



## Mercantile Bank Corporation (MBWM) | Outperform

### Franchise Investments Paying Off; Pullback in Shares Moves Us to Outperform

#### Summary

We recently spent time on the road with senior management from Mercantile where we come away with increased confidence in our earnings outlook after gaining greater insight into economic trends, ongoing franchise expansion and organic growth potential. Mercantile is poised to benefit from a strong capital position, which is expected to fuel sustained growth opportunities and support other capital management actions. Despite a positive operating outlook, shares have underperformed peers since both year-end and 4Q17 earnings. As such, given the pullback in MBWM shares, along with our favorable outlook for the story, we bump our target \$1 to \$40 and raise our rating to Outperform from Market Perform.

**Pullback in shares makes for a good entry point; Raising rating to OP.** After spending time on the road with senior management at Mercantile Bank, we come away with a better understanding of the opportunities ahead that can drive sustainable earnings growth. Operations in attractive markets throughout western Michigan and recent expansion efforts in the eastern part of the state provide a solid foundation for steady organic loan growth, which figures to be supported by a healthy capital base. Additionally, investments across the franchise should help grow fee income, while an asset sensitive balance sheet should allow for margin to expand as the Fed continues to raise rates. Despite these positive characteristics, shares of MBWM have underperformed versus SMID community bank peers with MBWM down nearly 6.5% year-to-date while peers are down less than 1%. Furthermore, shares of MBWM have lagged since reporting 4Q17 earnings declining by approximately 8.5%. Positive operating characteristics for MBWM support our view that MBWM should be a core holding for community bank investors, and when coupled with weakness in the shares, an attractive entry point has been created, in our view. Our positive view on the story leads us to bump our target to \$40/sh (from \$39/sh) as we move to Outperform on the shares from Market Perform.

**Bumping target to \$40/sh, valuation remains attractive.** Shares of MBWM currently trade at roughly 12.5x our 2019E and 178% of TBV, which is a discount to SMID Community bank peers that trade closer to 13x 2019E and 2x TBV. Furthermore, if we assume MBWM is able to leverage its roughly \$50mm of excess capital, shares currently trade at only 10.7x our pro forma earnings. Our revised price target of \$40/sh implies a total return of 23.5% (including a 2.7% dividend yield), which makes for a compelling return for investors, in our view. On a multiple basis, our \$40/sh target reflects 15.1x our 2019E and 215% of TBV, which reflects 13.9x our 2019E (\$37/sh) and \$/\$ on excess capital (\$3/sh).

**Recapping travels...see Page 2.** Please see Page 2 for more discussion on our recent travels with MBWM management.

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Changes	Current	Previous
Rating	Outperform	Market Perform
Target Price	\$40.00	\$39.00

#### Market Data

Market Price:	\$33.10
Target Price:	\$40.00
Proj. Total Return:	23.5%
52-Week Range	\$38.08-\$28.92
Dividend (Ann)   Yield	\$0.88   2.66%
BV   Tang. BV	22.05   18.61
Shr.O/S-Diluted (mm):	16.5
Insider Ownership:	8.6%
Market Cap:	\$546.2mm
Total Deposit Prem:	9.4%
Core Deposit Premium:	10.7%

EPS (Net) (\$)	2017A	2018E	2019E
KBW (Curr)	1.91	2.37	2.65
KBW (Prev)	—	—	—
Consensus	—	2.38	2.64
Q1	0.40	0.53	0.60
Q2	0.45	0.57	0.64
Q3	0.51	0.63	0.70
Q4	0.56	0.64	0.71
P/E	17.3	14.0	12.5
Cons. P/E	—	13.9	12.5

	2017A	2018E	2019E
ROA (%)	1.00	1.16	1.22
NIM	3.80%	3.86%	3.95%
NCOs/Avg. Loans	0.06%	0.09%	0.14%
Efficiency Ratio	61.9%	61.3%	59.5%
TBV/Share	18.61	20.09	21.26
ROTCE	10.6%	12.3%	12.8%
ROE (%)	8.9	10.4	10.9



#### Glossary of Terms

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**Investment Thesis**

Operations in attractive markets throughout western Michigan and recent expansion efforts in the eastern part of the state provide a solid foundation for steady organic loan growth, which figures to be supported by a healthy capital base. Additionally, investments across the franchise should help grow fee income while an asset sensitive balance sheet should allow for margin to expand as the Fed continues to raise rates. Despite these positive characteristics, shares trade at a discount to peers and represent a compelling investment opportunity, in our opinion, and thus reflected by our Outperform rating.

**Sell-off in shares offers creates a favorable entry point; Raising to Outperform**

We recently spent time on the road with senior management from Mercantile Bank Corp where much of the discussion centered on organic growth opportunities, margin sensitivity, deposit pricing trends and the bank's focus on growing fee income. We believe that Mercantile is well positioned to benefit from favorable economic trends that support our forecast EPS growth of low double digits, which reflects mid-to-upper single digit loan growth, an expanding margin and reasonable expense growth. From our meetings we come away with increased confidence in our earnings outlook after gaining greater insight into economic trends, ongoing franchise expansion and organic growth potential. Mercantile is poised to benefit from a strong capital position, which is expected to fuel sustained growth opportunities and support other capital management actions. Despite these positive characteristics, shares of MBWM have underperformed versus SMID community bank peers with MBWM down nearly 6.5% year-to-date while peers are down less than 1%. Furthermore, shares of MBWM have lagged since reporting 4Q17 earnings with shares declining by approximately 8.5%. Given our positive view on the Mercantile story, we believe that shares of MBWM should be a core holding for community bank investors, and when coupled with weakness in the shares, an attractive entry point has been created, in our view. This positive view on the story leads us to bump our target to \$40/sh (from \$39/sh) and combined with favorable upside to our price target, leads us to move to our rating to Outperform from Market Perform.

Below we discuss our view on earnings potential from capital deployment and highlights from our recent travels with CEO Bob Kaminski, CFO Chuck Christmas and COO Bob Worthington, which help support our positive view on the shares.

- **Capital deployment supports higher earnings potential.** As of last quarter, Mercantile's TCE ratio was 9.56%, up over 25bps on a year-over-year basis and expected to grow another 30-35bps in the coming year given increased income levels from the recently passed tax rate reduction. Capital management priorities include: (#1) support ongoing organic growth; (#2) dividends – targeted 35%-40% payout ratio (raised the dividend by \$0.03/sh for 1Q18 due to the tax cut, making it the 6<sup>th</sup> dividend increase since 2015), and they would consider a special dividend like the one paid in 4Q16 (\$0.50/sh); (#3) buybacks – not active recently due to higher stock price during 2016-2017; and (#4) M&A – not a likely use of capital (only deal in 20-year bank history was the MOE with First Bank in 2014), but noted that if an opportunity with the right cultural fit and size (at least 10% of assets) arose, it would consider a deal. Management indicated it would first focus on working its TCE ratio closer to the 9% level in the near term, but if we were to assume over time it leverages its capital base to a more normalized level of 8%, excess capital is around \$50mm as of last quarter. Attempting to quantify the potential earnings impact from this capital, we assume additional assets of roughly \$625mm could be added. Applying a 1.20% ROA on those assets, earnings could benefit by over \$7.5mm or roughly \$0.45/sh (approximately 17% boost to our 2019E), all else equal. Under this scenario, given MBWM's closing price on February 28<sup>th</sup>, shares currently trade at 10.8x our fully levered capital estimate. If we were to apply our price target multiple of 14x to our pro forma earnings, the implied value of MBWM shares would be over \$43/sh, or 30% higher than the current level.



- **Favorable margin outlook.** Management reiterated an outlook of 3.75%-3.85% for its margin during 2018, and in doing so noted that guidance at the low end does not include any additional Fed rate increases while the higher end reflects a couple of increases. Should there be future rate increases, it's estimated that the margin could benefit by roughly 5bps for each 25bps rate increase given the bank's projected asset sensitivity. Our model factors for two rate increases (March and September) as we have forecast a full year margin of closer to 3.87% (including AY impact of roughly 9bps). After last quarter's margin decline (core margin was negatively impacted by roughly 8bps due largely to excess liquidity as a cash position had accumulated on the bank's balance sheet), we expect that higher rates in 1Q along with roughly half of the excess liquidity being deployed (increases in securities and loans, along with normal runoff) should ease the burden on the margin, leading to 6-7bps of core NIM expansion. Contributing to MBWM's favorable outlook for asset sensitivity is the fact that roughly 55% of loans are floating, have reached their floors and have no caps, and also that deposit costs remain contained.
- **Deposit costs remain under control...for the time being.** With interest rates moving higher, escaping rising deposit costs is nearly impossible as evidenced by last quarter's interest bearing deposit cost of 69bps, a 5bp q/q increase. Thus far through the Fed's recent rate increases, Mercantile has found that pricing pressures on liquid rate products (money market, savings, checking) has been minimal, but fixed deposit rates (i.e., CDs) have seen significantly more pressure. Depending on the pace of future rate increases, management is optimistic that its deposit costs will remain relatively under control as CD pricing has reached a level where maturing/renewing balances are staying with the bank and not leaving for higher rates elsewhere.
- **Outlook for loan growth remains favorable.** Mercantile continues to benefit from its operations across favorable markets in the central and western parts of Michigan, as well as its relatively recent expansion into the eastern part of the state. With respect to its core legacy markets in the greater Grand Rapids, Kalamazoo, Mt. Pleasant and Lansing markets, Mercantile continues to benefit from strong economic trends as businesses are expanding, populations are growing and infrastructure continues to be built. These positive trends are also seen on the other side of the state where the bank entered around a year ago when it hired six commercial lenders (C&I and CRE focused) and opened a loan production office in Troy, MI (a northern suburb of Detroit). After starting with an LPO, Mercantile has turned that into a full service branch, hiring a personal banker, treasury management officer and mortgage banking originator. With roughly \$75-80mm of loans already on the books, and a strong commercial pipeline currently, management remains very optimistic that growth from this market will be a key contributor to its projected mid-to-high single digit growth (we are currently modeling 7%-8% annual growth).
- **Effort on growing fee income.** Fee income averages between 13%-14% of total revenues which is a significant shortfall when compared to SMID community banks (20%) and other Midwest peers (22.5%). That said, fee income is trending in a favorable direction and has grown from roughly 11% of total revenues from around the time of the merger with First Bank. While it took some time to gain traction, Mercantile has slowly been able to leverage its larger footprint created from the addition of First Bank's branch network and customer base. And in the last year or so, it has really ramped up its efforts to increase fee income as it has added producers in mortgage banking (added roughly 6-7 producers in the greater Grand Rapids area and one in the Troy market, bringing the total mortgage bankers to roughly 20) and treasury management (which includes payroll services and cash management). Moving forward, we look for management to remain focused on increasing revenues from fee related products and services.
- **Downside risk to our thesis.** While we have confidence that Mercantile's management team can continue to deliver positive earnings results, we would be remiss if we did not consider the implications to the shares if it failed to achieve its targets and goals. If we were to assume that loan growth was sluggish and grew closer to the mid-single digit range, margin expansion was lower than expected due to higher deposit costs and credit trends began to soften, requiring higher levels of provisioning, we believe that our 2018 and 2019



estimates of \$2.37 and \$2.65 could compress by roughly 10% to \$2.14 and \$2.39, respectively, all else equal. Should this scenario play out, it would not be unreasonable that shares continue to trade at a similar multiple to today's price (roughly 12.6x our 2019E), which would imply approximately \$30/sh, or 10% downside.



**MBWM, Franchise Investments Paying Off; Pullback in Shares Moves Us to Outperform**

**Mercantile Bank Corp. (MBWM)**

(\$ in millions, except per share data)

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	2009	2010	2011	2012	2013	2014	2015	2016	1Q17	2Q17	3Q17	4Q17	2017	1Q18E	2Q18E	3Q18E	4Q18E	2018E	2019E
<b>Income Statement (mil)</b>																			
Net Interest Income	\$51,333	\$56,349	\$51,237	\$46,701	\$47,455	\$77,779	\$101,174	\$104,367	\$25,509	\$27,193	\$28,644	\$28,402	\$109,748	\$28,033	\$28,826	\$30,003	\$31,009	\$117,871	\$128,218
Net Interest Income (FTE)	\$52,605	\$57,183	\$51,940	\$47,304	\$47,902	\$78,192	\$101,735	\$106,634	\$25,676	\$27,723	\$28,857	\$28,613	\$110,869	\$28,233	\$29,026	\$30,203	\$31,209	\$118,671	\$129,018
Provision For Loan Losses	\$59,000	\$31,800	\$6,900	(\$3,100)	(\$7,200)	(\$3,000)	(\$1,000)	\$2,900	\$0,600	\$0,750	\$1,000	\$0,600	\$2,950	\$0,925	\$0,950	\$1,000	\$1,100	\$3,975	\$5,375
Net Interest Income after PLL	(\$6,395)	\$25,383	\$45,040	\$50,404	\$55,102	\$81,192	\$102,735	\$103,734	\$25,076	\$26,973	\$27,857	\$28,013	\$107,919	\$27,308	\$28,076	\$29,203	\$30,109	\$114,696	\$123,643
Non-Interest Income	\$7,558	\$9,344	\$7,282	\$7,994	\$6,872	\$10,028	\$16,038	\$21,038	\$5,851	\$4,042	\$4,605	\$4,503	\$19,001	\$4,414	\$4,783	\$5,070	\$4,765	\$19,032	\$19,737
Operating Non-Interest Income	\$7,558	\$8,768	\$7,282	\$7,994	\$6,872	\$10,028	\$16,038	\$18,068	\$4,751	\$4,042	\$4,605	\$4,503	\$17,901	\$4,414	\$4,783	\$5,070	\$4,765	\$18,032	\$19,737
Operating Revenues (excl PLL)	\$60,163	\$65,951	\$59,222	\$55,298	\$54,774	\$88,220	\$117,773	\$124,702	\$30,427	\$31,765	\$33,462	\$33,116	\$128,770	\$32,647	\$33,809	\$35,273	\$35,974	\$137,703	\$148,755
Non-Interest Expense	\$46,488	\$47,156	\$41,495	\$39,624	\$36,404	\$65,610	\$79,381	\$77,118	\$19,776	\$19,882	\$20,210	\$19,848	\$79,716	\$20,550	\$20,945	\$21,216	\$21,437	\$84,148	\$88,192
Operating Non-Interest Expense	\$45,180	\$46,156	\$41,495	\$39,624	\$35,218	\$60,163	\$78,316	\$77,118	\$19,776	\$19,882	\$20,210	\$19,848	\$79,716	\$20,550	\$20,945	\$21,216	\$21,437	\$84,148	\$88,192
Pre Tax Operating Income (FTE)	(\$44,017)	(\$12,005)	\$10,827	\$18,774	\$26,756	\$31,057	\$40,457	\$44,684	\$10,051	\$11,133	\$12,252	\$12,668	\$46,104	\$11,172	\$11,914	\$13,057	\$13,437	\$49,580	\$55,188
Non-Operating Revenue (After Tax)	\$0,000	\$0,541	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$1,931	\$1,100	\$0,000	\$0,000	\$0,000	\$1,100	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000
Non-Operating Expense (After Tax)	\$0,850	\$0,650	\$0,000	\$0,000	\$1,186	\$3,644	\$0,692	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000
Extraordinary Items	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$1,300	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000
Net Income Before Taxes	(\$46,597)	(\$13,007)	\$10,124	\$18,171	\$24,484	\$25,038	\$38,831	\$45,387	\$11,576	\$10,603	\$12,039	\$12,457	\$46,675	\$10,972	\$11,714	\$12,857	\$13,237	\$48,780	\$54,388
Effective Tax Rate	-11.8%	0.4%	-270.3%	31.0%	33.0%	31.4%	30.4%	33.0%	29.1%	30.7%	30.8%	35.9%	31.7%	19.5%	19.5%	19.5%	19.5%	19.5%	19.5%
Income Tax	\$5,490	(\$0,047)	(\$27,361)	\$5,636	\$8,092	\$7,866	\$11,811	\$14,974	\$3,369	\$3,260	\$3,702	\$4,478	\$14,809	\$2,140	\$2,284	\$2,507	\$2,581	\$9,512	\$10,606
FTE Adjustment	\$1,272	\$0,834	\$0,703	\$0,603	\$0,447	\$0,413	\$0,561	\$2,267	\$0,167	\$0,529	\$0,213	\$0,211	\$1,121	\$0,200	\$0,200	\$0,200	\$0,200	\$0,800	\$0,800
Net Income	(\$52,087)	(\$13,216)	\$37,485	\$12,535	\$17,031	\$17,331	\$27,020	\$31,913	\$7,615	\$7,343	\$8,337	\$7,979	\$31,274	\$8,833	\$9,429	\$10,350	\$10,656	\$39,268	\$43,782
Less: Income attributable to controlling interests	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000
Less: Preferred Dividends	\$0,802	\$1,295	\$1,343	\$1,031	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000
Net Income Avail to Common	(\$52,889)	(\$14,511)	\$36,142	\$11,504	\$17,031	\$17,331	\$27,020	\$31,913	\$7,615	\$7,343	\$8,337	\$7,979	\$31,274	\$8,833	\$9,429	\$10,350	\$10,656	\$39,268	\$43,782
Operating Net Income Avail to Common	(\$52,047)	(\$14,196)	\$8,853	\$12,094	\$18,168	\$20,996	\$27,759	\$29,008	\$6,515	\$7,343	\$8,337	\$9,279	\$31,474	\$8,833	\$9,429	\$10,350	\$10,656	\$39,268	\$43,782
Diluted Shares Outstanding (mil)	8,490	8,508	8,879	8,841	8,724	13,523	16.6	16.3	16,449	16,485	16,495	16,536	16.5	16,536	16,536	16,536	16,536	16.5	16.5
Period End Shares Outstanding	8,593	8,598	8,605	8,706	8,739	16,977	16.4	16.4	16,469	16,481	16,490	16,592	16.6	16,592	16,592	16,592	16,592	16.6	16.6
<b>Earnings per Share</b>																			
Reported EPS (diluted)	-\$6.23	-\$1.71	\$4.07	\$1.30	\$1.95	\$1.26	\$1.62	\$1.95	\$0.46	\$0.45	\$0.51	\$0.48	\$1.90	\$0.53	\$0.57	\$0.63	\$0.64	\$2.37	\$2.65
Operating EPS (diluted)	-\$6.13	-\$1.67	\$1.00	\$1.37	\$2.09	\$1.56	\$1.67	\$1.78	\$0.40	\$0.45	\$0.51	\$0.56	\$1.91	\$0.53	\$0.57	\$0.63	\$0.64	\$2.37	\$2.65
Annualized EPS Growth (Linked)	#DIV/0!	-73%	-160%	37%	53%	-25%	7%	7%	-79%	50%	58%	40%	8%	-19%	27%	39%	12%	24%	11%
Book Value per Share	\$14.00	\$12.31	\$16.81	\$16.84	\$17.54	\$19.33	\$20.41	\$20.76	\$21.13	\$21.69	\$21.99	\$22.05	\$22.05	\$22.36	\$22.71	\$23.11	\$23.52	\$23.52	\$24.66
Tangible Book Value per Share	\$14.00	\$12.31	\$16.81	\$16.84	\$17.54	\$15.49	\$16.61	\$17.14	\$17.56	\$18.16	\$18.49	\$18.61	\$18.61	\$18.92	\$19.27	\$19.67	\$20.08	\$20.08	\$21.22
<b>Profitability Ratios</b>																			
Reported - ROAA	-2.51%	-0.80%	2.36%	0.82%	1.22%	0.77%	0.94%	1.07%	1.01%	0.95%	1.04%	0.98%	1.00%	1.08%	1.14%	1.22%	1.23%	1.17%	1.24%
Operating - ROAA	-2.47%	-0.78%	0.58%	0.86%	1.30%	0.93%	0.96%	0.97%	0.86%	0.95%	1.04%	1.14%	1.00%	1.08%	1.14%	1.22%	1.23%	1.17%	1.24%
Reported - ROACE	-31.5%	-12.1%	7.9%	8.3%	12.1%	8.4%	8.4%	8.5%	7.6%	8.4%	9.3%	10.2%	8.9%	9.6%	10.2%	11.0%	11.1%	10.5%	11.0%
Operating - ROACE	-31.5%	-12.1%	7.9%	8.3%	12.1%	8.4%	8.4%	8.5%	7.6%	8.4%	9.4%	10.2%	8.9%	9.6%	10.2%	11.0%	11.1%	10.5%	11.0%
Operating - ROATCE	-31.5%	-12.1%	7.9%	8.3%	12.1%	11.4%	10.4%	10.3%	9.2%	10.0%	11.2%	12.1%	10.6%	11.3%	12.0%	12.9%	13.1%	12.3%	12.8%
Pretax Preprovision Income	\$14,181	\$18,500	\$16,384	\$14,643	\$19,556	\$28,057	\$39,457	\$47,584	\$10,651	\$11,883	\$13,252	\$13,268	\$49,054	\$12,097	\$12,864	\$14,057	\$14,537	\$53,555	\$60,563
Pretax Preprovision ROA	0.71%	1.09%	1.16%	1.12%	1.40%	1.24%	1.37%	1.59%	1.41%	1.54%	1.65%	1.63%	1.56%	1.48%	1.56%	1.66%	1.68%	1.60%	1.72%
Net Interest Margin	2.63%	3.31%	3.60%	3.67%	3.73%	3.75%	3.83%	3.86%	3.73%	3.85%	3.83%	3.76%	3.80%	3.81%	3.85%	3.87%	3.91%	3.87%	3.98%
Fee Income/Operating Revenues	12.6%	13.3%	12.3%	14.5%	12.5%	11.4%	13.6%	14.5%	15.6%	12.7%	13.8%	13.6%	13.9%	13.5%	14.1%	14.4%	13.2%	13.8%	13.3%
Expenses / Avg. Assets	2.14%	2.53%	2.71%	2.82%	2.53%	2.66%	2.72%	2.58%	2.62%	2.58%	2.51%	2.44%	2.54%	2.51%	2.54%	2.51%	2.47%	2.51%	2.50%
Reported - Efficiency Ratio	77.3%	70.9%	70.1%	71.7%	66.5%	74.4%	67.4%	61.4%	62.7%	62.6%	60.4%	59.9%	61.4%	62.9%	62.0%	60.1%	59.6%	61.1%	59.3%
Operating - Efficiency Ratio	75.1%	70.0%	70.1%	71.7%	64.3%	68.2%	66.5%	61.8%	65.0%	62.6%	60.4%	59.9%	61.9%	62.9%	62.0%	60.1%	59.6%	61.1%	59.3%
<b>Dividend Ratios</b>																			
Dividends Paid	\$0.07	\$0.01	\$0.00	\$0.09	\$0.45	\$2.48	\$0.58	\$1.16	\$0.18	\$0.18	\$0.19	\$0.19	\$0.74	\$0.22	\$0.22	\$0.23	\$0.23	\$0.90	\$0.98
Payout Ratio	-1.1%	-0.6%	0.0%	6.9%	23.1%	196.3%	35.7%	59.5%	38.9%	40.4%	37.6%	39.4%	39.0%	41.2%	38.6%	36.7%	35.7%	37.9%	37.0%
<b>Liquidity Ratios</b>																			
Earning Assets/Assets (Avg)	95%	95%	94%	92%	92%	92%	92%	92%	93%	93%	93%	93%	93%	91%	92%	91%	91%	91%	92%
Securities/Earning Assets (Avg)	12%	14%	14%	12%	11%	16%	15%	12%	12%	12%	11%	11%	12%	12%	12%	12%	11%	12%	11%
Loans/Deposits	110%	99%	94%	92%	94%	92%	100%	100%	107%	107%	103%	101%	101%	101%	102%	103%	104%	104%	105%
Loans/Core Deposits (ex. brokered)	208%	157%	126%	116%	116%	99%	106%	103%	109%	111%	107%	106%	106%	105%	107%	108%	109%	109%	110%
Non-CDS / Deposits	15%	21%	32%	35%	38%	43%	47%	50%	50%	49%	49%	50%	50%	50%	50%	50%	50%	50%	51%
Borrowings/Int Bearing Liabs	22%	20%	14%	13%	13%	13%	13%	18%	19%	21%	19%	19%	20%	11%	11%	11%	11%	11%	10%
<b>Sequential Quarter Growth (Annualized)</b>																			
Average Loans	#DIV/0!	-17%	-19%	-9%	0%	57%	32%	8%	3%	14%	10%	0%	6%	3%	9%	9%	8%	7%	7%
Average Earning Assets	#DIV/0!	-14%	-11%	-11%	0%	62%	27%	4%	-6%	9%	19%	4%	5%	-6%	6%	10%	9%	5%	6%
Average Total Deposits	NA	-11%	-11%	-9%	-1%	64%	27%	0%	-5%	2%	24%	5%	5%	9%	5%	5%	5%	8%	5%
Net Interest Income FTE	#DIV/0!	9%	-9%	-9%	1%	63%	30%	5%	-14%	32%	16%	-3%	4%	-5%	11%	16%	13%	7%	9%
Non-Interest Income	#DIV/0!	16%	-17%	10%	-14%	46%	60%	13%	13%	-60%	56%	-9%	-1%	-8%	33%	24%	-24%	6%	4%
Operating Revenues (excl PLL)	#DIV/0!	10%	-10%	-7%	-1%	61%	33%	6%	-10%	18%	21%	-4%	3%	-6%	14%	17%	8%	7%	8%
Non-Interest Expense	#DIV/0!	2%	-10%	-5%	-11%	71%	30%	-2%	30%	2%	7%	-7%	3%	14%	8%	5%	4%	6%	5%

Source: KBW Research and Company reports.





	2009	2010	2011	2012	2013	2014	2015	2016	1Q17	2Q17	3Q17	4Q17	2017	1Q18E	2Q18E	3Q18E	4Q18E	2018E	2019E
<b>Non Interest Income Detail (mil)</b>																			
Service charges on deposit/sweep accounts	\$2,023	\$1,797	\$1,640	\$1,523	\$1,532	\$2,586	\$3,308	\$4,253	\$1,018	\$1,054	\$1,076	\$1,085	\$4,233	\$1,150	\$1,173	\$1,267	\$1,305	\$4,895	\$5,254
Credit and debit card income	\$0,000	\$0,000	\$0,000	\$0,891	\$1,063	\$2,494	\$4,330	\$4,278	\$1,106	\$1,176	\$1,215	\$1,263	\$4,760	\$1,339	\$1,366	\$1,475	\$1,490	\$5,669	\$5,889
Mortgage banking income	\$1,202	\$1,092	\$0,846	\$1,479	\$0,800	\$1,672	\$3,595	\$3,866	\$1,123	\$0,783	\$1,326	\$1,188	\$4,420	\$0,930	\$1,230	\$1,267	\$0,867	\$4,295	\$4,137
Earnings on bank owned life insurance	\$1,444	\$1,718	\$1,777	\$1,528	\$1,329	\$1,184	\$1,114	\$1,264	\$0,638	\$0,328	\$0,328	\$0,337	\$1,631	\$0,349	\$0,356	\$0,363	\$0,370	\$1,438	\$1,518
Other Non-Interest Income	\$2,889	\$4,161	\$3,019	\$2,573	\$2,148	\$2,092	\$3,691	\$4,407	\$0,866	\$0,701	\$0,660	\$0,630	\$2,857	\$0,646	\$0,659	\$0,698	\$0,733	\$2,736	\$2,939
Gain on sale of securities	\$0,000	\$0,476	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$2,970	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000
Nonrecurring Income	\$0,000	\$0,100	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$1,100	\$0,000	\$0,000	\$0,000	\$1,100	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000
<b>Total Non-Interest Income</b>	<b>\$7,558</b>	<b>\$9,344</b>	<b>\$7,282</b>	<b>\$7,994</b>	<b>\$6,872</b>	<b>\$10,028</b>	<b>\$16,038</b>	<b>\$21,038</b>	<b>\$5,851</b>	<b>\$4,042</b>	<b>\$4,605</b>	<b>\$4,503</b>	<b>\$19,001</b>	<b>\$4,414</b>	<b>\$4,783</b>	<b>\$5,070</b>	<b>\$4,765</b>	<b>\$19,032</b>	<b>\$19,737</b>
<b>Total Operating Non-Interest Income</b>	<b>\$7,558</b>	<b>\$8,768</b>	<b>\$7,282</b>	<b>\$7,994</b>	<b>\$6,872</b>	<b>\$10,028</b>	<b>\$16,038</b>	<b>\$18,068</b>	<b>\$4,751</b>	<b>\$4,042</b>	<b>\$4,605</b>	<b>\$4,503</b>	<b>\$17,901</b>	<b>\$4,414</b>	<b>\$4,783</b>	<b>\$5,070</b>	<b>\$4,765</b>	<b>\$19,032</b>	<b>\$19,737</b>
<b>Non Interest Expense Detail (mil)</b>																			
Salaries and benefits	\$20,331	\$18,297	\$17,891	\$19,367	\$20,298	\$33,703	\$42,594	\$43,523	\$11,272	\$10,888	\$11,636	\$11,601	\$45,397	\$12,065	\$12,367	\$12,552	\$12,709	\$49,693	\$52,689
Occupancy	\$3,377	\$2,838	\$2,780	\$2,501	\$2,547	\$4,637	\$5,976	\$6,062	\$1,554	\$1,554	\$1,598	\$1,479	\$6,185	\$1,553	\$1,568	\$1,584	\$1,592	\$6,298	\$6,476
Furniture and equipment	\$1,871	\$1,481	\$1,206	\$1,176	\$0,984	\$1,738	\$2,333	\$2,119	\$0,535	\$0,546	\$0,543	\$0,543	\$2,167	\$0,551	\$0,557	\$0,562	\$0,565	\$2,235	\$2,326
Data processing costs	\$0,000	\$0,000	\$0,000	\$0,000	\$3,440	\$5,869	\$7,697	\$7,939	\$2,011	\$2,072	\$2,071	\$2,067	\$8,221	\$2,108	\$2,129	\$2,151	\$2,161	\$8,550	\$8,897
FDIC insurance costs	\$4,852	\$4,370	\$2,843	\$1,200	\$0,793	\$1,182	\$1,717	\$1,236	\$0,210	\$0,248	\$0,200	\$0,252	\$0,960	\$0,255	\$0,257	\$0,259	\$0,260	\$1,031	\$1,065
Other Non-Interest Expense	\$14,749	\$19,170	\$16,775	\$15,380	\$7,156	\$13,034	\$17,999	\$16,239	\$4,194	\$4,574	\$4,112	\$3,906	\$16,786	\$4,017	\$4,067	\$4,108	\$4,149	\$16,341	\$16,738
Intangible Amortization	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000
Nonrecurring Expense	\$1,308	\$1,000	\$0,000	\$0,000	\$1,186	\$5,447	\$1,065	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000
<b>Total Non Interest Expense</b>	<b>\$46,488</b>	<b>\$47,156</b>	<b>\$41,495</b>	<b>\$39,624</b>	<b>\$36,404</b>	<b>\$65,610</b>	<b>\$79,381</b>	<b>\$77,118</b>	<b>\$19,776</b>	<b>\$19,882</b>	<b>\$20,210</b>	<b>\$19,848</b>	<b>\$79,716</b>	<b>\$20,550</b>	<b>\$20,945</b>	<b>\$21,216</b>	<b>\$21,437</b>	<b>\$84,148</b>	<b>\$88,192</b>
<b>Total Operating Non Interest Expense</b>	<b>\$45,180</b>	<b>\$46,156</b>	<b>\$41,495</b>	<b>\$39,624</b>	<b>\$35,218</b>	<b>\$60,163</b>	<b>\$78,316</b>	<b>\$77,118</b>	<b>\$19,776</b>	<b>\$19,882</b>	<b>\$20,210</b>	<b>\$19,848</b>	<b>\$79,716</b>	<b>\$20,550</b>	<b>\$20,945</b>	<b>\$21,216</b>	<b>\$21,437</b>	<b>\$84,148</b>	<b>\$88,192</b>
<b>Average Balance Sheet (mil)</b>																			
<b>Assets</b>																			
Loans	\$1,705	\$1,413	\$1,149	\$1,049	\$1,051	\$1,650	\$2,178	\$2,345	\$2,390	\$2,472	\$2,534	\$2,535	\$2,483	\$2,556	\$2,617	\$2,679	\$2,730	\$2,646	\$2,820
Securities	\$238	\$236	\$207	\$153	\$144	\$340	\$396	\$340	\$340	\$338	\$339	\$346	\$341	\$348	\$355	\$357	\$359	\$355	\$363
Other EA	\$61	\$79	\$88	\$86	\$91	\$95	\$79	\$78	\$61	\$46	\$117	\$138	\$91	\$70	\$50	\$60	\$75	\$64	\$56
Earning Assets	\$2,004	\$1,728	\$1,444	\$1,288	\$1,286	\$2,084	\$2,653	\$2,763	\$2,791	\$2,857	\$2,990	\$3,019	\$2,914	\$2,974	\$3,022	\$3,095	\$3,164	\$3,064	\$3,240
Non Earning Assets	\$103	\$94	\$87	\$117	\$107	\$180	\$228	\$224	\$226	\$225	\$230	\$230	\$228	\$230	\$230	\$230	\$230	\$230	\$230
<b>Total Assets</b>	<b>\$2,107</b>	<b>\$1,822</b>	<b>\$1,531</b>	<b>\$1,406</b>	<b>\$1,392</b>	<b>\$2,264</b>	<b>\$2,882</b>	<b>\$2,987</b>	<b>\$3,017</b>	<b>\$3,082</b>	<b>\$3,220</b>	<b>\$3,249</b>	<b>\$3,142</b>	<b>\$3,274</b>	<b>\$3,301</b>	<b>\$3,385</b>	<b>\$3,469</b>	<b>\$3,357</b>	<b>\$3,526</b>
<b>Liabilities</b>																			
Interest-bearing deposits	\$1,415	\$1,247	\$1,082	\$946	\$900	\$1,388	\$1,672	\$1,568	\$1,542	\$1,531	\$1,648	\$1,636	\$1,589	\$1,668	\$1,692	\$1,716	\$1,737	\$1,703	\$1,797
<b>Total Interest Bearing Deposits</b>	<b>\$1,415</b>	<b>\$1,247</b>	<b>\$1,082</b>	<b>\$946</b>	<b>\$900</b>	<b>\$1,388</b>	<b>\$1,672</b>	<b>\$1,568</b>	<b>\$1,542</b>	<b>\$1,531</b>	<b>\$1,648</b>	<b>\$1,636</b>	<b>\$1,589</b>	<b>\$1,668</b>	<b>\$1,692</b>	<b>\$1,716</b>	<b>\$1,737</b>	<b>\$1,703</b>	<b>\$1,797</b>
Short-term borrowings	\$99	\$108	\$80	\$62	\$66	\$105	\$147	\$149	\$129	\$115	\$107	\$105	\$114	\$105	\$105	\$105	\$105	\$105	\$105
FHLB advances	\$240	\$154	\$55	\$40	\$39	\$51	\$56	\$149	\$175	\$237	\$238	\$235	\$222	\$51	\$51	\$51	\$51	\$51	\$51
Other borrowings	\$50	\$47	\$38	\$34	\$35	\$52	\$59	\$49	\$48	\$48	\$49	\$51	\$49	\$51	\$51	\$51	\$51	\$51	\$51
<b>Total Interest Bearing Liabilities</b>	<b>\$1,804</b>	<b>\$1,555</b>	<b>\$1,254</b>	<b>\$1,082</b>	<b>\$1,039</b>	<b>\$1,597</b>	<b>\$1,933</b>	<b>\$1,915</b>	<b>\$1,895</b>	<b>\$1,932</b>	<b>\$2,042</b>	<b>\$2,020</b>	<b>\$1,972</b>	<b>\$1,875</b>	<b>\$1,899</b>	<b>\$1,923</b>	<b>\$1,944</b>	<b>\$1,910</b>	<b>\$2,004</b>
Non Interest Bearing Demand	\$113	\$116	\$137	\$163	\$197	\$407	\$606	\$715	\$766	\$786	\$806	\$850	\$802	\$871	\$879	\$888	\$897	\$884	\$920
<b>Total Deposits</b>	<b>\$1,528</b>	<b>\$1,363</b>	<b>\$1,218</b>	<b>\$1,109</b>	<b>\$1,097</b>	<b>\$1,795</b>	<b>\$2,279</b>	<b>\$2,283</b>	<b>\$2,308</b>	<b>\$2,317</b>	<b>\$2,454</b>	<b>\$2,485</b>	<b>\$2,391</b>	<b>\$2,538</b>	<b>\$2,571</b>	<b>\$2,604</b>	<b>\$2,634</b>	<b>\$2,587</b>	<b>\$2,717</b>
<b>Equity</b>																			
Average Preferred Equity Capital	\$12	\$20	\$20	\$8	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Average Common Equity Capital	\$165	\$118	\$112	\$146	\$150	\$250	\$330	\$341	\$343	\$351	\$359	\$364	\$354	\$368	\$371	\$377	\$384	\$375	\$400
Average Total Equity Capital	\$178	\$138	\$133	\$153	\$150	\$250	\$330	\$341	\$343	\$351	\$359	\$364	\$354	\$368	\$371	\$377	\$384	\$375	\$400
<b>Period End Balance Sheet Highlights</b>																			
Cash and equivalents	\$22	\$64	\$76	\$136	\$147	\$173	\$90	\$184	\$53	\$102	\$177	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200
Securities	\$257	\$235	\$185	\$150	\$143	\$447	\$355	\$336	\$342	\$333	\$330	\$336	\$336	\$337	\$344	\$346	\$348	\$348	\$355
Loans	\$1,540	\$1,263	\$1,041	\$1,041	\$1,053	\$2,089	\$2,278	\$2,379	\$2,441	\$2,527	\$2,554	\$2,559	\$2,559	\$2,581	\$2,643	\$2,707	\$2,760	\$2,760	\$2,927
Intangibles	\$0	\$0	\$0	\$0	\$0	\$65	\$62	\$59	\$59	\$58	\$58	\$57	\$57	\$57	\$57	\$57	\$57	\$57	\$57
Assets	\$1,906	\$1,632	\$1,433	\$1,423	\$1,427	\$2,893	\$2,904	\$3,083	\$3,019	\$3,143	\$3,255	\$3,287	\$3,287	\$3,241	\$3,289	\$3,364	\$3,433	\$3,433	\$3,588
Quarterly & Annual Asset Growth (\$) *	\$1,906	(\$274)	(\$199)	(\$10)	\$4	\$1,466	\$10	\$179	(\$64)	\$124	\$111	\$32	\$204	(\$45)	\$48	\$75	\$69	\$147	\$155
Quarterly & Annual Loan Growth (\$) *	\$1,540	(\$277)	(\$221)	\$0	\$12	\$1,036	\$188	\$101	\$63	\$86	\$27	\$4	\$180	\$23	\$62	\$64	\$53	\$202	\$167
Deposits	\$1,402	\$1,274	\$1,112	\$1,135	\$1,119	\$2,277	\$2,275	\$2,375	\$2,278	\$2,371	\$2,489	\$2,522	\$2,522	\$2,555	\$2,587	\$2,621	\$2,648	\$2,648	\$2,782
Short-term borrowings	\$102	\$117	\$73	\$65	\$69	\$168	\$155	\$132	\$127	\$111	\$122	\$119	\$119	\$119	\$119	\$119	\$119	\$119	\$119
FHLB advances	\$205	\$65	\$45	\$35	\$45	\$54	\$68	\$175	\$205	\$245	\$220	\$220	\$220	\$220	\$220	\$220	\$220	\$220	\$220
Subordinated debentures and other	\$50	\$45	\$34	\$33	\$33	\$54	\$55	\$45	\$45	\$45	\$45	\$46	\$46	\$46	\$46	\$46	\$46	\$46	\$46
Common Capital	\$120	\$106	\$145	\$147	\$153	\$328	\$334	\$341	\$348	\$357	\$363	\$366	\$366	\$371	\$377	\$383	\$390	\$390	\$409
Preferred Capital	\$20	\$20	\$20	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Equity Capital	\$140	\$126	\$165	\$147	\$153	\$328	\$334	\$341	\$348	\$357	\$363	\$366	\$366	\$371	\$377	\$383	\$390	\$390	\$409
Tangible Common Capital	\$120	\$106	\$145	\$147	\$153	\$263	\$272	\$281	\$289	\$299	\$305	\$309	\$309	\$314	\$320	\$326	\$333	\$333	\$352

Source: KBW Research and Company reports.



	2009	2010	2011	2012	2013	2014	2015	2016	1Q17	2Q17	3Q17	4Q17	2017	1Q18E	2Q18E	3Q18E	4Q18E	2018E	2019E
<b>Capital Management</b>																			
Beginning Common Equity	\$137.7	\$94.7	\$96.2	\$144.6	\$149.8	\$321.0	\$328.8	\$349.5	\$340.8	\$348.1	\$357.5	\$362.5	\$362.5	\$365.9	\$371.1	\$376.8	\$383.4	\$383.4	\$410.1
Net Income to Common	(\$36.4)	(\$5.2)	\$30.0	\$3.0	\$5.2	\$17.3	\$6.5	\$8.1	\$7.6	\$7.3	\$8.3	\$8.0	\$8.0	\$8.8	\$9.4	\$10.3	\$10.7	\$10.7	\$11.8
Common Dividends	\$0.1	\$0.0	\$0.0	\$0.8	\$1.0	\$24.5	\$9.5	\$18.7	\$2.9	\$3.0	\$3.1	\$3.2	\$12.2	\$3.7	\$3.7	\$3.8	\$3.8	\$14.9	\$16.3
Common Repurchases	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$15.8	\$3.7	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Net Other	(\$0.8)	(\$3.7)	(\$1.9)	(\$0.2)	(\$0.6)	\$2.9	\$3.9	(\$2.4)	\$2.5	\$5.1	(\$0.2)	(\$1.5)	\$6.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	(\$8.5)
Ending Common Equity	\$100.4	\$85.8	\$124.3	\$146.6	\$153.3	\$328.1	\$333.8	\$340.8	\$348.1	\$357.5	\$362.5	\$365.9	\$365.9	\$371.1	\$376.8	\$383.4	\$390.2	\$390.2	\$409.2
Preferred	\$19.8	\$20.1	\$20.3	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Ending Total Equity	\$120.3	\$105.9	\$144.7	\$146.6	\$153.3	\$328.1	\$333.8	\$340.8	\$348.1	\$357.5	\$362.5	\$365.9	\$365.9	\$371.1	\$376.8	\$383.4	\$390.2	\$390.2	\$409.2
Ending Intangible Assets	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$65.1	\$62.1	\$59.4	\$58.8	\$58.2	\$57.6	\$57.1	\$57.1	\$57.1	\$57.1	\$57.1	\$57.1	\$57.1	\$57.1
Ending Tangible Equity	\$120.3	\$105.9	\$144.7	\$146.6	\$153.3	\$263.0	\$271.7	\$281.4	\$289.3	\$299.3	\$304.9	\$308.8	\$308.8	\$314.0	\$319.8	\$326.3	\$333.1	\$333.1	\$352.2
Qualifying Trust Preferreds	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$49.7	\$42.8	\$42.9	\$43.1	\$43.3	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Qualifying Subordinated Debt	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Tier 1 Capital	\$171.2	\$157.1	\$170.5	\$159.2	\$178.6	\$314.9	\$331.1	\$336.3	\$341.7	\$347.8	\$354.1	\$360.5	\$360.5	\$365.7	\$371.5	\$378.0	\$384.9	\$384.9	\$412.4
Tier 1 Common (\$)	\$119.4	\$105.0	\$118.2	\$127.2	\$146.6	\$262.5	\$278.8	\$293.5	\$298.7	\$304.6	\$311.0	\$0.0	\$0.0	\$365.7	\$371.5	\$378.0	\$384.9	\$384.9	\$412.4
Risk-Based Assets	\$1,726	\$1,404	\$1,211	\$1,183	\$1,219	\$2,337	\$2,576	\$2,700	\$2,760	\$2,862	\$2,949	\$2,948	\$2,948	\$2,907	\$2,950	\$3,017	\$3,080	\$3,080	\$3,218
RWA/Total Assets	91%	86%	85%	83%	85%	81%	89%	88%	91%	91%	91%	90%	90%	90%	90%	90%	90%	90%	90%
<b>Capital Ratios</b>																			
Leverage Capital Ratio	8.65%	9.12%	11.54%	11.41%	12.47%	11.15%	11.58%	11.16%	11.50%	11.49%	11.18%	11.28%	11.28%	11.37%	11.45%	11.36%	11.28%	11.28%	11.62%
Tier 1 Risk Based Capital Ratio	9.92%	11.19%	14.08%	13.46%	14.65%	13.47%	12.85%	12.45%	12.38%	12.15%	12.01%	12.23%	12.23%	12.58%	12.59%	12.53%	12.50%	12.50%	12.81%
Total Capital Ratio	11.19%	12.46%	15.35%	14.73%	15.91%	14.33%	13.46%	13.12%	13.04%	12.79%	12.66%	12.89%	12.89%	13.25%	13.25%	13.18%	13.13%	13.13%	13.42%
Tier 1 Common	8.77%	9.76%	12.40%	13.46%	14.65%	13.47%	10.92%	10.87%	10.82%	10.65%	10.54%	12.23%	12.23%	12.58%	12.59%	12.53%	12.50%	12.50%	12.81%
Tangible Equity/Tangible Assets (EOP)	6.31%	6.48%	10.09%	10.30%	10.74%	9.30%	9.56%	9.31%	9.77%	9.70%	9.54%	9.56%	9.56%	9.86%	9.89%	9.87%	9.87%	9.87%	9.97%
Equity/Assets (EOP)	6.31%	6.48%	10.09%	10.30%	10.74%	11.34%	11.50%	11.06%	11.53%	11.37%	11.14%	11.13%	11.13%	11.45%	11.46%	11.40%	11.37%	11.37%	11.41%
<b>Credit Quality Ratios</b>																			
Reserve/Loans	3.11%	3.59%	3.51%	2.75%	2.17%	0.96%	0.69%	0.76%	0.75%	0.72%	0.75%	0.76%	0.76%	0.77%	0.77%	0.76%	0.76%	0.76%	1.20%
Non Performing Assets/Loans	7.13%	6.73%	5.71%	2.47%	0.91%	1.51%	0.29%	0.27%	0.32%	0.29%	0.41%	0.37%	0.37%	0.35%	0.34%	0.32%	0.31%	0.31%	0.26%
Reserve/Non Perf. Loans	56%	65%	81%	151%	340%	68%	290%	302%	251%	284%	233%	273%	273%	282%	290%	304%	313%	313%	557%
Net Charge Offs/Average Loans	2.24%	2.43%	1.37%	0.45%	-0.13%	-0.01%	0.15%	0.03%	0.05%	0.12%	0.02%	0.05%	0.06%	0.08%	0.08%	0.10%	0.10%	0.09%	0.17%
<b>Credit Quality Detail (mil)</b>																			
Loan Loss Reserve	\$47.9	\$45.4	\$36.5	\$28.7	\$22.8	\$20.0	\$15.7	\$18.0	\$18.3	\$18.3	\$19.2	\$19.5	\$19.5	\$19.9	\$20.3	\$20.7	\$21.1	\$21.1	\$35.2
As % Loans	3.11%	3.59%	3.51%	2.75%	2.17%	0.96%	0.69%	0.76%	0.75%	0.72%	0.75%	0.76%	0.76%	0.77%	0.77%	0.76%	0.76%	0.76%	1.20%
As % Nonperforming Loans	0.56x	0.65x	0.81x	1.51x	3.40x	0.68x	2.90x	3.02x	2.51x	2.84x	2.33x	2.73x	2.73x	2.82x	2.90x	3.04x	3.13x	3.13x	5.57x
As % Nonperforming Assets	0.43x	0.53x	0.61x	1.11x	2.38x	0.64x	2.34x	2.80x	2.35x	2.53x	1.82x	2.07x	2.07x	2.19x	2.26x	2.41x	2.50x	2.50x	4.63x
Net Charge Offs	\$38.2	\$34.3	\$15.7	\$4.8	(\$1.3)	(\$0.2)	\$3.4	\$0.6	\$0.3	\$0.7	\$0.1	\$0.3	\$1.4	\$0.5	\$0.5	\$0.7	\$0.7	\$2.4	\$4.7
As % Avg. Loans (ann.)	2.24%	2.43%	1.37%	0.45%	-0.13%	-0.01%	0.15%	0.03%	0.05%	0.12%	0.02%	0.05%	0.06%	0.08%	0.08%	0.10%	0.10%	0.09%	0.17%
Provision Expense	\$59.0	\$31.8	\$6.9	(\$3.1)	(\$7.2)	(\$3.0)	(\$1.0)	\$2.9	\$0.6	\$0.8	\$1.0	\$0.6	\$3.0	\$0.9	\$1.0	\$1.0	\$1.1	\$4.0	\$5.4
Provision/Average Loans	3.46%	2.25%	0.60%	-0.30%	-0.69%	-0.18%	-0.05%	0.12%	0.10%	0.12%	0.16%	0.09%	0.12%	0.14%	0.15%	0.15%	0.16%	0.15%	0.19%
Reserve Build (Release)	\$20.8	(\$2.5)	(\$8.8)	(\$7.9)	(\$5.9)	(\$2.8)	(\$4.4)	\$2.3	\$0.3	\$0.0	\$0.9	\$0.3	\$1.5	\$0.4	\$0.4	\$0.3	\$0.4	\$1.6	\$0.7
Reserve Build (Release) - per share	\$1.59	(\$0.19)	(\$0.65)	(\$0.58)	(\$0.44)	(\$0.13)	(\$0.17)	\$0.09	\$0.01	\$0.00	\$0.04	\$0.01	\$0.06	\$0.02	\$0.02	\$0.01	\$0.02	\$0.06	\$0.03
Provision / NCOs (x)	1.5x	0.9x	0.4x	-0.7x	5.4x	13.7x	-0.3x	4.7x	2.1x	1.0x	9.8x	2.1x	2.1x	1.8x	1.8x	1.5x	1.6x	1.6x	1.1x
Non-Performing Loans	\$85.1	\$69.4	\$45.1	\$19.0	\$6.7	\$29.5	\$5.4	\$5.9	\$7.3	\$6.5	\$8.2	\$7.1	\$7.1	\$7.1	\$7.0	\$6.8	\$6.7	\$6.7	\$6.3
Restructured Loans (performing)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Other Real Estate Owned	\$26.6	\$16.7	\$15.3	\$7.0	\$2.9	\$2.0	\$1.3	\$0.5	\$0.5	\$0.8	\$2.3	\$2.3	\$2.3	\$2.0	\$2.0	\$1.8	\$1.7	\$1.7	\$1.3
Non-Performing Assets	\$111.7	\$86.1	\$60.4	\$25.9	\$9.6	\$31.5	\$6.7	\$6.4	\$7.8	\$7.2	\$10.6	\$9.4	\$9.4	\$9.1	\$9.0	\$8.6	\$8.4	\$8.4	\$7.6
Non-Performing Assets (ex-TDRs)	\$111.7	\$86.1	\$60.4	\$25.9	\$9.6	\$31.5	\$6.7	\$6.4	\$7.8	\$7.2	\$10.6	\$9.4	\$9.4	\$9.1	\$9.0	\$8.6	\$8.4	\$8.4	\$7.6
As % Loans + OREO	7.13%	6.73%	5.71%	2.47%	0.91%	1.51%	0.29%	0.27%	0.32%	0.29%	0.41%	0.37%	0.37%	0.35%	0.34%	0.32%	0.31%	0.31%	0.26%
As % Loans + OREO (ex TDR's)	7.13%	6.73%	5.71%	2.47%	0.91%	1.51%	0.29%	0.27%	0.32%	0.29%	0.41%	0.37%	0.37%	0.35%	0.34%	0.32%	0.31%	0.31%	0.26%
As % of total assets	5.86%	5.28%	4.21%	1.82%	0.67%	1.09%	0.23%	0.21%	0.26%	0.23%	0.32%	0.29%	0.29%	0.28%	0.27%	0.26%	0.25%	0.25%	0.21%
Texas Ratio	66.4%	56.9%	33.3%	14.8%	5.4%	11.1%	2.3%	2.1%	2.5%	2.3%	3.3%	2.9%	2.9%	2.7%	2.6%	2.5%	2.4%	2.4%	2.0%

Source: KBW Research and Company reports.

**Risk**

Risks that may prevent the achievement of our price target and earnings outlook include, but are not limited to, unexpected volatility in interest rates, a material increase in credit costs, and a downward movement in the net interest margin. Moreover, the company's ability to consistently grow loans and revenues could impact our expectations.

**Valuation**

Our \$40 target reflects 15.1x our 2019E and 215% of TBV, which reflects 13.9x our 2019E (\$37/sh) and \$/\$ on excess capital (\$3/sh).

**Company Description:**

Mercantile Bank is a bank holding company headquartered in Grand Rapids, MI. MBWM is primarily a business bank, with commercial-related credits making up roughly 80% of outstanding loans.

**Industry Opinion:**

We remain positively biased toward banks with differentiated business models and those with the ability to generate above-average loan growth and those best positioned for rising interest rates. That said, in light of the recent re-flattening of the yield curve, we favor banks that are more sensitive to the short end of the yield curve as relative margin performance, all else equal, is better insulated. We also believe that M&A activity for the SMID banks will continue to improve, providing valuation support, all else equal. All factors considered, the recent rebound in the group has pushed valuations back toward long-term averages of approximately 90% of the S&P 500, making individual stock selection paramount, in our view.

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The recommendations contained in this report were produced at 1 March 2018 02:28 EDT and disseminated at 1 March 2018 02:28 EDT

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### Mercantile Bank Corporation (MBWM)

**Target Price:** \$40.00

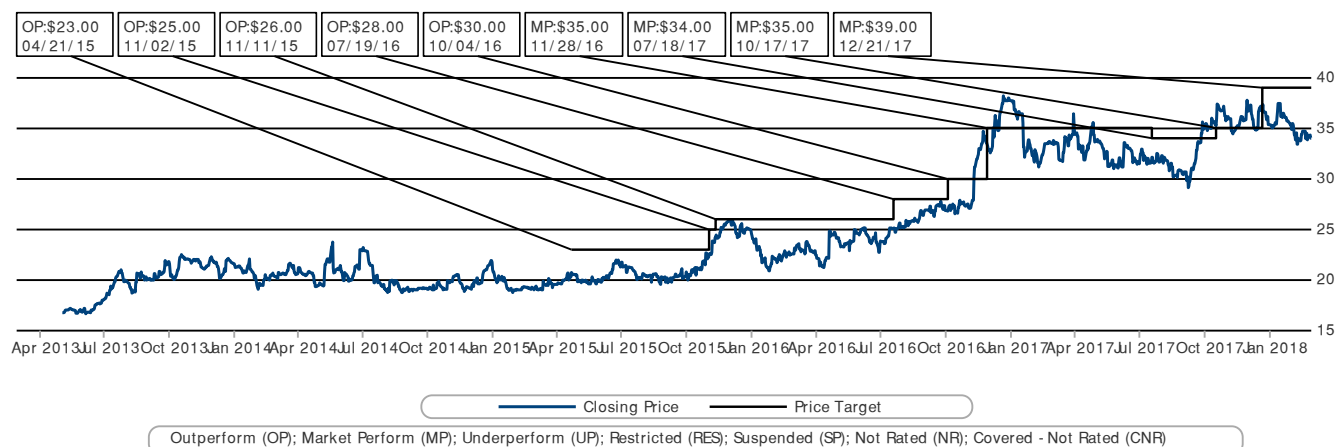
#### Risk Factors:

Risks that may prevent the achievement of our price target and earnings outlook include, but are not limited to, unexpected volatility in interest rates, a material increase in credit costs, and a downward movement in the net interest margin. Moreover, the company's ability to consistently grow loans and revenues could impact our expectations.

#### Valuation:

Our \$40 target reflects 15.1x our 2019E and 215% of TBV, which reflects 13.9x our 2019E (\$37/sh) and \$/\$ on excess capital (\$3/sh).

**Rating and Price Target History for: Mercantile Bank Corporation (MBWM) as of 02-27-2018**



**Note:** The boxes on the Rating and Price Target History Chart above indicate the date of Report/Note, the rating and price target. Each box represents a date on which an analyst made a change to a rating or price target.

### Distribution of Ratings/IB Services

#### KBW

Rating	Count	Percent	*IB Serv./Past 12 Mos.	
			Count	Percent
Outperform [BUY]	216	35.01	82	37.96
Market Perform [HOLD]	348	56.40	125	35.92
Underperform [SELL]	37	6.00	9	24.32
Restricted [RES]	0	0.00	0	0.00
Suspended [SP]	16	2.59	1	6.25
Covered -Not Rated [CNR]	2	0.32	0	0.00

\*KBW maintains separate research departments; however, the above chart, "Distribution of Ratings/IB Services," reflects combined information related to the distribution of research ratings and the receipt of investment banking fees globally. \*\*Note: All ratings for Keefe, Bruyette and Woods, Inc. as of January 15, 2015 reflect a relative ratings system.

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