

MACATAWA BANK CORP  
Form 10-Q  
October 22, 2015

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 000-25927

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

Michigan 38-3391345  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

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

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

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Indicate by checkmark 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 mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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Large accelerated filer   Accelerated filer   Non-accelerated filer   Smaller reporting company  
(Do not check if smaller reporting company)

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

The number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:  
33,866,789 shares of the Company's Common Stock (no par value) were outstanding as of October 22, 2015.

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Forward-Looking Statements

This report contains forward-looking statements that are based on management's beliefs, assumptions, current expectations, estimates and projections about the financial services industry, the economy, and Macatawa Bank Corporation. Forward-looking statements are identifiable by words or phrases such as "outlook", "plan" or "strategy"; that an event or trend "could", "may", "should", "will", "is likely", or is "probable" to occur or "continue", has "begun" or "is scheduled", "is on track" or that the Company or its management "anticipates", "believes", "estimates", "plans", "forecasts", "intends", "predicts", "projects", or "expects" a particular result, or is "committed", "confident", "optimistic" or has an "opinion" that an event will occur, or other words or phrases such as "ongoing", "future", "signs", "efforts", "suggests", "tend", "exploring", "appearing", "emerging", "near term", "going forward", "focus", "starting", "initiative," "trend" and variations of such words and similar expressions. Such statements are based upon current beliefs and expectations and involve substantial risks and uncertainties which could cause actual results to differ materially from those expressed or implied by such forward-looking statements. These statements include, among others, future levels of earning assets, statements related to stabilization of our loan portfolio, trends in credit quality metrics, future capital levels and capital needs, including the impact of Basel III, real estate valuation, future levels of repossessed and foreclosed properties and nonperforming assets, future levels of losses and costs associated with the administration and disposition of repossessed and foreclosed properties and nonperforming assets, future levels of loan charge-offs, future levels of other real estate owned, future levels of provisions for loan losses, the rate of asset dispositions, future dividends, future growth and funding sources, future cost of funds, future liquidity levels, future profitability levels, future FDIC assessment levels, future net interest margin levels, building and improving our investment portfolio, diversifying our credit risk, the effects on earnings of changes in interest rates, future economic conditions, future effects of new or changed accounting standards, future loss recoveries, future balances of short-term investments, future loan demand, loan growth and loan pricing, future levels of mortgage banking revenue and the future level of other revenue sources. Management's determination of the provision and allowance for loan losses, the appropriate carrying value of intangible assets (including deferred tax assets) and other real estate owned, and the fair value of investment securities (including whether any impairment on any investment security is temporary or other-than-temporary and the amount of any impairment) involves judgments that are inherently forward-looking. All statements with references to future time periods are forward-looking. All of the information concerning interest rate sensitivity is forward-looking. Our ability to sell other real estate owned at its carrying value or at all, successfully implement new programs and initiatives, increase efficiencies, maintain our current levels of deposits and other sources of funding, maintain liquidity, respond to declines in collateral values and credit quality, increase loan volume, originate high quality loans, maintain or improve mortgage banking income, realize the benefit of our deferred tax assets, continue payment of dividends and improve profitability is not entirely within our control and is not assured. The future effect of changes in the real estate, financial and credit markets and the national and regional economy on the banking industry, generally, and Macatawa Bank Corporation, specifically, are also inherently uncertain. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions ("risk factors") that are difficult to predict with regard to timing, extent, likelihood and degree of occurrence. Therefore, actual results and outcomes may materially differ from what may be expressed or forecasted in such forward-looking statements. Macatawa Bank Corporation does not undertake to update forward-looking statements to reflect the impact of circumstances or events that may arise after the date of the forward-looking statements.

Risk factors include, but are not limited to, the risk factors described in "Item 1A - Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2014. These and other factors are representative of the risk factors that may emerge and could cause a difference between an ultimate actual outcome and a preceding forward-looking statement.

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## Part I Financial Information

## Item 1.

## MACATAWA BANK CORPORATION

## CONSOLIDATED BALANCE SHEETS

As of September 30, 2015 (unaudited) and December 31, 2014

(Dollars in thousands, except per share data)

	September 30, 2015	December 31, 2014
<b>ASSETS</b>		
Cash and due from banks	\$23,468	\$31,503
Federal funds sold and other short-term investments	100,285	97,952
Cash and cash equivalents	123,753	129,455
Interest-bearing time deposits in other financial institutions	20,000	20,000
Securities available for sale, at fair value	161,515	161,874
Securities held to maturity (fair value 2015 - \$41,624 and 2014 - \$31,428)	40,434	31,585
Federal Home Loan Bank (FHLB) stock	11,558	11,238
Loans held for sale, at fair value	2,895	2,347
Total loans	1,192,878	1,118,483
Allowance for loan losses	(18,217 )	(18,962 )
Net loans	1,174,661	1,099,521
Premises and equipment – net	51,725	52,894
Accrued interest receivable	3,778	3,399
Bank-owned life insurance	28,697	28,195
Other real estate owned - net	25,671	28,242
Net deferred tax asset	10,605	12,265
Other assets	4,047	2,831
Total assets	\$1,659,339	\$1,583,846
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits		
Noninterest-bearing	\$442,316	\$404,143
Interest-bearing	924,533	902,182
Total deposits	1,366,849	1,306,325
Other borrowed funds	96,169	88,107
Long-term debt	41,238	41,238
Accrued expenses and other liabilities	5,350	5,657
Total liabilities	1,509,606	1,441,327
Commitments and contingent liabilities	---	---
Shareholders' equity		
Common stock, no par value, 200,000,000 shares authorized; 33,866,789 shares issued and outstanding at September 30, 2015 and December 31, 2014	216,544	216,460
Retained deficit	(67,439 )	(74,002 )
Accumulated other comprehensive income	628	61
Total shareholders' equity	149,733	142,519

Total liabilities and shareholders' equity	\$1,659,339	\$1,583,846
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See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF INCOMEThree and Nine Month Periods Ended September 30, 2015 and 2014  
(unaudited)

(Dollars in thousands, except per share data)

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Interest income				
Loans, including fees	\$ 11,250	\$ 10,639	\$ 33,365	\$ 32,129
Securities				
Taxable	529	504	1,531	1,503
Tax-exempt	394	309	1,114	828
FHLB Stock	120	105	348	365
Federal funds sold and other short-term investments	134	117	318	347
Total interest income	12,427	11,674	36,676	35,172
Interest expense				
Deposits	521	614	1,749	1,974
Other borrowings	449	425	1,317	1,283
Subordinated and long-term debt	336	331	992	980
Total interest expense	1,306	1,370	4,058	4,237
Net interest income	11,121	10,304	32,618	30,935
Provision for loan losses	(250 )	(750 )	(1,750 )	(2,750 )
Net interest income after provision for loan losses	11,371	11,054	34,368	33,685
Noninterest income				
Service charges and fees	1,150	1,163	3,248	3,219
Net gains on mortgage loans	705	679	2,249	1,405
Trust fees	711	669	2,168	2,002
ATM and debit card fees	1,220	1,170	3,549	3,425
Gain on sales of securities	36	---	119	51
Other	662	622	1,958	1,779
Total noninterest income	4,484	4,303	13,291	11,881
Noninterest expense				
Salaries and benefits	6,158	5,810	18,474	17,177
Occupancy of premises	948	897	2,823	2,837
Furniture and equipment	835	803	2,431	2,394
Legal and professional	231	196	661	639
Marketing and promotion	263	264	831	816
Data processing	619	635	1,845	1,807
FDIC assessment	283	287	854	934
Interchange and other card expense	304	288	864	825
Bond and D&O Insurance	147	166	438	493
Net (gains) losses on repossessed and foreclosed properties	(160 )	449	260	634
Administration and disposition of problem assets	393	412	1,053	1,584
Other	1,233	1,182	3,804	3,657

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Total noninterest expenses	11,254	11,389	34,338	33,797
Income before income tax	4,601	3,968	13,321	11,769
Income tax expense	1,400	1,206	4,065	3,614
Net income	\$ 3,201	\$ 2,762	\$ 9,256	\$ 8,155
Basic earnings per common share	\$ 0.09	\$ 0.08	\$ 0.27	\$ 0.24
Diluted earnings per common share	\$ 0.09	\$ 0.08	\$ 0.27	\$ 0.24
Cash dividends per common share	\$ 0.03	\$ 0.02	\$ 0.08	\$ 0.06

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See accompanying notes to consolidated financial statements.

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MACATAWA BANK CORPORATION  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
Three and Nine Month Periods Ended September 30, 2015 and 2014  
(unaudited)  
(Dollars in thousands)

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Net income	\$ 3,201	\$ 2,762	\$ 9,256	\$ 8,155
Other comprehensive income:				
Unrealized gains:				
Net change in unrealized gains (losses) on securities available for sale	925	316	991	2,650
Tax effect	(324 )	(111 )	(347 )	(928 )
Net change in unrealized gains (losses) on securities available for sale, net of tax	601	205	644	1,722
Less: reclassification adjustments:				
Reclassification for gains included in net income	36	---	119	51
Tax effect	(13 )	---	(42 )	(18 )
Reclassification for gains included in net income, net of tax	23	---	77	33
Other comprehensive income, net of tax	578	205	567	1,689
Comprehensive income	\$ 3,779	\$ 2,967	\$ 9,823	\$ 9,844

See accompanying notes to consolidated financial statements.

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MACATAWA BANK CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Nine Month Periods Ended September 30, 2015 and 2014

(unaudited)

(Dollars in thousands, except per share data)

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Common	Retained
Stock	Deficit