired. The borrower has ceased operations and it appears that the borrower will be unable to meet the repayment terms of the loans. The loans are secured by liens on commercial real estate, equipment, accounts receivable, and inventory, but the collateral is not considered sufficient to cover the outstanding principal balances on the loans.

This impairment was recently discovered as the local news media reported allegations that officials of the borrower's company were misusing its employee retirement funds. Currently, the local sheriff's department and the Michigan State Police are conducting investigations into these allegations. The borrower's company may be subject to sanctions by the Department of Labor. The Bank is conducting its own investigation due to suspicions that the borrower made misrepresentations to the Bank regarding its financial condition both in the original loan application process and in its financial reports provided since then.

Since this impairment was recently discovered, Bank management is continuing to evaluate the financial condition of the borrower and the value of the collateral. The impairment charge is based on the information currently available and may change as new information is received. After the charge-off, the remaining balance of \$3.1 million for this borrower was placed on a non-accrual status and added to non-performing loans.

The unfavorable changes in asset quality ratios are primarily the result of the addition of two nonaccrual commercial loan relationships, including the commercial borrower described above. The other commercial loan relationship represents a \$2.2 million commercial real estate loan associated with a limited service hotel and banquet facility that is considered well-secured. Non-performing loans to total loans increased to 0.56% at September 30, 2004 from 0.35% at December 31, 2003 and nonperforming assets increased to 0.47% at September 30, 2004 from 0.32% at December 31, 2003.

Nonperforming assets are comprised of nonperforming loans, foreclosed assets and repossessed assets. Our nonperforming loans include loans on non-accrual status, restructured loans, as well as loans delinquent more than 90 days, but still accruing. Foreclosed and repossessed assets include assets acquired in settlement of loans. The following table shows the composition and amount of our nonperforming assets.

(Dollars in thousands)	Sept. 30, 2004	Dec. 31, 2003
Nonaccrual loans	\$ 7,224	\$ 1,717
Loans 90 days past due and still accruing	377	2,308
Total nonperforming loans	\$ 7,601	\$ 4,025
Foreclosed assets	-	464
Reposessed assets	2	4
Total nonperforming assets	\$ 7,603	\$ 4,493
Nonperforming loans to total loans	0.56%	0.35%
Nonperforming assets to total assets	0.47%	0.32%

Net charge-offs for the nine months ended September 30, 2004 totaled \$4.1 million as compared to \$1.2 million for the same period in 2003. The ratio of net charge-offs to average loans was 0.43% on an annualized basis for the first nine months of 2004 compared to 0.16% for the first nine months of 2003. The increase is directly related to the \$2.8 million charge-off associated with the commercial borrower described above.

The allowance for loan losses as of September 30, 2004 was \$18.6 million, or 1.37% of total portfolio loans, compared to \$16.1 million, or 1.39% of total loans at December 31, 2003. 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 loans considered impaired, a 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". The specific allowance for impaired loans was \$1.14 million at September 30, 2004 and \$792,000 at December 31, 2003.

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 judgment, affect the collectibility of the portfolio as of the analysis date. The formula allowance was \$15.5 million at September 30, 2004 and \$13.4 million at December 31, 2003.

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. The general allowance was \$1.7 million at September 30, 2004 and \$1.6 million at December 31, 2003.

During the nine months ended September 30, 2004 the allowance for loan losses increased by \$2.5 million and was largely a result of additional provisions associated with an increase in the formula allowance due to the significant growth we have experienced in the commercial loan portfolio. The continued increase in the allowance was deemed necessary given the significant growth in loans, the unseasoned nature of our portfolio and the still soft, although improving, economic conditions both on a national basis and locally.

Deposits and Other Borrowings: Total deposits increased \$213.2 million to \$1.32 billion at September 30, 2004 compared to \$1.11 billion at December 31, 2003. The majority of the growth for the first nine months of 2004 has been in lower costing transaction accounts, primarily money market accounts. Money market balances have grown by approximately \$177 million since December 31, 2003, primarily during the third quarter as a result of both seasonal increases for our business customers and success in attracting large depositors. Although the balances for these large depositors may vary from period to period, we expect these relationships to be a long-term source of funding. With our continued focus on quality customer service, the desire of customers to deal with a local bank, and the convenience of our expanding and maturing branch network, we expect this trend of growth in transaction account deposits to continue.

The decline in other borrowings of \$24.1 million was related to a reduction in FHLB advances, primarily from the pay-off of short-term variable rate advances, as a result of the strong deposit growth that has occurred in the first nine months of 2004.

RESULTS OF OPERATIONS

Summary: Net income for the quarter ended September 30, 2004 was \$2.12 million, or \$0.24 per diluted share as compared to third quarter 2003 net income of \$3.06 million, or \$0.34 per diluted share. Net income for the nine months ended September 30, 2004 was \$8.33 million, or \$0.93 per diluted share, compared to \$8.81 million, or \$0.99 per diluted share, for the same period in the prior year.

The results for both the three and nine months ended September 30, 2004 include a charge against earnings of \$2.3 million (\$1.5 million after tax), or approximately \$0.17 per share, for a loss associated with the impaired commercial loan relationship that occurred during the third quarter as previously described under Portfolio Loans and Asset Quality.

Net Interest Income: Net interest income for the third quarter totaled \$13.6 million, an increase of 25% as compared to the 2003 quarter. Net interest income for the first nine months of 2004 totaled \$37.6 million, an increase of 22% as compared to \$30.8 million for the same period in 2003. The increase for both the three and nine month periods was driven primarily by significant growth in average earning assets. Average earning assets increased \$309.9 million to \$1.48 billion for the third quarter of 2004 compared to the third quarter of 2003, and \$265.6 million to \$1.40 billion for the nine month period ended September 30, 2004 compared to the same period in the prior year. The effect of the growth in earning assets was slightly offset by a five basis point decline in the net interest margin to 3.66% for the quarter and a four basis point decline to 3.59% for the nine month period ended September 30, 2004.

A slightly greater reliance on interest bearing liabilities to fund the growth in interest earning assets was the primary reason for the slight decline in the net interest margin for both the three and nine month periods. In addition, when comparing the three month periods, the yield on earning assets declined slightly more than the cost of funds, resulting in a decline in the net interest spread to 3.42% for the three month period ended September 30, 2004 from 3.44% for the same period in 2003. The net interest spread remained flat for the nine month periods.

During both the three and nine month periods, the decline in the yield on earning assets was offset by a decline in the cost of funds. The yield on earning assets declined by 8 basis points and 24 basis points, respectively, for the three and nine months ended September 30, 2004 as compared to the same periods in the prior year. The decline for both periods is primarily related to the general decline in the yield on investment securities and fixed rate loans within the generally low interest rate environment. The effect of this decline was partially offset by an increase in the yield on variable rate loans due to the recent 75 basis point increases in short-term rates that began at the end of June of this year. The cost of funds declined by 6 basis points and 24 basis points, respectively, for the three and nine months ended September 30, 2004 as compared to the same periods in the prior year. The decline for both periods was primarily the result of a favorable shift in the mix of the deposit portfolio to lower costing core deposits. These lower costing core deposits, including demand, money market and savings accounts, represented approximately 65% and 64%, respectively, of the deposit portfolio for the three and nine month periods ended September 30, 2004 compared to 57% and 55%, respectively, for the three and nine month periods ended September 30, 2003.

Anticipated growth in earning assets is expected to continue to increase levels of net interest income. In addition, we would expect the recent increases in short-term interest rates by the Federal Reserve Bank to have a favorable impact on our net interest margin, driven largely by our significant portfolio of variable rate loans.

The following table shows an analysis of net interest margin for the three-month periods ending September 30, 2004 and 2003.

	For the three months ended September 30,					
	2004			2003		
	Average Balance	Interest Earned Or paid	Average Yield Or cost	Average Balance	Interest Earned Or paid	Average Yield Or cost
	(Dollars in thousands)					
<u>Assets</u>						
Taxable securities	\$ 87,967	\$ 908	4.13%	\$ 66,511	\$ 776	4.67%
Tax-exempt securities (1)	42,373	452	6.63%	26,900	292	6.73%
Loans	1,331,566	18,838	5.56%	1,070,801	15,228	5.59%
Fed funds sold	12,078	36	1.18%	2,639	6	0.86%
Federal Home Loan Bank stock	9,804	110	4.39%	7,023	71	3.94%
Total interest earning assets (1)	1,483,788	20,344	5.46%	1,173,874	16,373	5.54%
Noninterest earning assets						
Cash and due from banks	37,281			31,110		
Other	64,358			61,970		
Total assets	\$ 1,585,427			\$ 1,266,954		
<u>Liabilities</u>						
NOWs and MMDAs	\$ 629,637	1,892	1.20%	\$ 410,581	821	0.79%
Savings	39,629	20	0.20%	39,930	26	0.26%
IRAs	27,269	220	3.21%	25,692	231	3.57%
Time deposits	411,193	2,703	2.61%	403,110	2,962	2.91%
Fed funds borrowed	16,538	70	1.63%	10,230	32	1.22%
Other borrowings	182,325	1,820	3.91%	135,078	1,365	3.95%
Total interest bearing liabilities	1,306,591	6,725	2.04%	1,024,621	5,437	2.10%
Noninterest bearing liabilities						
Noninterest bearing demand accounts	149,002			117,535		
Other noninterest bearing liabilities	3,983			5,255		
Shareholders' equity	125,851			119,543		
Total liabilities and shareholders' equity	\$ 1,585,427			\$ 1,226,954		
Net interest income		\$ 13,619			\$ 10,936	
Net interest spread (1)			3.42%			3.44%
Net interest margin (1)			3.66%			3.71%
Ratio of average interest earning assets to Average interest bearing liabilities	113.56%			114.57%		

(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, 2004 and 2003.

	For the nine months ended September 30,					
	2004			2003		
	Average Balance	Interest Earned Or paid	Average Yield Or cost	Average Balance	Interest Earned Or paid	Average Yield Or cost
	(Dollars in thousands)					
<u>Assets</u>						
Taxable securities	\$ 82,671	\$ 2,623	4.23%	\$ 66,866	\$ 2,443	4.87%
Tax-exempt securities (1)	38,323	1,229	6.64%	21,729	725	6.89%
Loans	1,263,972	52,073	5.43%	1,036,983	44,262	5.65%
Fed funds sold	5,105	44	1.13%	2,171	16	0.99%
Federal Home Loan Bank stock	9,374	316	4.43%	6,061	221	4.82%
Total interest earning assets (1)	1,399,445	56,285	5.37%	1,133,810	47,667	5.61%
Noninterest earning assets						
Cash and due from banks	33,200			30,743		
Other	66,569			59,470		
Total assets	\$ 1,499,214			\$ 1,224,023		
<u>Liabilities</u>						
NOWs and MMDAs	\$ 564,005	4,637	1.10%	\$ 391,370	2,835	0.97%
Savings	38,541	61	0.21%	33,751	102	0.40%
IRAs	26,945	654	3.24%	25,308	707	3.74%
Time deposits	397,426	8,115	2.73%	408,709	9,420	3.08%
Fed funds borrowed	23,189	232	1.32%	12,018	125	1.37%
Other borrowings	183,453	5,006	3.58%	121,790	3,647	3.95%
Total interest bearing liabilities	1,233,559	18,705	2.02%	992,946	16,836	2.26%
Noninterest bearing liabilities						
Noninterest bearing demand accounts	134,773			107,146		
Other noninterest bearing liabilities	6,083			6,058		
Shareholders' equity	124,799			117,873		
Total liabilities and shareholders' equity	\$ 1,499,214			\$ 1,224,023		
Net interest income		\$ 37,580			\$ 30,831	
Net interest spread (1)			3.35%			3.35%
Net interest margin (1)			3.59%			3.63%
Ratio of average interest earning assets to Average interest bearing liabilities	113.45%			114.19%		

(1) Yield adjusted to fully tax equivalent.

Provision for Loan Losses: The provision for loan losses for the three and nine month periods ended September 30, 2004 increased to \$3.9 million and \$6.6 million, respectively, as compared to \$1.0 million and \$2.9 million for the same periods in the prior year. The increase for both the three and nine month periods ended September 30, 2004 is largely related to the \$2.3 million additional provision for the one commercial borrower described earlier under Portfolio Loans and Asset Quality. The amounts of loan loss provision in both the current and prior year periods were 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 Portfolio Loans and Asset Quality.

Noninterest Income: Noninterest income for the three and nine month periods ended September 30, 2004 declined to \$2.3 million and \$7.3 million, respectively, from \$2.8 million and \$7.5 million for the same periods in the prior year. The decline in gains on mortgage loan sales in both the three and nine month periods was partially offset by an increase in deposit service charges, trust fees and other income. Gains on the sales of mortgage loans for the three and nine month periods ended September 30, 2004 were \$340,000 and \$1.6 million compared to \$1.3 million and \$3.3 million for the same periods in 2003. The general rise in mortgage rates since the prior year, when rates were at historic lows, has resulted in a corresponding decline in mortgage loan refinancing volume.

The increase in deposit service charges of \$147,000 and \$275,000 for the three and nine month periods primarily reflects the growth we have experienced in our transaction account balances. The increase in trust fees for both the three and nine month periods is primarily due to the development of new relationships.

Noninterest Expense: Noninterest expense for the three and nine month periods ended September 30, 2004 increased to \$8.9 million and \$26.1 million, respectively, from \$8.1 million and \$22.2 million for the same periods in the prior year. Salaries and benefits increased by \$532,000 for the third quarter and \$2.2 million for the first nine months of 2004 compared to the same periods in the prior year. Our growth has required additional staff in various areas including new branches, lending, trust and investment service departments and operations which are all necessary to support increased customer activity. The increased costs reflect our attention to properly managing and supporting our growth and our interest in creating a platform for strong future growth. Occupancy and furniture and equipment expense have increased along with our branch expansion, which included five new locations since the third quarter of 2003, and partially due to our new corporate headquarters, which we moved into during the second quarter of 2003. The decline in legal and professional fees of \$140,000 and \$134,000 for the three and nine month periods is primarily attributable to reimbursements from our insurance carrier associated with the Trade Partners litigation. For further information regarding litigation related to Trade Partners, please refer to Part II of this form, Item 1 – Legal Proceedings. Although we expect noninterest expense levels to generally rise with our growth, we expect to continue to improve our efficiency by better utilizing our capacity as we grow. The efficiency ratio improved to 56.25% for the third quarter of 2004 compared to 59.11% for the same quarter in 2003. We believe the additional capacity within our branch network will continue to provide future growth opportunities without significant additional costs.

LIQUIDITY AND CAPITAL RESOURCES

Total shareholders' equity increased \$4.9 million to \$126.8 million at September 30, 2004 from December 31, 2003, as the retention of earnings was slightly offset by a reduction in accumulated other comprehensive income.

Net income generated during the first nine months of 2004 of \$8.3 million was partially offset by cash dividends of \$3.1 million, or \$.35 per share. We began paying cash dividends at the end of 2000 and have increased the amount of the dividend each year since then. It is anticipated that we will continue to pay quarterly cash dividends in the future. We have also paid a stock dividend each year beginning in 2001. On April 21, 2004 we announced our fourth consecutive annual stock dividend, set at 5%, which was paid on May 28, 2004 to shareholders of record as of May 12, 2004. All per share and average share information in this report has been adjusted to reflect the effect of this dividend.

The change in accumulated other comprehensive income was due to a decrease in both the market value of securities available for sale and the derivative instruments associated with the Company's interest rate swap arrangements due principally to the general rise in longer-term interest rates during the first nine months of 2004. For more information regarding our interest rate swap arrangements see Note 9 to the consolidated financial statements.

At September 30, 2004, our total capital to risk-weighted assets was 11.1% compared to 10.9% at December 31, 2003. Our Tier 1 Capital as a percent of average assets was 8.5% at September 30, 2004 and 8.8% at December 31, 2003. Both ratios continue to be maintained at levels in excess of the regulatory minimums for *well capitalized* institutions. An increase associated with our issuance of trust preferred securities in the first quarter of 2004 has been largely offset by significant growth in our assets. On March 18, 2004, we raised additional regulatory capital by participating in a pooled trust preferred security issuance in the amount of \$20.0 million. Of this \$20.0 million, approximately \$12.0 million qualified as Tier 1 capital with the remaining qualifying as Tier 2 capital. For more information regarding the trust preferred securities, please refer to Note 10 of the Notes to Consolidated Financial Statements.

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 lines, our borrowings from the Federal Home Loan Bank, and our issuance of trust preferred securities and 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, statements concerning future profitability or future growth or increases, and statements about the adequacy of our capital resources are examples of inherently forward looking statements in that they involve judgments and statements of belief as to the outcome of future events. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse affect on our operations and 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 has only limited agricultural-related loan assets, and therefore has 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, 2004.

	<3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
Assets:					
Fixed rate loans	\$ 33,455	\$ 61,611	\$ 291,049	\$ 54,181	\$ 440,296
Variable rate loans	863,519	5,049	48,000	4,153	920,721
Taxable securities	41	4,161	78,495	5,504	88,201
Tax-exempt securities	-	-	-	47,213	47,213
Federal Home Loan Bank stock	10,344	-	-	-	10,344
Federal Funds Sold	3,322	-	-	-	3,322
Loan Loss Reserve	-	-	-	-	(18,600)
Cash & due from banks	-	-	-	-	38,258
Acquisition intangibles	-	-	-	-	26,369
Loans held for sale	-	-	-	-	1,942
Fixed assets	-	-	-	-	44,558
Other assets	-	-	-	-	14,370
Total	\$ 910,681	\$ 70,821	\$ 417,544	\$ 111,051	\$ 1,616,994
Liabilities:					
Time deposits \$100,000 and over	\$ 87,475	\$ 133,288	\$ 74,651	\$ -	\$ 295,414
Time deposits under \$100,000	16,989	73,647	51,320	-	141,956
Other borrowings	17,598	20,900	42,785	81,571	162,854
Savings	38,247	-	-	-	38,247
NOW & money market accounts	697,602	-	-	-	697,602
Non-Interest Bearing Deposits	-	-	-	-	149,343
Other Liabilities & Equity	-	-	-	-	131,578
Total	\$ 857,911	\$ 227,835	\$ 168,756	\$ 81,571	\$ 1,616,994
Period interest rate gap:	52,770	(157,014)	248,788	29,480	
Cumulative interest rate gap:	52,770	(104,244)	144,544	174,024	
Cumulative interest rate gap					
to total assets	3.26%	(6.45)%	8.94%	10.76%	
Rate sensitive assets to rate					
Sensitive liabilities	1.06	0.31	2.47	1.36	
Cumulative rate sensitive assets to					
Rate sensitive liabilities	1.06	0.90	1.12	1.13	

The above table shows that total assets maturing or repricing within three months exceeded liabilities maturing within the same time period by \$52.8 million indicating that we are asset sensitive in this time horizon. To offset the asset sensitivity in this time horizon, we have entered into interest rate swaps that have the effect of converting \$100.0 million in variable rate loans repricing in less than three months into fixed rate loans repricing in one to five years. The interest rate swaps are not reflected in the table above and are more fully discussed in Note 9 of the Consolidated Financial Statements.

The above gap analysis is limited in that repricing and cash flows of various categories of assets and liabilities are subject to competitive pressures, consumer sentiments and other influences that are beyond our control. Gap analysis does not reflect these influences and 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.

We also utilize a simulation model to assess the direction and magnitude of variations in net interest income and the economic value of equity ("EVE") resulting from potential changes in market interest rates. Key assumptions in the model include contractual cash flows and maturities of interest-sensitive assets and interest-sensitive liabilities, prepayment speeds on certain assets, and changes in market conditions impacting loan and deposit pricing. We also include pricing floors on discretionary priced liability products which limit how low various checking and savings products could go under declining interest rates. These floors reflect our pricing philosophy in response to changing interest rates.

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

The following table shows the impact of changes in interest rates on net interest income over the next twelve months and EVE based on our balance sheet as of September 30, 2004 (dollars in thousands).

Interest Rate Scenario	Economic Value of Equity	Percent Change	Net Interest Income	Percent Change
Interest rates up 200 basis points	\$ 142,982	(8.41)%	\$ 61,028	5.87%
Interest rates up 100 basis points	151,442	(2.99)	59,392	3.03
No change in interest rates	156,104	-	57,645	-
Interest rates down 100 basis points	160,335	2.71	55,710	(3.36)
Interest rates down 200 basis points	169,598	8.64	52,562	(8.82)

If interest rates were to increase, this analysis suggests that we are well-positioned for improvements in net interest income over the next twelve months. Further, our balanced sensitivity in time horizons beyond one year results in little fluctuation in EVE under the various rate shock scenarios.

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

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

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

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-15(e) and 15d-15(e)) as of the end of the period covered by this Form 10-Q Quarterly Report, have concluded that 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. During the period covered by this report, there have been no changes in the Company's internal control over financial reporting that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

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

A lawsuit was filed in April 2003 by John and Kathryn Brand in Oklahoma state court against Grand Bank, the Company, Trade Partners and certain individuals and entities associated with Trade Partners. The complaint seeks damages for the asserted breach of certain escrow agreements for which Grand Bank served as custodian and escrow agent. The Company and Grand Bank have answered this complaint, denying the material allegations and raising certain affirmative defenses. No trial date has been set in this matter. In May 2003, a purported class action complaint was filed by Forrest W. Jenkins and Russell S. Vail against the Company and against LaSalle Bank Corporation in the United States District Court for the District of Western Michigan. The purported class included investors who invested in limited liability companies formed by Trade Partners. On November 6, 2003, the court permitted the plaintiffs to amend their complaint to expand the purported class to include all individuals who invested in Trade Partners viatical investments. The class has not been certified. The court stayed this action to avoid interference with the process of the receivership proceedings, though the stay was modified on July 19, 2004 to permit the Company and plaintiffs to engage in certain limited discovery directed to each other. The plaintiffs allege that Grand Bank breached certain escrow agreements, breached its fiduciary duties, acted negligently or grossly negligently with respect to the plaintiff's investments and violated the Michigan Uniform Securities Act. The amended complaint seeks certification of the action as a class action, unspecified damages and other relief. The Company has answered this complaint denying the material allegations and raising certain affirmative defenses. The Company believes it has meritorious defenses and intends to vigorously defend both cases.

On April 15, 2003, the United States District Court for the Western District of Michigan appointed a receiver for Trade Partners. In order to prevent or minimize any loss to investors in the viaticals sold by Trade Partners to investors, the court appointed receiver has been coordinating the payment of premiums on the approximately 1,000 outstanding viaticated insurance policies in the Trade Partners portfolio so that the policies do not lapse. The receiver informed the Company that nine policies with a total face value of approximately \$1.4 million have lapsed for failure to pay premiums prior to the receiver's coordination efforts. In addition, about \$700,000 is being contested as to lapses.

The receiver has received court permission to pool the death benefits of any of the Trade Partners viaticated policies that mature and use the benefits to pay premiums on other viaticated policies. In October 2004, the Receiver reported that he had received since the inception of the receivership cash payments for death benefit claims aggregating about \$18 million, and had claims pending for an additional \$10 million (though other parties assert claims to some of these proceeds). He reported at the same time that he had paid premiums on the portfolio totaling approximately \$7.8 million since the inception of the receivership. As of October 15, 2004, the receiver reported cash on hand in excess of \$8.5 million. As additional viaticated policies mature, death benefits from those policies could provide a source of funding for continued premium payments.

In addition, on July 1, 2003, the United States District Court for the Western District of Michigan authorized the receiver to borrow money from Macatawa Bank to pay premiums, if needed. Macatawa Bank has agreed to extend a \$4 million line of credit to the receiver, conditioned upon obtaining a security interest in the viaticals. As of September 30, 2004 no draws had yet been made on the line of credit.

The receiver in June 2004 proposed a plan of distribution of the assets of Trade Partners. No hearing has yet been set on the plan, though one may be held before the end of calendar year 2004. The receiver has received authorization from the Court to pursue a sale of the entire portfolio. The Company understands that a proposal to purchase the portfolio has been submitted to the receiver, but the Company does not know what his response to the proposal will be or what the terms may be of any proposed sale which might be submitted to the Court for approval. The Company also has no information on the amount of distributions the receiver may propose to make to investors, or when such distributions might begin.

It is possible that one or more additional legal actions may be initiated involving the custodial and escrow agent services provided by Grand Bank in connection with Trade Partners. If any such legal actions are commenced, the Company intends to defend them vigorously. To the extent any pending or future claims allege errors or omissions on the part of Grand Bank or Macatawa Bank, Management believes that some or all liability, if any is proven or established, will be covered by errors and omissions insurance maintained by Grand Bank and Macatawa Bank. The Company has reported the Trade Partners matter to its two insurance carriers. One carrier has assumed the Company's defense and has advanced a portion of its defense costs pursuant to a reservation of rights letter asserting certain coverage defenses, and an Interim Funding Agreement. The other carrier has taken the position that the duty of defense rests solely with the first carrier, and reserves its rights with respect to indemnity.

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

Item 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. None.

Item 6. Exhibits.

- 31.1 Certificate of the Chief Executive Officer of Macatawa Bank Corporation pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certificate of the Chief Financial Officer of Macatawa Bank Corporation pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certificate of the Chief Executive Officer and 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.

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, 2004, to be signed on its behalf by the undersigned, thereunto duly authorized.

MACATAWA BANK CORPORATION

/s/ Benj. A. Smith, III

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

/s/ Jon W. Swets

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

DATE: November 5, 2004

EXHIBIT INDEX

<u>Exhibit</u>	<u>Description</u>
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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 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 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 report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15 (e)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
 - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2004

/s/ Benj. A. Smith, III

Benj. A. Smith, III
Chief Executive Officer

I, Jon W. Swets, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Macatawa Bank Corporation;
2. Based on my knowledge, this 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 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 report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15 (e)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
 - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2004

/s/ Jon W. Swets

Jon W. Swets
Chief Financial Officer

EXHIBIT 32.1

Benj. A. Smith III, Chief Executive Officer of Macatawa Bank Corporation and Jon W. Swets, Senior Vice President and Chief Financial Officer of Macatawa Bank Corporation, 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, 2004 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, 2004 fairly presents, in all material respects, the financial condition and results of operations of Macatawa Bank Corporation.

Dated: November 5, 2004

/s/ Benj. A. Smith, III

Benj. A. Smith, III
Chief Executive Officer

/s/ Jon W. Swets

Jon W. Swets
Senior Vice President and Chief Financial Officer