MACATAWA BANK CORP
Form 10-Q
October 22, 2015

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

FORM 10-Q

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

For the quarterly period ended September 30, 2015

OR

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

For the transition period from _______ to _______

Commission file number: 000-25927

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

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

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

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

Indicate by checkmark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes No

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

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

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

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

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

Forward-Looking Statements

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

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

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Part I Financial Information
Item 1.

MACATAWA BANK CORPORATION
CONSOLIDATED BALANCE SHEETS
As of September 30, 2015 (unaudited) and December 31, 2014
(Dollars in thousands, except per share data)

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

Total liabilities and shareholders' equity	$1,659,339	$1,583,846

See accompanying notes to consolidated financial statements.

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

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

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

See accompanying notes to consolidated financial statements.

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

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

See accompanying notes to consolidated financial statements.

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MACATAWA BANK CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Nine Month Periods Ended September 30, 2015 and 2014
(unaudited)
(Dollars in thousands, except per share data)

	Common Stock	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, January 1, 2014	$216,263	$(81,786)	$ (1,955)	$ 132,522
Net income for the nine months ended September 30, 2014	---	8,155	---	8,155
Common stock issuance costs	(102)	---	---	(102)
Issuance of 392 shares of Common Stock on exercise of stock purchase warrants	4	---	---	4
Cash dividends at $.06 per share	---	(2,028)	---	(2,028)
Net change in unrealized gain (loss) on securities available for sale, net of tax	---	---	1,689	1,689
Stock compensation expense	229	---	---	229
Balance, September 30, 2014	$216,394	$(75,659)	$ (266)	$ 140,469
Balance, January 1, 2015	$216,460	$(74,002)	$ 61	$ 142,519
Net income for the nine months ended September 30, 2015	---	9,256	---	9,256
Cash dividends at $.08 per share	---	(2,693)	---	(2,693)
Net change in unrealized gain (loss) on securities available for sale, net of tax	---	---	567	567
Tax effect of expired common stock warrants	(280)	---	---	(280)
Stock compensation expense	364	---	---	364
Balance, September 30, 2015	$216,544	$(67,439)	$ 628	$ 149,733

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Cash flows from operating activities		
Net income	$ 9,256	$ 8,155
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	2,167	2,438
Stock compensation expense	364	229
Tax effect of expired common stock warrants	(280)	---
Provision for loan losses	(1,750)	(2,750)
Origination of loans for sale	(76,622)	(51,504)
Proceeds from sales of loans originated for sale	78,323	53,919
Net gains on mortgage loans	(2,249)	(1,405)
Gain on sales of securities	(119)	(51)
Write-down of other real estate	496	1,109
Net gain on sales of other real estate	(237)	(475)
Change in net deferred tax asset	1,354	2,903
Change in accrued interest receivable and other assets	(1,595)	1,205
Earnings in bank-owned life insurance	(502)	(504)
Change in accrued expenses and other liabilities	(827)	(159)
Net cash from operating activities	7,779	13,110
Cash flows from investing activities		
Loan originations and payments, net	(74,691)	(13,395)
Change in interest-bearing deposits in other financial institutions	---	5,000
Purchases of securities available for sale	(34,536)	(34,990)
Purchases of securities held to maturity	(24,592)	(25,225)
Purchase FHLB stock	(320)	---
Proceeds from:		
Maturities and calls of securities	29,191	19,535
Sales of securities available for sale	19,848	5,164
Principal paydowns on securities	2,888	2,664
Sales of other real estate	3,613	9,964
Additions to premises and equipment	(775)	(1,525)
Net cash from investing activities	(79,374)	(32,808)
Cash flows from financing activities		
Change in deposits	60,524	(33,645)
Repayments of other borrowed funds	(1,938)	(1,884)
Proceeds from other borrowed funds	10,000	---

Proceeds from issuance of common stock	---	4
Cash dividends paid	(2,693)	(2,028)
Common stock issuance costs	---	(102)
Net cash from financing activities	65,893	(37,655)
Net change in cash and cash equivalents	(5,702)	(57,353)
Cash and cash equivalents at beginning of period	129,455	156,892
Cash and cash equivalents at end of period	$ 123,753	$ 99,539

See accompanying notes to consolidated financial statements.

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MACATAWA BANK CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
Nine Month Periods Ended September 30, 2015 and 2014
(unaudited)
(Dollars in thousands)

	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Supplemental cash flow information		
Interest paid	$ 4,078	$ 4,254
Income taxes paid	4,300	90
Supplemental noncash disclosures:		
Transfers from loans to other real estate	1,301	2,565
Security settlement	(520)	---

See accompanying notes to consolidated financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of Macatawa Bank Corporation ("the Company", "our", "we") and its wholly-owned subsidiary, Macatawa Bank ("the Bank"). All significant intercompany accounts and transactions have been eliminated in consolidation.

Macatawa Bank is a Michigan chartered bank with depository accounts insured by the Federal Deposit Insurance Corporation. The Bank operates 26 full service branch offices providing a full range of commercial and consumer banking and trust services in Kent County, Ottawa County, and northern Allegan County, Michigan.

The Company owns all of the common stock of Macatawa Statutory Trust I and Macatawa Statutory Trust II. These are grantor trusts that issued trust preferred securities and are not consolidated with the Company under accounting principles generally accepted in the United States of America.

Basis of Presentation: The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) believed necessary for a fair presentation have been included.

Operating results for the three and nine month periods ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. For further information, refer to the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and future results could differ. The allowance for loan losses, valuation of deferred tax assets, loss contingencies, fair value of other real estate owned and fair values of financial instruments are particularly subject to change.

Allowance for Loan Losses: The allowance for loan losses (allowance) is a valuation allowance for probable incurred credit losses inherent in our loan portfolio, increased by the provision for loan losses and recoveries, and decreased by charge-offs of loans. Management believes the allowance for loan losses balance to be adequate based on known and inherent risks in the portfolio, past loan loss experience, information about specific borrower situations and estimated collateral values, economic conditions and other relevant factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Management continues its collection efforts on previously charged-off balances and applies recoveries as additions to the allowance for loan losses.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. The general component covers non-classified loans and is based on historical loss experience adjusted for current qualitative factors. The Company maintains a loss migration analysis that tracks loan losses and recoveries based on loan class and the loan risk grade assignment for commercial loans. At September 30, 2015, an 18 month annualized historical loss experience was used for commercial loans and a 12 month historical loss experience period was applied to residential mortgage loans and consumer loans. These historical loss percentages are adjusted (both upwards and downwards) for certain qualitative factors, including economic trends, credit quality trends, valuation trends, concentration risk, quality of loan review, changes in personnel, external factors and other considerations.

A loan is impaired when, based on current information and events, it is believed to be probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified and a concession has been made, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Commercial and commercial real estate loans with relationship balances exceeding $500,000 and an internal risk grading of 6 or worse are evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated and the loan is reported at the present value of estimated future cash flows using the loan’s existing interest rate or at the fair value of collateral, less estimated costs to sell, if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment and they are not separately identified for impairment disclosures.

Troubled debt restructurings are also considered impaired with impairment generally measured at the present value of estimated future cash flows using the loan’s effective rate at inception or using the fair value of collateral, less estimated costs to sell, if repayment is expected solely from the collateral.

Foreclosed Assets: Assets acquired through or instead of loan foreclosure, primarily other real estate owned, are initially recorded at fair value less estimated costs to sell when acquired, establishing a new cost basis. If fair value declines, a valuation allowance is recorded through expense. Costs after acquisition are expensed unless they add value to the property.

Income Taxes: Income tax expense is the sum of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

We recognize a tax position as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. We recognize interest and penalties related to income tax matters in income tax expense.

Derivatives: Certain of our commercial loan customers have entered into interest rate swap agreements directly with the Bank. At the same time the Bank enters into a swap agreement with its customer, the Bank enters into a corresponding interest rate swap agreement with a correspondent bank at terms mirroring the Bank’s interest rate swap with its commercial loan customer. This is known as a back-to-back swap agreement. Under this arrangement the Bank has two freestanding interest rate swaps, both of which are carried at fair value. As the terms mirror each other, there is no income statement impact to the Bank. At September 30, 2015 and December 31, 2014, the total notional amount of such agreements was $38.0 million and $20.0 million and resulted in a derivative asset with a fair value of $592,000 and $140,000, respectively, which were included in other assets and a derivative liability of $592,000 and $140,000, respectively, which were included in other liabilities.

Reclassifications: Some items in the prior period financial statements were reclassified to conform to the current presentation.

Adoption of New Accounting Standards:
The Financial Accounting Standards Board (“FASB”) has issued Accounting Standards Update (ASU) No. 2014-04, Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40) - Reclassification of Residential Real

Estate Collateralized Consumer Mortgage Loans upon Foreclosure. The amendments are intended to clarify when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan should be derecognized and the real estate recognized. These amendments clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either: (a) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure; or (b) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additional disclosures are required. The amendments are effective for annual periods and interim periods within those annual periods beginning after December 15, 2014. Adoption of this ASU by the Company in the first nine months of 2015 resulted in five residential real estate properties totaling $657,000 being classified as other real estate owned earlier than they would have under previous guidance.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FASB issued ASU 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. The amendments in this Update change the requirements for reporting discontinued operations. A discontinued operation may include a component of an entity or a group of components of an entity, or a business or nonprofit activity. A disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. The amendments in this Update require an entity to present, for each comparative period, the assets and liabilities of a disposal group that includes a discontinued operation separately in the asset and liability sections, respectively, of the statement of financial position. This Update also requires additional disclosures about discontinued operations including pretax profit or loss, and any ongoing involvement with the discontinued operation. The amendments are effective for annual periods and interim periods within those annual periods beginning after December 15, 2014. The impact of adoption of this ASU by the Company was not material.

FASB issued ASU 2014-14, Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure. This update requires creditors to reclassify loans that are within the scope of the ASU to "other receivables" upon foreclosure, rather than reclassifying them to other real estate owned. The separate other receivable recorded upon foreclosure is to be measured based on the amount of the loan balance (principal and interest) the creditor expects to recover from the guarantor. The new guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The impact of adoption of this ASU by the Company was not material.

Newly Issued Not Yet Effective Standards:
FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The amendments in this Update create a new topic in the Codification, Topic 606. In addition to superseding and replacing nearly all existing U.S. GAAP revenue recognition guidance, including industry-specific guidance, ASC 606 establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time, provides new and more detailed guidance on specific topics and expands and improves disclosures about revenue. In addition, ASU 2014-09 adds a new Subtopic to the Codification, ASC 340-40, Other Assets and Deferred Costs: Contracts with Customers, to provide guidance on costs related to obtaining a contract with a customer and costs incurred in fulfilling a contract with a customer that are not in the scope of another ASC Topic. The new guidance does not apply to certain contracts within the scope of other ASC Topics, such as lease contracts, insurance contracts, financing arrangements, financial instruments, guarantees other than product or service warranties, and nonmonetary exchanges between entities in the same line of business to facilitate sales to customers. The amendments are effective for annual periods and interim periods within those annual periods beginning after December 15, 2016. In August 2015, FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606) – Deferral of the Effective Date to delay the implementation requirement by one year. The impact of adoption of this ASU by the Company is not expected to be material.

FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs. This update requires that debt issuance costs be reported in the balance sheet as a direct deduction from the face amount of the related liability, consistent with the presentation of debt discounts. Further, the update requires the amortization of debt issuance costs to be reported as interest expense. Similarly, debt issuance costs and any discount or premium are considered in the aggregate when determining the effective interest rate on the debt. The new guidance is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The new guidance must be applied retrospectively. The impact of adoption of this ASU by the Company is not expected to be material.

FASB issued ASU 2015-05, Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement. This update provides guidance related to the accounting for internal-use software accessed through a hosting arrangement (e.g., cloud computing, software as a service, etc.) only if both of the following criteria are met: (1) the customer has the contractual right to take possession of the software at any time during the hosting period without significant penalty (there is no significant penalty if the customer has the ability to take delivery of the software without incurring significant cost and the ability to use the software separately without significant loss of utility or value); and (2) it is feasible for the customer to either run the software on its own hardware or contract with another party unrelated to the vendor to host the software. If both of the criteria are present in a hosting arrangement, then the arrangement contains a software license and the customer should generally capitalize and subsequently amortize the cost of the license. If both of the criteria are not present, the customer should account for the arrangement as a service contract (i.e., expense fees as incurred). The new guidance is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The impact of adoption of this ASU by the Company is not expected to be material.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FASB issued ASU 2015-12, Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965)—(Part I) Fully Benefit-Responsive Investment Contracts, (Part II) Plan Investment Disclosures, (Part III) Measurement Date Practical Expedient (consensuses of the Emerging Issues Task Force). ASU 2015-12 (1) designates contract value as the only required measure for fully benefit-responsive investment contracts, which maintains the relevant information while reducing the cost and complexity of reporting for fully benefit-responsive investment contracts; (2) simplifies and makes more effective the investment disclosure requirements for employee benefit plans; and (3) provides a similar measurement date practical expedient for employee benefit plans. The amendments in ASU 2015-12 are effective for fiscal years starting from December 15, 2015. The impact of adoption of this ASU by the Company is not expected to be material.

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MACATAWA BANK CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 2 – SECURITIES

The amortized cost and fair value of securities at period-end were as follows (dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2015				
Available for Sale:				
U.S. Treasury and federal agency securities	$ 71,594	231	(42)	$ 71,783
U.S. Agency MBS and CMOs	13,874	88	(27)	13,935
Tax-exempt state and municipal bonds	34,698	423	(117)	35,004
Taxable state and municipal bonds	25,015	374	(3)	25,386
Corporate bonds and other debt securities	13,868	40	(12)	13,896
Other equity securities	1,500	11	---	1,511
	$ 160,549	$ 1,167	$ (201)	$ 161,515
Held to Maturity				
Tax-exempt state and municipal bonds	$ 40,434	$ 1,190	$ ---	$ 41,624
December 31, 2014				
Available for Sale:				
U.S. Treasury and federal agency securities	$ 67,612	$ 53	$ (501)	$ 67,164
U. S. Agency MBS and CMOs	16,692	67	(71)	16,688
Tax-exempt state and municipal bonds	37,203	419	(161)	37,461
Taxable state and municipal bonds	25,012	351	(70)	25,293
Corporate bonds and other debt securities	13,762	34	(30)	13,766
Other equity securities	1,500	2	---	1,502
	$ 161,781	$ 926	$ (833)	$ 161,874
Held to Maturity:				
Tax-exempt state and municipal bonds	$ 31,585	$ 64	$ (221)	$ 31,428

Proceeds from the sale of securities available for sale were $7.8 million in the three month period ended September 30, 2015 and $19.8 million in the nine month period ended September 30, 2015 resulting in net gains on sale of $36,000 and $119,000, respectively, as reported in the Consolidated Statements of Income. This resulted in reclassifications of $36,000 ($23,000 net of tax) and $119,000 ($77,000 net of tax) from accumulated other comprehensive income to gain on sale of securities in the Consolidated Statements of Income in the three and nine month periods ended September 30, 2015. There were no sales of securities in the three month period ended September 30, 2014. Proceeds from the sale of securities available for sale were $5.2 million in the nine month period ended September 30, 2014 resulting in net gains on sale of $51,000, as reported in the Consolidated Statements of Income. This resulted in reclassifications of $51,000 ($33,000 net of tax) from accumulated other comprehensive income to gain on sale of securities in the Consolidated Statements of Income in the nine month period ended September 30, 2014.

Contractual maturities of debt securities at September 30, 2015 were as follows (dollars in thousands):

	Held–to-Maturity Securities		Available-for-Sale Securities	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$13,156	$13,221	$7,195	$7,235
Due from one to five years	9,769	9,982	98,012	98,565
Due from five to ten years	15,319	16,098	38,039	38,308
Due after ten years	2,190	2,323	15,803	15,896
	$40,434	$41,624	$159,049	$160,004

NOTE 2 – SECURITIES (Continued)

Securities with unrealized losses at September 30, 2015 and December 31, 2014, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows (dollars in thousands):

	Less than 12 Months		12 Months or More		Total	
September 30, 2015	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury and federal agency securities	$12,994	$ (6)	$9,795	$ (36)	$22,789	$ (42)
U.S. Agency MBS and CMOs	5,837	(27)	---	---	5,837	(27)
Tax-exempt state and municipal bonds	7,271	(50)	1,993	(67)	9,264	(117)
Taxable state and municipal bonds	---	---	648	(3)	648	(3)
Corporate bonds and other debt securities	3,851	(8)	498	(4)	4,349	(12)
Other equity securities	---	---	---	---	---	---
Total temporarily impaired	$29,953	$ (91)	$12,934	$ (110)		