



We keep reaching for the sky.



2005 ANNUAL REPORT





It was a year of strategic moves.

We moved north. We moved east. We moved south.

And always, we moved up.

Mercantile Bank's upward momentum continued in 2005. It was another excellent year for the Corporation and its shareholders, as we achieved record earnings along with impressive results in earnings growth, asset growth and asset quality.

These accomplishments are even more noteworthy in light of the steps we took to support future growth. We built a new headquarters in Grand Rapids. We ventured outside West Michigan for the first time. We hired more than 100 new people and introduced new products. We rebuilt our web site from the ground up to make it even more inviting, functional and user-friendly.

Even with these aggressive moves – and the significant investment required to make them possible – we continued to deliver exceptional performance for our shareholders. That's because every move we made – whether it was four stories up into the sky, miles away to central and southeast Michigan, or amidst the bits and bytes of cyberspace – was grounded in the same consistent strategy we've employed since opening our doors in December 1997:

Mercantile Bank will be the premier provider of financial services to small and mid-size businesses in the communities we serve.



Moving North: A New Headquarters



On May 25, 2005, West Michigan business executives and community leaders gathered to celebrate the formal opening of Mercantile Bank's new headquarters. Located approximately one mile north of our original downtown branch office, this four-story building is visible to drivers on one of the busiest roadways in all of Michigan – US 131 just north of the I-196 interchange.

This location is also much easier to reach than our previous downtown office, with convenient on and off freeway access and abundant free parking.

With 60,000 square feet of space, our new headquarters is one of the largest buildings in the West Leonard Business District. While other banks have tended to congregate their headquarters within a few blocks of each other in downtown Grand Rapids, we deliberately chose to build in an area that is neither trendy nor exclusive. West Leonard is a working-class neighborhood, with small factories, office buildings and older housing tucked in between restaurants and retail stores. It's currently in the early stages of revitalization, as local entrepreneurs and developers are transforming neglected properties into new commercial and living spaces.

In short, it's just the sort of place you would expect to find Mercantile customers hard at work to improve their own fortunes and contribute to the vitality of our community. Our headquarters stands as both an inspiration and a resource for them and all of West Michigan. It says, "We invested successfully in our community – you can too." And just as importantly, "We can help you."

The new headquarters offers all the business and personal financial services previously provided at our downtown branch office, with the addition of expanded customer service space inside and drive-thru banking/ATM access outside. The original downtown main office and branch, which operated out of a leased facility, have been closed.

We have also relocated the bank's commercial lending group, administrative staff and executive team to the new headquarters building, giving us much-needed additional space and a more central location in which to meet customers. Many of these personnel had been housed at our Wyoming offices in southwest Grand Rapids. In the wake of their departure, we have expanded the former administration building by 4,000 square feet. This is helping us meet an ongoing demand for space as we continue to add staff members to support our growth.

Moving East: A New Market



The Mercantile Board of Directors and management team have always been open to the idea of growth by acquisition or affiliation with other banking organizations. After all, merger and acquisition is the primary way banks grow these days. While we have analyzed numerous acquisition opportunities that would extend our operation beyond West Michigan, none of them have met our criteria for building shareholder value.

Early in 2005, however, we were presented with an option to extend our presence eastward into central Michigan – *without* acquiring another bank. We had an opportunity to assemble a group of experienced Lansing bankers who could combine their knowledge and experience with the power of the Mercantile brand. Led by Howard Haas, a 39-year veteran of commercial banking, the group confirmed our belief that Lansing was an ideal market for our relationship-focused business-banking strategy. The group also proved to be totally in step with our core values: local decision-making, a strong commitment to customer service and a deep sense of community obligation.

So, in July 2005, we opened Mercantile Bank–Lansing in an office suite just off the US-127 expressway. Lansing City President Howard Haas oversees this location, which is fully staffed and offers the same products and amenities as our Grand Rapids offices. Thanks to the reputation and business contacts of Howard and his staff – as well as the strong appeal of our unique banking philosophy – Mercantile Bank–Lansing proved an almost immediate success.

Construction on a permanent headquarters for Mercantile Bank–Lansing will commence this spring, with completion anticipated by June 2007.

Moving South: A New Kind of Customer

Mercantile Bank–Lansing served as the template for a later-in-the-year expansion into Ann Arbor, Michigan – which is actually south and east of both Grand Rapids and Lansing. Again, we teamed with a group of experienced area bankers, leveraging their in-depth knowledge of the market to make an immediate impact on the local business scene. And again, we empowered the City President and his staff to operate independently – so that many key decisions are made locally, by the same people who build relationships with customers.

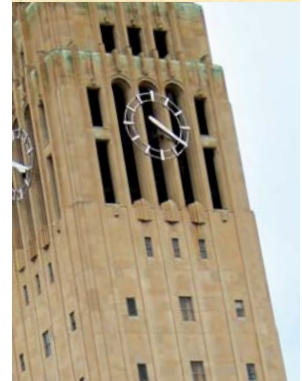
Formally opened in September 2005, the Ann Arbor office is led by City President Walt Byers, who previously served as president of another southeast Michigan bank. Walt and his staff of loan, credit, service and branch personnel work out of office space close to Interstate 94 on West Eisenhower Parkway.

Certainly, the addition of Lansing and Ann Arbor to Mercantile’s significant presence in Western Michigan enhances our growth potential – as the pipeline of loan activity in both locations confirms. But it also enhances the diversity and strength of our loan portfolio. For example, while manufacturing represents roughly 22% of the Grand Rapids economy, this percentage falls to 11% in Ann Arbor and 9% in Lansing.

The Ann Arbor economy is dominated by the University of Michigan, both by virtue of its role as the city’s largest employer and by attracting companies that seek quality graduates. Aside from education, technology, health services and biotechnology are major economic engines. The nature of these industries has kept Ann Arbor relatively immune from the economic hardships experienced by the rest of Michigan in the past decade. It has consistently enjoyed one of the lowest unemployment rates in the nation and its median income is well above state and national averages.

Education is one of the primary drivers of the Lansing economy as well, led by Michigan State University and its 44,000 students. But state government and automobile manufacturing are also influential here, giving the city what is often referred to as a “tri-economy.” The strength of these sectors drives development far beyond the city itself, as employees are drawn from the surrounding three counties – an area with a population of nearly 450,000.

Naturally, we are excited about the contributions both Ann Arbor and Lansing will make to our bottom line.



Moving Up: Changes and Milestones

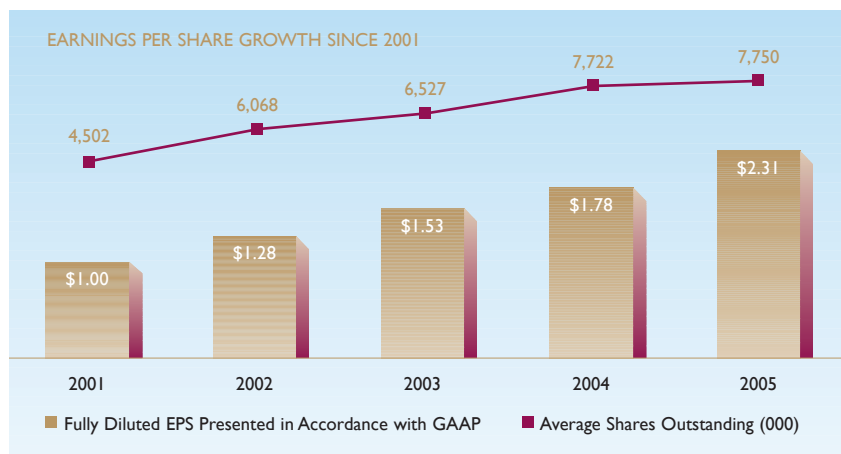


To reflect our expansion into these new markets, we changed the name of our banking subsidiary. As of August 1, 2005, Mercantile Bank of West Michigan became Mercantile Bank of Michigan.

Shifting focus back to our westernmost location, we are pleased to report that Mercantile Bank–Holland reached \$120 million in assets in 2005 – just one year after we opened our full-service Banking Center there. This is a significant achievement, and a sure sign that the lakeshore is primed for even further growth.

Another milestone was confirmed in 2005, as the FDIC released figures showing that Mercantile Bank had become the second largest bank in Kent County in terms of market share. This was accomplished less than eight years from the date of our opening. Our ever-increasing market share at the expense of our competitors is proof that we continue to make the right moves here in our home market.

As has been the case since our inception, the “right moves” include giving back to the communities that support us. In 2005, our moves ranged from funding a new library for a Grand Rapids elementary school to answering phones at a Lansing hospital radiothon to working at the Saline Community Fair (Ann Arbor), raising money for local charities.



Mercantile Bank Corporation earned net income of \$17.9 million in the fiscal year ending December 31, 2005. This is an increase of 30.5% from the \$13.7 million reported for the fiscal year ended December 31, 2004.

Diluted earnings per share were \$2.31, compared with \$1.78 reported for 2004 – an increase of 29.8%. Earnings for the 2004 fiscal year include an \$845,000 (\$548,000 after-tax) write-off associated with the unamortized balance of issuance costs related to the redemption of a \$16.0 million trust preferred offering issued in 1999. Excluding this one-time expense, net income and diluted earnings per share for 2005 increased 25.5% and 24.9%, respectively, over 2004.

Total revenue, comprised of net interest income and non-interest income, was \$61.0 million for fiscal year 2005, an increase of 30.4% over the \$46.7 million reported for fiscal year 2004. Net interest income increased 30.3% over the 2004 period to \$55.3 million. Non-interest income was \$5.7 million, a \$1.4 million, or 31.6%, increase over 2004.

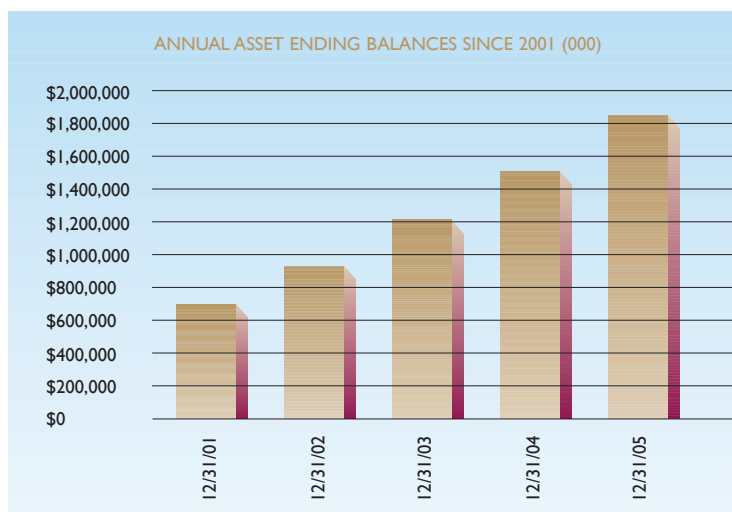
Total assets were \$1.84 billion at December 31, 2005, an increase of \$302.1 million, or 19.7% from December 31, 2004.

While we incurred significant start-up costs for the new offices in Grand Rapids, Lansing and Ann Arbor last year, we continued our tradition of controlling our overhead. In fact, our efficiency ratio – a measure of the overhead expense it takes to generate a dollar of revenue – was 51.1% in 2005. This compares with 49.6% in 2004. Even with the slight

increase, our efficiency ratio continued to rank among the best of the publicly traded banks in Michigan.

We also continued to maintain our exceptional asset quality. Net charge-offs for fiscal year 2005 were \$1.1 million, or 0.08% of average loans. This compares with \$1.2 million, or 0.10%, for fiscal year 2004. Non-performing assets were just 0.22% of total assets at December 31, 2005 compared to 0.19% at year-end 2004. Again, these results compare extremely well to our peer group.

As a result of this performance, the Mercantile Board of Directors declared a quarterly cash dividend of \$0.12 per share. This represents a 9.1% increase over the prior quarter cash dividend and, after giving effect to the 5% stock dividend paid on August 1, 2005, a 26.0% increase over the cash dividend paid in the first quarter of 2005. The dividend was paid on March 10, 2006.





Our performance in 2005 once again reflects the ongoing success of Mercantile Bank Corporation, as we continued to grow both by leveraging existing customer relationships and capturing greater market share. Our business model also proved to work very effectively in markets outside West Michigan. The investments we made in Lansing and Ann Arbor began to achieve measurable results almost immediately. In the coming year, with many of the up-front costs out of the way, these financial centers should increase their contribution to both our growth and profitability.

With the opening of a new headquarters and our expansion into two new markets, 2005 was indeed a watershed year for Mercantile Bank Corporation. We want to thank all of our Mercantile associates who labored long and hard to coordinate our successful entry into these new markets.

With your support, we will keep reaching for the sky in 2006.

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
and Treasurer

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

Mercantile Bank Corporation Board of Directors



Back row (L-R): Ed Clark, Susan Jones, Larry Larsen, Jerry Johnson, Mike Price, Cal Murdock, Betty Burton, Dale Visser, Doyle Hayes, Merle Prins, Pete Cordes. Front row (L-R): John Gill, Dave Cassard, David Hecht, Don Williams.

Mission Statement



The mission of Mercantile Bank of 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.



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