

\$636 million, or about 14% of total funds, as of December 31, 2023. A Noninterest-bearing deposits decreased \$128 million during the first six months of 2024, in large part reflecting the aforementioned customary level of customers' tax and bonus payments and partnership distributions in early 2024. A Interest-bearing checking accounts increased \$6.1 million, and savings deposits were down \$16.0 million. A Money market deposit accounts increased \$311 million, and time deposits were up \$71.9 million, primarily reflecting growth in deposits from existing customers and initial deposits from new customers. A Uninsured deposits totaled approximately \$2.0 billion, or 49% of total deposits, as of June 30, 2024, compared to approximately \$1.9 billion, or 48% of total deposits, as of December 31, 2023. A The uninsured amounts are estimates based on the methodologies and assumptions we use for regulatory reporting requirements. A Securities sold under agreements to repurchase (sweep accounts) decreased \$7.8 million during the first six months of 2024, totaling \$222 million as of June 30, 2024. A The aggregate balance of sweep accounts is subject to relatively large daily fluctuations given the nature of the customers utilizing this product and the sizable balances that many of the customers maintain. A The average balance of sweep accounts equaled \$221 million during the first six months of 2024, with a high balance of \$258 million and a low balance of \$166 million. A Our sweep account program entails transferring collected funds from certain business noninterest-bearing checking accounts and savings deposits into overnight interest-bearing repurchase agreements. A Such sweep accounts are not deposit accounts and are not afforded federal deposit insurance, and are accounted for as secured borrowings. A All of our repurchase agreements are accounted for as secured borrowings. A FHLBI advances decreased \$40.8 million during the first six months of 2024, totaling \$427 million as of June 30, 2024. A Bullet advances aggregating \$10.0 million were obtained during the first six months of 2024, while bullet advance maturities aggregated \$50.0 million. A Payments on amortizing FHLBI advances totaled \$0.8 million. Bullet FHLBI advances are generally obtained to provide funds for loan growth and are used to assist in managing interest rate risk, while amortizing FHLBI advances are generally acquired to match-fund specific longer-term fixed rate commercial loans, with the dollar amount and amortization structure of the underlying advances reflective of the associated commercial loans. A FHLBI advances are collateralized by residential mortgage loans, first mortgage liens on multi-family residential property loans, first mortgage liens on commercial real estate property loans, and substantially all other assets of our bank, under a blanket lien arrangement. A Our borrowing line of credit as of June 30, 2024 totaled \$1.01 billion, with remaining availability based on collateral equaling \$576 million. A Shareholders' equity increased \$29.0 million during the first six months of 2024, equaling \$551 million at June 30, 2024. A Positively impacting shareholders' equity during the first six months of 2024 was net income of \$40.3 million, which was partially offset by the payment of cash dividends totaling \$11.1 million. A Activity relating to the issuance and sale of common stock through various stock-based compensation programs and our dividend reinvestment plan positively impacted shareholders' equity by \$2.5 million. A A \$2.8 million after-tax decrease in the market value of our available for sale securities portfolio, reflecting an increase in market interest rates, negatively impacted shareholders' equity during the first six months of 2024. A A 55 Table of Contents MERCANTILE BANK CORPORATION A A Liquidity Liquidity is measured by our ability to raise funds through deposits, borrowed funds, and capital, or cash flow from the repayment of loans and securities. A These funds are used to fund loans, meet deposit withdrawals, and operate our company. A Liquidity is primarily achieved through local and out-of-area deposits and liquid assets such as securities available for sale, matured and called securities, federal funds sold and interest-earning deposits. Asset and liability management is the process of managing our balance sheet to achieve a mix of earning assets and liabilities that maximizes profitability, while providing adequate liquidity. A To assist in providing needed funds and managing interest rate risk, we periodically obtain monies from wholesale funding sources. A Wholesale funds, comprised of out-of-area deposits and FHLBI advances, totaled \$580 million, or about 12% of total funds, as of June 30, 2024, compared to \$636 million, or about 14% of total funds, as of December 31, 2023. A Sweep accounts decreased \$7.8 million during the first six months of 2024, totaling \$222 million as of June 30, 2024. A The aggregate balance of sweep accounts is subject to relatively large daily fluctuations given the nature of the customers utilizing this product and the sizable balances that many of the customers maintain. A The average balance of sweep accounts equaled \$221 million during the first six months of 2024, with a high balance of \$258 million and a low balance of \$166 million. A Our sweep account program entails transferring collected funds from certain business noninterest-bearing checking accounts and savings deposits into overnight interest-bearing repurchase agreements. A Such sweep accounts are not deposit accounts and are not afforded federal deposit insurance, and are accounted for as secured borrowings. A All of our repurchase agreements are accounted for as secured borrowings. A Information regarding our repurchase agreements as of June 30, 2024 and during the first six months of 2024 is as follows: A (Dollars in thousands) A A A Outstanding balance at June 30, 2024 A \$ 221,898 A Weighted average interest rate at June 30, 2024 A 3.43 % Maximum daily balance six months ended June 30, 2024 A \$ 258,253 A Average daily balance for six months ended June 30, 2024 A \$ 221,103 A Weighted average interest rate for six months ended June 30, 2024 A 3.09 % A FHLBI advances decreased \$40.8 million during the first six months of 2024, totaling \$427 million as of June 30, 2024. A Bullet advances aggregating \$10.0 million were obtained during the first six months of 2024, while bullet advance maturities aggregated \$50.0 million. A Payments on amortizing FHLBI advances totaled \$0.8 million. A Bullet FHLBI advances are generally obtained to provide funds for loan growth and are used to assist in managing interest rate risk, while amortizing FHLBI advances are generally acquired to match-fund specific longer-term fixed rate commercial loans, with the dollar amount and amortization structure of the underlying advances reflective of the associated commercial loans. A FHLBI advances are collateralized by residential mortgage loans, first mortgage liens on multi-family residential property loans, first mortgage liens on commercial real estate property loans, and substantially all other assets of our bank, under a blanket lien arrangement. A Our borrowing line of credit as of June 30, 2024 totaled \$1.01 billion, with remaining availability based on collateral equaling \$576 million. A We also have the ability to borrow up to an aggregate \$70.0 million on a daily basis through correspondent banks using established unsecured federal funds purchased lines of credit. A We did not access these lines of credit during the first six months of 2024. A In contrast, our interest-bearing deposit balance with the Federal Reserve Bank of Chicago averaged \$154 million during the first six months of 2024. A We also have a line of credit through the Discount Window of the Federal Reserve Bank of Chicago. A Using certain municipal bonds as collateral, we could have borrowed up to \$25.7 million as of June 30, 2024. A We did not utilize this line of credit during the first six months of 2024 or at any time during the previous 15 fiscal years, and do not plan to access this line of credit in future periods. A A 56 Table of Contents MERCANTILE BANK CORPORATION A A The following table reflects, as of June 30, 2024, significant fixed and determinable contractual obligations to third parties by payment date, excluding accrued interest: A A A One Year A A One to A A Three to A A Over A A A A A (Dollars in thousands) A or Less A A Three Years A A Five Years A A Five Years A A Total A A A A A A A A A A A A A A A A A A Deposits without a stated maturity A \$ 3,277,184 A \$ 0 A A \$ 0 A A \$ 0 A A \$ 3,277,184 A Time deposits A 763,227 A A 62,772 A A 43,391 A A 0 A A A 869,390 A Short-term borrowings A 221,898 A A 0 A A 0 A A 0 A A 221,898 A Federal Home Loan Bank advances A 90,862 A A 181,838 A A 132,000 A A 22,383 A A 427,083 A Subordinated debentures A A 0 A A 0 A A 49,987 A A 49,987 A Subordinated notes A A 0 A A 0 A A 0 A A 89,143 A A 89,143 A Other borrowed money A A 0 A A 0 A A 0 A A 1,216 A A 1,216 A Premises and equipment leases A A 936 A A 2,155 A A 1,719 A A 1,455 A A 6,265 A The balance of certificates of deposit exceeding the FDIC insured limit and their maturity profile as of June 30, 2024 and December 31, 2023 were as follows: A (Dollars in thousands) A June 30, 2024 A December 31, 2023 A A A A A A A A A A Up to three months A \$ 91,187 A A \$ 104,400 A Three months to six months A A 95,556 A A 86,500 A Six months to twelve months A A 153,816 A A 133,800 A Over twelve months A A 73,445 A A 104,200 A A A A A A Total certificates of deposit A \$ 414,004 A A \$ 428,900 A A In addition to normal loan funding and deposit flow, we must maintain liquidity to meet the demands of certain unfunded loan commitments and standby letters of credit. A As of June 30, 2024, we had a total of \$2.04 billion in unfunded loan commitments and \$19.9 million in unfunded standby letters of credit. A Of the total unfunded loan commitments, \$1.78 billion were commitments available as lines of credit to be drawn at any time as customers' cash needs vary, and \$255 million were for loan commitments generally expected to close and become funded within the next 12 to 18 months. A We regularly monitor fluctuations in loan balances and commitment levels, and include such data in our overall liquidity management. A We monitor our liquidity position and funding strategies on an ongoing basis, but recognize that unexpected events, changes in economic or market conditions, a reduction in earnings performance, declining capital levels or situations beyond our control could cause liquidity challenges. A We have developed contingency funding plans that provide a framework for meeting liquidity disruptions. A Capital Resources Shareholders' equity increased \$29.0 million during the first six months of 2024, equaling \$551 million at June 30, 2024. A Positively impacting shareholders' equity during the first six months of 2024 was net income of \$40.3 million, which was partially offset by the payment of cash dividends totaling \$11.1 million. A Activity relating to the issuance and sale of common stock through various stock-based compensation programs and our dividend reinvestment plan positively impacted shareholders' equity by \$2.5 million. A A \$2.8 million after-tax decrease in the market value of our available for sale securities portfolio, reflecting an increase in market interest rates, negatively impacted shareholders' equity during the first six months of 2024. A We and our bank are subject to regulatory capital requirements administered by state and federal banking agencies. A Failure to meet the various capital requirements can initiate regulatory action that could have a direct material effect on the financial statements. A As of June 30, 2024, our bank's total risk-based capital ratio was 13.9%, compared to 13.4% at December 31, 2023. A Our bank's total regulatory capital increased \$36.2 million during the first six months of 2024, in large part reflecting net income totaling \$45.9 million, which was partially offset by cash dividends paid to us aggregating \$14.6 million. A Our bank's total risk-based capital ratio was also impacted by a \$94.7 million increase in total risk-weighted assets. A As of June 30, 2024, our bank's total regulatory capital equaled \$731 million, or \$204 million in excess of the 10.0% minimum that is among the requirements to be categorized as well capitalized. A Our and our bank's capital ratios as of June 30, 2024 and December 31, 2023 are disclosed in Note 12 of the Notes to Consolidated Financial Statements. A A 57 Table of Contents MERCANTILE BANK CORPORATION A A Results of Operations We recorded net income of \$18.8 million, or \$1.17 per basic and diluted share, for the second quarter of 2024, compared with net income of \$20.4 million, or \$1.27 per basic and diluted share, for the second quarter of 2023. A We recorded net income of \$40.3 million, or \$2.50 per basic and diluted share, for the first six months of 2024, compared with net income of \$41.3 million, or \$2.58 per basic and diluted share, for the first six months of 2023. A Diluted earnings per share decreased \$0.10, or 7.9%, during the second quarter of 2024, and \$0.08, or 3.1%, during the first six months of 2024, compared with the respective prior-year periods. A The lower levels of net income during the second quarter and first six months of 2024 compared to the respective 2023 periods primarily resulted from higher overhead costs and provisions for credit losses and decreased net interest income, which more than offset notable increases in noninterest income. A The increase in noninterest expense during the 2024 periods mainly resulted from larger salary and data processing costs; increased contributions to the Foundation also contributed to the higher level of overhead costs during the first six months of 2024. A The provision expense recorded during the 2024 periods primarily reflected individual allocations assigned to two different nonperforming nonreal-estate-related commercial loan relationships, with one each being recorded in the first quarter and second quarter, and allocations necessitated by net loan growth. A Net interest income declined during the 2024 periods as higher yields on, along with growth in, earning assets were more than offset by an increased cost of funds. A The growth in noninterest income during the 2024 periods mainly resulted from increased mortgage banking income and service charges on accounts; higher levels of payroll service fees, interest rate swap income, and gains on the sales of other real estate owned also contributed to the increased noninterest income during the periods. A Revenue associated with a private equity investment and benefit claims on bank owned life insurance policies positively impacted noninterest income during the first six months of 2024. A Interest income during the second quarter of 2024 was \$78.9 million, an increase of \$13.0 million, or 19.7%, from the \$65.9 million earned during the second quarter of 2023. A The increase resulted from growth in, and a higher yield on, average earning assets. A Average earning assets equaled \$5.22 billion during the second quarter of 2024, up \$502 million, or 10.7%, from the level of \$4.72 billion during the second quarter of 2023; average loans were up \$379 million, average interest-earning deposits grew \$118 million, and average securities increased \$6.0 million. A The yield on average earning assets was 6.07% during the second quarter of 2024, up from 5.61% during the respective 2023 period. A The higher yield primarily resulted from an increased yield on loans. A The yield on loans was 6.64% during the second quarter of 2024, up from 6.19% during the second quarter of 2023 mainly due to higher interest rates on variable-rate commercial loans resulting from the FOMC raising the targeted federal funds rate in an effort to reduce elevated inflation levels. A The FOMC increased the targeted federal funds rate by 75 basis points during the period of March 2023 through July 2023, during which time average variable-rate commercial loans represented approximately 68% of average total commercial loans. A Increased yields on securities and interest-earning deposits, reflecting the rising interest rate environment, along with a change in earning asset mix, comprised of a decrease in lower-yielding securities as a percentage of earning assets, also contributed to the higher yield on average earning assets. A Interest income during the first six months of 2024 was \$156 million, an increase of \$29.2 million, or 23.1%, from the \$126 million earned during the first six months of 2023. A The increase primarily resulted from growth in, and a higher yield on, average earning assets. A Average earning assets equaled \$5.15 billion during the first six months of 2024, up \$499 million, or 10.7%, from the level of \$4.65 billion during the first six months of 2023; average loans increased \$375 million, average interest-earning deposits were up \$118 million, and average securities grew \$6.2 million. A The yield on average earning assets was 6.06% during the first six months of 2024, up from 5.48% during the respective 2023 period. A The higher yield mainly resulted from an increased yield on loans. A The yield on loans was 6.65% during the first six months of 2024, up from 6.05% during the first six months of 2023 primarily due to higher interest rates on variable-rate commercial loans stemming from FOMC rate hikes. A The FOMC increased the targeted federal funds rate by 100 basis points during the period of February 2023 through July 2023, during which time average variable-rate commercial loans represented approximately 65% of average total commercial loans. A Higher yields on securities and interest-earning deposits, reflecting the rising interest rate environment, along with a change in earning asset mix, consisting of a decline in lower-yielding securities as a percentage of earning assets, also contributed to the increased yield on average earning assets. A A 58 Table of Contents MERCANTILE BANK CORPORATION A A Interest expense during the second quarter of 2024 was \$31.8 million, an increase of \$13.4 million, or 73.2%, from the \$18.4 million expensed during the second quarter of 2023. A The increase is mainly attributable to a higher average weighted cost of interest-bearing liabilities, which rose from 2.37% during the second quarter of 2023 to 3.40% during the current year second quarter primarily due to higher rates on deposits and borrowings. A A change in funding mix, mainly consisting of a decrease in noninterest-bearing and lower-cost deposits and an increase in higher-cost money market accounts and time deposits stemming from deposit migration and new deposit relationships, also contributed to the increased cost of funds. A Reflecting the rising interest rate environment, the cost of interest-bearing, non-time deposits increased from 1.85% during the second quarter of 2023 to 2.79% during the second quarter of 2024, while the cost of time deposits increased from 3.27% to 4.73% during the respective periods. A The higher cost of interest-bearing, non-time deposits primarily resulted from increased rates paid on money market and interest-bearing business checking accounts. A A The cost of borrowed funds increased from 2.90% during the second quarter of 2023 to 3.56% during the second quarter of 2024 mainly due to higher costs of sweep accounts and FHLBI advances. A The cost of sweep accounts increased from 1.45% during the second quarter of 2023 to 3.12% during the second quarter of 2024, while the cost of FHLBI advances increased from 2.68% to 2.96% during the respective periods, reflecting the rising interest rate environment. A Growth in interest-bearing liabilities also contributed to the increase in interest expense during the second quarter of 2024 compared to the prior-year second quarter. A Average interest-bearing liabilities totaled \$3.76 billion during the second quarter of 2024, compared to \$3.11 billion during the second quarter of 2023, representing an increase of \$652 million, or 21.0%. A Interest expense during the first six months of 2024 was \$61.2 million, an increase of \$30.7 million, or 101%, from the \$30.5 million expensed during the first six months of 2023. A The increase primarily stemmed from a higher average weighted cost of interest-bearing liabilities, which rose from 2.06% during the first six months of 2023 to 3.33% during the respective 2024 period mainly due to higher rates on deposits and borrowings. A A change in funding mix, mainly comprising of a decline in noninterest-bearing and lower-cost deposits and an increase in higher-cost money market accounts and time deposits stemming from deposit migration and new deposit relationships, also contributed to the increased cost of funds. A Reflecting the rising interest rate environment, the cost of interest-bearing, non-time deposits increased from 1.56% during the first six months of 2023 to 2.70% during the first six months of 2024, while the cost of time deposits increased from 2.84% to 4.67% during the respective periods. A The higher cost of interest-bearing, non-time deposits primarily resulted from increased rates paid on money market and interest-bearing business checking accounts. A The cost of borrowed funds increased from 2.73% during the first six months of 2023 to 3.53% during the first six months of 2024 mainly due to higher costs of sweep accounts and FHLBI advances. A The cost of sweep accounts increased from 1.17% during the first six months of 2023 to 3.09% during the first six months of 2024, while the cost of FHLBI advances increased from 2.44% to 2.94% during the respective periods, reflecting the rising interest rate environment. A Growth in interest-bearing liabilities also contributed to the increase in interest expense during the first six months of 2024 compared to the respective 2023 period. A Average interest-bearing liabilities totaled \$3.68 billion during the first six months of 2024, compared to \$2.98 billion during the first six months of 2023, representing an increase of \$698 million, or 23.4%. A Net interest income during the second quarter of

