

# Mission Statement

*The mission of Mercantile Bank of West Michigan is to provide financial products and services in a highly professional and personalized manner. We recognize that our most important partners are our customers. We will satisfy our customers by delivering top quality service that distinguishes us from our competitors.*

*Our employees are our most valuable asset. We strive to hire exceptional team members and are committed to maintaining an environment of growth and development.*

*We recognize the importance of being strong supporters of the diverse communities we serve, and pledge our commitment to making them stronger.*

*We believe that fulfilling our mission to our customers, employees and community will allow us to reward our shareholders with an excellent return on their investment in Mercantile Bank.*



**MERCANTILE<sup>®</sup>**  
BANK CORPORATION  
5650 Byron Center Avenue SW  
Wyoming, MI 49519  
616.406.3000

The Right Directors. The Right Direction.



**MERCANTILE<sup>®</sup>**  
BANK CORPORATION

2004 ANNUAL REPORT

# Letter to Shareholders

---

We are pleased to report another exceptional year for Mercantile Bank Corporation and its shareholders.

Once again, our company has recorded impressive results in earnings, earnings growth, asset growth and asset quality.

Once again, we have leveraged existing customer relationships into additional profitability, and we have increased our market share relative to competitors.

Once again, we have taken steps to strengthen and expand our infrastructure. This year, we ventured into a new geographic market and continued construction of our new headquarters building.



So Mercantile continues to move in the right direction. Our trajectory continues to reflect the strong momentum depicted in our pyramid logo, with its constant reach upward.

*Of course, it's one thing to express a growth strategy in a logo. It's quite another to create, implement, pursue and monitor a strategy that works in real life.*

*We are fortunate to have assembled a Board of Directors that assumes hands-on responsibility for setting our strategic direction – and for ensuring that all of us follow that direction, day in and day out.*

*You'll meet our Directors throughout these pages. All of them have encountered great challenges and achieved great successes in their lives, and their experiences have helped shape the character of Mercantile Bank Corporation.*

*They've built their own businesses, so they've made sure Mercantile is the best it can be at meeting the needs of the business owner.*

*They believe service is the ultimate differentiator, so they've insisted that ours should stand head and shoulders above the rest.*

*They are committed to integrity, creativity, diversity and philanthropy in their own dealings, so they've committed our bank to the same.*

*Perhaps most importantly, they are all residents of West Michigan. Their lives and livelihoods are woven into the fabric of this community. And their knowledge of local people, companies, economies, opportunities and traditions is woven into the fabric of Mercantile.*

*All of this sets our Board – and our company – apart from the competition. All of this has contributed to another banner year for Mercantile Bank Corporation.*



**Gerald Johnson, Chairman & CEO, Mercantile Bank Corporation:** Jerry founded Mercantile Bank from his kitchen table in 1997 after serving as Chairman and CEO of another local bank for 10 years. He is also involved in numerous philanthropic activities.

**Merle Prins, Retired Banking Executive:** Merle has been a tireless advocate for Holland-area businesses and non-profit organizations, both before and after his 1998 retirement from another area bank. He joined the Mercantile Board in 2004.

**Michael Price, President & COO, Mercantile Bank Corporation:** An original employee of Mercantile Bank, Mike has more than 20 years of commercial banking experience – many working alongside Jerry Johnson. Mike is active in many community service organizations.



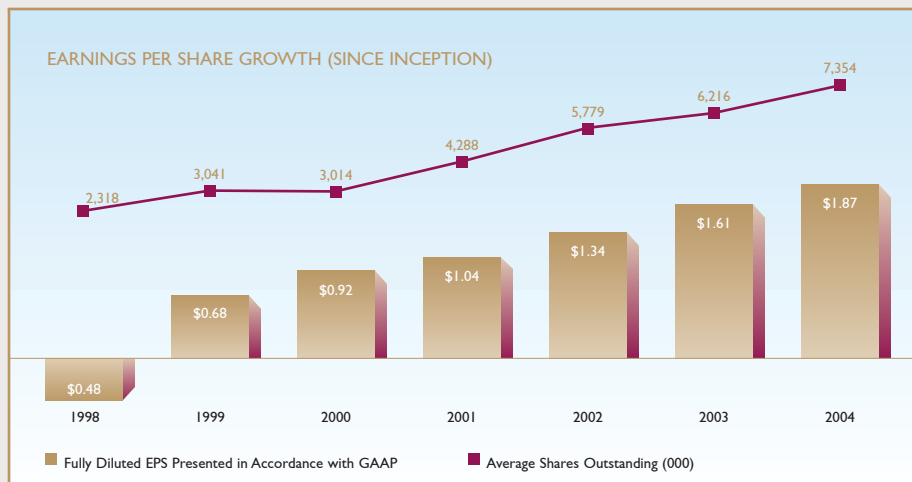
## \$1.5 Billion...and Other Milestones

*It took Mercantile Bank Corporation roughly five-and-a-half years to achieve \$1 billion in assets. It took just another 19 months after that to reach the next significant milestone, as total assets reached \$1.5 billion at December 31, 2004.*

*The \$1.5-billion-figure is an increase of \$332.8 million, or 27.7%, from last year. This increase was essentially driven by loan growth (up \$281.2 million, or 27.1%), which was primarily funded by an increase in deposits (up \$256.3 million, or 28.4%).*

*This performance contributed to record net income of \$13.7 million in 2004. This is an increase of 37% from the \$10 million earned in 2003.*

*Excluding a one-time charge of \$845,000 (\$548,000 after-tax) associated with refinancing our \$16.0 million trust preferred securities issued in 1999, net income was \$14.3 million, a 42.5% increase over 2003, and fully diluted earnings per share were \$1.94, an increase of 20.5%. This significant increase in earnings per share was realized notwithstanding our common stock offering in the 4th quarter of*



2003 which increased average fully diluted shares outstanding by 1.1 million, or 18.3%.

With regard to our trust preferred securities, in the last four months of 2004 we were able to redeem and refinance this \$16 million issue at a substantially lower rate of interest. We also issued an additional \$16 million in trust preferred securities to take advantage of the lower interest rates available and to help fund our continued strong growth without the need to immediately issue additional common equity.

Asset quality, a core strength of Mercantile Bank Corporation, remained strong even as the local economy began to show more signs of growth. Net charge-offs for 2004 were \$1.2 million, or 0.10% of average loans. Non-performing assets were 0.19% of total assets at December 31, 2004, compared with 0.20% at September 30, 2004, and 0.15% at December 31, 2003. These figures place us at or near the top of our peer group banks in terms of asset quality.



**David Hecht, Attorney:** David's 42-year law career has included serving as managing partner of his own firms. More recently, he has been managing legal affairs for several Grand Rapids area philanthropists and foundations.

**Betty Burton, Consultant:** The former owner and CEO of a business forms company, Betty now devotes much of her time to community activism. She is a trustee of both the Grand Valley State University and Western Michigan University Foundations.

**David Cassard, President, The Waters Corporation:** The Waters Corporation owns and operates commercial real estate properties in the Grand Rapids area. David is also a member of the Downtown Development Authority and Downtown Improvement District Board.

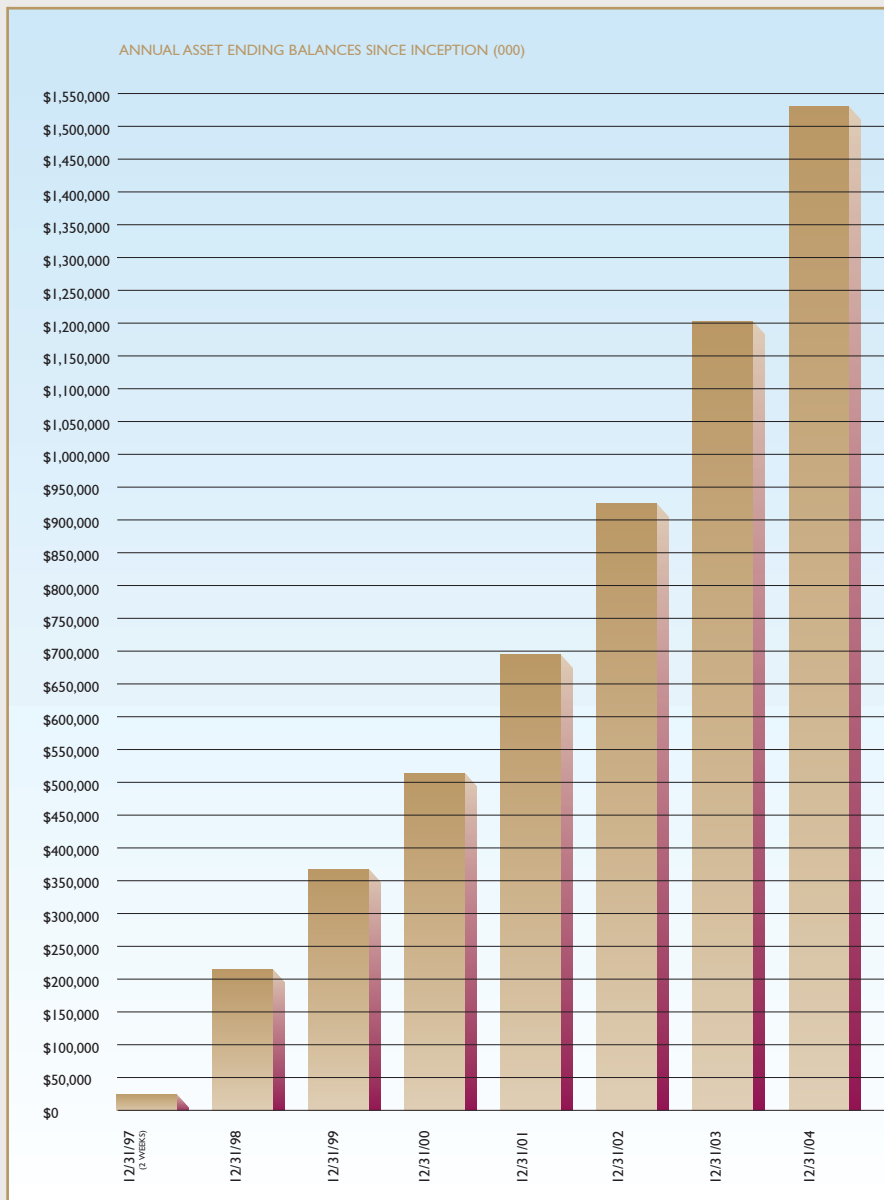
# Mercantile on the Move

*In October 2004, we opened a full-service Banking Center in Holland, Michigan. This lakeshore community is located 30 minutes southwest of Grand Rapids. While Holland is a smaller city than Grand Rapids, it is home to a broad mix of small and mid-sized businesses – the kinds of companies that have fueled our dramatic growth thus far.*

*Holland is also the “gateway” from which we*

*can serve additional lakeshore communities. Our experience in Grand Rapids has proven that our reach can extend far beyond our physical locations – thanks to Internet banking, telephone banking, courier service and always-on-the-go lenders, calling officers and branch managers.*

*Indeed, we had been serving a number of Holland customers long before we broke ground on the 30,000-*



square-foot Banking Center, so it was clear that our services were in demand. Initial public reaction to our new facility has been enthusiastic, and we anticipate a profitable relationship with lakeshore businesses and residents.

We're also eagerly anticipating the spring 2005 opening of our new headquarters building. This four-story, 60,000-square-foot facility is located just two miles northwest of our current downtown Grand Rapids location.

The new headquarters will offer ample parking along with drive-through banking capability. The interior customer service area is spacious and comfortable. With four stories of space, there is plenty of room to accommodate future growth. Our executive staff, now housed in the Wyoming corporate administration building, will also move to the new headquarters, as it is a more central location and provides substantially better opportunities to interact with customers.

The new headquarters will raise Mercantile's visibility and presence in the community, as the building overlooks the busy US 131 expressway. Tens of thousands of drivers will pass by each day, greeted by Mercantile's distinctive architecture and signage. This will serve as a tremendous marketing tool as well as a visual confirmation of Mercantile's commitment to West Michigan.



**Donald Williams, Sr., Dean Emeritus, Grand Valley State University:** A strong advocate for political sensitivity and equality, Don has spent more than 30 years in education administration – including serving as Dean of Minority Affairs and Director of the Multicultural Center at GVSU.

**Edward Clark, Chairman/CEO, American Seating Company:** Ed has guided this 119-year-old furniture manufacturer since 1986. He recently oversaw the renovation of one of the company's historic manufacturing sites into a multi-use development – “one of Michigan's most brilliant urban success stories.”

**Peter Cordes, President & CEO, GWI Engineering, Inc.:** An aeronautics engineer by training, Pete became sole owner of GWI in 1991. The firm manufactures industrial automation systems for a variety of industries throughout the Midwest.



## Community Bank...Community Responsibility



**Lawrence Larsen, President & CEO, Central Industrial Corporation:**

Larry has owned Central Industrial, a wholesale distributor of fluid power components, since 1975. He is also an owner and director of Jet Products, Inc., an Ohio-based manufacturer of hose reels and related hydraulic products.

**Susan Jones, Professor of Marketing, Ferris State University; Partner, The Callahan Group, LLC:** As a business owner, educator and author, Susan has helped thousands of individuals and organizations improve their marketing prowess. Her many awards include “Marketer of the Year” and “Direct Marketing Educator of the Year.”

**Calvin Murdock, President, SF Supply:** Cal has led this wholesale distributor of commercial/industrial electronic components and related products since 1994. His many innovations include an Appreciation Trailer from which he and his crew serve lunch to customers.

*Our contribution to West Michigan extends far beyond physical infrastructure and banking operations, of course. We’ve always positioned ourselves as a “community bank,” and we believe this requires us to lend a helping hand to community members in need, and to help make this a better place to live for everyone.*

*We are gratified that our employees have matched our corporate philanthropy with personal support of worthy programs. Just one example: The Kent County Tax Credit Coalition helps low-income families file their taxes and receive the refunds and credits to which they’re entitled. Last year, 15 Mercantile employees volunteered for this effort – more volunteers than from any other financial institution in Grand Rapids. Their work helped 2,000 low-income families receive refunds/credits of \$1.8 million.*

*Hundreds of other employees spent part of last year collecting items for food banks, building houses on behalf of Habitat for Humanity, raising money for diabetes and cancer, writing letters of encouragement to inner-city children, collecting clothing for homeless city students, and much more. These efforts have helped reinforce our reputation as a true community bank.*



## 2004 Cash Dividend

*These employees are just as enthusiastic and effective in their jobs at Mercantile Bank Corporation. Their efforts – in conjunction with strong oversight and support from our Board of Directors – have made 2004 another rewarding year for Mercantile shareholders.*

*As a result, a quarterly cash dividend of \$0.10 per share was declared by our Board of Directors on January 11, 2005, and paid on March 10. This represents an 11.1% increase from the previous year.*

*Our performance in 2004 continued to validate the original business model set forth by our Board of Directors when we opened our doors seven years ago: Mercantile Bank will focus on commercial lending and quality service delivered efficiently.*

*As the local economy improves, we will continue to reap dividends from this focus. We are currently seeing increased borrowing and deposit activities from our current commercial customers, and we are making major inroads with new customers in Grand Rapids and lakeshore communities. We are confident this will serve us well as we move forward in 2005.*



**Dale Visser, Chairman, Visser Brothers, Inc.:** Dale has held various positions within his family-owned firm since 1960. Visser Brothers is a construction general contractor specializing in commercial buildings.

**John Gill, Retired Chairman, Gill Industries, Inc.:** John founded his namesake firm “with more confidence than capital” in 1964. Today, this auto industry supplier is one of Michigan’s “101 Best Companies to Work For.”

**Doyle Hayes, President & CEO, Pyper Products Corporation:** After 20 years with General Motors, Doyle started his own company in 1994. This plastics manufacturer now supplies some of the biggest names in the automotive and office furniture industries.

## In Summary



L-R: Chuck Christmas, Jerry Johnson, Bob Kaminski, Mike Price

Gerald R. Johnson, Jr.  
Chairman  
Chief Executive Officer

Michael H. Price  
President  
Chief Operating Officer

Robert B. Kaminski, Jr.  
Executive Vice President  
Secretary

Charles E. Christmas  
Senior Vice President  
Chief Financial Officer

*Earlier, we told you how the upward momentum of our pyramid logo serves as constant inspiration for our Directors, spurring them to develop and implement strategies that fuel our growth.*

*The Directors also look to the logo as a symbol of their responsibilities. Each of the pyramid's three sides represents one of our core constituencies: community, customers and shareholders. Our Directors are well qualified to look after the interests of these audiences. Because every Director is a member of the West Michigan community. Every Director is a Mercantile Bank customer. And every Director is a Mercantile Bank Corporation shareholder.*

The right Directors.

The right direction.

The right choice for you.

On behalf of all of the Directors and employees of Mercantile Bank Corporation, we thank you for your continued support.





**2004 Photo Highlights**

New York City - Jerry Johnson presided over the NASDAQ Stock Market Open on July 1, 2004, marking the five-year anniversary of Mercantile Bank's listing on the NASDAQ National Market.

**Holland** - We celebrated the opening of our new Holland Banking Center with a ribbon-cutting ceremony on November 18, 2004.

**Grand Rapids** - Our new headquarters site is adjacent to one of Michigan's busiest expressways, enabling thousands of drivers – and potential customers – to monitor our construction progress.