

MACATAWA BANK CORP  
Form 8-K  
January 20, 2004

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 8-K**

**CURRENT REPORT**

Pursuant to Section 13 or 15(d) of  
The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): January 19, 2004

**MACATAWA BANK CORPORATION**

(Exact name of Registrant as specified in its charter)

**Michigan**  
(State or Other Jurisdiction  
of Incorporation)

**000-25927**  
(Commission File No.)

**38-3391345**  
(IRS Employer  
Identification No.)

**10753 Macatawa Drive, Holland, MI**  
(Address of Principal Executive Offices)

**49424**  
(Zip Code)

**616 820-1444**  
(Registrant's Telephone Number, Including Area Code)

**Not Applicable**  
(Former Name or Former Address, if changed Since Last Report)



**Item 7. Financial Statements and Exhibits.**

Exhibit

99 Press release dated January 19, 2004.

**Item 12. Results of Operations and Financial Conditions**

On January 19, 2004, Macatawa Bank Corporation issued a press release announcing results for the year ended December 31, 2003, and for the fourth fiscal quarter of 2003. A copy of the press release is attached as Exhibit 99.

The information in this Form 8-K and the attached Exhibit shall not be deemed filed for purposes of Section 18 of the Securities Act of 1934, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, except as shall be expressly set forth by specific reference in such filing.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: January 19, 2004

MACATAWA BANK CORPORATION

By /s/ Jon W. Swets

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Jon W. Swets  
Chief Financial Officer

**EXHIBIT INDEX**

| <b><u>Exhibit No.</u></b> | <b><u>Description</u></b>             |
|---------------------------|---------------------------------------|
| 99                        | Press Release Dated January 19, 2004. |

10753 Macatawa Drive  
Holland, MI 49424

## NEWS RELEASE

NASDAQ NATIONAL MARKET: MCBC  
FOR RELEASE: Immediate  
DATE: January 19, 2004  
Contact: Jon Swets, CFO  
616.494.7645

### **Holland, Michigan - Macatawa Bank Corporation Reports Record Growth Quarter.**

Macatawa Bank Corporation today announced net income for the fourth quarter of 2003. Net income totaled \$2.98 million, an increase of 2% as compared to fourth quarter 2002 net income of \$2.92 million. Earnings per share on a diluted basis were \$.35 for the quarter, which was the same as the prior year fourth quarter. Total assets grew by \$102.05 million during the quarter to \$1.40 billion as of December 31, 2003. This was the largest growth quarter in the Company's six year history.

Net income for the year ended December 31, 2003 was up 24% to \$11.78 million compared to \$9.51 million for the prior year. Earnings per share on a diluted basis were \$1.39 for the year, an increase of 15% compared to \$1.21 for the prior year. The percent increase in earnings per share for the year was less than the percent increase in net income due to a 45% increase in shares outstanding for the acquisition of Grand Bank Financial Corporation in the second quarter of 2002.

We generated record growth in many areas for the quarter, said Ben Smith, Chairman and CEO. Core deposits grew by \$96.6 million, or 43% on an annualized basis, almost doubling the prior highest single quarter increase. This deposit growth funded record loan growth. Total portfolio loans were up by \$68.0 million for the quarter, or 25% on an annualized basis. Our growth was a result of many initiatives, said Mr. Smith. In the Grand Rapids market we are gaining community awareness and acceptance through our expanding branch network and our high service quality standards. Also, we enjoy continuing success in the Holland area in building new and existing relationships, and our entrance into the Grand Haven market during the third quarter has produced excellent growth results. For the year total assets grew by \$224.53 million or 19% over the end of the prior year.

The increase in quarterly earnings resulted from growth in net interest income. Fourth quarter net interest income totaled \$11.26 million, an increase of 14%, as compared to the 2002 quarter. The net interest income improvement was driven primarily by the significant increase in earning assets, which grew by 17% or \$182.16 million from an average of \$1.06 billion for the fourth quarter of 2002 to an average of \$1.24 billion for the fourth quarter of 2003. A decrease in net interest margin from 3.72% for the fourth quarter of 2002 to 3.64% for the current quarter offset some of the effect of the growth in earning assets. Net interest margin also declined on a consecutive quarter basis, from 3.71% for the third quarter of 2003. The decrease in net interest margin both on a consecutive quarter basis and on a year-over-year basis can be attributed primarily to a decrease in loan fee income.

The increase in net interest income was partially offset by a decrease in non-interest income. Non-interest income was \$2.15 million for the fourth quarter of 2003, a \$434,000 decrease compared to fourth quarter 2002 non-interest income of \$2.59 million. This decrease related primarily to a \$588,000 reduction in gains

on sales of mortgage loans. Commenting on this reduction in gains, Mr. Smith stated, "The interest rate environment continues to be a challenge. The increase in long-term interest rates that began in the third quarter slowed our mortgage loan origination and sale volume, and as a result, caused a sharp decline in gains on sales of loans. We worked to offset this decline in gains by increasing net interest income through growth in assets and by containing our costs. We had great success in both areas."

An increase in the quarterly provision for loan losses also partially offset the increase in net interest income. The provision was \$1.20 million for the quarter compared to \$990,000 for the fourth quarter of 2002. The record loan growth required larger provisions, causing a short-term strain on earnings. Asset quality remained strong for the quarter with annualized net loan charge-offs to total loans at .09% for the quarter and non-performing loans to total loans of .35% at the end of the quarter. These ratios remained well below historical peer averages.

Non-interest expense increased to \$7.85 million for the quarter as compared to \$7.15 million for the fourth quarter of 2002. Salaries and benefits increased by \$400,000 over the fourth quarter of the prior year comprising most of the increase in non-interest expenses. Macatawa's growth over the year has required additional staff in various areas including new branches, lending departments, and operations which are all necessary to support increased customer activity. However, non-interest expense decreased by \$259,000 from the third quarter of 2003. Of this decrease, \$184,000 related to a decline in costs associated with the reduced mortgage loan origination volume. The remaining decrease was a result of cost declines in various areas.

Management sees many opportunities in West Michigan and expects their growth to continue. Macatawa's expansion into Grand Rapids remains a high priority. A new branch on the northeast side of the city opened in December and it is expected that a new branch on the northwest side in Walker will open during the first quarter of 2004. At least two more branches in the greater Grand Rapids area are expected to open within the next year. Also, in other markets, a new branch on the north side of Holland opened during the fourth quarter. In Grand Haven the loan production office that opened in the third quarter was approved for full branch services during the fourth quarter. It is expected that construction will begin on a permanent branch in Grand Haven during the first quarter of 2004.

#### **Conference Call**

Macatawa Bank Corporation will hold its quarterly earnings conference call on Tuesday, January 20, 2004, at 10:00 A.M. Persons who wish to access the call may do so via the Internet by visiting [www.macatawabank.com](http://www.macatawabank.com) and clicking on the webcast link in the Investor Information section. It may also be accessed by logging on to [www.streetevents.com](http://www.streetevents.com). A replay of the call will be available for 30 days following the call.

Headquartered in Holland, Michigan, Macatawa Bank Corporation is the parent company for Macatawa Bank and Macatawa Investment Services. Through its subsidiaries, the Corporation offers a full range of banking, investment and trust services to individuals, businesses, and governmental entities from a network of 20 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 Corporation emphasizes its local management team and decision making, along with providing customers excellent service and superior financial products.

**CAUTIONARY STATEMENT:** This press release contains certain forward-looking statements that involve risks and uncertainties which could cause actual results to differ materially from those expressed or implied by such forward-looking statements, including, but not limited to, economic, competitive, governmental and technological factors affecting our operations, markets, products, services, and pricing. These statements include, among others, statements related to the number and timing of future branch openings, future growth and funding sources, and the future level of provisions for loan losses. Annualized growth rates are not intended to imply future growth at those rates. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this press release. Further information concerning our business, including additional factors that could materially affect our financial results, is included in our filings with the Securities and Exchange Commission.





# MACATAWA BANK CORPORATION

## CONSOLIDATED FINANCIAL SUMMARY

(Unaudited)

(Dollars in thousands except per share information)

|   | Quarter Ended<br>December 31 |           | Year Ended<br>December 31 |           |
|---|------------------------------|-----------|---------------------------|-----------|
|   | 2003                         | 2002      | 2003                      | 2002      |
| <b>EARNINGS SUMMARY</b>                           |                              |           |                           |           |
| Total interest income                             | \$ 16,768                    | \$ 15,918 | \$ 64,435                 | \$ 57,252 |
| Total interest expense                            | 5,505                        | 6,016     | 22,341                    | 22,902    |
| Net interest income                               | 11,263                       | 9,902     | 42,094                    | 34,350    |
| Provision for loan loss                           | 1,200                        | 990       | 4,105                     | 3,321     |
| Net interest income after provision for loan loss | 10,063                       | 8,912     | 37,989                    | 31,029    |
| <b>NON-INTEREST INCOME</b>                        |                              |           |                           |           |
| Deposit service charges                           | 648                          | 631       | 2,564                     | 2,247     |
| Gain on sale of loans                             | 468                          | 1,056     | 3,746                     | 2,382     |
| Trust fees  | 674                          | 744       | 2,480                     | 2,118     |
| Other   | 361                          | 154       | 853                       | 576       |
| Total non-interest income                         | 2,151                        | 2,585     | 9,643                     | 7,323     |
| <b>NON-INTEREST EXPENSE</b>                       |                              |           |                           |           |
| Salaries and benefits                             | 4,254                        | 3,854     | 16,371                    | 12,838    |
| Occupancy   | 640                          | 509       | 2,342                     | 1,861     |
| Furniture and equipment                           | 673                          | 589       | 2,588                     | 2,161     |
| Other   | 2,284                        | 2,199     | 8,763                     | 7,327     |
| Total non-interest expense                        | 7,851                        | 7,151     | 30,064                    | 24,187    |
| Income before income tax                          | 4,363                        | 4,346     | 17,568                    | 14,165    |
| Federal income tax expense                        | 1,388                        | 1,431     | 5,788                     | 4,652     |
| Net income  | \$ 2,975                     | \$ 2,915  | \$ 11,780                 | \$ 9,513  |
| Basic earnings per share                          | \$0.36                       | \$0.35    | \$1.41                    | \$1.23    |
| Diluted earnings per share                        | \$0.35                       | \$0.35    | \$1.39                    | \$1.21    |
| Return on average assets                          | 0.90%                        | 1.02%     | 0.94%                     | 0.95%     |
| Return on average equity                          | 9.78%                        | 10.27%    | 9.91%                     | 9.46%     |
| Net interest margin                               | 3.64%                        | 3.72%     | 3.63%                     | 3.69%     |
| Efficiency ratio                                  | 58.53%                       | 57.27%    | 58.11%                    | 58.04%    |

### BALANCE SHEET DATA

December 31      December 31

|   | <u>2003</u>         | <u>2002</u>         |
|---|---------------------|---------------------|
| <b>Assets</b>                                     |                     |                     |
| Cash and due from banks                           | \$ 41,633           | \$ 47,874           |
| Federal funds sold & short term investments       | 18,414              | -                   |
| Securities available for sale                     | 107,049             | 86,109              |
| Securities held to maturity                       | 2,624               | 4,061               |
| Federal Home Loan Bank Stock                      | 8,793               | 5,391               |
| Loans held for sale                               | 4,054               | 18,726              |
| Total loans                                       | 1,157,107           | 961,038             |
| Less allowance for loan loss                      | 16,093              | 13,472              |
|   | <u>1,141,014</u>    | <u>947,566</u>      |
| Net Loans   | 1,141,014           | 947,566             |
| Premises and equipment, net                       | 38,713              | 25,751              |
| Acquisition intangibles                           | 26,702              | 27,186              |
| Other assets                                      | 12,115              | 13,919              |
|   | <u>1,401,111</u>    | <u>\$ 1,176,583</u> |
| <b>Total Assets</b>                               | <b>\$ 1,401,111</b> | <b>\$ 1,176,583</b> |
| <b>Liabilities and Shareholders Equity</b>        |                     |                     |
| Non-interest bearing deposits                     | \$ 139,557          | \$ 103,030          |
| Interest bearing deposits                         | 969,842             | 817,843             |
|   | <u>1,109,399</u>    | <u>920,873</u>      |
| Total deposits                                    | 1,109,399           | 920,873             |
| Federal funds purchased                           | -                   | 20,000              |
| FHLB advances                                     | 145,680             | 106,897             |
| Other borrowings                                  | 19,655              | 4,936               |
| Other liabilities                                 | 4,477               | 9,903               |
|   | <u>1,279,211</u>    | <u>1,062,609</u>    |
| <b>Total Liabilities</b>                          | <b>1,279,211</b>    | <b>1,062,609</b>    |
| Shareholders' equity                              | 121,900             | 113,974             |
|   | <u>1,401,111</u>    | <u>\$ 1,176,583</u> |
| <b>Total Liabilities and Shareholders' Equity</b> | <b>\$ 1,401,111</b> | <b>\$ 1,176,583</b> |

# MACATAWA BANK CORPORATION

## SELECTED CONSOLIDATED FINANCIAL DATA

(Unaudited)

(Dollars in thousands except per share information)

|   | <u>4th Qtr<br/>2003</u> | <u>3rd Qtr<br/>2003</u> | <u>2nd Qtr<br/>2003</u> | <u>1st Qtr<br/>2003</u> | <u>4th Qtr<br/>2002</u> |
|---|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| <b>EARNINGS SUMMARY</b>                       |                         |                         |                         |                         |                         |
| Net interest income                           | \$ 11,263               | \$ 10,936               | \$ 10,287               | \$ 9,608                | \$ 9,902                |
| Provision for loan loss                       | 1,200                   | 1,040                   | 870                     | 995                     | 990                     |
| Total non-interest income                     | 2,151                   | 2,786                   | 2,401                   | 2,306                   | 2,585                   |
| Total non-interest expense                    | 7,851                   | 8,110                   | 7,423                   | 6,681                   | 7,151                   |
| Income taxes                                  | 1,388                   | 1,509                   | 1,463                   | 1,428                   | 1,431                   |
| Net income                                    | \$ 2,975                | \$ 3,063                | \$ 2,932                | \$ 2,810                | \$ 2,915                |
| Basic earnings per share                      | \$ 0.36                 | \$ 0.37                 | \$ 0.35                 | \$ 0.34                 | \$ 0.35                 |
| Diluted earnings per share                    | \$ 0.35                 | \$ 0.36                 | \$ 0.35                 | \$ 0.33                 | \$ 0.35                 |
| <b>MARKET DATA</b>                            |                         |                         |                         |                         |                         |
| Book value per share                          | \$14.56                 | \$14.38                 | \$14.19                 | \$13.89                 | \$13.75                 |
| Market value per share                        | \$28.39                 | \$23.16                 | \$24.18                 | \$20.49                 | \$18.90                 |
| Average basic common shares                   | 8,368,647               | 8,365,157               | 8,363,838               | 8,318,420               | 8,285,840               |
| Average diluted common shares                 | 8,520,492               | 8,498,387               | 8,485,232               | 8,438,042               | 8,419,237               |
| Period end common shares                      | 8,370,073               | 8,367,385               | 8,363,838               | 8,364,483               | 8,286,077               |
| <b>PERFORMANCE RATIOS</b>                     |                         |                         |                         |                         |                         |
| Return on average assets                      | 0.90%                   | 0.97%                   | 0.96%                   | 0.95%                   | 1.02%                   |
| Return on average equity                      | 9.78%                   | 10.25%                  | 9.93%                   | 9.70%                   | 10.27%                  |
| Net interest margin (FTE)                     | 3.64%                   | 3.71%                   | 3.64%                   | 3.54%                   | 3.72%                   |
| Efficiency ratio                              | 58.53%                  | 59.11%                  | 58.50%                  | 56.07%                  | 57.27%                  |
| <b>ASSET QUALITY</b>                          |                         |                         |                         |                         |                         |
| Net charge-offs                               | \$249                   | \$412                   | \$519                   | \$305                   | \$443                   |
| Nonperforming loans                           | \$4,025                 | \$3,205                 | \$2,396                 | \$2,884                 | \$2,798                 |
| Nonperforming loans to total loans            | 0.35%                   | 0.29%                   | 0.23%                   | 0.28%                   | 0.29%                   |
| Net charge-offs to average loans (annualized) | 0.09%                   | 0.16%                   | 0.20%                   | 0.12%                   | 0.18%                   |
| Allowance for loan loss to total loans        | 1.39%                   | 1.39%                   | 1.40%                   | 1.40%                   | 1.40%                   |

**CAPITAL & LIQUIDITY**

|  |       |       |       |       |       |
|--|-------|-------|-------|-------|-------|
| Average equity to average assets       | 9.2%  | 9.4%  | 9.7%  | 9.8%  | 9.9%  |
| Tier 1 capital to risk-weighted assets | 9.7%  | 10.1% | 8.5%  | 8.5%  | 8.6%  |
| Total capital to risk-weighted assets  | 10.9% | 11.3% | 9.7%  | 9.7%  | 9.9%  |
| Loans to deposits + FHLB borrowings    | 92.2% | 95.7% | 94.2% | 95.1% | 93.5% |

**END OF PERIOD  
BALANCES**

|                            |             |             |             |             |            |
|----------------------------|-------------|-------------|-------------|-------------|------------|
| Total portfolio loans      | \$1,157,107 | \$1,089,083 | \$1,038,298 | \$1,015,154 | \$ 961,038 |
| Earning assets             | 1,298,041   | 1,205,929   | 1,160,184   | 1,119,534   | 1,075,325  |
| Total assets               | 1,401,111   | 1,299,062   | 1,257,612   | 1,209,504   | 1,176,583  |
| Deposits                   | 1,109,399   | 999,946     | 972,939     | 965,567     | 920,873    |
| Total shareholders' equity | 121,900     | 120,287     | 118,688     | 116,153     | 113,974    |

**AVERAGE BALANCES**

|                            |             |             |             |            |            |
|----------------------------|-------------|-------------|-------------|------------|------------|
| Total portfolio loans      | \$1,120,397 | \$1,052,521 | \$1,025,827 | \$ 986,614 | \$ 959,174 |
| Earning assets             | 1,239,351   | 1,177,091   | 1,136,030   | 1,097,945  | 1,057,187  |
| Total assets               | 1,329,319   | 1,266,954   | 1,221,691   | 1,182,508  | 1,142,424  |
| Deposits                   | 995,997     | 996,848     | 961,791     | 939,600    | 907,468    |
| Total shareholders' equity | 121,689     | 119,543     | 118,159     | 115,877    | 113,533    |