

(616) 406-3000

(Registrant's telephone number, including area code)

Indicate by check mark 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 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Yes No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

At August 7, 2017, there were 16,482,620 shares of common stock outstanding.

Table of Contents

MERCANTILE BANK CORPORATION

INDEX

PART I.	<u>Financial Information</u>	<u>Page No.</u>
	<u>Item 1. Financial Statements</u>	
	<u>Condensed Consolidated Balance Sheets (Unaudited) – June 30, 2017 and December 31, 2016</u>	1
	<u>Condensed Consolidated Statements of Income (Unaudited) - Three and Six Months Ended June 30, 2017 and June 30, 2016</u>	2
	<u>Condensed Consolidated Statements of Comprehensive Income (Unaudited) - Three and Six Months Ended June 30, 2017 and June 30, 2016</u>	3
	<u>Condensed Consolidated Statements of Changes in Shareholders' Equity (Unaudited) – Six Months Ended June 30, 2017 and June 30, 2016</u>	4
	<u>Condensed Consolidated Statements of Cash Flows (Unaudited) – Six Months Ended June 30, 2017 and June 30, 2016</u>	6
	<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	8
	<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	71
	<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	90
	<u>Item 4. Controls and Procedures</u>	92
PART II.	<u>Other Information</u>	
	<u>Item 1. Legal Proceedings</u>	93
	<u>Item 1A. Risk Factors</u>	93
	<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	93
	<u>Item 3. Defaults Upon Senior Securities</u>	93
	<u>Item 4. Mine Safety Disclosures</u>	93

<u>Item 5. Other Information</u>	93
<u>Item 6. Exhibits</u>	93
<u>Signatures</u>	94

Table of Contents

MERCANTILE BANK CORPORATION

PART I --- FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	June 30, 2017	December 31, 2016
ASSETS		
Cash and due from banks	\$52,847,000	\$50,200,000
Interest-earning deposits	48,762,000	133,396,000
Total cash and cash equivalents	101,609,000	183,596,000
Securities available for sale	322,258,000	328,060,000
Federal Home Loan Bank stock	11,036,000	8,026,000
Loans	2,527,281,000	2,378,620,000
Allowance for loan losses	(18,295,000)	(17,961,000)
Loans, net	2,508,986,000	2,360,659,000
Premises and equipment, net	45,999,000	45,456,000
Bank owned life insurance	66,535,000	67,198,000
Goodwill	49,473,000	49,473,000
Core deposit intangible	8,712,000	9,957,000
Other assets	28,728,000	30,146,000
Total assets	\$3,143,336,000	\$3,082,571,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest-bearing	\$800,718,000	\$810,600,000
Interest-bearing	1,570,003,000	1,564,385,000
Total deposits	2,370,721,000	2,374,985,000
Securities sold under agreements to repurchase	110,920,000	131,710,000
Federal Home Loan Bank advances	245,000,000	175,000,000
Subordinated debentures	45,176,000	44,835,000

Edgar Filing: MERCANTILE BANK CORP - Form 10-Q

Accrued interest and other liabilities	14,020,000	15,230,000
Total liabilities	2,785,837,000	2,741,760,000
Shareholders' equity		
Preferred stock, no par value; 1,000,000 shares authorized; none issued	0	0
Common stock, no par value; 40,000,000 shares authorized; 16,480,852 shares issued and outstanding at June 30, 2017 and 16,416,695 shares issued and outstanding at December 31, 2016	308,343,000	305,488,000
Retained earnings	50,012,000	40,904,000
Accumulated other comprehensive loss	(856,000)	(5,581,000)
Total shareholders' equity	357,499,000	340,811,000
Total liabilities and shareholders' equity	\$3,143,336,000	\$3,082,571,000

See accompanying notes to condensed consolidated financial statements.

Table of Contents

MERCANTILE BANK CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Interest income				
Loans, including fees	\$28,927,000	\$26,887,000	\$55,660,000	\$53,666,000
Securities, taxable	1,285,000	2,657,000	2,563,000	4,173,000
Securities, tax-exempt	575,000	540,000	1,125,000	1,077,000
Other interest-earning assets	116,000	63,000	259,000	120,000
Total interest income	30,903,000	30,147,000	59,607,000	59,036,000
Interest expense				
Deposits	2,023,000	1,819,000	3,891,000	3,685,000
Short-term borrowings	46,000	47,000	97,000	91,000
Federal Home Loan Bank advances	1,002,000	575,000	1,657,000	925,000
Subordinated debentures and other borrowings	639,000	606,000	1,260,000	1,353,000
Total interest expense	3,710,000	3,047,000	6,905,000	6,054,000
Net interest income	27,193,000	27,100,000	52,702,000	52,982,000
Provision for loan losses	750,000	1,100,000	1,350,000	1,700,000
Net interest income after provision for loan losses	26,443,000	26,000,000	51,352,000	51,282,000
Noninterest income				
Services charges on deposit and sweep accounts	1,054,000	1,090,000	2,072,000	2,038,000
Credit and debit card income	1,176,000	1,080,000	2,282,000	2,095,000
Mortgage banking income	783,000	744,000	1,906,000	1,342,000
Earnings on bank owned life insurance	328,000	298,000	2,066,000	584,000
Gain on trust preferred securities repurchase	0	0	0	2,970,000
Other income	701,000	852,000	1,567,000	2,121,000
Total noninterest income	4,042,000	4,064,000	9,893,000	11,150,000

Edgar Filing: MERCANTILE BANK CORP - Form 10-Q

Noninterest expense				
Salaries and benefits	10,888,000	10,801,000	22,160,000	21,796,000
Occupancy	1,554,000	1,480,000	3,108,000	3,084,000
Furniture and equipment depreciation, rent and maintenance	546,000	522,000	1,081,000	1,047,000
Data processing costs	2,072,000	1,970,000	4,083,000	3,962,000
FDIC insurance costs	248,000	365,000	458,000	757,000
Other expense	4,574,000	4,055,000	8,768,000	8,415,000
Total noninterest expenses	19,882,000	19,193,000	39,658,000	39,061,000
Income before federal income tax expense	10,603,000	10,871,000	21,587,000	23,371,000
Federal income tax expense	3,260,000	3,437,000	6,629,000	7,388,000
Net income	\$7,343,000	\$7,434,000	\$14,958,000	\$15,983,000
Basic earnings per share	\$0.45	\$0.46	\$0.91	\$0.98
Diluted earnings per share	\$0.45	\$0.46	\$0.91	\$0.98
Cash dividends per share	\$0.18	\$0.16	\$0.36	\$0.32
Average basic shares outstanding	16,471,060	16,240,966	16,452,954	16,266,311
Average diluted shares outstanding	16,485,356	16,268,839	16,467,384	16,293,250

See accompanying notes to condensed consolidated financial statements.

Table of Contents

MERCANTILE BANK CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Net income	\$7,343,000	\$7,434,000	\$14,958,000	\$15,983,000
Other comprehensive income:				
Unrealized holding gains on securities available for sale	6,233,000	299,000	7,213,000	2,218,000
Fair value of interest rate swap	15,000	(4,000)	57,000	(25,000)
Total other comprehensive income	6,248,000	295,000	7,270,000	2,193,000
Tax effect of unrealized holding gains on securities available for sale	(2,182,000)	(105,000)	(2,525,000)	(777,000)
Tax effect of fair value of interest rate swap	(5,000)	1,000	(20,000)	9,000
Total tax effect of other comprehensive income	(2,187,000)	(104,000)	(2,545,000)	(768,000)
Other comprehensive income, net of tax	4,061,000	191,000	4,725,000	1,425,000
Comprehensive income	\$11,404,000	\$7,625,000	\$19,683,000	\$17,408,000

See accompanying notes to condensed consolidated financial statements.

Table of Contents

MERCANTILE BANK CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF
 CHANGES IN SHAREHOLDERS' EQUITY
 (Unaudited)

(\$ in thousands except per share amounts)	Preferred Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balances, January 1, 2017	\$ 0	\$305,488	\$40,904	\$ (5,581)	\$ 340,811
Employee stock purchase plan (682 shares)		23			23
Dividend reinvestment plan (39,612 shares)		1,286			1,286
Stock option exercises (20,000 shares)		248			248
Stock grants to directors for retainer fees (11,712 shares)		363			363
Stock-based compensation expense		935			935
Cash dividends (\$0.36 per common share)			(5,850)		(5,850)