

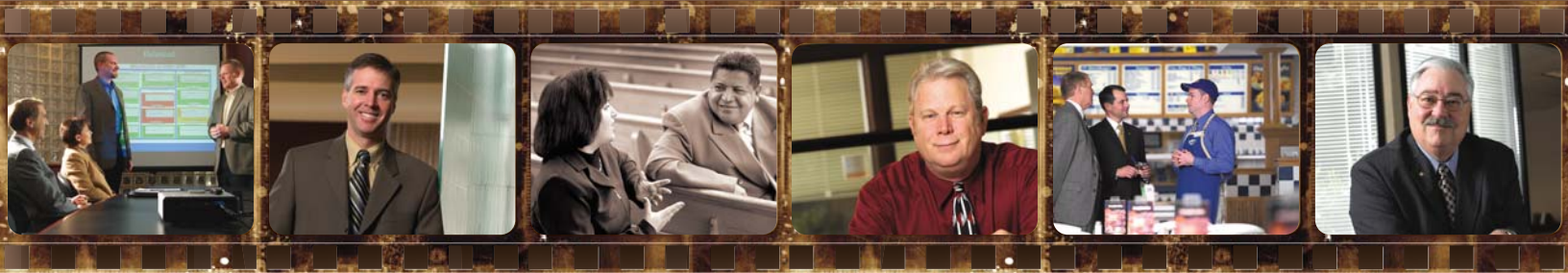
Celebrating 10 years of making a difference.



The first decade of Mercantile Banking can be summed up in three words:

A Great Start.

We've worked hard to make a difference
for our shareholders, customers, employees
and communities throughout the last



10 years. You'll find a few examples of how
we've done it in the pages of this report.

But for all we've accomplished thus far, we
are confident that the best is yet to come.

History in the Making

Mercantile Bank first opened its doors in December 1997, in a renovated office supply store on a busy downtown Grand Rapids thoroughfare. At the time, the local banking landscape was dominated by large banks – Old Kent, NBD, FMB, First of America and the like – that considered us little more than a small player, barely registering on their radar screens.

But we were convinced there was a market for business-focused banking delivered with the kind of personal touch other banks had long since abandoned. We just never dreamed we'd experience so much success so quickly.

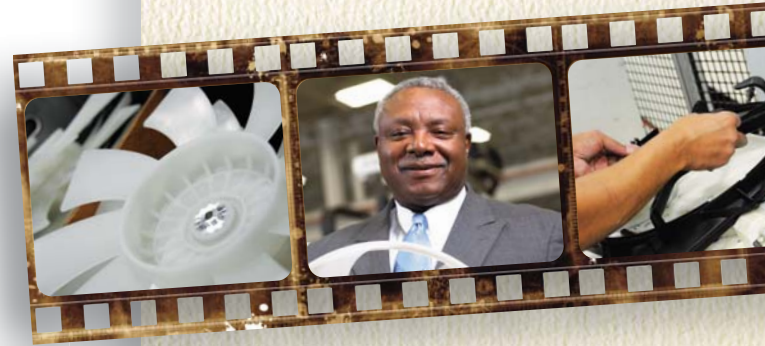
Our growth was nothing short of historic. We achieved \$500 million in assets in just three years, \$1 billion in five-and-a-half years, and \$2 billion little more than three years after that – all achievements virtually unprecedented in the history of Michigan banking.

Along the way, we became the #2 bank in Kent County in terms of market share – an irrefutable validation of our original vision.

We also expanded into markets beyond Grand Rapids – Holland in 2003, Lansing and Washtenaw County in 2005, and Oakland County in 2007. Our entry into these markets was driven largely by request – from customers who were already banking with us long distance, prospects who were intrigued by stories they'd heard of the Mercantile way of banking and colleagues who realized the special value created by Mercantile's relationship-based approach. Our careful expansion helped vault us into the Top 10 of all Michigan-headquartered banks, measured in assets.

Expansion has also allowed us to create 345 jobs in the last 10 years, jobs that are challenging and rewarding to our employees,

10 Years of SYNERGY



Director

Doyle Hayes
President & CEO
Pyper Products Corporation

As founding President of Pyper Products (launched in 1994) and a former General Motors executive, Doyle Hayes brings a wealth of valuable business experience to the Mercantile Board. "Other members have strong backgrounds in finance, real estate, education, community activism and more, so we have a great balance of knowledge and talent. The Bank has leveraged our respective strengths to help build and maintain a diverse customer base. And that has ultimately benefited our shareholders."

10 Years of SPEED



Customer

Dan VanderMolen
President
Van's Pattern Corp.

Van's Pattern Corp. hasn't lasted 48 years in the hyper-competitive auto supply industry by taking things slow and easy. "Everything has to be done immediately these days," says Dan VanderMolen. "I need a bank that can keep up the pace."

Mercantile's local decision-making and our decade-long relationship with Van's ensures that Dan gets quick results. "Mercantile shares my values, too. We've lasted in this business because we operate with integrity, honesty and fairness. Mercantile does the same."

Mercantile does the same."

and stimulating to our local economies. We hire local talent almost exclusively, and we have never experienced a layoff – an accomplishment many of our competitors cannot match.

Job growth is just one of the ways we support our local communities. We also actively encourage employees to donate their time and expertise to local causes, and many of them serve on non-profit Boards, volunteer at human services charities and participate in fund-raising events. The corporation itself has made substantial investments in philanthropic causes every year, directing monies primarily to charities that focus on underserved segments of local populations, including disadvantaged children and families.

Industry-wide Challenges in 2007

None of the accomplishments listed above were achieved in a vacuum, of course. We have always had to contend with the social and economic circumstances of the moment. I don't have to tell you that banking headlines in 2007 revolved around a single issue: the sub-prime mortgage "crisis." While this is primarily seen as a large bank issue, the fallout from these high-risk loans, including increased foreclosures and a depressed housing market, inevitably filters down to community banks like Mercantile.

A little background: Sub-prime loans are made to borrowers who don't qualify for the best interest rates, typically because of a flawed credit history. Sub-prime lending is not new, but its proliferation exploded a few years ago, when securitization of these loans became popular: loans were packaged as securities and sold in global markets.

Many sub-prime loans made in the past few years were characterized by small down payments or adjustable interest

rates – two features that give borrowers few options in the event of a challenging economy. Sure enough, many sub-prime borrowers were unable to make their mortgage payments when rates reset. They defaulted on their loans – and often, their homes were sent into foreclosure.

Mercantile never participated in the sub-prime mortgage business. We never made any sub-prime loans, and there are none in our portfolio. However, a small number of our customers are residential real estate developers, and they have been affected by the sheer volume of foreclosures that has swept Michigan (and the entire country).

The problem for these developers is the current imbalance between housing stock and demand. There is simply an oversupply of homes on the market. This market imbalance increases the time required for houses to sell and can also depress selling prices, which naturally impacts developers' cash flow and impedes their ability to pay their bank loans.

This is how sub-prime lending affects a bank that never made a single sub-prime loan, like Mercantile. Along with a challenging Michigan economy, it's a major reason our asset quality declined below its historically strong levels in the past year. While our asset quality remains favorable when compared to our peer group, our top priority is to return to the excellent asset quality measurements for which we are known.

The steps we took this past year to improve asset quality included hiring more experienced lending personnel and restructuring our commercial lending department into smaller teams that are able to evaluate customers and proposed deals in greater depth. We also analyzed our existing loan portfolio, identifying those loans with signs of weakness and reclassifying them to non-performing status if necessary.

10 Years of WHATEVER IT TAKES



Customer

Sam Nicholas
President/Owner
Custom Profile Inc.

Sam Nicholas knows Mercantile will do whatever it takes to service his plastic profile extrusion business. “When I wanted a special type of loan for a building expansion, Mercantile delivered it – even though it was less profitable for them. Now Mercantile is helping us launch a facility in Mexico. Mercantile said yes even though other banks refused friends of mine who wanted to operate south of the border. I know if I grew my business to \$100 million, Mercantile would handle that with no problem, too.”

10 Years of ENCOURAGEMENT



Customer

Doug Van Portfleet
Chairman & CEO
Ron Groen
President & COO
Jarob Inc.

Jarob, a custom signage and display company, needed to increase its line of credit – fast – while working on an expansion of Chicago’s McCormick Place convention center. “Mercantile had the entire deal done for us within a day,” says Ron Groen. “They helped keep our biggest project to date on track and moving forward.” Other banks are not quite so supportive: “I’ve known business owners who are reluctant to ask for loans because their banks make them feel guilty. But Mercantile encourages our growth and prosperity.”

Loan Balance by Region

Grand Rapids	\$1.5 Billion
Holland	\$140 Million
Lansing	\$110 Million
Washtenaw County	\$44 Million
Oakland County	\$5 Million

We fully understand the challenges of this unusual residential real estate environment, combined with a difficult economy.

While our non-performing loans and charge-off results have not deteriorated as much as those of some of our Michigan-based peers, we are focused on working with our affected borrowers to improve these numbers as quickly as we can.

Achievements and Changes

The problems arising from the sub-prime mortgage crisis and the resulting downward pressure on bank profits across the country shouldn’t detract from the impressive achievements of Mercantile Bank and its customers in 2007. Most of our customers appear to be doing very well, even in a state that continues to experience slower economic growth than the rest of the nation.

Mercantile continues to take advantage of opportunities. At a time when other banks are downsizing operations and laying off employees, Mercantile expanded into a new market in 2007. We opened our first office in Oakland County, Michigan, in the fourth quarter of the year, and now operate a total of nine offices.

Oakland County is an ideal setting for Mercantile’s unique brand of community banking. It’s the fourth wealthiest county in the U.S. It also ranks first in deposit market share among all Michigan counties.

As in all our markets, we have assembled an experienced banking team with longstanding local connections to head the Oakland County office. Our City President in Oakland County has more than 27 years of commercial banking experience in Southeast Michigan.

We are confident our Oakland County team will continue the legacy of success established in Grand Rapids and built on in Holland, Lansing and Washtenaw County. Each of these locations performed well during 2007, with Lansing enjoying

a particularly successful year – no doubt spurred by the May opening of our new 27,000-square-foot Financial Center. This three-story facility offers greater amenities for customers and employees while increasing the community profile of the Bank.

There were some other notable milestones in 2007. In September, we were pleased to welcome Tim Schad to the Board of Directors of Mercantile Bank Corporation. Tim is Chairman and Chief Executive Officer of Nucraft Furniture Company, a manufacturer of high-end wood office furniture. Tim also served as Chief Financial Officer at Grand Valley State University from 2001-2006. Tim's leadership, integrity and business acumen have already proven to be valuable assets to the Board.

This was also the year Mercantile experienced its first leadership transition. Founding Chairman Jerry Johnson stepped down on June 30, after 37 years in the banking industry. It was Jerry's kitchen table that served as the original "headquarters" of Mercantile Bank back in early 1997, when a group of experienced banking veterans came together to explore a new approach to community banking.

I was one of those people, and I can tell you that Jerry played a tremendous role in the formation and growth of Mercantile. One of his most important contributions was to prepare our management team to continue the bank's success in his absence. Our management succession plan served as our guide in making the transition seamless.

I was appointed Chairman, President and Chief Executive Officer and Bob Kaminski, another original founding executive, was named Executive Vice President and Chief Operating Officer. I had the distinct pleasure of working with Jerry for 21 years, and I know he was excited about moving on to a new phase of his life. All of us at Mercantile wish him well as he explores – and I'm sure, reinvents – the opportunities of retirement.

Jerry left us a legacy of growth ... a legacy we continued to build on in 2007.

10 Years of FAMILY BUSINESS



Employee

Mark Hoffhines
Senior Vice President
Mercantile Bank

"Family businesses are all about relationships and trust," says Mark Hoffhines. "So the fact more family businesses choose Mercantile is a validation of our mission and values." Even when family members go into different businesses, Mercantile is their go-to bank: "A pharmacy owner who switched to banking with us advised his sons to come here, too – one was opening a jewelry store and the other buying into a law practice. You can't ask for a better recommendation than a father to his children!"

10 Years of CONTINUITY



Customer

Tom Vander Hyde
President
Rite-Way Plumbing & Heating

“Seems like other banks change your loan officer on you every two years or so,” says Tom Vander Hyde. “Just when you get them up to speed on your business, they’re gone again, and you have to start over from square one.” But Tom’s worked with the same lenders since he started with Mercantile 10 years ago. “Mercantile people stay with the bank, and Mercantile management doesn’t mess with customer relationships. That continuity is very important to me and my business.”

Financials at a Glance

Mercantile Bank’s total assets were \$2.12 billion at December 31, 2007. This is an increase of 2.6% over the \$2.07 billion reported a year earlier. Year over year, total loans grew \$54.4 million, or 3.1%, reaching \$1.8 billion at December 31, 2007.

While well below our historical annual growth rate, these increases are a testament to the strength of our organization and its core fundamentals. Even with the unprecedented challenges we faced in 2007 – a weak economy, hyper-competitive environment and very challenging real estate market – we were able to identify and generate high-quality loans that expanded our loan portfolio.

Net income was \$9.0 million in fiscal year 2007, or \$1.06 per diluted share. This is a decline of approximately 55% from the \$19.8 million, or \$2.33 per diluted share, reported for 2006. These declines were primarily a result of the sub-prime mortgage fallout and a challenging Michigan economy, as an increased level of non-performing assets resulted in a higher loan loss reserve expense and higher operating expenses from related collection efforts and holding costs.

The provision for loan and lease loss was \$11.1 million for 2007, up \$5.3 million from the \$5.8 million reported for 2006. Non-performing assets were \$35.7 million, or 1.68% of total assets, at December 31, 2007. This compares with \$9.6 million, or 0.46% of total assets, at December 31, 2006. This figure includes \$5.9 million of foreclosed real estate and repossessed assets at year-end 2007 compared with \$1.0 million at year-end 2006.

Net loan charge-offs for 2007 were \$6.7 million, equivalent to 0.38% of average loans, compared with \$4.9 million, or 0.29% of average loans in 2006.

Total revenue, comprised of net interest income and non-interest income, was \$61.4 million for 2007, a decrease of

8.1% from the \$66.8 million in the previous year. Net interest income was \$55.6 million, down 9.8% year over year. Net interest margin declined by 50 basis points, from 3.37% to 2.87%, a decrease partially offset by a 6.4% increase in average earning assets during 2007.

Non-interest income for 2007 was \$5.9 million, an increase of \$0.61 million, or 11.6% over 2006. Save for a modest (and expected) decline in mortgage banking activity, we recorded increases in all fee income categories.

Non-interest expense for 2007 was \$38.4 million, an increase of \$6.1 million, or 18.9%, over the previous year. Excluding the \$1.2 million one-time pre-tax payment to the former Chairman upon his retirement, non-interest expense for 2007 was \$37.2 million, an increase of \$4.9 million, or 15.2% over 2006.

The largest component of non-interest expense was salaries and benefits. Excluding the one-time retirement expense, salaries and benefits totaled \$21.7 million in 2007, an increase of \$2.7 million, or 14.2%, from 2006.

This increase is due primarily to higher staffing levels, including the hiring of a whole new team to launch our Oakland County office – a move that quickly proved its merit. We opened this office on December 10, 2007, and by the end of the year, just three short weeks later, the staff had generated loans totaling \$5 million and deposits totaling \$1 million.

This performance, along with continued strong results from our other market areas, validates our capacity to move forward even in highly unfavorable market conditions. As a result, the Mercantile Bank Corporation Board of Directors declared a first-quarter cash dividend of \$0.15 per share on January 8, 2008 – making this the 4th consecutive year we have increased our cash dividend.

10 Years of TEAMWORK



Employee

Sonali Allen
Community Development Officer
Mercantile Bank

Better banking is built on better relationships – not just with customers, but with employees, too. “Compared to my past banking jobs, it’s so much easier to access senior management at Mercantile,” says Sonali Allen. “And they really listen. So my voice matters more here. All of our voices do.” That’s because we believe in the team approach – we encourage each and every employee to pitch in and contribute whenever and wherever. That’s a critical factor in our ability to deliver superior service to customers.

10 Years of THE AMERICAN DREAM



Community

Pam Doty-Nation
Executive Director
Habitat for Humanity
of Kent County

“We want more people to achieve the American Dream of home ownership,” says Pam Doty-Nation. “Not only does it strengthen families and neighborhoods, it helps individuals build wealth.” That’s a cause near and dear to Mercantile, too – so we’ve always lent a helping hand to Habitat for Humanity. “Mercantile actually gives employees time off for volunteering with us. They work in our resale store, sit on our Board, serve on committees and help build houses. They know how to get things done!”

Charitable Contributions,
1997-2007: \$1,731,655.00



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

Toward the Next Decade

All in all, we dealt very efficiently and effectively with the special challenges of the past year. Decisions we made a decade ago – notably, to staff conservatively and minimize our investment in bricks-and-mortar locations – continue to pay dividends in moderating our expenses and reducing our sensitivity to economic setbacks. New strategic initiatives – such as exploring new avenues for increasing fee income – are helping offset the slower rate of loan growth. Additional strategic initiatives involve intensifying the loan analysis and review process, as well as the loan workout process.

Though the sub-prime mortgage issue and its fallout will continue to resonate throughout the banking industry in 2008, we believe Mercantile Bank has identified our troubled borrowers and is well on the way to remediating their impact on our income statement and balance sheet. We believe we are well positioned to enjoy an improved 2008, and we look forward to the next 10 years of the Mercantile story.

On behalf of the management team, I want to thank all our shareholders, employees and Board members for their continued support. We wish you all a very prosperous 2008.

Michael H. Price
Chairman
President
Chief Executive Officer

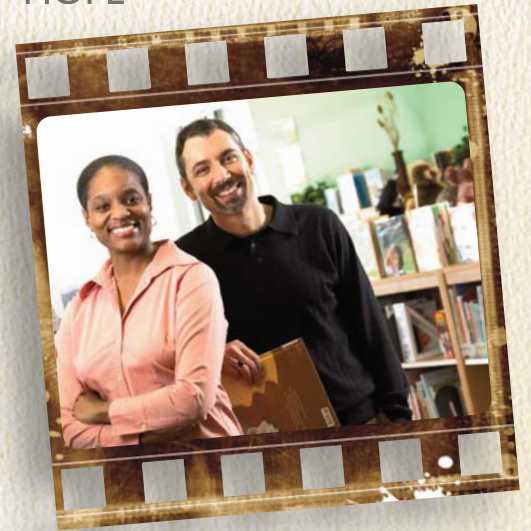
Robert B. Kaminski, Jr.
Executive Vice President
Chief Operating Officer

Charles E. Christmas
Senior Vice President
Chief Financial Officer
Treasurer



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

10 Years of HOPE



Community

Misti Stanton
Schools of Hope Coordinator,
Grand Rapids Public Schools
Mike Nassar
Principal,
Harrison Park Elementary School



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Mercantile had the privilege of opening the NASDAQ Stock Market on December 6, 2007, in celebration of the Bank's 10-year anniversary. Mike Price (center) was joined by executives Mark Augustyn, Chuck Christmas, Gordon Oosting, Bob Kaminski and Mark Hoffhines, as well as various NASDAQ officials.

Mercantile marked the opening of its Grand Rapids Financial Center by donating \$30,000 worth of library books to this neighborhood school. That was just the beginning of our involvement: Twice weekly, two dozen employees volunteer to tutor students as part of an in-school reading program. "They've really made a difference in building the confidence of our kids," says Misti Stanton. Maybe so, but these are some pretty motivated kids – Harrison Park students have made substantial progress in MEAP results each of the last two years!



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