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nRow.6.amt.4 style="FONT-SIZE: 10pt; FONT-FAMILY: Times New Roman, Times, serif; WIDTH: 10%; VERTICAL-ALIGN: bottom; TEXT-ALIGN: right; BACKGROUND-COLOR: #cceeFF">235,587,000 10.3 16.5

Savings

332,794,000 14.6 330,459,000 14.5 0.7

Time, under \$100,000

155,655,000 6.9 181,026,000 8.0 (14.0)

Time, \$100,000 and over

313,247,000 13.8 382,120,000 16.8 (18.0) 2,154,013,000 94.7 2,101,312,000 92.3 2.5

Out-of-area time, under \$100,000

149,000

< 0.1

2,422,000 0.1

NM

Out-of-area time, \$100,000 and over

121,220,000 5.3 173,181,000 7.6 (30.0) 121,369,000 5.3 175,603,000 7.7 (30.9)

Total deposits

\$2,275,382,000 100.0% \$2,276,915,000 100.0% (0.1%)

Out-of-area time deposits consist of deposits obtained from depositors outside of our primary market areas almost exclusively through deposit brokers.

The following table depicts the maturity distribution for time deposits at year-end:

2015

2014

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In one year or less	\$305,122,000	\$368,163,000
In one to two years	145,775,000	153,346,000
In two to three years	71,988,000	118,919,000
In three to four years	37,527,000	60,953,000
In four to five years	29,859,000	37,368,000
Total certificates of deposit	\$590,271,000	\$738,749,000

The following table depicts the maturity distribution for time deposits with balances of \$100,000 or more at year-end:

	2015	2014
Up to three months	\$73,783,000	\$75,356,000
Three months to six months	50,375,000	65,838,000
Six months to twelve months	91,786,000	125,492,000
Over twelve months	218,523,000	288,615,000
Total certificates of deposit	\$434,467,000	\$555,301,000

Total time deposits of more than \$250,000 totaled \$180.4 million and \$223.0 million at year-end 2015 and 2014, respectively.

(Continued)

MERCANTILE BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015

NOTE 9 – SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Information regarding securities sold under agreements to repurchase at year-end is summarized below:

	2015		2014	
Outstanding balance at year-end	\$ 154,771,000		\$ 167,569,000	
Weighted average interest rate at year-end	0.11	%	0.11	%
Average daily balance during the year	\$ 146,826,000		\$ 105,474,000	
Weighted average interest rate during the year	0.11	%	0.12	%
Maximum daily balance during the year	\$ 168,211,000		\$ 178,042,000	

Securities sold under agreements to repurchase (“repurchase agreements”) generally have original maturities of less than one year. Repurchase agreements are treated as financings, and the obligations to repurchase securities sold are reflected as liabilities. Securities involved with the repurchase agreements are recorded as assets of our Bank and are held in safekeeping by a correspondent bank. Repurchase agreements are offered principally to certain large deposit customers. Repurchase agreements are secured by securities with an aggregate fair value equal to the aggregate outstanding balance.

NOTE 10 - FEDERAL HOME LOAN BANK ADVANCES

Federal Home Loan Bank of Indianapolis (“FHLBI”) advances totaled \$68.0 million at December 31, 2015, and were expected to mature at varying dates from December 2016 through August 2022, with fixed rates of interest from 1.22% to 2.11% and averaging 1.49%. FHLBI advances totaled \$54.0 million at December 31, 2014, and were expected to mature at varying dates ranging from January 2015 through September 2017, with fixed rates of interest from 0.62% to 1.51% and averaging 1.26%.

Each advance is payable at its maturity date, and is subject to a prepayment fee if paid prior to the maturity date. The advances are generally collateralized by a blanket lien on our residential mortgage loan portfolio. Our borrowing line of credit as of December 31, 2015 totaled \$467 million, with availability of \$399 million.

Scheduled maturities as of December 31, 2015:

2016	\$3,000,000
2017	45,000,000
2018	0
2019	0
2020	10,000,000
Thereafter	10,000,000

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MERCANTILE BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015

NOTE 11 - FEDERAL INCOME TAXES

The consolidated income tax expense is as follows:

	2015	2014	2013
Current expense	\$7,399,000	\$3,359,000	\$0
Deferred expense	4,592,000	4,506,000	8,092,000
Change in valuation allowance	(180,000)	0	0
Tax expense	\$11,811,000	\$7,865,000	\$8,092,000

A reconciliation of the differences between the federal income tax expense recorded and the amount computed by applying the federal statutory rate to income before income taxes is as follows:

	2015	2014	2013
Tax at statutory rate (35%)	\$13,591,000	\$8,819,000	\$8,794,000
Increase (decrease) from			
Tax-exempt interest	(781,000)	(621,000)	(347,000)
Bank owned life insurance	(384,000)	(415,000)	(465,000)
Change in valuation allowance	(180,000)	0	0
Other	(435,000)	82,000	110,000
Tax expense	\$11,811,000	\$7,865,000	\$8,092,000

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MERCANTILE BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015

NOTE 11 - FEDERAL INCOME TAXES (Continued)

Significant components of deferred tax assets and liabilities as of December 31, 2015 and 2014 are as follows:

	2015	2014
Deferred income tax assets		
Allowance for loan losses	\$5,488,000	\$7,014,000
Deferred compensation	1,367,000	1,304,000
Stock compensation	767,000	521,000
Nonaccrual loan interest income	602,000	471,000
Deferred loan fees	504,000	445,000
Losses on capital investments	270,000	450,000
Fair value write-downs on foreclosed properties	115,000	212,000
Fair value of interest rate swap	89,000	89,000
Tax credit carryforwards	0	3,395,000
Business combination adjustments	0	315,000
Other	283,000	410,000
Deferred tax asset before valuation allowance	9,485,000	14,626,000
Valuation allowance	(270,000)	(450,000)
Deferred tax asset after valuation allowance	9,215,000	14,176,000
Deferred income tax liabilities		
Depreciation	1,128,000	1,217,000
Prepaid expenses	378,000	425,000
Core deposit intangible	4,349,000	5,386,000
Mortgage loan servicing rights	2,142,000	2,349,000
Unrealized gain on securities	768,000	112,000
Business combination adjustments	1,091,000	0
Other	188,000	476,000
Deferred tax liability	10,044,000	9,965,000
Total net deferred tax asset (liability)	\$(829,000)	\$4,211,000

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A valuation allowance related to deferred tax assets is required when it is considered more likely than not that all or part of the benefits related to such assets will not be realized. At December 31, 2014, we carried a valuation allowance against the \$0.5 million deferred tax asset associated with certain capital investments acquired in our merger with Firstbank. During 2015, we disposed of these investments entirely, partially offsetting the capital loss incurred for tax purposes with capital gains resulting from the FHLBI initiated repurchase of its excess shares. We reversed \$0.2 million of the valuation allowance due to the capital gain, and continue to carry a valuation allowance on the \$0.3 million deferred tax asset associated with \$0.8 million of capital loss carry forward that will expire at December 31, 2020. We believe the remainder of our deferred tax assets are more likely than not to be realized.

We had no unrecognized tax benefits at any time during 2015 or 2014 and do not anticipate any significant increase in unrecognized tax benefits during 2016. Should the accrual of any interest or penalties relative to unrecognized tax benefits be necessary, it is our policy to record such accruals in our income tax accounts; no such accruals existed at any time during 2015 or 2014. Our U.S. federal income tax returns are no longer subject to examination for all years before 2012.

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MERCANTILE BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015

NOTE 12 – STOCK-BASED COMPENSATION

Stock-based compensation plans are used to provide directors and employees with an increased incentive to contribute to our long-term performance and growth, to align the interests of directors and employees with the interests of our shareholders through the opportunity for increased stock ownership and to attract and retain directors and employees. No stock option or restricted stock grants were made during 2013 due to the pending merger with Firstbank. During 2014 and 2015, stock option and restricted stock grants were provided to certain employees through the Stock Incentive Plan of 2006. In addition, stock grants were provided to directors as retainer payments during 2014 and 2015 through the Stock Incentive Plan of 2006.

Under the Stock Incentive Plan of 2006, incentive awards may include, but are not limited to, stock options, restricted stock, stock appreciation rights and stock awards. Incentive awards that are stock options or stock appreciation rights are granted with an exercise price not less than the closing price of our common stock on the date of grant. Price, vesting and expiration date parameters are determined by Mercantile's Compensation Committee on a grant-by-grant basis. Generally, the stock options granted to employees during 2006, 2007 and 2008 fully vested after two years and expired after seven years. Restricted stock awards granted to directors and certain employees during 2012 fully vested after two years. No payments were required from employees for the restricted stock awards. The restricted stock awards granted to certain employees during 2014 and 2015 fully vest after three years. The stock options granted to certain employees during 2014 and 2015, which were at 110% of the market price on the date of grant, fully vest after two years and expire after seven years. At year-end 2015, there were approximately 215,000 shares authorized for future incentive awards.

In conjunction with the Firstbank merger, all of our outstanding restricted stock awards, which were scheduled to vest in full in November, 2014, became fully vested on June 1, 2014, resulting in the recognition of compensation expense of \$0.2 million in the second quarter of 2014 to reflect the accelerated vesting of the restricted stock awards. The unrecognized compensation cost related to unvested stock options was less than \$0.1 million as of December 31, 2015, which will be recognized as expense over the next two years. The unrecognized compensation cost related to restricted stock grants was \$3.0 million as of December 31, 2015, which will be recognized as expense over the next three years.

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Also in conjunction with the Firstbank merger, we issued Mercantile stock options in replacement of all outstanding Firstbank stock option grants that had been previously issued to Firstbank employees under the Firstbank Corporation Stock Option and Restricted Stock Plan of 1997 and the Firstbank Corporation 2006 Stock Compensation Plan. In general, stock option grants for 50 shares or less fully vested after one year from date of grant, while stock option grants for more than 50 shares vested over a five-year period at 20% of the grant per annum starting one year from date of grant. The stock option grants expire ten years from date of grant. There were approximately 282,200 Mercantile stock options issued as a result of the merger, with about 258,400 of the stock option grants fully vested and exercisable on the date of merger. The remaining 23,800 stock option grants vested during 2015.

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MERCANTILE BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015

NOTE 12 – STOCK-BASED COMPENSATION (Continued)

A summary of restricted stock activity from grants issued under the Mercantile Stock Incentive Plan of 2006 during the past three years is as follows:

	2015	Weighted	2014	Weighted	2013	Weighted
	Shares	Average	Shares	Average	Shares	Average
		Fair Value		Fair Value		Fair Value
Nonvested at beginning of year	101,490	\$ 20.13	63,800	\$ 14.30	66,100	\$ 14.30
Granted	65,933	25.14	101,490	20.13	0	NA
Vested	(4,666)	20.13	(63,300)	14.30	0	NA
Forfeited	(7,256)	20.13	(500)	14.30	(2,300)	14.30
Nonvested at end of year	155,501	\$ 22.25	101,490	\$ 20.13	63,800	\$ 14.30

A summary of stock option activity from grants issued under various Mercantile plans during the past three years is as follows:

	2015	2014	2013
	Weighted	Weighted	Weighted
	Average	Average	Average
Shares	Exercise	Exercise	Exercise
	Price	Price	Price

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Outstanding at beginning of year	35,335	\$ 31.09	60,876	\$ 33.11	152,896	\$ 26.15
Granted	4,200	27.66	6,488	22.15	0	NA
Exercised	(2,700)	6.21	(2,845)	17.74	(51,055)	13.72
Forfeited or expired	(26,147)	35.88	(29,184)	34.60	(40,965)	31.30
Outstanding at end of year	10,688	\$ 24.32	35,335	\$ 31.09	60,876	\$ 33.11
Options exercisable at year-end	0	\$ NA	28,847	\$ 33.11	60,876	\$ 33.11

The fair value of each stock option award is estimated on the date of grant using a closed option valuation (Black-Scholes) model that uses the assumptions noted in the table below. Expected volatilities are based on historical volatilities on our common stock. Historical data is used to estimate stock option expense and post-vesting termination behavior. The expected term of stock options granted is based on historical data and represents the period of time that stock options granted are expected to be outstanding, which takes into account that the stock options are not transferable. The risk-free interest rate for the expected term of the stock option is based on the U.S. Treasury yield curve in effect at the time of the stock option grant.

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MERCANTILE BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015

NOTE 12 – STOCK-BASED COMPENSATION (Continued)

The fair value of stock options granted during 2015 and 2014 was determined using the following weighted-average assumptions as of the grant date. No stock options were granted during 2013.

	2015		2014	
Risk-free interest rate	1.67	%	1.56	%
Expected option life (Years)	5		5	
Expected stock price volatility	29	%	26	%
Dividend yield	2.5	%	2.5	%

Options issued under various Mercantile plans outstanding at year-end 2015 were as follows:

Range of Exercise Prices	Outstanding		Exercisable	
	Number	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Weighted Average Exercise Price
\$20.01 - \$24.00	6,488	5.9	\$ 22.15	0 NA
\$24.01 - \$28.00	4,200	6.9	27.66	0 NA
Outstanding at year end	10,688	6.3	\$ 24.32	0 NA

Information related to options issued under various Mercantile plans outstanding at year-end 2015, 2014 and 2013 is as follows:

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	2015	2014	2013
Minimum exercise price	\$22.15	\$6.21	\$6.21
Maximum exercise price	27.66	35.88	40.28
Average remaining option term (Years)	6.3	2.0	1.4

Information related to stock option grants and exercises issued under various Mercantile plans during 2015, 2014 and 2013 is as follows:

	2015	2014	2013
Aggregate intrinsic value of stock options exercised	\$36,000	\$11,000	\$408,000
Cash received from stock option exercises	17,000	50,000	289,000
Tax benefit realized from stock option exercises	0	0	0
Weighted average per share fair value of stock options granted	\$4.41	2.72	NA

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MERCANTILE BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015

NOTE 12– STOCK-BASED COMPENSATION (Continued)

The aggregate intrinsic value of all stock options issued under various Mercantile plans outstanding and exercisable at December 31, 2015 was \$0. Shares issued as a result of the exercise of stock option grants have been authorized and were previously unissued shares.

A summary of stock option activity from grants issued under various Firstbank plans that became part of Mercantile's plans upon consummation of the merger on June 1, 2014 is as follows:

	2015	Weighted	2014	Weighted
	Shares	Average	Shares	Average
		Exercise		Exercise
		Price		Price
Outstanding at beginning of year	217,982	\$ 14.89	0	\$ NA
Granted	0	NA	0	NA
Replaced as part of merger	0	NA	282,178	15.48
Exercised	(56,417)	15.50	(27,740)	8.34
Forfeited or expired	(37,678)	21.39	(36,456)	24.46
Outstanding at end of year	123,887	\$ 12.64	217,982	\$ 14.89
Options exercisable at year-end	123,887	\$ 12.64	210,777	\$ 15.22

Options issued under various Firstbank plans outstanding at year-end 2015 were as follows:

Outstanding

Exercisable

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Range of Exercise Prices	Number	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
\$ 4.00 - \$ 8.00	48,430	3.8	\$ 6.58	48,430	\$ 6.58
\$ 8.01 - \$12.00	18,550	3.9	8.60	18,550	8.60
\$12.01 - \$16.00	27,350	1.9	16.00	27,350	16.00
\$20.01 - \$24.00	29,557	0.9	22.00	29,557	22.00
Outstanding at year end	123,887	2.7	\$ 12.64	123,887	\$ 12.64

Information related to options issued under various Firstbank plans outstanding at year-end 2015 and 2014 is as follows:

	2015	2014
Minimum exercise price	\$5.19	\$5.19
Maximum exercise price	22.00	24.46
Average remaining option term (Years)	2.7	3.1

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MERCANTILE BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015

NOTE 12 – STOCK-BASED COMPENSATION (Continued)

Information related to stock option grants and exercises issued under various Firstbank plans during 2015 and 2014 is as follows:

	2015	2014
Aggregate intrinsic value of stock options exercised	\$420,000	\$333,000
Cash received from stock option exercises	874,000	232,000
Tax benefit realized from stock option exercises	147,000	116,000
Weighted average per share fair value of stock options granted	NA	NA

The aggregate intrinsic value of all stock options issued under various Firstbank plans outstanding and exercisable at December 31, 2015 was \$1.5 million. Shares issued as a result of the exercise of stock option grants have been authorized and previously unissued shares.

On January 2, 2015, we granted a total of 5,994 shares of common stock to our Corporate, Bank and Regional Advisory Boards of Directors for retainer payments for the period of January 1, 2015 through May 31, 2015. The associated \$0.1 million cost was expensed on a straightline basis over the first five months of 2015. On May 28, 2015, we granted a total of 14,100 shares of common stock to our Corporate, Bank and Regional Advisory Boards of Directors for retainer payments for the period of June 1, 2015 through May 31, 2016. The associated \$0.3 million cost is being expensed on a straightline basis over the respective twelve month period.

NOTE 13 – RELATED PARTIES

Certain directors and executive officers of the Bank, including their immediate families and companies in which they are principal owners, were loan customers of the Bank. At year-end 2015 and 2014, the Bank had \$14.0 million and

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\$15.8 million in loan commitments to directors and executive officers, of which \$11.2 million and \$9.0 million were outstanding at year-end 2015 and 2014, respectively, as reflected in the following table. The line item entitled “Adjustments” primarily relates to Board member retirements in 2015 and the Firstbank merger in 2014.

	2015	2014
Beginning balance	\$9,002,000	\$6,884,000
New loans	3,371,000	781,000
Repayments	(965,000)	(381,000)
Adjustments	(257,000)	1,718,000
Ending balance	\$11,151,000	\$9,002,000

Related party deposits and repurchase agreements totaled \$18.5 million and \$16.6 million at year-end 2015 and 2014, respectively.

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MERCANTILE BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015

NOTE 14 – COMMITMENTS AND OFF-BALANCE-SHEET RISK

We are a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to extend credit and standby letters of credit. Loan commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Standby letters of credit are conditional commitments issued by our Bank to guarantee the performance of a customer to a third party. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized, if any, in the balance sheet. Our maximum exposure to loan loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. We use the same credit policies in making commitments and conditional obligations as we do for on-balance sheet instruments. Collateral, such as accounts receivable, securities, inventory, and property and equipment, is generally obtained based on management's credit assessment of the borrower. If required, estimated loss exposure resulting from these instruments is expensed and recorded as a liability. There was no liability balance for these instruments as of December 31, 2015 and 2014.

At year-end 2015 and 2014, the rates on existing off-balance sheet instruments were substantially equivalent to current market rates, considering the underlying credit standing of the counterparties.

Our maximum exposure to credit losses for loan commitments and standby letters of credit outstanding at year-end was as follows:

2015	2014
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Commercial unused lines of credit	\$522,658,000	\$554,856,000
Unused lines of credit secured by 1 – 4 family residential properties	61,905,000	60,983,000
Credit card unused lines of credit	15,612,000	11,649,000
Other consumer unused lines of credit	8,583,000	8,673,000
Commitments to make loans	178,034,000	110,126,000
Standby letters of credit	34,946,000	35,461,000
 Total commitments	 \$821,738,000	 \$781,748,000

Commitments to make loans generally reflect our binding obligations to existing and prospective customers to extend credit, including line of credit facilities secured by accounts receivable and inventory, and term debt secured by either real estate or equipment. In most instances, line of credit facilities are for a one-year term and are at a floating rate tied to the Wall Street Journal Prime Rate or the 30-Day Libor rate. For term debt secured by real estate, customers are generally offered a floating rate tied to the Wall Street Journal Prime Rate or the 30-Day Libor rate, and a fixed rate currently ranging from 4.00% to 7.00%. These credit facilities generally balloon within five years, with payments based on amortizations ranging from 10 to 20 years. For term debt secured by non-real estate collateral, customers are generally offered a floating rate tied to the Wall Street Journal Prime Rate or the 30-Day Libor rate, and a fixed rate currently ranging from 4.00% to 7.50%. These credit facilities generally mature and fully amortize within three to seven years.

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MERCANTILE BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015

NOTE 14 – COMMITMENTS AND OFF-BALANCE-SHEET RISK (Continued)

Certain of our commercial loan customers have entered into interest rate swap agreements directly with our correspondent banks. To assist our commercial loan customers in these transactions, and to encourage our correspondent banks to enter into the interest rate swap transactions with minimal credit underwriting analyses on their part, we have entered into risk participation agreements with the correspondent banks whereby we agree to make payments to the correspondent banks owed by our commercial loan customers under the interest rate swap agreement in the event that our commercial loan customers do not make the payments. We are not a party to the interest rate swap agreements under these arrangements. As of December 31, 2015, the total notional amount of the underlying interest rate swap agreements was \$14.7 million, with a net fair value from our commercial loan customers' perspective of negative \$2.3 million. These risk participation agreements are considered financial guarantees in accordance with applicable accounting guidance and are therefore recorded as liabilities at fair value, generally equal to the fees collected at the time of their execution. These liabilities are accreted into income during the terms of the interest rate swap agreements, generally ranging from an original term of four to fifteen years, and totaled less than \$0.1 million at December 31, 2015 and December 31, 2014.

The following instruments are considered financial guarantees under current accounting guidance. These instruments are carried at fair value.

	2015		2014	
	Contract Amount	Carrying Value	Contract Amount	Carrying Value
Standby letters of credit	\$34,946,000	\$182,000	\$35,461,000	\$150,000

We were required to have \$9.1 million and \$8.4 million of cash on hand or on deposit with the Federal Reserve Bank of Chicago to meet regulatory reserve and clearing requirements at December 31, 2015 and December 31, 2014, respectively.

NOTE 15 – BENEFIT PLANS

We have a 401(k) benefit plan that covers substantially all of our employees. The percent of our matching contributions to the 401(k) benefit plan is determined annually by the Board of Directors. The matching contribution was 4.00% as of January 1, 2013. Effective January 1, 2014, the matching contribution was increased to 4.25%. Matching contributions, if made, are immediately vested. Our 2015, 2014 and 2013 matching 401(k) contributions charged to expense were \$1.2 million, \$0.9 million and \$0.5 million, respectively.

We have a deferred compensation plan in which all persons serving on the Board of Directors may defer all or portions of their annual retainer and meeting fees, with distributions to be paid upon termination of service as a director or specific dates selected by the director. We also have a non-qualified deferred compensation program in which selected officers may defer all or portions of salary and bonus payments. The deferred amounts, totaling \$3.9 million and \$3.7 million as of December 31, 2015 and 2014, respectively, are categorized as other liabilities in the Consolidated Balance Sheets, and are paid interest at a rate equal to the Wall Street Journal Prime Rate. Interest expense was less than \$0.1 million per year during the last three years.

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MERCANTILE BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015

NOTE 15 – BENEFIT PLANS (Continued)

The Mercantile Bank Corporation Employee Stock Purchase Plan of 2002 was replaced by the Mercantile Bank Corporation Employee Stock Purchase Plan of 2014 (herein after referred to as the “Stock Purchase Plans”) in June of 2014. The Stock Purchase Plans are non-compensatory plans intended to encourage full- and part-time employees of Mercantile and its subsidiaries to promote our best interests and to align employees’ interests with the interests of our shareholders by permitting employees to purchase shares of our common stock through regular payroll deductions. Shares are purchased on the last business day of each calendar quarter at a price equal to the consolidated closing bid price of our common stock reported on The Nasdaq Stock Market. A total of 250,000 shares of common stock may be issued under the existing plan; however, the number of shares may be adjusted to reflect any stock dividends and other changes in our capitalization. The number of shares issued under the Stock Purchase Plans totaled 2,058 and 1,150 in 2015 and 2014, respectively. As of December 31, 2015, there were 246,800 shares available under our current plan.

NOTE 16 – HEDGING ACTIVITIES

Our interest rate risk policy includes 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 net interest income simulation. Our policy provides for the use of certain derivative instruments and hedging activities to aid in managing interest rate risk to within policy parameters.

In February 2012, we entered into an interest rate swap agreement with a correspondent bank to hedge the floating rate on the subordinated debentures issued to Mercantile Bank Capital Trust I, which became effective in January 2013 and matures in January 2018. The \$32.0 million of subordinated debentures have a rate equal to the 90-Day Libor Rate plus a fixed spread of 218 basis points, and are subject to repricing quarterly. The interest rate swap agreement provides for us to pay our correspondent bank a fixed rate, while our correspondent bank will pay us the 90-Day Libor Rate on a \$32.0 million notional amount. The quarterly re-set dates for the floating rate on the interest rate swap agreement are the same as the re-set dates for the floating rate on the subordinated debentures. The interest rate swap agreement is accounted for under hedge accounting guidelines; therefore, fluctuations in the fair value of the interest rate swap agreement, net of tax effect, are recorded in other comprehensive income. As of December 31, 2015 and 2014, the fair value of the interest rate swap agreement was recorded as a liability in the amount of \$0.3 million.

Effective January 26, 2016, the notional amount of the interest rate swap agreement was reduced from \$32.0 million down to \$21.0 million, reflecting the \$11.0 million repurchase of the associated trust preferred securities on that date. We recorded interest expense of approximately \$154,000 in January 2016 as part of the transaction, in large part reflecting the market value of the interest rate swap on that date of the \$11.0 million portion.

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MERCANTILE BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015

NOTE 17 – FAIR VALUES OF FINANCIAL INSTRUMENTS

Carrying amount, estimated fair value and level within the fair value hierarchy of financial instruments were as follows at year-end (dollars in thousands):

	Level in Fair Value Hierarchy	2015		2014	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets					
Cash	Level 1	\$ 12,496	\$ 12,496	\$ 13,261	\$ 13,261
Cash equivalents	Level 2	77,395	77,395	159,477	159,477
Securities available for sale	(1)	346,992	346,992	432,912	432,912
Federal Home Loan Bank stock	(2)	7,567	7,567	13,699	13,699
Loans, net	Level 3	2,262,046	2,261,026	2,069,236	2,064,140
Bank owned life insurance	Level 2	58,971	58,971	57,861	57,861
Accrued interest receivable	Level 2	7,836	7,836	8,033	8,033
Financial liabilities					
Deposits	Level 2	2,275,382	2,208,724	2,276,915	2,254,749
Securities sold under agreements to repurchase	Level 2	154,771	154,771	167,569	167,569
Federal Home Loan Bank advances	Level 2	68,000	68,858	54,022	54,720
Subordinated debentures	Level 2	55,154	55,760	54,472	54,508
Accrued interest payable	Level 2	1,479	1,479	1,942	1,942
Interest rate swap	(1)	253	253	253	253

(1) See Note 18 for a description of the fair value hierarchy as well as a disclosure of levels for classes of financial assets and liabilities.

- (2) It is not practical to determine the fair value of FHLBI stock due to transferability restrictions.

Carrying amount is the estimated fair value for cash and cash equivalents, FHLBI stock, accrued interest receivable and payable, bank owned life insurance, demand deposits, securities sold under agreements to repurchase, and variable rate loans and deposits that reprice frequently and fully. Security fair values are based on market prices or dealer quotes, and if no such information is available, on the rate and term of the security and information about the issuer. For fixed rate loans and deposits and for variable rate loans and deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. Fair value of subordinated debentures and Federal Home Loan Bank advances is based on current rates for similar financing. Fair value of the interest rate swap is determined primarily utilizing market-consensus forecasted yield curves. Fair value of off-balance sheet items is estimated to be nominal.

(Continued)

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MERCANTILE BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015

NOTE 18 – FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability, or in the absence of a principal market, the most advantageous market for the asset or liability. The price of the principal (or most advantageous) market used to measure the fair value of the asset or liability is not adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

We are required to use valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect our own estimates about the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances. In that regard, we utilize a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that we have the ability to access as of the measurement date.

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Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be derived from or corroborated by observable market data by correlation or other means.

Level 3: Significant unobservable inputs that reflect our own estimates about the assumptions that market participants would use in pricing an asset or liability.

The following is a description of our valuation methodologies used to measure and disclose the fair values of our financial assets and liabilities on a recurring or nonrecurring basis:

Securities available for sale. Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based on quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models. Level 2 securities include U.S. Government agency debt obligations, mortgage-backed securities issued or guaranteed by U.S. Government agencies, municipal general obligation and revenue bonds, and mutual funds. Level 3 securities include bonds issued by certain relatively small municipalities located within our markets that have very limited marketability due to their size and lack of ratings from a recognized rating service. We carry these bonds at historical cost, which we believe approximates fair value, unless our periodic financial analysis or other information becomes known which necessitates a valuation allowance. There was no such valuation allowance as of December 31, 2015 or 2014. We have no Level 1 securities available for sale.

(Continued)

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MERCANTILE BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015

NOTE 18 – FAIR VALUE MEASUREMENTS (Continued)

Mortgage loans held for sale. Mortgage loans held for sale are carried at the lower of aggregate cost or fair value and are measured on a nonrecurring basis. Fair value is based on independent quoted market prices, where applicable, or the prices for other mortgage whole loans with similar characteristics. As of December 31, 2015 and 2014, we determined that the fair value of our mortgage loans held for sale approximated the recorded cost of \$1.3 million and \$1.6 million, respectively.

Loans. We do not record loans at fair value on a recurring basis. However, from time to time, we record nonrecurring fair value adjustments to collateral dependent loans to reflect partial write-downs or specific reserves that are based on the observable market price or current estimated value of the collateral. These loans are reported in the nonrecurring table below at initial recognition of impairment and on an ongoing basis until recovery or charge-off.

Foreclosed assets. At time of foreclosure or repossession, foreclosed and repossessed assets are adjusted to fair value less costs to sell upon transfer of the loans to foreclosed and repossessed assets, establishing a new cost basis. We subsequently adjust estimated fair value on foreclosed assets on a nonrecurring basis to reflect write-downs based on revised fair value estimates.

Derivatives. The interest rate swap agreement is measured at fair value on a recurring basis. We measure fair value utilizing models that use primarily market observable inputs, such as forecasted yield curves, and accordingly, the interest rate swap agreement is classified as Level 2.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The balances of assets and liabilities measured at fair value on a recurring basis as of December 31, 2015 are as follows:

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	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities				
U.S. Government agency debt obligations	\$ 147,040,000	\$ 0	\$ 147,040,000	\$ 0
Mortgage-backed securities	67,074,000	0	67,074,000	0
Municipal general obligation bonds	122,023,000	0	113,604,000	8,419,000
Municipal revenue bonds	8,914,000	0	8,914,000	0
Other investments	1,941,000	0	1,941,000	0
Derivatives				
Interest rate swap agreement	(253,000)	0	(253,000)	0
Total	\$346,739,000	\$ 0	\$ 338,320,000	\$ 8,419,000

There were no transfers in or out of Level 1, Level 2 or Level 3 during 2015.

(Continued)

MERCANTILE BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015

NOTE 18 – FAIR VALUE MEASUREMENTS (Continued)

The balances of assets and liabilities measured at fair value on a recurring basis as of December 31, 2014 are as follows:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities				
U.S. Government agency debt obligations	\$ 193,468,000	\$ 0	\$ 193,468,000	\$ 0
Mortgage-backed securities	93,561,000	0	93,561,000	0
Municipal general obligation bonds	133,082,000	0	122,801,000	10,281,000
Municipal revenue bonds	10,873,000	0	10,873,000	0
Mutual funds	1,928,000	0	1,928,000	0
Derivatives				
Interest rate swap agreement	(253,000)	0	(253,000)	0
Total	\$432,659,000	\$ 0	\$422,378,000	\$ 10,281,000

There were no transfers in or out of Level 1, Level 2 or Level 3 during 2014.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

The balances of assets and liabilities measured at fair value on a nonrecurring basis as of December 31, 2015 are as follows:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans ⁽¹⁾	\$8,970,000	\$ 0	\$ 0	\$8,970,000
Foreclosed assets ⁽¹⁾	1,293,000	0	0	1,293,000
Total	\$10,263,000	\$ 0	\$ 0	\$10,263,000

⁽¹⁾ Represents carrying value and related write-downs for which adjustments are based on the estimated value of the property or other assets.

(Continued)

MERCANTILE BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015

NOTE 18 – FAIR VALUE MEASUREMENTS (Continued)

The balances of assets and liabilities measured at fair value on a nonrecurring basis as of December 31, 2014 are as follows:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans ⁽¹⁾	\$ 17,097,000	\$ 0	\$ 0	\$ 17,097,000
Foreclosed assets ⁽¹⁾	1,995,000	0	0	1,995,000
Total	\$ 19,092,000	\$ 0	\$ 0	\$ 19,092,000

⁽¹⁾ Represents carrying value and related write-downs for which adjustments are based on the estimated value of the property or other assets.

Fair value estimates of collateral on impaired loans, as well as on foreclosed assets, are reviewed periodically. Our credit policies establish criteria for obtaining appraisals and determining internal value estimates. We may also adjust outside appraisals and internal evaluations based on identifiable trends within our markets, such as sales of similar properties or assets, listing prices and offers received. In addition, we may discount certain appraised and internal value estimates to address current distressed market conditions.

NOTE 19 – EARNINGS PER SHARE

The factors used in the earnings per share computation follow:

	2015	2014	2013
Basic			
Net income attributable to common shares	\$27,020,000	\$17,331,000	\$17,033,000
Weighted average common shares outstanding	16,609,263	13,510,991	8,710,677
Basic earnings per common share	\$1.63	\$1.28	\$1.96
Diluted			
Net income attributable to common shares	\$27,020,000	\$17,331,000	\$17,033,000
Weighted average common shares outstanding for basic earnings per common share	16,609,263	13,510,991	8,710,677
Add: Dilutive effects of share-based awards	32,877	30,913	14,031
Average shares and dilutive potential common shares	16,642,140	13,541,904	8,724,708
Diluted earnings per common share	\$1.62	\$1.28	\$1.95

Stock options for approximately 40,000, 168,000 and 55,000 shares of common stock were antidilutive and were not included in determining dilutive earnings per share in 2015, 2014 and 2013, respectively.

(Continued)

MERCANTILE BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015

NOTE 20 – SUBORDINATED DEBENTURES

We have five business trusts that are wholly-owned subsidiaries of Mercantile, four of which were assumed by Mercantile in conjunction with the Firstbank merger. A fair value discount of \$15.0 million was recorded at the time of the merger, which is being amortized at \$0.7 million annually over the next 21.5 years. Each of the trusts was formed to issue Preferred Securities that were sold in private sales, as well as selling Common Securities to Mercantile. The proceeds from the Preferred and Common Securities sales were used by the trusts to purchase Floating Rate Notes issued by Mercantile. The rates of interest, interest payment dates, call features and maturity dates of each Floating Rate Note are identical to its respective Preferred Securities. The net proceeds from the issuance of the Floating Rate Notes were used for a variety of purposes, including contributions to the Bank as capital to provide support for asset growth and the funding of stock repurchase programs and certain acquisitions.

The only significant assets of our trusts are the Floating Rate Notes, and the only significant liabilities of our trusts are the Preferred Securities. The Floating Rate Notes are categorized on our Consolidated Balance Sheets as subordinated debentures and the interest expense is recorded on our Consolidated Statements of Income under interest expense on other borrowings.

The following table depicts our five business trusts as of December 31, 2015:

Trust Name	Preferred Securities		
	Outstanding	Interest Rate	Maturity Date
Mercantile Bank Capital Trust I	\$32,000,000	3 Month Libor + 218 bps	September 16, 2034
Firstbank Capital Trust I	\$10,000,000	3 Month Libor + 199 bps	October 18, 2034
Firstbank Capital Trust II	\$10,000,000	3 Month Libor + 127 bps	April 7, 2036

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Firstbank Capital Trust III	\$7,500,000	3 Month Libor + 135 bps	July 30, 2037
Firstbank Capital Trust IV	\$7,500,000	3 Month Libor + 135 bps	July 30, 2037

On January 26, 2016, we closed on a repurchase of trust preferred securities that were auctioned as part of a pooled collateralized debt obligation (“Fund”). The Fund owned \$11.0 million of the \$32.0 million in trust preferred securities that had been issued by Mercantile Bank Capital Trust I. The \$11.0 million in trust preferred securities was retired upon the repurchase, resulting in a commensurate reduction in the related Floating Rate Junior Subordinate Note, leaving \$21.0 million outstanding.

NOTE 21 - REGULATORY MATTERS

We are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings, and other factors, and the regulators can lower classifications in certain cases. Failure to meet various capital requirements can initiate regulatory action that could have a direct material effect on the financial statements.

(Continued)

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MERCANTILE BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015

NOTE 21 - REGULATORY MATTERS (Continued)

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 an institution is not well capitalized, regulatory approval is required to accept brokered deposits. Subject to limited exceptions, no institution may make a capital distribution if, after making the distribution, it would be undercapitalized. If an institution is undercapitalized, it is subject to close monitoring by its principal federal regulator, its asset growth and expansion are restricted, and plans for capital restoration are required. In addition, further specific types of restrictions may be imposed on the institution at the discretion of the federal regulator. At year-end 2015 and 2014, our Bank was in the well capitalized category under the regulatory framework for prompt corrective action. There are no conditions or events since December 31, 2015 that we believe have changed our Bank's categorization.

Our actual capital levels (dollars in thousands) and minimum required levels were:

	Actual		Minimum Required for Capital Adequacy Purposes		Minimum Required to be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<u>2015</u>						
Total capital (to risk weighted assets) Consolidated	\$345,539	13.5 %	\$205,602	8.0 %	\$ NA	NA

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Bank	347,433	13.5	205,624	8.0	257,030	10.0 %
Tier 1 capital (to risk weighted assets)						
Consolidated	329,858	12.8	102,801	4.0	NA	NA
Bank	331,752	12.9	102,812	4.0	154,218	6.0
Common equity (to risk weighted assets)						
Consolidated	280,171	10.9	115,804	4.5	NA	NA
Bank	331,752	12.9	115,664	4.5	167,070	6.5
Tier 1 capital (to average assets)						
Consolidated	329,858	11.6	114,138	4.0	NA	NA
Bank	331,752	11.6	114,280	4.0	142,850	5.0

2014

Total capital (to risk weighted assets)						
Consolidated	\$334,793	14.4 %	\$185,553	8.0 %	\$ NA	NA
Bank	332,749	14.4	185,309	8.0	231,636	10.0 %
Tier 1 capital (to risk weighted assets)						
Consolidated	314,752	13.6	92,777	4.0	NA	NA
Bank	312,708	13.5	92,655	4.0	138,982	6.0
Tier 1 capital (to average assets)						
Consolidated	314,752	11.2	112,949	4.0	NA	NA
Bank	312,708	11.1	112,856	4.0	141,070	5.0

(Continued)

MERCANTILE BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015

NOTE 21 - REGULATORY MATTERS (Continued)

Federal and state banking laws and regulations place certain restrictions on the amount of dividends our Bank can transfer to Mercantile and on the capital levels that must be maintained. At year-end 2015, under the most restrictive of these regulations, our Bank could distribute approximately \$66.3 million to Mercantile as dividends without prior regulatory approval.

Our and our bank's ability to pay cash and stock dividends is subject to limitations under various laws and regulations and to prudent and sound banking practices. On January 15, 2015, our Board of Directors declared a cash dividend on our common stock in the amount of \$0.14 per share that was paid on March 25, 2015 to shareholders of record as of March 13, 2015. On April 16, 2015, our Board of Directors declared a cash dividend on our common stock in the amount of \$0.14 per share that was paid on June 24, 2015 to shareholders of record as of June 12, 2015. On July 16, 2015, our Board of Directors declared a cash dividend on our common stock in the amount of \$0.15 per share that was paid on September 23, 2015 to shareholders of record as of September 11, 2015. On October 15, 2015, our Board of Directors declared a cash dividend on our common stock in the amount of \$0.15 per share that was paid on December 23, 2015 to shareholders of record as of December 11, 2015. In addition, on January 30, 2015, we announced that our Board of Directors had authorized a new program to repurchase up to \$20.0 million of our common stock from time to time in open market transactions at prevailing market prices or by other means in accordance with applicable regulations. During 2015, we repurchased 788,541 shares at a total price of \$15.8 million, which was funded from cash dividends paid to us from our Bank. We expect further repurchases during 2016 under the authorized plan, which will also likely be funded from cash dividends paid to us from our Bank.

On January 14, 2016, our Board of Directors declared a cash dividend on our common stock in the amount of \$0.16 per share that will be paid on March 23, 2016 to shareholders of record as of March 11, 2016.

Our consolidated capital levels as of December 31, 2015 and 2014 include \$53.1 million and \$52.4 million, respectively, of trust preferred securities subject to certain limitations. Under applicable Federal Reserve guidelines, the trust preferred securities constitute a restricted core capital element. The guidelines provide that the aggregate amount of restricted core elements that may be included in Tier 1 capital must not exceed 25% of the sum of all core capital elements, including restricted core capital elements, net of goodwill less any associated deferred tax liability.

Our ability to include the trust preferred securities in Tier 1 capital in accordance with the guidelines is not affected by the provision of the Dodd-Frank Act generally restricting such treatment, because (i) the trust preferred securities were issued before May 19, 2010, and (ii) our total consolidated assets as of December 31, 2009 were less than \$15.0 billion. At December 31, 2015 and 2014, all \$53.1 million and \$52.4 million, respectively, of the trust preferred securities were included as Tier 1 capital of Mercantile.

On January 26, 2016, we closed on a repurchase of trust preferred securities that were auctioned as part of a pooled collateralized debt obligation (“Fund”). The Fund owned \$11.0 million of the \$32.0 million in trust preferred securities that had been issued by Mercantile Bank Capital Trust I, a wholly-owned business trust subsidiary. The \$11.0 million in trust preferred securities was retired upon the repurchase, resulting in a commensurate reduction in the related Floating Rate Junior Subordinate Note, leaving \$21.0 million outstanding. Our winning bid equated to 73% of the \$11.0 million par value, with the 27% discount resulting in an after-tax gain of approximately \$1.8 million, or \$0.11 per diluted share. On a pro forma basis as of December 31, 2015, the repurchase resulted in a nine basis point increase in our tangible equity to tangible assets ratio and an \$0.11 increase in our tangible book value per share, but an approximately 35 basis point decline in our regulatory tier 1 capital and total risk-based capital ratios. The repurchase was funded via a \$9.1 million cash dividend from our Bank, resulting in a similar approximately 35 basis point decline in the regulatory capital ratios. Subsequent to the repurchase, our and our Bank’s regulatory capital ratios remained well above the minimum thresholds to be categorized as well capitalized.

(Continued)

MERCANTILE BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015

NOTE 22 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

At December 31, 2015, accumulated other comprehensive income, net of tax effects (as applicable), consisted of a net unrealized gain on available for sale securities of \$1.4 million and the fair value of an interest rate swap of negative \$0.2 million. At December 31, 2014, accumulated other comprehensive income, net of tax effects (as applicable), consisted of a net unrealized gain on available for sale securities of \$0.2 million and the fair value of an interest rate swap of negative \$0.2 million. At December 31, 2013, accumulated other comprehensive loss, net of tax effects (as applicable), consisted of a net unrealized loss on available for sale securities of \$5.4 million and the fair value of an interest rate swap of negative \$0.2 million.

NOTE 23 - QUARTERLY FINANCIAL DATA (Unaudited)

	Interest Income	Net Interest Income	Net Income	Earnings per Share	
				Basic	Diluted
<u>2015</u>					
First quarter	\$27,589,000	\$24,849,000	\$6,646,000	\$0.39	\$ 0.39
Second quarter	27,663,000	25,041,000	6,558,000	0.39	0.39
Third quarter	28,501,000	25,625,000	7,336,000	0.45	0.45
Fourth quarter	28,575,000	25,659,000	6,480,000	0.40	0.40
<u>2014</u>					
First quarter	\$13,588,000	\$11,064,000	\$3,580,000	\$0.41	\$ 0.41
Second quarter	18,483,000	15,552,000	1,510,000	0.13	0.13
Third quarter	28,900,000	25,989,000	5,948,000	0.35	0.35
Fourth quarter	28,147,000	25,173,000	6,293,000	0.37	0.37

NOTE 24 – MERCANTILE BANK CORPORATION (PARENT COMPANY ONLY)**CONDENSED FINANCIAL STATEMENTS**

CONDENSED BALANCE SHEETS

	2015	2014
ASSETS		
Cash and cash equivalents	\$4,940,000	\$1,441,000
Investment in bank subsidiary	368,248,000	361,355,000
Other assets	20,940,000	20,948,000
Total assets	\$394,128,000	\$383,744,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities	\$5,170,000	\$1,134,000
Subordinated debentures	55,154,000	54,472,000
Shareholders' equity	333,804,000	328,138,000
Total liabilities and shareholders' equity	\$394,128,000	\$383,744,000

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MERCANTILE BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015

NOTE 24 – MERCANTILE BANK CORPORATION (PARENT COMPANY ONLY)**CONDENSED FINANCIAL STATEMENTS** (Continued)

CONDENSED STATEMENTS OF INCOME

	2015	2014	2013
Income			
Interest and dividends from subsidiaries	\$24,166,000	\$12,139,000	\$5,516,000
Total income	24,166,000	12,139,000	5,516,000
Expenses			
Interest expense	2,569,000	2,145,000	1,213,000
Other operating expenses	2,276,000	3,552,000	2,773,000
Total expenses	4,845,000	5,697,000	3,986,000
Income before income tax benefit and equity in undistributed net income of subsidiary	19,321,000	6,442,000	1,530,000
Federal income tax benefit	(2,051,000)	(1,758,000)	(1,042,000)
Equity in undistributed net income of subsidiary	5,648,000	9,131,000	14,461,000
Net income	\$27,020,000	\$17,331,000	\$17,033,000
Comprehensive income	\$28,267,000	\$22,920,000	\$9,810,000

(Continued)

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MERCANTILE BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015

NOTE 24 – MERCANTILE BANK CORPORATION (PARENT COMPANY ONLY)**CONDENSED FINANCIAL STATEMENTS (Continued)**

CONDENSED STATEMENTS OF CASH FLOWS

	2015	2014	2013
Cash flows from operating activities			
Net income	\$27,020,000	\$17,331,000	\$17,033,000
Adjustments to reconcile net income to net cash from operating activities:			
Equity in undistributed net income of subsidiary	(5,648,000)	(9,131,000)	(14,461,000)
Stock-based compensation expense	684,000	714,000	473,000
Stock grants to directors for retainer fees	403,000	155,000	0
Change in other assets	11,000	(8,163,000)	3,244,000
Change in other liabilities	4,717,000	21,979,000	(708,000)
Net cash from operating activities	27,187,000	22,885,000	5,581,000
Cash flows from investing activities			
Net capital investment into subsidiaries	0	0	0
Net cash for investing activities	0	0	0
Cash flows from financing activities			
Stock option exercises, net of cashless exercises	891,000	282,000	289,000
Employee stock purchase plan	44,000	23,000	19,000
Dividend reinvestment plan	655,000	209,000	33,000
Repurchase of common shares	(15,762,000)	0	0
Cash dividends on common stock	(9,516,000)	(24,464,000)	(3,889,000)
Net cash for financing activities	(23,688,000)	(23,950,000)	(3,548,000)
Net change in cash and cash equivalents	3,499,000	(1,065,000)	2,033,000
Cash and cash equivalents at beginning of period	1,441,000	2,506,000	473,000

Cash and cash equivalents at end of period	\$4,940,000	\$1,441,000	\$2,506,000
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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 7, 2016.

MERCANTILE BANK
CORPORATION

/s/ Michael H. Price
Michael H. Price
Chairman, President and Chief Executive
Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 7, 2016.

/s/ David M. Cassard /s/ Edward B. Grant

David M. Cassard, Director Edward B. Grant, Director

/s/ Michael H. Price

/s/ Edward J. Clark Michael H. Price, Chairman of the Board,

Edward J. Clark, Director President and Chief Executive Officer

(principal executive officer)

/s/ Jeff A. Gardner /s/ Thomas R. Sullivan

Jeff A. Gardner, Director Thomas R. Sullivan, Director

s/ Charles E. Christmas

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Charles E. Christmas, Executive Vice President,

Chief Financial Officer and Treasurer

(principal financial and accounting officer)

EXHIBIT INDEX

<u>Exhibit</u> <u>No.</u>	<u>EXHIBIT DESCRIPTION</u>
2.1	Agreement and Plan of Merger dated August 14, 2013, incorporated by reference to exhibit 2.1 to our Current Report on Form 8-K filed August 15, 2013
2.2	First Amendment to Merger Agreement dated February 20, 2014, incorporated by reference to exhibit 10.1 to our Current Report on Form 8-K filed February 21, 2014
3.1	Our Articles of Incorporation are incorporated by reference to exhibit 3.1 of our Form 10-Q for the quarter ended June 30, 2009
3.2	Our Amended and Restated By-laws dated as of February 26, 2014 are incorporated by reference to exhibit 3.1 to our Current Report on Form 8-K filed February 26, 2015
4.1	Instruments defining the Rights of Security Holders – reference is made to Exhibits 3.1 and 3.2. In accordance with Regulation S-K Item 601(b)(4), Mercantile Bank Corporation is not filing copies of instruments defining the rights of holders of long-term debt because none of those instruments authorizes debt in excess of 10% of the total assets of Mercantile Bank Corporation and its subsidiaries on a consolidated basis. Mercantile Bank Corporation hereby agrees to furnish a copy of any such instrument to the Securities and Exchange Commission upon request.
10.1	Form of Mercantile Bank of Michigan Split Dollar Agreement that has been entered into between our bank and each of Michael H. Price, Robert B. Kaminski, Jr., Charles E. Christmas, and certain other officers of our bank is incorporated by reference to exhibit 10.33 of our Form 10-K for the year ended December 31, 2005*
10.2	Amendment and Restatement of Stock Incentive Plan of 2006 dated November 18, 2008 is incorporated by reference to exhibit 10.39 of our Form 10-K for the year ended December 31, 2008*
10.3	Form of Notice of Grant of Incentive Stock Option and Stock Option Agreement for incentive stock options granted after 2006 under our Stock Incentive Plan of 2006 is incorporated by reference to exhibit 10.41 of our Form 10-K for the year ended December 31, 2007*
10.4	Form of Restricted Stock Award Agreement Notification of Award and Terms and Conditions of Award for restricted stock granted after 2006 under our Stock Incentive Plan of 2006 is incorporated by reference to exhibit 10.43 of our Form 10-K for the year ended December 31, 2007*
10.5	Mercantile Bank Corporation Employee Stock Purchase Plan of 2014 is incorporated by reference to exhibit 4(b) of our Registration Statement on Form S-8 that became effective on June 27, 2014
10.6	2014 Mercantile Executive Officer Bonus Plan for the First Six Months of 2014, as amended by First Amendment, incorporated by reference to exhibit 10.1 of our Form 8-K filed May 22, 2014*
10.7	

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Mercantile Executive Officer Bonus Plan for July – December 2014, incorporated by reference to exhibit 10.1 of our Form 8-K filed August 21, 2014*

<u>Exhibit No.</u>	<u>EXHIBIT DESCRIPTION</u>
10.8	Credit Agreement and Form of Term Note between Mercantile Bank Corporation and U.S. Bank National Association dated as of May 21, 2014, incorporated by reference to exhibit 10.1 of our Form 8-K filed May 28, 2014
10.9	Employment Agreement dated as of November 13, 2014, effective as of December 31, 2014, among the company, our bank and Michael H. Price, incorporated by reference to exhibit 10.12 of our Form 10-K filed March 3, 2015*
10.10	Employment Agreement dated as of November 13, 2014, effective as of December 31, 2014, among the company, our bank and Robert B. Kaminski, Jr., incorporated by reference to exhibit 10.13 of our Form 10-K filed March 3, 2015*
10.11	Employment Agreement dated as of November 13, 2014, effective as of December 31, 2014, among the company, our bank and Charles E. Christmas, incorporated by reference to exhibit 10.14 of our Form 10-K filed March 3, 2015*
10.12	Mercantile Bank of Michigan Amended and Restated Deferred Compensation Plan dated as of November 13, 2014, effective on January 1, 2015, incorporated by reference to exhibit 10.15 of our Form 10-K filed March 3, 2015*
10.13	Amendment to Employment Agreement of Michael H. Price, dated May 28, 2015, incorporated by reference to exhibit 10.1 of our Form 8-K filed May 28, 2015*
10.14	Amendment to Employment Agreement of Robert B. Kaminski, Jr., dated May 28, 2015, incorporated by reference to exhibit 10.2 of our Form 8-K filed May 28, 2015*
10.15	2015 Mercantile Executive Officer Bonus Plan, incorporated by reference to exhibit 10.3 of our Form 8-K filed May 28, 2015*
10.16	First Amendment to Employment Agreement of Charles E. Christmas, dated November 19, 2015, incorporated by reference to exhibit 10.1 of our Form 8-K filed November 19, 2015*
10.17	Change in Control Agreement among the Company, the Bank and Michael H. Price, dated November 19, 2015, incorporated by reference to exhibit 10.2 of our Form 8-K filed November 19, 2015*
10.18	Change in Control Agreement among the Company, the Bank and Robert B. Kaminski, Jr., dated November 19, 2015, incorporated by reference to exhibit 10.3 of our Form 8-K filed November 19, 2015*
10.19	Change in Control Agreement among the Company, the Bank and Charles E. Christmas, dated November 19, 2015, incorporated by reference to exhibit 10.4 of our Form 8-K filed November 19, 2015*
10.20	Director Fee Summary *
21	Subsidiaries of the company

- 23 Consent of BDO USA, LLP
 - 31 Rule 13a-14(a) Certifications
 - 32.1 Section 1350 Chief Executive Officer Certification
 - 32.2 Section 1350 Chief Financial Officer Certification
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Exhibit
No. EXHIBIT DESCRIPTION

101 The following information from Mercantile's Annual Report on Form 10-K for the year ended December 31, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Shareholders' Equity, (v) the Consolidated Statements of Cash Flows, and (vi) the Notes to Consolidated Financial Statements

* Management contract or compensatory plan.