

MERCANTILE BANK CORP  
Form 11-K  
June 27, 2018

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 11-K**

**ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2017**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

**For the transition period from to**

**Commission File No. 000-26719**

**Mercantile Bank of Michigan**

**401(k) Plan**

Mercantile Bank Corporation

310 Leonard Street, NW

Grand Rapids, Michigan 49504

(616) 406-3000

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**REQUIRED INFORMATION**

The Mercantile Bank of Michigan 401(k) Plan is subject to the Employee Retirement Income Security Act of 1974 (ERISA). In lieu of the requirements of Items 1, 2 and 3 of Form 11-K for annual reports, the financial statements and schedules of the Plan for the two years ended December 31, 2017 and 2016, which have been prepared in accordance with the financial reporting requirements of ERISA, are included in this report.

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**Mercantile Bank of Michigan**

**401(k) Plan**

Financial Statements

And Supplemental Schedule

Years Ended December 31, 2017 and 2016

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**Mercantile Bank of Michigan 401(k) Plan**

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## **Report of Independent Registered Public Accounting Firm**

To the Compensation Committee and Participants of the

Mercantile Bank of Michigan 401(k) Plan

Grand Rapids, Michigan

## **Opinion on the Financial Statements**

We have audited the accompanying statements of net assets available for benefits of the Mercantile Bank of Michigan 401(k) Plan (the “Plan”) as of December 31, 2017 and 2016, the related statements of changes in net assets available for benefits for the years then ended, and the related notes (collectively, the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2017 and 2016, and the changes in net assets available for benefits for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

## **Basis for Opinion**

These financial statements are the responsibility of the Plan’s management. Our responsibility is to express an opinion on the Plan’s financial statements based on our audits. We are a public accounting firm registered with the Public Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Plan in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Plan is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Plan’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risk of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included

examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by the Plan's management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

## Supplemental Information

The supplemental information in the accompanying Schedule of Assets (Held at End of Year) has been subjected to audit procedures performed in conjunction with the audit of the Plan's financial statements. The supplemental information is presented for the purpose of additional analysis and is not a required part of the financial statements but included supplemental information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental information is the responsibility of the Plan's management. Our audit procedures included determining whether the supplemental information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental information. In forming our opinion on the supplemental information, we evaluated whether the supplemental information, including its form and content, is presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. In our opinion, the supplemental information is fairly stated, in all material respects, in relation to the financial statements as a whole.

We have served as the Plan's auditor since 2006.

Grand Rapids, Michigan

June 27, 2018



**Mercantile Bank of Michigan 401(k) Plan**

**Statements of Net Assets Available for Benefits**

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<i>December 31,</i>	<b>2017</b>	2016
<b>Assets</b>		
Investments, at fair value		
Mutual funds	<b>\$47,545,368</b>	\$39,094,270
Mercantile Bank Corporation common stock	<b>14,298,747</b>	18,656,297
Money market fund	<b>1,861,929</b>	1,739,766
<b>Total investments</b>	<b>63,706,044</b>	59,490,333
Notes receivable from participants	<b>589,604</b>	583,315
Accrued investment income	<b>9,329</b>	7,716
<b>Net Assets Available for Benefits</b>	<b>\$64,304,977</b>	\$60,081,364

*See accompanying notes to financial statements.*

## Mercantile Bank of Michigan 401(k) Plan

## Statements of Changes in Net Assets Available for Benefits

<i>Year ended December 31,</i>	<b>2017</b>	2016
<b>Additions</b>		
Investment income		
Net appreciation in fair value of investments	<b>\$4,369,674</b>	\$8,761,505
Interest and dividends	<b>2,141,101</b>	1,515,302
Total investment income	<b>6,510,775</b>	10,276,807
Contributions		
Employer	<b>1,250,546</b>	1,194,345
Employee	<b>2,387,946</b>	2,174,368
Rollover	<b>893,677</b>	168,716
Total contributions	<b>4,532,169</b>	3,537,429
Interest from notes receivable	<b>25,123</b>	26,879
<b>Total Additions</b>	<b>11,068,067</b>	13,841,115
<b>Deductions</b>		
Benefits paid to participants	<b>6,688,652</b>	7,670,541
Administrative expenses	<b>155,802</b>	137,308
<b>Total Deductions</b>	<b>6,844,454</b>	7,807,849
Net increase	<b>4,223,613</b>	6,033,266
<b>Net Assets Available for Benefits, beginning of year</b>	<b>60,081,364</b>	54,048,098
<b>Net Assets Available for Benefits, end of year</b>	<b>\$64,304,977</b>	\$60,081,364

*See accompanying notes to financial statements.*

## **Mercantile Bank of Michigan 401(k) Plan**

### **Notes to Financial Statements**

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#### **1. Plan Description**

The following description of Mercantile Bank of Michigan 401(k) Plan (Plan) provides only general information. Participants should refer to the Plan Agreement or Summary Plan Description for a more complete description of the Plan's provisions.

##### ***General***

The Plan was established by the Plan Sponsor, Mercantile Bank of Michigan (Bank), effective January 1, 1998. The Plan was amended and restated effective January 1, 2013. The Plan is subject to the Employee Retirement Income Security Act of 1974 (ERISA).

##### ***Eligibility and Enrollment***

The Plan is a defined contribution plan covering eligible employees who have completed a minimum of one hour of service. Eligible employees can enter the Plan on the first day of the month following date of hire. For newly eligible employees, the Plan provides automatic enrollment for the employee at an amount equal to 3% of compensation, until such time as the employee elects a different percentage or elects no contributions.

##### ***Contributions***

Elective deferrals by participants under the Plan provisions are based on a percentage of their compensation, subject to certain limitations as defined by the Plan Agreement. Participants may also make after tax Roth contributions, and may roll over account balances from other qualified defined benefit or defined contribution plans into their account.

The Bank makes safe harbor matching contributions equal to 100% of the first 4.25% of compensation deferred by each participant subject to certain limitations as specified in the Plan Document. There was an amendment in 2018 to increase the match to 5% as of April 1, 2018. The Bank may also make a discretionary profit sharing contribution subject to certain limitations as specified in the Plan Agreement. There were no profit sharing contributions in 2017 and 2016.

### *Participant Accounts*

Each participant's account is credited with the participant's contributions, allocations of the Bank's matching contribution and Plan earnings. Allocations are based on participant earnings or account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's account. Participants may direct the investment of their account balances into various investment options offered by the Plan.

### *Vesting*

Participants are immediately vested in their elective deferrals and all employer contributions and earnings thereon.

## **Mercantile Bank of Michigan 401(k) Plan**

### **Notes to Financial Statements**

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#### ***Notes Receivable From Participants***

Participants may borrow from their accounts a minimum of \$1,000 up to a maximum equal to the lesser of \$50,000 or 50% of their account balance. The notes are secured by the balance in the participant's account and bear interest at rates that are commensurate with local borrowing rates. Interest rates on notes receivable outstanding as of December 31, 2017 ranged from 3.25% to 5.25%. Principal and interest is paid ratably through payroll deductions over a period not to exceed five years, unless the notes were used to purchase a primary residence, in which case the note terms shall not exceed ten years.

#### ***Payment of Benefits***

Upon separation of service, death, disability or retirement, a participant or his or her beneficiary will receive a distribution of the participant's account as a lump-sum amount. An installment option was added as of January 1, 2018. A participant may receive the portion of his or her account invested in Mercantile Bank Corporation common stock in either common shares or cash. Additionally, under certain circumstances of financial hardship, participants are allowed to withdraw funds from the Plan.

#### ***Administrative Expenses***

Certain administrative expenses are paid by the Plan Sponsor. Certain fees incurred as a result of participant-directed transactions (e.g., participant loan origination and distribution fees) are passed on to the participant. A trustee fee is paid to Greenleaf Trust, which is calculated quarterly based on the market value of the Plan assets and allocated to participant accounts on a quarterly basis.



**Mercantile Bank of Michigan 401(k) Plan**

**Notes to Financial Statements**

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**2. Significant Accounting Policies**

*Basis of Accounting*

The accompanying financial statements are prepared under the accrual method of accounting.

*Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of net assets and changes therein. Actual results could differ from those estimates.

*Risks and Uncertainties*

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the financial statements.

*Concentration of Credit Risk*



At December 31, 2017 and 2016, approximately 22% and 31%, respectively, of the Plan's assets were invested in Mercantile Bank Corporation common stock. A significant decline in the market value of the common stock would significantly affect the net assets available for benefits.

***Investment Valuation and Income Recognition***

The Plan's investments are stated at fair value. Fair value is the price that would be received to sell an asset (an exit price) in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. See Note 3 for discussion of fair value measurements.

Purchases and sales of securities are recorded on a trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation (depreciation) includes the Plan's gains and losses on investments bought and sold as well as held during the year.

***Notes Receivable – Participant Loans***

Participant loans are classified as notes receivable from participants, and are measured at the unpaid principal balance plus unpaid accrued interest. Defaulted loans, if any, are reclassified as distributions based upon the terms of the Plan Document.

***Payment of Benefits***

Benefits are recorded when paid.

## Mercantile Bank of Michigan 401(k) Plan

### Notes to Financial Statements

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#### 3. Investments

In accordance with ASC 820, *Fair Value Measurements and Disclosures*, the Plan utilizes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The three levels of the fair value hierarchy are described as follows:

*Level 1* - Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets.

*Level 2* - Inputs to the valuation methodology include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in inactive markets, and other inputs that are observable or can be corroborated by observable market data.

*Level 3* - Inputs to the valuation methodology are both significant to the fair value measurement and unobservable.

The following valuation methodologies were used to measure the fair value of the Plan's investments. There have been no changes in the methodologies used at December 31, 2017 and 2016.

*Money market and mutual funds* - Valued at quoted market prices in an exchange and active market, which represent the NAV of shares held by the Plan.

*Mercantile Bank Corporation common stock* - Valued at the closing price reported on the active market on which the security is traded.

The Plan's valuation methods may result in a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Although Plan management believes the valuation methods are appropriate and consistent with the market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The tables below set forth by level within the fair value hierarchy the Plan's investments as of December 31, 2017 and 2016. There have been no significant transfers in or out of Levels 1, 2 or 3 in 2017 or 2016.

Investments at Fair Value

<i>December 31, 2017</i>	Level 1	Level 2	Level 3	Total
Mutual funds	\$47,545,368	\$	\$	\$47,545,368
Common stock	14,298,747			14,298,747
Money market fund	1,861,929			1,861,929
<b>Investments, at fair value</b>	<b>\$63,706,044</b>	<b>\$</b>	<b>\$</b>	<b>\$63,706,044</b>

**Mercantile Bank of Michigan 401(k) Plan****Notes to Financial Statements**

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## Investments at Fair Value

<i>December 31, 2016</i>	Level 1	Level 2	Level 3	Total
Mutual funds	\$39,094,270	\$ -	\$ -	\$39,094,270
Common stock	18,656,297	-	-	18,656,297
Money market fund	1,739,766	-	-	1,739,766
<b>Investments</b> , at fair value	\$59,490,333	\$ -	\$ -	\$59,490,333

**4. Related Party Transactions**

Parties-in-interest are defined under Department of Labor (DOL) regulations as any fiduciary of the Plan, any party rendering service to the Plan, the employer and certain other parties. Professional fees for the administration and audit of the Plan are paid by the Bank.

The 404,262 and 494,862 shares of Mercantile Bank Corporation common stock held by the Plan as of December 31, 2017 and 2016, respectively, represent approximately 2.44% and 3.01% of the Corporation's outstanding shares as of December 31, 2017 and 2016, respectively.

Cash dividends of \$320,138 and \$584,852 were paid to the Plan by Mercantile Bank Corporation during 2017 and 2016, respectively.

**5. Plan Termination**

Although it has not expressed any intent to do so, the Bank has the right under the Plan to terminate the Plan, subject to the provisions of ERISA.

## **6. Tax Status**

The Internal Revenue Service has determined and informed the Bank by a letter dated August 7, 2014 that the amended and restated Plan effective January 1, 2013 and related trust are designed in accordance with applicable sections of the Internal Revenue Code (IRC). The Plan has been amended since receiving the determination letter; however, the Plan Administrator believes that the Plan is designed and is being operated in compliance with the applicable requirements of the IRC. The related trust, therefore, is not subject to tax under present tax law.

Accounting principles generally accepted in the United States of America require Plan management to evaluate tax positions taken by the Plan and recognize a tax liability (or asset) if the Plan has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. The Plan Administrator has analyzed the tax positions taken by the Plan and has concluded that as of December 31, 2017 there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Plan is subject to routine audits by taxing jurisdictions; however, there currently are no audits for any tax periods in progress.

**Mercantile Bank of Michigan 401(k) Plan****Schedule H, Line 4i – Schedule of Assets (Held at End of Year)**

EIN: 38-3360868

Plan Number: 001

*December 31, 2017*

(a)	(b)	(c)	(d)	(e)
Identity of Issuer, Borrower, Lessor or Similar Party	Description of Investment, Including Maturity Date, Rate of Interest, Collateral, Par or Maturity Value	Investment, Including Maturity Date, Rate of Interest, Collateral, Par or Maturity Value	Cost	Current Value
Mutual funds				
Blackrock Equity Dividend Fund	108,819 shares	**	\$2,476,742	
Fidelity Advisor New Insights	74,468 shares	**	2,388,213	
Franklin Small Cap Value R6	14,645 shares	**	854,876	
JP Morgan Mid Cap Value R6	18,798 shares	**	756,846	
Hartford International Opportunities Y	94,515 shares	**	1,679,539	
Prudential Jennison Small Cap Z Fund	26,740 shares	**	706,209	
T Rowe Price Mid Cap Growth Fund	19,803 shares	**	1,723,101	
Vanguard 500 Index Admiral Shares	19,663 shares	**	4,853,251	
Vanguard Mid Cap Index Admiral Shares	6,381 shares	**	1,222,413	
Vanguard Small Cap Index Admiral Shares	15,178 shares	**	1,074,303	
Delaware Emerging Market	28,763 shares	**	583,334	
Matthews Pacific Tiger Fund	17,925 shares	**	566,991	
Vanguard Total International Index Admiral	57,490 shares	**	1,754,601	
T Rowe Price Balanced I Fund	57,942 shares	**	657,651	
T Rowe Price Personal Income Fund	60,628 shares	**	1,184,680	
T Rowe Price Retirement 2010 Fund	17,373 shares	**	203,618	
T Rowe Price Retirement 2015 Fund	47,053 shares	**	560,404	

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T Rowe Price Retirement 2020 Fund	350,949	shares	**	4,334,228
T Rowe Price Retirement 2030 Fund	680,912	shares	**	8,783,777
T Rowe Price Retirement 2040 Fund	374,910	shares	**	4,982,562
T Rowe Price Retirement 2045 Fund	144,534	shares	**	1,930,985
T Rowe Price Retirement 2050 Fund	128,599	shares	**	1,718,084
T Rowe Price Retirement 2060 Fund	5,435	shares	**	71,906
Vanguard Intermediate Term Treasury Admiral	33,339	shares	**	369,068
Vanguard Short Term Treasury ADM	19,471	shares	**	205,419
Vanguard Short Term Invest Grade Fund Admiral	63,995	shares	**	680,269
Vanguard Total Bond Market Admiral Shares	113,702	shares	**	1,222,298
 Total mutual funds				 47,545,368
 Common stock				
* Mercantile Bank Corporation	404,262	shares	**	14,298,747
 Money market fund				
Northern Institutional Treasury Portfolio	1,861,929	shares	**	1,861,929
 <b>Total Investments, at Fair Value</b>				 \$63,706,044
 * <b>Notes Receivable From Participants</b>	 (3.25% to 5.25%)			 \$589,604

\* A party-in-interest as defined by ERISA.

\*\* The cost of participant-directed investments is not required to be disclosed.

**Exhibit to Report on Form 11-K**

Exhibit No. Exhibit Description

23.1 Consent of Independent Registered Public Accounting Firm

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustee (or other persons who administer the employee benefit plan) has duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

Mercantile Bank  
of Michigan

401(k) Plan

Date: June 27, 2018 By: /s/ Lonna L.  
Wiersma  
Lonna L.  
Wiersma, Plan  
Administrator

**Exhibit Index**

Exhibit No. Exhibit Description

23.1 Consent of Independent Registered Public Accounting Firm

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