

# Macatawa Bank Corporation Reports Second Quarter 2013 Results

HOLLAND, Mich., July 25, 2013 (GLOBE NEWSWIRE) -- Macatawa Bank Corporation (Nasdaq:MCBC) today announced its results for the second quarter of 2013, continuing its trend of improvement in key operating metrics and financial performance.

- Earnings of \$2.6 million in the second quarter of 2013, or \$3.8 million before tax compared to \$3.2 million before tax in the second quarter of 2012
- Growth in earnings due to significant reduction in costs associated with nonperforming assets – down 59% from a year ago
- Total nonperforming assets decreased by \$24.3 million, or 30%, from a year ago
- Continued strengthening in loan portfolio quality – decrease in nonperforming loans from a year ago, improvement in weighted average grade of commercial loans, and continued low past due loan levels
- Low net loan losses once again – net charge-offs of only \$239,000 for the second quarter of 2013 and net loan recoveries in two of the last four quarters
- Strong retail banking results – continued high mortgage loan origination volumes
- Capital continued to grow – ratios were at their highest level in Company history at June 30, 2013

Macatawa reported net income available to common shares of \$2.6 million, or \$0.10 per diluted share, in the second quarter of 2013 compared to net income available to common shares of \$3.2 million, or \$0.12 per diluted share, for the second quarter of 2012. For the first six months of 2013, the Company reported \$5.1 million, or \$0.19 per diluted share, compared to \$7.7 million, or \$0.28 per diluted share, for the same period in 2012.

"The Company's results for the second quarter 2013 reflect improved performance," said Richard L. Postma, Chairman of the Board of the Company. "Once again, our earnings on a pre-tax, pre-provision for loan losses basis were better this quarter compared to the second quarter of the prior year. At December 31, 2012, we reversed our deferred tax asset valuation allowance, so the second quarter 2013 results are shown net of tax. This affects comparability to the second quarter 2012. Also in the second quarter 2012, we recorded a larger negative provision for loan losses. Considering these items, the second quarter 2013 shows a strong improvement over the second quarter 2012 results."

Mr. Postma continued: "While we improved in several performance measures, the main driver of the increase in pre-tax earnings compared to the second quarter 2012 was the reduction in nonperforming asset expenses, which decreased by \$1.9 million. This significant cost reduction was accomplished through our focus on reducing the level of nonperforming assets. Our nonperforming assets decreased by over \$24 million from a year ago, which, in turn, resulted in the decrease in these costs associated with nonperforming assets. Proceeds on sales of other real estate owned amounted to \$8.1 million so far in 2013, bringing total nonperforming assets down to \$56.6 million at June 30, 2013. This is the lowest level of nonperforming assets for the Bank since the third quarter of 2007."

Mr. Postma concluded: "We are pleased with the improvements in our operating performance. With our focus on further reductions of nonperforming asset levels aided by an improving real estate market, we expect further decreases in expenses in coming quarters. These expense reductions should lead to more consistent core earnings for our shareholders."

## **Operating Results**

Net interest income for the second quarter 2013 totaled \$10.5 million, a decrease of \$20,000 from the first quarter 2013 and a decrease of \$859,000 from the second quarter 2012. Net interest margin was 3.15 percent, up 1 basis point from the first quarter 2013, and down 17 basis points from the second quarter 2012. The net interest income and margin are being held down primarily due to reduced yields from the loan portfolio resulting from the low level of market interest rates and significant competitive loan pricing pressures.

Average interest earning assets for the second quarter 2013 decreased \$17.1 million from the first quarter 2013 and were down \$24.5 million from the second quarter 2012.

Non-interest income increased \$248,000 in the second quarter 2013 compared to the first quarter 2013 and increased \$211,000 from the second quarter 2012, primarily due to increases in deposit service charges. The Bank continued its mortgage banking momentum by originating \$33.4 million in loans for sale in the second quarter of 2013 compared to \$29.8 million in loans for sale in the first quarter of 2013 and \$32.9 million in loans for sale in the second quarter of 2012. While refinancing activity began to decrease in the second quarter of 2013, the Bank was able to offset this reduction with increased loan originations related to purchases of homes.

Non-interest expense was \$11.9 million for the second quarter 2013, compared to \$11.6 million for the first quarter 2013 and \$13.9 million for the second quarter 2012. The largest fluctuations in non-interest expense related to costs associated with the administration and disposition of problem loans and non-performing assets, which increased \$338,000 compared to the first quarter 2013 but were down \$1.9 million compared to the second quarter 2012. FDIC insurance assessments declined \$126,000 compared to the first quarter 2013 and declined \$134,000 compared to the second quarter 2013 due primarily to the termination of the Bank's Memorandum of Understanding effective April 12, 2013. Salaries and benefits were down \$62,000 compared to the first quarter 2013 due to reduced expense associated with medical insurance in the second quarter 2013 and were up \$9,000 compared to the second quarter 2012 due the reinstatement of the 401(k) plan matching contributions in the first quarter of 2013, which were mostly offset by decreases in medical insurance expense.

Federal income tax expense was \$1.2 million for the second quarter 2013 compared to \$1.1 million for the first quarter 2013 and \$-0- for the second quarter 2012. The Company reversed its deferred tax asset valuation allowance at December 31, 2012 resulting in a large benefit in the fourth quarter 2012. Before this reversal, under accounting standards, the Company's results reflected no tax provisions.

## **Asset Quality**

As a result of the consistent improvements in nonperforming loans and past due loans over

the past several quarters, and the reduction in historical loss ratios, a negative provision for loan losses of \$1.0 million was recorded in the second quarter 2013. Net loan charge-offs for the second quarter 2013 were \$239,000, compared to first quarter 2013 net recoveries of \$498,000 and second quarter 2012 net loan charge-offs of \$521,000. Total loans past due on payments by 30 days or more amounted to \$6.7 million at June 30, 2013, up slightly from \$6.6 million at March 31, 2013, down \$1.2 million from \$7.9 million at December 31, 2012, and down \$185,000 from \$6.9 million at June 30, 2012.

The allowance for loan losses of \$22.2 million was 2.20 percent of total loans at June 30, 2013, compared to 2.23 percent of total loans at March 31, 2013, and 2.62 percent at June 30, 2012. The coverage ratio of allowance for loan losses to nonperforming loans continued to grow and exceeded 2-to-1 coverage at 206.50 percent as of June 30, 2013, compared to 165.70 percent at March 31, 2013, and 143.97 percent at June 30, 2012.

At June 30, 2013, the Company's nonperforming loans were \$10.8 million, representing 1.06 percent of total loans, the lowest level since the third quarter of 2006. This compares to \$14.2 million (1.35 percent of total loans) at March 31, 2013, and \$18.9 million (1.82 percent of total loans) at June 30, 2012. Other real estate owned was \$45.8 million at June 30, 2013, compared to \$51.6 million at both March 31, 2013 and December 31, 2012, down significantly from \$62.0 million at June 30, 2012. Total nonperforming assets, including other real estate owned and nonperforming loans, have decreased by \$24.3 million, or 30.0 percent, from June 30, 2012 to June 30, 2013.

A break-down of non-performing loans is shown in the table below.

| Dollars in 000s                 | June 30,<br>2013 | March 31,<br>2013 | December 31,<br>2012 | September 30,<br>2012 | June 30,<br>2012 |
|---------------------------------|------------------|-------------------|----------------------|-----------------------|------------------|
| Commercial Real Estate          | \$ 5,701         | \$ 4,673          | \$ 7,255             | \$ 9,046              | \$ 11,117        |
| Commercial and Industrial       | 4,081            | 8,781             | 7,657                | 7,206                 | 6,173            |
| Total Commercial Loans          | 9,782            | 13,454            | 14,912               | 16,252                | 17,290           |
| Residential Mortgage Loans      | 619              | 298               | 447                  | 771                   | 978              |
| Consumer Loans                  | 373              | 422               | 644                  | 339                   | 611              |
| Total Non-Performing Loans      | <u>\$ 10,774</u> | <u>\$ 14,174</u>  | <u>\$ 16,003</u>     | <u>\$ 17,362</u>      | <u>\$ 18,879</u> |
| Residential Developer Loans (a) | <u>\$ 2,723</u>  | <u>\$ 2,265</u>   | <u>\$ 3,157</u>      | <u>\$ 5,183</u>       | <u>\$ 5,830</u>  |

(a) Represents the amount of loans to residential developers secured by single family residential property which is included in non-performing commercial loans secured by real estate.

Total non-performing assets were \$56.6 million, or 3.83 percent of total assets, at June 30, 2013. A break-down of non-performing assets is shown in the table below.

| Dollars in 000s          | June 30,<br>2013 | March 31,<br>2013 | December 31,<br>2012 | September 30,<br>2012 | June 30,<br>2012 |
|--------------------------|------------------|-------------------|----------------------|-----------------------|------------------|
| Non-Performing Loans     | \$ 10,774        | \$ 14,174         | \$ 16,003            | \$ 17,362             | \$ 18,879        |
| Other Repossessed Assets | --               | 22                | 6                    | 4                     | --               |

|                             |                  |                  |                  |                  |                  |
|-----------------------------|------------------|------------------|------------------|------------------|------------------|
| Other Real Estate Owned     | <u>45,845</u>    | <u>51,593</u>    | <u>51,582</u>    | <u>57,778</u>    | <u>62,046</u>    |
| Total Non-Performing Assets | <u>\$ 56,619</u> | <u>\$ 65,789</u> | <u>\$ 67,591</u> | <u>\$ 75,144</u> | <u>\$ 80,925</u> |

## Balance Sheet, Liquidity and Capital

Total assets were \$1,476.8 million at June 30, 2013, a decrease of \$83.9 million from \$1,560.7 million at December 31, 2012 and a decrease of \$43.5 million from \$1,520.3 million at June 30, 2012. Total loans were \$1,012.9 million at June 30, 2013, a decrease of \$39.4 million from \$1,052.3 million at December 31, 2012 and a decrease of \$24.1 million from \$1,037.0 million at June 30, 2012.

Commercial loans decreased by \$40.2 million during the first half of 2013, partially offset by increases of \$784,000 in our residential mortgage and consumer loan portfolios. Commercial real estate loans were reduced by \$23.3 million, as the Company continued its efforts to reduce exposure in these segments, and commercial and industrial loans decreased by \$16.9 million during the same period.

The composition of the commercial loan portfolio is shown in the table below:

| Dollars in 000s                         | <u>June 30,<br/>2013</u> | <u>March 31,<br/>2013</u> | <u>December 31,<br/>2012</u> | <u>September 30,<br/>2012</u> | <u>June 30,<br/>2012</u> |
|-----------------------------------------|--------------------------|---------------------------|------------------------------|-------------------------------|--------------------------|
| Construction and Development            | \$ 81,841                | \$ 88,670                 | \$ 94,621                    | \$ 95,322                     | \$ 99,271                |
| Other Commercial Real Estate            | <u>397,814</u>           | <u>408,860</u>            | <u>408,338</u>               | <u>420,105</u>                | <u>432,662</u>           |
| Commercial Loans Secured by Real Estate | 479,655                  | 497,530                   | 502,959                      | 515,427                       | 531,933                  |
| Commercial and Industrial               | <u>242,759</u>           | <u>259,145</u>            | <u>259,700</u>               | <u>218,839</u>                | <u>221,628</u>           |
| Total Commercial Loans                  | <u>\$ 722,414</u>        | <u>\$ 756,675</u>         | <u>\$ 762,659</u>            | <u>\$ 734,266</u>             | <u>\$ 753,561</u>        |
| Residential Developer Loans (a)         | <u>\$ 41,903</u>         | <u>\$ 45,598</u>          | <u>\$ 53,847</u>             | <u>\$ 51,653</u>              | <u>\$ 56,756</u>         |

(a) Represents the amount of loans to residential developers secured by single family residential property which is included in commercial loans secured by real estate.

Total deposits decreased to \$1,199.6 million at June 30, 2013, down \$86.7 million from \$1,286.3 million at December 31, 2012. While balances have decreased in this timeframe, the Bank has grown its total number of customer accounts. The Bank continues to be successful at attracting and retaining core deposit customers. Customer deposit accounts remain insured to the highest levels available under FDIC deposit insurance.

The Bank's regulatory capital ratios continued to improve in the second quarter 2013. At June 30, 2013, all of the regulatory capital ratios for Macatawa Bank were maintained at levels comfortably above those required to be categorized as "well capitalized" under applicable regulatory capital guidelines. Further, the Company and the Bank's risk based regulatory capital ratios at June 30, 2013 were at their highest levels in Company history. The Bank was categorized as "well capitalized" at June 30, 2013.

## About Macatawa Bank

Headquartered in Holland, Michigan, Macatawa Bank Corporation is the parent company for Macatawa Bank. Through its banking subsidiary, the Company offers a full range of banking,

investment and trust services to individuals, businesses, and governmental entities from a network of 26 full service branches located in communities in Kent County, Ottawa County, and northern Allegan County. Services include commercial, consumer and real estate financing, business and personal deposit services, ATM's and Internet banking services, trust and employee benefit plan services, and various investment services. The Company emphasizes its local management team and decision making, along with providing customers excellent service and superior financial products.

**CAUTIONARY STATEMENT:** This press release contains forward-looking statements that are based on management's current beliefs, expectations, assumptions, estimates, plans and intentions. Forward-looking statements are identifiable by words or phrases such as "trend," "continue," "expect," "should," "improving," "efforts," "further," "focus" and other similar words or phrases. 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, statements related to trends in our key operating metrics and financial performance, future levels of profitability, our ability to further reduce nonperforming asset levels and related expenses and our ability to produce consistent core earnings. All statements with references to future time periods are forward-looking. 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. Our ability to sell other real estate owned at its carrying value or at all, utilize our deferred tax asset, successfully implement new programs and initiatives, increase efficiencies, maintain our current level of deposits and other sources of funding, maintain liquidity, respond to declines in collateral values and credit quality, improve profitability, and produce consistent core earnings 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, extend, likelihood and degree of occurrence. Therefore, actual results and outcomes may materially differ from what may be expressed in or implied by 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, 2012. 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.

**MACATAWA BANK CORPORATION**  
**CONSOLIDATED FINANCIAL SUMMARY**

(Unaudited)

(Dollars in thousands except per share information)

|                                                     | Three Months Ended<br>June 30 |           | Six Months Ended<br>June 30 |           |
|-----------------------------------------------------|-------------------------------|-----------|-----------------------------|-----------|
|                                                     | 2013                          | 2012      | 2013                        | 2012      |
| <b>EARNINGS SUMMARY</b>                             |                               |           |                             |           |
| Total interest income                               | \$ 12,307                     | \$ 13,900 | \$ 24,740                   | \$ 27,998 |
| Total interest expense                              | 1,844                         | 2,578     | 3,793                       | 5,396     |
| Net interest income                                 | 10,463                        | 11,322    | 20,947                      | 22,602    |
| Provision for loan losses                           | (1,000)                       | (1,750)   | (1,750)                     | (5,350)   |
| Net interest income after provision for loan losses | 11,463                        | 13,072    | 22,697                      | 27,952    |
| <b>NON-INTEREST INCOME</b>                          |                               |           |                             |           |
| Deposit service charges                             | 976                           | 776       | 1,888                       | 1,571     |
| Net gains on mortgage loans                         | 708                           | 780       | 1,533                       | 1,251     |
| Trust fees                                          | 625                           | 598       | 1,213                       | 1,207     |
| Other                                               | 1,902                         | 1,846     | 3,540                       | 3,682     |
| Total non-interest income                           | 4,211                         | 4,000     | 8,174                       | 7,711     |
| <b>NON-INTEREST EXPENSE</b>                         |                               |           |                             |           |
| Salaries and benefits                               | 5,732                         | 5,723     | 11,525                      | 11,443    |
| Occupancy                                           | 905                           | 941       | 1,851                       | 1,912     |
| Furniture and equipment                             | 845                           | 858       | 1,595                       | 1,685     |
| FDIC assessment                                     | 345                           | 479       | 817                         | 1,188     |
| Administration and disposition of problem assets    | 1,299                         | 3,190     | 2,261                       | 6,249     |
| Other                                               | 2,749                         | 2,695     | 5,407                       | 5,515     |
| Total non-interest expense                          | 11,875                        | 13,886    | 23,456                      | 27,992    |
| Income before income tax                            | 3,799                         | 3,186     | 7,415                       | 7,671     |
| Income tax expense                                  | 1,196                         | --        | 2,338                       | --        |
| Net income                                          | \$ 2,603                      | \$ 3,186  | \$ 5,077                    | \$ 7,671  |
| Dividends declared on preferred shares              | --                            | --        | --                          | --        |
| Net income available to common shares               | \$ 2,603                      | \$ 3,186  | \$ 5,077                    | \$ 7,671  |
| Basic earnings per common share                     | \$ 0.10                       | \$ 0.12   | \$ 0.19                     | \$ 0.28   |
| Diluted earnings per common share                   | \$ 0.10                       | \$ 0.12   | \$ 0.19                     | \$ 0.28   |
| Return on average assets                            | 0.70%                         | 0.85%     | 0.69%                       | 1.02%     |
| Return on average equity                            | 7.74%                         | 12.59%    | 7.62%                       | 15.59%    |
| Net interest margin                                 | 3.15%                         | 3.32%     | 3.14%                       | 3.32%     |
| Efficiency ratio                                    | 80.93%                        | 90.63%    | 80.55%                      | 92.34%    |

**BALANCE SHEET DATA**

|                                                                | June 30<br>2013 | December 31<br>2012 | June 30<br>2012 |
|----------------------------------------------------------------|-----------------|---------------------|-----------------|
| <b>Assets</b>                                                  |                 |                     |                 |
| Cash and due from banks                                        | \$ 27,605       | \$ 33,556           | \$ 25,673       |
| Federal funds sold and other short-term investments            | 129,849         | 192,802             | 218,721         |
| Interest-bearing time deposits in other financial institutions | 25,000          | --                  | --              |
| Securities available for sale                                  | 129,659         | 123,497             | 96,518          |
| Securities held to maturity                                    | 5,380           | 4,300               | 300             |
| Federal Home Loan Bank Stock                                   | 11,236          | 11,236              | 11,236          |
| Loans held for sale                                            | 4,553           | 8,130               | 6,630           |
| Total loans                                                    | 1,012,887       | 1,052,348           | 1,036,965       |
| Less allowance for loan loss                                   | 22,248          | 23,739              | 27,180          |

|                                                   |                     |                     |                     |
|---------------------------------------------------|---------------------|---------------------|---------------------|
| Net loans                                         | 990,639             | 1,028,609           | 1,009,785           |
| Premises and equipment, net                       | 53,302              | 53,576              | 54,534              |
| Bank-owned life insurance                         | 27,162              | 26,804              | 26,404              |
| Other real estate owned                           | 45,845              | 51,582              | 62,046              |
| Other assets                                      | 26,598              | 26,626              | 8,488               |
| <b>Total Assets</b>                               | <b>\$ 1,476,828</b> | <b>\$ 1,560,718</b> | <b>\$ 1,520,335</b> |
| <b>Liabilities and Shareholders' Equity</b>       |                     |                     |                     |
| Noninterest-bearing deposits                      | \$ 318,981          | \$ 339,520          | \$ 330,626          |
| Interest-bearing deposits                         | 880,597             | 946,741             | 904,891             |
| Total deposits                                    | 1,199,578           | 1,286,261           | 1,235,517           |
| Other borrowed funds                              | 90,658              | 91,822              | 127,489             |
| Subordinated debt                                 | 1,650               | 1,650               | 1,650               |
| Long-term debt                                    | 41,238              | 41,238              | 41,238              |
| Other liabilities                                 | 10,452              | 9,240               | 12,042              |
| <b>Total Liabilities</b>                          | <b>1,343,576</b>    | <b>1,430,211</b>    | <b>1,417,936</b>    |
| Shareholders' equity                              | 133,252             | 130,507             | 102,399             |
| <b>Total Liabilities and Shareholders' Equity</b> | <b>\$ 1,476,828</b> | <b>\$ 1,560,718</b> | <b>\$ 1,520,335</b> |

**MACATAWA BANK CORPORATION**  
**SELECTED CONSOLIDATED FINANCIAL DATA**  
(Unaudited)

(Dollars in thousands except per share information)

|                                        | Quarterly |           |           |           | Year to Date |           |           |
|----------------------------------------|-----------|-----------|-----------|-----------|--------------|-----------|-----------|
|                                        | 2nd Qtr   | 1st Qtr   | 4th Qtr   | 3rd Qtr   | 2nd Qtr      |           |           |
|                                        | 2013      | 2013      | 2012      | 2012      | 2012         | 2013      |           |
| <b>EARNINGS SUMMARY</b>                |           |           |           |           |              |           |           |
| Net interest income                    | \$ 10,463 | \$ 10,483 | \$ 10,968 | \$ 13,892 | \$ 11,322    | \$ 20,947 | \$ 22,602 |
| Provision for loan losses              | (1,000)   | (750)     | (500)     | (1,250)   | (1,750)      | (1,750)   | (5,350)   |
| Total non-interest income              | 4,211     | 3,963     | 3,811     | 4,106     | 4,000        | 8,174     | 7,711     |
| Total non-interest expense             | 11,875    | 11,581    | 12,903    | 12,388    | 13,886       | 23,456    | 27,992    |
| Federal income tax expense (benefit)   | 1,196     | 1,142     | (18,858)  | 275       | --           | 2,338     | --        |
| Net income                             | 2,603     | 2,473     | 21,234    | 6,585     | 3,186        | 5,077     | 7,671     |
| Dividends declared on preferred shares | --        | --        | --        | --        | --           | --        | --        |
| Net income available to common shares  | \$ 2,603  | \$ 2,473  | \$ 21,234 | \$ 6,585  | \$ 3,186     | \$ 5,077  | \$ 7,671  |
| Basic earnings per common share        | \$ 0.10   | \$ 0.09   | \$ 0.78   | \$ 0.24   | \$ 0.12      | \$ 0.19   | \$ 0.28   |
| Diluted earnings per common share      | \$ 0.10   | \$ 0.09   | \$ 0.78   | \$ 0.24   | \$ 0.12      | \$ 0.19   | \$ 0.28   |
| <b>MARKET DATA</b>                     |           |           |           |           |              |           |           |
| Book value per common share            | \$ 3.68   | \$ 3.68   | \$ 3.59   | \$ 2.82   | \$ 2.56      | \$ 3.68   | \$ 2.56   |

|                                      |            |            |            |            |            |            |            |
|--------------------------------------|------------|------------|------------|------------|------------|------------|------------|
| Tangible book value per common share | \$ 3.68    | \$ 3.68    | \$ 3.59    | \$ 2.82    | \$ 2.56    | \$ 3.68    | \$ 2.56    |
| Market value per common share        | \$ 5.04    | \$ 5.41    | \$ 2.89    | \$ 3.09    | \$ 3.41    | \$ 5.04    | \$ 3.41    |
| Average basic common shares          | 27,260,748 | 27,211,603 | 27,098,608 | 27,082,825 | 27,082,825 | 27,185,505 | 27,082,825 |
| Average diluted common shares        | 27,260,748 | 27,211,603 | 27,098,608 | 27,082,825 | 27,082,825 | 27,185,505 | 27,082,825 |
| Period end common shares             | 27,261,325 | 27,253,825 | 27,203,825 | 27,082,825 | 27,082,825 | 27,261,325 | 27,082,825 |

#### PERFORMANCE RATIOS

|                                                |        |        |        |        |        |        |        |
|------------------------------------------------|--------|--------|--------|--------|--------|--------|--------|
| Return on average assets                       | 0.70%  | 0.66%  | 5.75%  | 1.74%  | 0.85%  | 0.68%  | 1.02%  |
| Return on average equity                       | 7.74%  | 7.50%  | 76.30% | 25.18% | 12.59% | 7.62%  | 15.59% |
| Net interest margin (fully taxable equivalent) | 3.15%  | 3.14%  | 3.26%  | 4.02%  | 3.32%  | 3.14%  | 3.32%  |
| Efficiency ratio                               | 80.93% | 80.17% | 87.31% | 68.83% | 90.63% | 80.55% | 92.34% |
| Full-time equivalent employees (period end)    | 360    | 365    | 365    | 364    | 373    | 360    | 373    |

#### ASSET QUALITY

|                                                  |           |           |           |           |           |           |           |
|--------------------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Gross charge-offs                                | \$ 698    | \$ 643    | \$ 2,485  | \$ 615    | \$ 899    | \$ 1,341  | \$ 4,396  |
| Net charge-offs                                  | \$ 238    | \$ (498)  | \$ 2,032  | \$ (341)  | \$ 521    | \$ (260)  | \$ (889)  |
| Net charge-offs to average loans (annualized)    | 0.09%     | -0.19%    | 0.79%     | -0.13%    | 0.20%     | -0.05%    | -0.17%    |
| Nonperforming loans                              | \$ 10,774 | \$ 14,174 | \$ 16,003 | \$ 17,362 | \$ 18,879 | \$ 10,774 | \$ 18,879 |
| Other real estate and repossessed assets         | \$ 45,845 | \$ 51,615 | \$ 51,588 | \$ 57,782 | \$ 62,046 | \$ 45,845 | \$ 62,046 |
| Nonperforming loans to total loans               | 1.06%     | 1.35%     | 1.52%     | 1.70%     | 1.82%     | 1.06%     | 1.82%     |
| Nonperforming assets to total assets             | 3.83%     | 4.36%     | 4.33%     | 4.95%     | 5.33%     | 3.83%     | 5.33%     |
| Allowance for loan losses                        | \$ 22,248 | \$ 23,487 | \$ 23,739 | \$ 26,271 | \$ 27,180 | \$ 22,248 | \$ 27,180 |
| Allowance for loan losses to total loans         | 2.20%     | 2.23%     | 2.26%     | 2.58%     | 2.62%     | 2.20%     | 2.62%     |
| Allowance for loan losses to nonperforming loans | 206.50%   | 165.70%   | 148.34%   | 151.31%   | 143.97%   | 206.50%   | 143.97%   |

#### CAPITAL & LIQUIDITY

|                                                      |        |        |        |        |        |        |        |
|------------------------------------------------------|--------|--------|--------|--------|--------|--------|--------|
| Average equity to average assets                     | 9.03%  | 8.76%  | 7.54%  | 6.90%  | 6.73%  | 8.89%  | 6.55%  |
| Tier 1 capital to average assets (Consolidated)      | 10.85% | 10.45% | 10.35% | 9.53%  | 9.00%  | 10.85% | 9.00%  |
| Total capital to risk-weighted assets (Consolidated) | 16.12% | 15.35% | 14.98% | 14.91% | 14.18% | 16.12% | 14.18% |
| Tier 1 capital to average assets (Bank)              | 10.72% | 10.35% | 10.28% | 9.50%  | 9.09%  | 10.72% | 9.09%  |
| Total capital to risk-weighted assets (Bank)         | 15.80% | 14.98% | 14.55% | 14.35% | 13.57% | 15.80% | 13.57% |

#### END OF PERIOD BALANCES

|                            |              |              |              |              |              |              |              |
|----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Total portfolio loans      | \$ 1,012,887 | \$ 1,051,009 | \$ 1,052,348 | \$ 1,019,185 | \$ 1,036,965 | \$ 1,012,887 | \$ 1,036,965 |
| Earning assets             | 1,320,540    | 1,348,565    | 1,388,582    | 1,368,615    | 1,364,592    | 1,320,540    | 1,364,592    |
| Total assets               | 1,476,828    | 1,507,438    | 1,560,718    | 1,517,117    | 1,520,335    | 1,476,828    | 1,520,335    |
| Deposits                   | 1,199,578    | 1,231,390    | 1,286,261    | 1,244,748    | 1,235,517    | 1,199,578    | 1,235,517    |
| Total shareholders' equity | 133,252      | 132,905      | 130,507      | 109,431      | 102,399      | 133,252      | 102,399      |

#### AVERAGE BALANCES



|                            |              |              |              |              |              |              |              |
|----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Total portfolio loans      | \$ 1,035,564 | \$ 1,048,984 | \$ 1,028,029 | \$ 1,028,199 | \$ 1,047,248 | \$ 1,042,237 | \$ 1,055,703 |
| Earning assets             | 1,331,557    | 1,348,703    | 1,331,768    | 1,367,166    | 1,356,054    | 1,340,082    | 1,353,168    |
| Total assets               | 1,489,887    | 1,506,722    | 1,475,895    | 1,516,374    | 1,505,217    | 1,498,258    | 1,501,616    |
| Deposits                   | 1,212,089    | 1,232,489    | 1,222,422    | 1,245,112    | 1,222,837    | 1,222,232    | 1,214,060    |
| Total shareholders' equity | 134,537      | 131,941      | 111,317      | 104,609      | 101,236      | 133,246      | 98,380       |

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Source: Macatawa Bank Corporation