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DELTA REPORT

10-Q

MBWM - MERCANTILE BANK CORP

10-Q - SEPTEMBER 30, 2024 COMPARED TO 10-Q - JUNE 30, 2024

The following comparison report has been automatically generated

TOTAL DELTAS	1125
CHANGES	545
DELETIONS	271
ADDITIONS	309

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U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2024 September 30, 2024

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to .

Commission File No. 000-26719

MERCANTILE BANK CORPORATION
(Exact name of registrant as specified in its charter)

Michigan	38-3360865
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

310 Leonard Street, NW, Grand Rapids, MI 49504
(Address of principal executive offices) (Zip Code)

(616) 406-3000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	MBWM	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☒
Non-accelerated filer ☐	Smaller reporting company ☐
Emerging growth company ☐	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Yes ☐ No ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

At July 31, 2024 October 31, 2024, there were 16,137,666 16,141,929 shares of common stock outstanding.

MERCANTILE BANK CORPORATION

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MERCANTILE BANK CORPORATION

PART I --- FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Dollars in thousands)	June 30, 2024	December 31, 2023	September 30, 2024	December 31, 2023
ASSETS				
Cash and due from banks	$ 61,863	$ 70,408	$ 87,766	$ 70,408
Interest-earning deposits	135,766	60,125	240,780	60,125
Total cash and cash equivalents	197,629	130,533	328,546	130,533
Securities available for sale	647,907	617,092	703,375	617,092
Federal Home Loan Bank stock	21,513	21,513	21,513	21,513
Mortgage loans held for sale	22,126	18,607	29,260	18,607
Loans	4,438,245	4,303,758	4,553,018	4,303,758
Allowance for credit losses	(55,408)	(49,914)	(56,590)	(49,914)
Loans, net	4,382,837	4,253,844	4,496,428	4,253,844
Premises and equipment, net	50,158	50,928	54,230	50,928
Bank owned life insurance	86,001	85,668	86,486	85,668
Goodwill	49,473	49,473	49,473	49,473
Other assets	144,744	125,566	147,816	125,566
Total assets	$ 5,602,388	$ 5,353,224	$ 5,917,127	$ 5,353,224
LIABILITIES AND SHAREHOLDERS' EQUITY				
Deposits				
Noninterest-bearing	$ 1,119,888	$ 1,247,640	$ 1,182,219	$ 1,247,640
Interest-bearing	3,026,686	2,653,278	3,273,679	2,653,278
Total deposits	4,146,574	3,900,918	4,455,898	3,900,918
Securities sold under agreements to repurchase	221,898	229,734	220,936	229,734
Federal Home Loan Bank advances	427,083	467,910	417,083	467,910
Subordinated debentures	49,987	49,644	50,158	49,644
Subordinated notes	89,143	88,971	89,228	88,971
Accrued interest and other liabilities	116,552	93,902	100,513	93,902

Total liabilities	5,051,237	4,831,079	5,333,816	4,831,079
Commitments and contingent liabilities (Note 8)				
Shareholders' equity				
Preferred stock, no par value; 1,000,000 shares authorized; none issued	0	0	0	0
Common stock, no par value; 40,000,000 shares authorized; 16,137,646 shares issued and outstanding at June 30, 2024 and 16,125,662 shares issued and outstanding at December 31, 2023	297,591	295,106		
Common stock, no par value; 40,000,000 shares authorized; 16,142,433 shares issued and outstanding at September 30, 2024 and 16,125,662 shares issued and outstanding at December 31, 2023			298,704	295,106
Retained earnings	306,804	277,526	320,722	277,526
Accumulated other comprehensive gain (loss)	(53,244)	(50,487)	(36,115)	(50,487)
Total shareholders' equity	551,151	522,145	583,311	522,145
Total liabilities and shareholders' equity	$ 5,602,388	$ 5,353,224	$ 5,917,127	$ 5,353,224

See accompanying notes to consolidated financial statements.

MERCANTILE BANK CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in thousands except per share amounts)	Three Months Ended June 30, 2024	Three Months Ended June 30, 2023	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023	Three Months Ended September 30, 2024	Three Months Ended September 30, 2023	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023
Interest income								
Loans, including fees	$ 72,819	$ 62,006	$ 144,089	$ 119,159	$ 75,316	$ 65,073	$ 219,405	$ 184,232
Securities, taxable	2,656	2,207	5,101	4,338	3,140	2,109	8,241	5,971
Securities, tax-exempt	968	904	1,945	1,780	1,056	1,164	3,001	3,421
Interest-earning deposits	2,436	801	4,469	1,125	3,900	2,807	8,369	3,932
Total interest income	78,879	65,918	155,604	126,402	83,412	71,153	239,016	197,556
Interest expense								
Deposits	24,710	12,379	46,934	20,286	27,588	16,143	74,522	36,429
Short-term borrowings	1,757	914	3,412	1,373	2,219	693	5,631	2,066
Federal Home Loan Bank advances	3,252	3,051	6,651	4,845	3,218	3,270	9,868	8,115
Subordinated debt and other borrowings	2,088	2,023	4,173	3,963	2,095	2,086	6,270	6,049
Total interest expense	31,807	18,367	61,170	30,467	35,120	22,192	96,291	52,659
Net interest income	47,072	47,551	94,434	95,935	48,292	48,961	142,725	144,897
Provision for credit losses	3,500	2,000	4,800	2,600	1,100	3,300	5,900	5,900
Net interest income after provision for credit losses	43,572	45,551	89,634	93,335	47,192	45,661	136,825	138,997

Noninterest income								
Service charges on deposit and sweep accounts	1,692	1,064	3,224	2,041	1,753	1,370	4,976	3,411
Mortgage banking income	3,023	1,835	5,365	3,050	3,325	2,779	8,690	5,829
Credit and debit card income	2,266	2,426	4,387	4,485	2,257	2,232	6,644	6,717
Interest rate swap fees	766	748	2,104	1,785	389	937	2,494	2,722
Payroll services income	686	572	1,582	1,317	713	591	2,295	1,908
Earnings on bank owned life insurance	437	402	1,609	802	449	422	2,058	1,224
Other income	811	598	2,277	1,117	781	915	3,060	2,031
Total noninterest income	9,681	7,645	20,548	14,597	9,667	9,246	30,217	23,842
Noninterest expense								
Salaries and benefits	17,913	16,461	36,150	33,143	20,292	17,258	56,442	50,401
Occupancy	2,220	2,098	4,509	4,387	2,146	2,241	6,655	6,629
Furniture and equipment depreciation, rent and maintenance	923	878	1,852	1,700	938	894	2,790	2,594
Data processing costs	3,415	2,881	6,704	6,043	3,437	3,038	10,142	9,081
Charitable foundation contributions	4	2	707	12	0	404	707	416
Other expense	5,262	5,509	9,758	11,144	5,490	5,085	15,247	16,228
Total noninterest expense	29,737	27,829	59,680	56,429	32,303	28,920	91,983	85,349
Income before federal income tax expense	23,516	25,367	50,502	51,503	24,556	25,987	75,059	77,490
Federal income tax expense	4,730	5,010	10,154	10,171	4,938	5,132	15,092	15,303
Net income	$ 18,786	$ 20,357	$ 40,348	$ 41,332	$ 19,618	$ 20,855	$ 59,967	$ 62,187
Basic earnings per share	$ 1.17	$ 1.27	$ 2.50	$ 2.58	$ 1.22	$ 1.30	$ 3.72	$ 3.89
Diluted earnings per share	$ 1.17	$ 1.27	$ 2.50	$ 2.58	$ 1.22	$ 1.30	$ 3.72	$ 3.89
Average basic shares outstanding	16,122,813	16,003,372	16,120,836	15,999,775	16,138,320	16,018,419	16,126,706	16,006,058
Average diluted shares outstanding	16,122,813	16,003,372	16,120,836	15,999,775	16,138,320	16,018,419	16,126,706	16,006,058

See accompanying notes to consolidated financial statements.

MERCANTILE BANK CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(Dollars in thousands)	Three Months Ended June 30, 2024	Three Months Ended June 30, 2023	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023	Three Months Ended September 30, 2024	Three Months Ended September 30, 2023	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023
Net income	$ 18,786	$ 20,357	$ 40,348	$ 41,332	$ 19,618	$ 20,855	$ 59,967	$ 62,187
Other comprehensive income (loss):								

Unrealized holding gains (losses) on securities available for sale	(342)	(6,645)	(3,491)	4,841	21,682	(15,281)	18,192	(10,440)
Tax effect of unrealized holding gains (losses) on securities available for sale	73	1,395	734	(1,017)	(4,553)	3,210	(3,820)	2,193
Other comprehensive income (loss), net of tax	(269)	(5,250)	(2,757)	3,824	17,129	(12,071)	14,372	(8,247)
Comprehensive income (loss)	$ 18,517	$ 15,107	$ 37,591	$ 45,156	$ 36,747	$ 8,784	$ 74,339	$ 53,940

See accompanying notes to consolidated financial statements.

MERCANTILE BANK CORPORATION
CONSOLIDATED STATEMENTS OF
CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

(Dollars in thousands except per share amounts)	Preferred Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balances, March 31, 2024	$ 0	$ 296,065	$ 293,554	$ (52,975)	$ 536,644
Employee stock purchase plan (320 shares)		13			13
Dividend reinvestment plan (5,423 shares)		201			201
Stock grants to directors for retainer fees (11,247 shares)		421			421
Stock-based compensation expense		891			891
Cash dividends ($0.35 per common share)			(5,536)		(5,536)
Net income for the three months ended June 30, 2024			18,786		18,786
Change in net unrealized holding gain (loss) on securities available for sale, net of tax effect				(269)	(269)
Balances, June 30, 2024	$ 0	$ 297,591	$ 306,804	$ (53,244)	$ 551,151

(Dollars in thousands except per share amounts)	Preferred Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balances, June 30, 2024	$ 0	$ 297,591	$ 306,804	$ (53,244)	$ 551,151
Employee stock purchase plan (256 shares)		11			11

	Preferred Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Dividend reinvestment plan (4,531 shares)		204			204
Stock-based compensation expense		898			898
Cash dividends ($0.36 per common share)			(5,700)		(5,700)
Net income for the three months ended September 30, 2024			19,618		19,618
Change in net unrealized holding gain (loss) on securities available for sale, net of tax effect	—	—	—	17,129	17,129
Balances, September 30, 2024	$ 0	$ 298,704	$ 320,722	$ (36,115)	$ 583,311

See accompanying notes to consolidated financial statements.

MERCANTILE BANK CORPORATION
CONSOLIDATED STATEMENTS OF
CHANGES IN SHAREHOLDERS' EQUITY (Continued)
(Unaudited)

(Dollars in thousands except per share amounts)	Preferred Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity	Preferred Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balances, January 1, 2024	$ 0	$ 295,106	$ 277,526	$ (50,487)	$ 522,145	$ 0	$ 295,106	$ 277,526	$ (50,487)	$ 522,145
Employee stock purchase plan (610 shares)		24			24					
Employee stock purchase plan (866 shares)							35			35
Dividend reinvestment plan (10,990 shares)		405			405					
Dividend reinvestment plan (15,521 shares)							609			609
Stock grants to directors for retainer fees (11,316 shares)		423			423		423			423
Stock-based compensation expense		1,633			1,633		2,531			2,531
Cash dividends ($0.70 per common share)			(11,070)		(11,070)					
Cash dividends ($1.06 per common share)								(16,771)		(16,771)

Net income for the six months ended June 30, 2024			40,348		40,348					
Net income for the nine months ended September 30, 2024								59,967		59,967
Change in net unrealized holding gain (loss) on securities available for sale, net of tax effect				(2,757)	(2,757)				14,372	14,372
Balances, June 30, 2024	$ 0	$ 297,591	$ 306,804	$ (53,244)	$ 551,151					
Balances, September 30, 2024						$ 0	$ 298,704	$ 320,722	$ (36,115)	$ 583,311

See accompanying notes to consolidated financial statements.

MERCANTILE BANK CORPORATION
CONSOLIDATED STATEMENTS OF
CHANGES IN SHAREHOLDERS' EQUITY (Continued)
(Unaudited)

(Dollars in thousands except per share amounts)	Preferred Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balances, March 31, 2023	$ 0	$ 291,516	$ 232,123	$ (56,267)	$ 467,372
Employee stock purchase plan (443 shares)		13			13
Dividend reinvestment plan (7,821 shares)		232			232
Stock grants to directors for retainer fees (10,455 shares)		317			317
Stock-based compensation expense		828			828
Cash dividends ($0.33 per common share)			(5,167)		(5,167)
Net income for the three months ended June 30, 2023			20,357		20,357
Change in net unrealized holding gain (loss) on securities available for sale, net of tax effect				(5,250)	(5,250)
Balances, June 30, 2023	$ 0	$ 292,906	$ 247,313	$ (61,517)	$ 478,702

				Accumulated Other	Total

(Dollars in thousands except per share amounts)	Preferred Stock	Common Stock	Retained Earnings	Comprehensive Income (Loss)	Shareholders' Equity
Balances, June 30, 2023	$ 0	$ 292,906	$ 247,313	$ (61,517)	$ 478,702
Employee stock purchase plan (345 shares)		11			11
Dividend reinvestment plan (6,746 shares)		220			220
Stock-based compensation expense		824			824
Cash dividends ($0.34 per common share)			(5,330)		(5,330)
Net income for the three months ended September 30, 2023			20,855		20,855
Change in net unrealized holding gain (loss) on securities available for sale, net of tax effect				(12,071)	(12,071)
Balances, September 30, 2023	$ 0	$ 293,961	$ 262,838	$ (73,588)	$ 483,211

See accompanying notes to consolidated financial statements.

MERCANTILE BANK CORPORATION
CONSOLIDATED STATEMENTS OF
CHANGES IN SHAREHOLDERS' EQUITY (Continued)
(Unaudited)

(Dollars in thousands except per share amounts)	Preferred Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity	Preferred Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balances, January 1, 2023	$ 0	$ 290,436	$ 216,313	$ (65,341)	$ 441,408	$ 0	$ 290,436	$ 216,313	$ (65,341)	$ 441,408
Employee stock purchase plan (770 shares)		23			23					
Employee stock purchase plan (1,115 shares)							33			33
Dividend reinvestment plan (14,701shares)		449			449					
Dividend reinvestment plan (21,447 shares)							670			670
Stock grants to directors for retainer fees (10,455 shares)		317			317		317			317

Stock-based compensation expense		1,681			1,681		2,505			2,505
Cash dividends ($0.66 per common share)			(10,332)		(10,332)					
Cash dividends ($1.00 per common share)								(15,662)		(15,662)
Net income for the six months ended June 30, 2023			41,332		41,332					
Net income for the nine months ended September 30, 2023								62,187		62,187
Change in net unrealized holding gain (loss) on securities available for sale, net of tax effect				3,824	3,824				(8,247)	(8,247)
Balances, June 30, 2023	$ 0	$ 292,906	$ 247,313	$ (61,517)	$ 478,702					
Balances, September 30, 2023						$ 0	$ 293,961	$ 262,838	$ (73,588)	$ 483,211

See accompanying notes to consolidated financial statements.

MERCANTILE BANK CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands)	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023
Cash flows from operating activities				
Net income	$ 40,348	$ 41,332	$ 59,967	$ 62,187
Adjustments to reconcile net income to net cash from operating activities				
Depreciation and amortization	5,480	5,930	8,147	8,857
Provision for credit losses	4,800	2,600	5,900	5,900
Stock-based compensation expense	1,633	1,681	2,531	2,505
Stock grants to directors for retainer fees	423	317		
Stock grants to directors for retainer fee			423	317
Proceeds from sales of mortgage loans held for sale	147,849	70,280	269,166	143,323
Origination of mortgage loans held for sale	(146,731)	(76,088)	(271,789)	(144,886)
Net gain from sales of mortgage loans held for sale	(4,637)	(2,569)	(8,030)	(5,043)
Net gain from sales and valuation write-downs of foreclosed assets	(290)	0	(290)	(391)
Net gain from sale and write-down of former bank premises	(78)	0		
Net loss (gain) from sales and valuation write-downs of former bank premises			(83)	2

Net loss from sales and write-downs of fixed assets	0	377	0	369
Earnings on bank owned life insurance	(1,609)	(802)	(2,058)	(1,224)
Net (gain) loss on instruments designated at fair value and related derivatives	(104)	106	148	(21)
Net change in:				
Accrued interest receivable	(1,169)	(1,486)	(2,608)	(4,131)
Other assets	(16,679)	(1,338)	(24,233)	(13,015)
Accrued interest payable and other liabilities	20,113	(2,873)	4,069	19,163
Net cash from operating activities	49,349	37,467	41,260	73,912
Cash flows from investing activities				
Loan originations and payments, net	(133,793)	(135,410)	(248,484)	(188,007)
Purchases of securities available for sale	(57,592)	(11,641)	(104,523)	(13,017)
Proceeds from maturities, calls and repayments of securities available for sale	23,185	10,198	36,542	12,856
Proceeds from sales of foreclosed assets	290	0	290	452
Proceeds from sales of fomer bank premises	278	0		
Proceeds from sales of former bank premises			283	598
Purchases of Federal Home Loan Bank stock	0	(3,792)	0	(3,792)
Proceeds from bank owned life insurance death benefits claim	1,357	0	1,357	0
Net purchases of premises and equipment and lease activity	(2,330)	(4,680)	(7,940)	(6,141)
Net cash for investing activities	(168,605)	(145,325)	(322,475)	(197,051)

See accompanying notes to consolidated financial statements.

MERCANTILE BANK CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Unaudited)

(Dollars in thousands)	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023
Cash flows from financing activities				
Net increase in time deposits	71,902	227,531	93,620	282,296
Net increase (decrease) in all other deposits	173,754	(183,553)	461,360	(94,372)
Net increase (decrease) in securities sold under agreements to repurchase	(7,836)	25,117		
Net decrease in securities sold under agreements to repurchase			(8,798)	(30,258)
Maturities of Federal Home Loan Bank advances	(50,827)	(40,353)	(60,827)	(50,353)
Proceeds from Federal Home Loan Bank advances	10,000	200,000	10,000	200,000
Employee stock purchase plan	24	23	35	33
Dividend reinvestment plan	405	449	609	670
Payment of cash dividends to common shareholders	(11,070)	(10,332)	(16,771)	(15,662)
Net cash from financing activities	186,352	218,882	479,228	292,354
Net change in cash and cash equivalents	67,096	111,024	198,013	169,215
Cash and cash equivalents at beginning of period	130,533	96,772	130,533	96,772
Cash and cash equivalents at end of period	$ 197,629	$ 207,796	$ 328,546	$ 265,987
Supplemental disclosures of cash flows information				

Cash paid during the period for:				
Interest	$ 59,477	$ 28,038	$ 95,035	$ 48,664
Federal income tax	$ 11,600	$ 13,850	$ 16,650	$ 18,590
Noncash financing and investing activities:				
Transfers from bank premises to other real estate owned	0	600	0	600
Transfers from loans to foreclosed assets	0	61	0	112

See accompanying notes to consolidated financial statements.

MERCANTILE BANK CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The unaudited financial statements for the six nine months ended June September 30, 2024 include the consolidated results of operations of Mercantile Bank Corporation and its consolidated subsidiaries. These subsidiaries include Mercantile Community Partners, LLC ("MCP") and Mercantile Bank ("our bank") and its subsidiaries, including Mercantile Insurance Center, Inc. These consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and Item 303(b) of Regulation S-K and do not include all disclosures required by accounting principles generally accepted in the United States of America ("GAAP") for a complete presentation of our financial condition and results of operations. In the opinion of management, the information reflects all adjustments (consisting only of normal recurring adjustments) which are necessary in order to make the financial statements not misleading and for a fair presentation of the results of operations for such periods. The results for the period ended June September 30, 2024 should not be considered as indicative of results for a full year. For further information, refer to the consolidated financial statements and footnotes included in our annual report on Form 10-K for the year ended December 31, 2023.

We have five separate business trusts that were formed to issue trust preferred securities. Subordinated debentures were issued to the trusts in return for the proceeds raised from the issuance of the trust preferred securities. The trusts are not consolidated, but instead we report the subordinated debentures issued to the trusts as a liability.
Recently Issued Accounting Standards: ASU No.2003-07,*Segment Reporting (Topic 323): Improvements to Reportable Segment Disclosures.* This ASU enhances disclosures of significant segment expenses by requiring entities to disclose significant segment expenses regularly provided to the chief operating decision maker, extend certain annual disclosures to interim periods, and permit more than one measure of segment profit or loss to be reported under certain conditions. This ASU takes effect for annual reporting periods beginning after December 15, 2023 and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. We do not expect the adoption of this ASU to have a material impact on our Financial Statements.
ASU 2023-09,*Income Taxes (Topic 740): Improvements to Income Tax Disclosures.* This ASU modifies the rules on income tax disclosures to require entities to disclose (1) specific categories in the rate reconciliation, (2) the income or loss from continuing operations before income tax expense or benefit (separated between domestic and foreign) and (3) income tax expense or benefit from continuing operations (separated by federal, state and foreign). This ASU also requires entities to disclose their income tax payments to international, federal, state and local jurisdictions, among other changes. This ASU takes effect in reporting periods beginning after December 15, 2024, with early adoption permitted. We do not expect the adoption of this ASU to have a material impact on our Financial Statements.

Earnings Per Share: Basic earnings per share is based on the weighted average number of common shares and participating securities outstanding during the period. Diluted earnings per share include the dilutive effect of additional potential common shares issuable under our stock-based compensation plans and are determined using the treasury stock method. Our unvested restricted shares, which contain non-forfeitable rights to dividends whether paid or accrued (i.e., participating securities), are included in the number of shares outstanding for both basic and diluted earnings per share calculations. In the event of a net loss, our unvested restricted shares are excluded from the calculation of both basic and diluted earnings per share.

Approximately 303,000 311,000 unvested restricted shares were included in determining both basic and diluted earnings per share for the three and six nine months ended June September 30, 2024. Approximately 350,000 345,000 unvested restricted shares were included in determining both basic and diluted earnings per share for the three and six nine months ended June September 30, 2023. Stock options for approximately 5,000 shares of common stock were antidilutive and not included in determining diluted earnings per share for the three and six nine months ended June September 30, 2023.

(Continued)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Debt Securities: Debt securities classified as held to maturity are carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities available for sale consist of bonds which might be sold prior to maturity due to a number of factors, including changes in interest rates, prepayment risks, yield, availability of alternative investments or liquidity needs. Debt securities classified as available for sale are reported at their fair value. For available for sale debt securities in an unrealized loss position, we first assess whether we intend to sell, or if it is more likely than not that we will be required to sell the security before recovery of the amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the debt security's amortized cost basis is written down to fair value through income with the establishment of an allowance. For debt securities available for sale that do not meet the aforementioned criteria, we evaluate whether any decline in fair value is due to credit loss factors. In making this assessment, we consider any changes to the rating of the security by a rating agency and adverse conditions specifically related to the issuer of the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of the cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance is recognized in other comprehensive income (loss).

Changes in the allowance are recorded as provisions for (or reversals of) credit losses. Losses are charged against the allowance when the collectability of an available for sale debt security is confirmed or when either of the criteria regarding intent or requirement to sell is met. At June September 30, 2024, and December 31, 2023, there was no allowance related to the available for sale debt securities portfolio.

Interest income includes amortization of purchase premiums and accretion of discounts. Premiums on debt securities are amortized to the initial call date, if applicable, or to the maturity date, on the level-yield method. Discounts on debt securities are accreted to the maturity date on the level-yield method. Premiums and discounts on mortgage-backed securities are amortized or accreted based on anticipated prepayments on the level-yield method. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Federal Home Loan Bank of Indianapolis ("FHLBI") stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value.

Loans: Loans that we have the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of deferred loan fees and costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments. Net unamortized deferred loan costs amounted to $2.6 million and $2.4 million at June September 30, 2024, and December 31, 2023, respectively.

Interest income on commercial loans and mortgage loans is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Consumer and credit card loans are typically charged off no later than when they are 120 days past due. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal and interest is considered doubtful.

Accrued interest is included in other assets in the Consolidated Balance Sheets. All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans Held for Sale: Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. As of June September 30, 2024 and December 31, 2023, we determined that the fair value of our mortgage loans held for sale totaled $22.5 $29.7 million and $19.0 million, respectively.

Mortgage loans held for sale are generally sold with servicing rights retained. Gains and losses on sales of mortgage loans are based on the difference between the selling price, which includes a gain or loss on the interest rate commitment coverage position, and the carrying value of the related loan sold, which is reduced by the cost allocated to the servicing right. Market rate risk on interest rate commitments with borrowers prior to loan closing is mitigated through forward commitments referred to as to-be-announced mortgage-backed securities. These mortgage banking activities are not designated as hedges and are carried at fair value. The net gain or loss on mortgage banking derivatives, which is generally nominal in dollar amount, is included in the gain on sale of loans and recorded as part of mortgage banking income.

Allowance for Credit Losses ("allowance"): The allowance is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. The allowance is increased by a provision for credit losses and decreased by charge-offs, net of recoveries of amounts previously charged-off. Loans are charged-off against the allowance when we believe the uncollectability of a loan balance is confirmed. The allowance is measured on a collective pool basis when similar risk characteristics exist and on an individual basis when a loan exhibits unique risk characteristic which differentiate the loan from other loans within the loan segments. Loan segments are further discussed in Note 3 - Loans and Allowance for Credit Losses.

The "remaining life methodology" is utilized for substantially all loan pools. This non-discounted cash flow approach projects an estimated future amortized cost basis based on current loan balance and repayment terms. Our historical loss rate is then applied to future loan balances at the instrument level based on remaining contractual life adjusted for amortization, prepayment and default to develop a baseline lifetime loss. The baseline lifetime loss is adjusted for changes in macroeconomic conditions over the reasonable and supportable forecast and reversion periods via a series of macroeconomic forecast inputs, such as gross domestic product, unemployment rates, interest rates, credit spreads, stock market volatility and property price indices, to quantify the impact of current and forecasted economic conditions on expected loan performance.

Reasonable and supportable economic forecasts have to be incorporated in determining expected credit losses. The forecast period represents the time frame from the current period end through the point in time that we can reasonably forecast and support entity and environmental factors that are expected to impact the performance of our loan portfolio. Ideally, the economic forecast period would encompass the contractual terms of all loans; however, the ability to produce a forecast that is considered reasonable and supportable becomes more difficult or may not be possible in later periods. The contractual term generally excludes potential extensions, renewals and modifications.

Subsequent to the end of the forecast period, we revert to historical loan data based on an ongoing evaluation of each economic forecast in relation to then current economic conditions as well as any developing loan loss activity and resulting historical data. We are not required to develop and use our own economic forecast model, and we elect to utilize economic forecasts from third-party providers that analyze and develop forecasts of the economy for the entire United States at least quarterly.

During each reporting period, we also consider the need to adjust the historical loss rates as determined to reflect the extent to which we expect current conditions and reasonable and supportable economic forecasts to differ from the conditions that existed for the period over which the historical loss information was determined. These qualitative adjustments may increase or decrease our estimate of expected future credit losses.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Our qualitative factors include:

- o Changes in lending policies and procedures
- o Changes in the nature and volume of the loan portfolio and in the terms of loans
- o Changes in the experience, ability and depth of lending management and other relevant staff
- o Changes in the volume and severity of past due loans, nonaccrual loans and adversely classified loans
- o Changes in the quality of the loan review program
- o Changes in the value of underlying collateral dependent loans
- o Existence and effect of any concentrations of credit and any changes in such
- o Effect of other factors such as competition and legal and regulatory requirements
- o Local or regional conditions that depart from the conditions and forecasts for the entire country

The estimation of future credit losses should reflect consideration of all significant factors that affect the collectability of the loan portfolio at each evaluation date. While our methodology considers both the historical loss rates as well as the traditional qualitative factors, there may be instances or situations where additional qualitative factors need to be considered. Effective January 1, 2022, we established a historical loss information factor to address the relatively low level of loan losses during the look-back period.

We recorded a provision for credit losses of $4.8 $5.9 million during the first six nine months of 2024. The provision for credit losses recorded during the firstsix months of 2024 primarily reflected an individual allocation for a nonperforming commercial loan relationship, allocations necessitated by net loan growth, a change in the volume and severity of past due loans, nonaccrual loans and adversely classified loans for commercial and industrial loans and a change in the historical loss information qualitative factor for commercial loans, which more than offset the impacts of an improved economic forecast and changes to the loan portfolio composition.

Accrued interest receivable on loans totaling $17.8 $17.5 million and $16.9 million as of June September 30, 2024 and December 31, 2023, respectively, is included in other assets on the Consolidated Balance Sheets. We elected not to measure an allowance for accrued interest receivable and instead elected to reverse interest income on loans that are placed on nonaccrual status, which is generally when loans become 90 days past due, or earlier if we believe the collection of interest is doubtful. We believe this policy results in the timely reversal of uncollectable interest. Identified problem loans, which exhibit characteristics (financial or otherwise) that could cause the loans to become nonperforming or require restructuring in the future, are included on an internal watch list. Senior management and the Board of Directors review this list regularly. In some cases, we may determine that an individual loan exhibits unique risk characteristics which differentiate the loan from other loans within the loan segments. In such cases, the loans are evaluated for expected credit losses on an individual basis and excluded from the collective evaluation. Specific reserve allocations of the allowance for credit losses are determined by analyzing the borrower’s ability to repay amounts owed and collateral deficiencies, among other things.

(Continued)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

For individually analyzed loans which are deemed to be collateral dependent loans, we adopted the practical expedient to measure the allowance based on the fair value of collateral. The allowance is calculated on an individual loan basis based on the shortfall between the fair value of the loan’s collateral and the recorded principal balance. If the fair value of the collateral exceeds the recorded principal balance, no allowance is required. Fair value estimates of collateral on individually analyzed loans, as well as on foreclosed and repossessed assets, are reviewed periodically. We also have a process in place to monitor whether value estimates at each quarter-end are reflective of current market conditions. Our credit policies establish criteria for obtaining appraisals and determining internal value estimates. We may also adjust outside and internal valuations based on identifiable trends within our markets, such as recent sales of similar properties or assets, listing prices and offers received. In addition, we may discount certain appraised and internal value estimates to address distressed market conditions.

We are also required to consider expected credit losses associated with loan commitments over the contractual period in which we are exposed to credit risk on the underlying commitments unless the obligation is unconditionally cancellable by us. Any allowance for off-balance sheet credit exposures is reported as an other liability on our Consolidated Balance Sheets and is increased or decreased via other noninterest expense on our Consolidated Statement Statements of Income. The calculation includes consideration of the likelihood that funding will occur and forecasted credit losses on commitments expected to be funded over their estimated lives. The allowance is calculated using the same aggregate reserve rates calculated for the funded portion of loans at the portfolio level applied to the amount of commitments expected to be funded.

Mortgage Banking Activities: Mortgage loans serviced for others totaled $1.45 $1.50 billion and $1.40 billion as of June September 30, 2024 and December 31, 2023, respectively. Mortgage loan servicing rights are recognized as assets based on the allocated value of retained servicing rights on mortgage loans sold. Mortgage loan servicing rights are carried at the lower of amortized cost or fair value and are expensed in proportion to, and over the period of, estimated net servicing revenues. Impairment is evaluated based on the fair value of the rights using groupings of the underlying mortgage loans as to interest rates. Any impairment of a grouping is reported as a valuation allowance.

Servicing fee income is recorded for fees earned for servicing mortgage loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned. Amortization of mortgage loan servicing rights is netted against mortgage loan servicing income and recorded in mortgage banking activities in the income statement. Consolidated Statements of Income.

(Continued)

1. **SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Derivatives: Derivative financial instruments are recognized as assets or liabilities at fair value. The accounting for changes in the fair value of derivatives depends on the use of the derivatives and whether the derivatives qualify for hedge accounting. Used as part of our asset and liability management to help manage interest rate risk, our derivatives have historically generally consisted of interest rate swap agreements that qualified for hedge accounting. We do not use derivatives for trading purposes.

Changes in the fair value of derivatives that are designated, for accounting purposes, as a hedge of the variability of cash flows to be received on various assets and liabilities and are effective are reported in other comprehensive income (loss). They are later reclassified into earnings in the same periods during which the hedged transaction affects earnings and are included in the line item in which the hedged cash flows are recorded. If hedge accounting does not apply, changes in the fair value of derivatives are recognized immediately in current earnings as interest income or expense. We had no derivative instruments designated as hedges as of June September 30, 2024, and December 31, 2023.

Goodwill: The acquisition method of accounting requires that assets and liabilities acquired in a business combination be recorded at fair value as of the acquisition date. The valuation of assets and liabilities often involves estimates based on third-party valuations or internal valuations based on discounted cash flow analyses or other valuation techniques, all of which are inherently subjective. This typically results in goodwill, the amount by which the cost of net assets acquired in a business combination exceeds their fair value, which is subject to impairment testing at least annually. We review goodwill for impairment on an annual basis as of October 1 or more often if events or circumstances indicate that it is more-likely-than-not that the fair value of a reporting unit is below its carrying value. Based on our annual impairment analysis of goodwill as of October 1, it was determined that the fair value was in excess of its respective carrying value as of October 1, 2023; therefore, goodwill is considered not impaired.

Revenue from Contracts with Customers: We record revenue from contracts with customers in accordance with Accounting Standards Codification Topic 606, "Revenue from Contracts with Customers" ("Topic 606"). Under Topic 606, we must identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) we satisfy a performance obligation. Significant revenue has not been recognized in the current reporting period that results from performance obligations satisfied in previous periods.

Our primary sources of revenue are derived from interest and dividends earned on loans, securities and other financial instruments that are not within the scope of Topic 606. We have evaluated the nature of our contracts with customers and determined that further disaggregation of revenue from contracts with customers into more granular categories beyond what is presented in the Consolidated Statements of Income was not necessary.

We generally satisfy our performance obligations on contracts with customers as services are rendered, and the transaction prices are typically fixed and charged either on a periodic basis (generally monthly) or based on activity. Because performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgment involved in applying Topic 606 that significantly affects the determination of the amount and timing of revenue from contracts with customers.

(Continued)

1. **SIGNIFICANT ACCOUNTING POLICIES** (Continued)

The following table depicts our sources of noninterest income presented in the Consolidated Statements of Income that are scoped within Topic 606:

	Three Months Ended	Three Months Ended	Six Months Ended	Six Months Ended	Three Months Ended	Three Months Ended	Nine Months Ended	Nine Months Ended

(Dollars in thousands)	June 30, 2024		June 30, 2023		June 30, 2024		June 30, 2023		September 30, 2024		September 30, 2023		September 30, 2024		September 30, 2023
Service charges on deposit and sweep accounts	$	1,692	$	1,064	$	3,224	$	2,041	$	1,753	$	1,370	$	4,976	$	3,411
Credit and debit card income		2,266		2,426		4,387		4,485		2,257		2,232		6,644		6,717
Payroll services income		686		572		1,582		1,317		713		591		2,295		1,908
Customer service fees		183		187		381		407		231		205		611		612

Service Charges on Deposit and Sweep Accounts: We earn fees from deposit and sweep customers for account maintenance, transaction-based and overdraft services. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of the month reflecting the period over which we satisfy the performance obligation. Transaction-based fees, which include services such as stop payment and returned item charges, are recognized at the time the transaction is executed as that is the point in time we fulfill the customer request. Service charges on deposit and sweep accounts are withdrawn from the customer account balance.

Credit and Debit Card Income: We earn interchange income on our cardholder debit and credit card usage. Interchange income is primarily comprised of fees whenever our debit and credit cards are processed through card payment networks such as Visa. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

Payroll Services Income: We earn fees from providing payroll processing services for our commercial clients. Fees are assessed for processing weekly or bi-weekly payroll files, reports and documents, as well as year-end tax-related files, reports and documents. Fees are recognized and collected as payroll processing services are completed for each payroll run and year-end processing activities.

Customer Service Fees: We earn fees by providing a variety of other services to our customers, such as wire transfers, check ordering, sales of cashier checks and money orders, and rentals of safe deposit boxes. Generally, fees are recognized and collected daily, concurrently with the point in time we fulfill the customer request. Safe deposit box rentals are on annual contracts, with fees generally earned at the time of the contract signing or renewal. Customer service fees are recorded as other noninterest income on our Consolidated Statements of Income.

(Continued)

2. SECURITIES

The amortized cost and fair value of available for sale securities and the related pre-tax gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) are as follows:

(Dollars in thousands)		Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Value		Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses	Fair Value
June 30, 2024															
September 30, 2024															
U.S. Government agency debt obligations	$	478,920	$	112	$	(51,150)	$	427,882	$	505,005	$	1,823	$	(37,507)	$ 469,321
Mortgage-backed securities		33,531		4		(6,557)		26,978		32,549		15		(4,964)	27,600
Municipal general obligation bonds		171,644		720		(8,058)		164,306		180,326		1,778		(5,259)	176,845
Municipal revenue bonds		30,709		84		(2,552)		28,241		30,710		234		(1,835)	29,109
Other investments		500		0		0		500		500		0		0	500
	$	715,304	$	920	$	(68,317)	$	647,907	$	749,090	$	3,850	$	(49,565)	$ 703,375
December 31, 2023															
U.S. Government agency debt obligations	$	442,496	$	0	$	(52,000)	$	390,496	$	442,496	$	0	$	(52,000)	$ 390,496

Mortgage-backed securities	35,168	20	(5,715)	29,473	35,168	20	(5,715)	29,473
Municipal general obligation bonds	172,126	1,924	(6,190)	167,860	172,126	1,924	(6,190)	167,860
Municipal revenue bonds	30,708	262	(2,207)	28,763	30,708	262	(2,207)	28,763
Other investments	500	0	0	500	500	0	0	500
	$ 680,998	$ 2,206	$ (66,112)	$ 617,092	$ 680,998	$ 2,206	$ (66,112)	$ 617,092

Securities with unrealized losses at June September 30, 2024 and December 31, 2023, aggregated by investment category and length of time that individual securities have been in a continuous loss position, are as follows:

(Dollars in thousands)	Less than 12 Months		12 Months or More		Total		Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
June 30, 2024												
September 30, 2024												
U.S. Government agency debt obligations	$ 28,182	$ 69	$ 385,062	$ 51,081	$ 413,244	$ 51,150	$ 10,962	$ 7	$ 383,485	$ 37,500	$ 394,447	$ 37,507
Mortgage-backed securities	352	4	26,345	6,553	26,697	6,557	0	0	26,969	4,964	26,969	4,964
Municipal general obligation bonds	11,694	120	115,410	7,938	127,104	8,058	0	0	101,811	5,259	101,811	5,259
Municipal revenue bonds	2,484	27	23,160	2,525	25,644	2,552	0	0	20,919	1,835	20,919	1,835
Other investments	0	0	0	0	0	0	0	0	0	0	0	0
	$ 42,712	$ 220	$ 549,977	$ 68,097	$ 592,689	$ 68,317	$ 10,962	$ 7	$ 533,184	$ 49,558	$ 544,146	$ 49,565

2. SECURITIES (Continued)

(Dollars in thousands)	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2023						
U.S. Government agency debt obligations	$ 0	$ 0	$ 390,496	$ 52,000	$ 390,496	$ 52,000
Mortgage-backed securities	114	0	28,749	5,715	28,863	5,715
Municipal general obligation bonds	1,109	6	106,171	6,184	107,280	6,190
Municipal revenue bonds	1,506	8	20,602	2,199	22,108	2,207
Other investments	0	0	0	0	0	0

	$ 2,729	$ 14	$ 546,018	$ 66,098	$ 548,747	$ 66,112

We evaluate securities in an unrealized loss position at least quarterly. Consideration is given to the financial condition of the issuer and the intent and ability we have to retain our investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. For those debt securities whose fair value is less than their amortized cost basis, we also consider our intent to sell the security, whether it is more likely than not that we will be required to sell the security before recovery and if we do not expect to recover the entire amortized cost basis of the security. In analyzing an issuer's financial condition, we may consider whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred and the results of reviews of the issuer's financial condition.

At June September 30, 2024, 736 609 debt securities with estimated fair values totaling $593 $544 million had unrealized losses aggregating $68.3 $49.6 million. At December 31, 2023, 641 debt securities with estimated fair values totaling $549 million had unrealized losses aggregating $66.1 million. At June September 30, 2024, unrealized losses aggregating $57.7 $42.5 million were attributable to bonds issued or guaranteed by agencies of the U.S. Federal Government, while unrealized losses totaling $10.6 $7.1 million were associated with bonds issued by state-based municipalities. For available for sale debt securities in an unrealized loss position, we first assess whether we intend to sell, or if it is more likely than not that we will be required to sell the security before recovery of the amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the debt security's amortized cost basis is written down to fair value through income with the establishment of an allowance. For debt securities available for sale that do not meet the aforementioned criteria, we evaluate whether any decline in fair value is due to credit loss factors. In making this assessment, we consider any changes to the rating of the security by a rating agency and adverse conditions specifically related to the issuer of the security, among other factors.

(Continued)

2. SECURITIES (Continued)

The amortized cost and fair value of debt securities at June September 30, 2024, by maturity, are shown in the following table. The contractual maturity is utilized for U.S. Government agency debt obligations and municipal bonds. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date, primarily mortgage-backed securities, are shown separately.

(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in 2024	$ 36,407	$ 35,906	$ 24,401	$ 24,285
Due in 2025 through 2029	347,975	320,540	364,674	346,444
Due in 2030 through 2034	257,961	225,847	281,530	259,028
Due in 2035 and beyond	38,930	38,136	45,436	45,518
Mortgage-backed securities	33,531	26,978	32,549	27,600
Other investments	500	500	500	500
Total available for sale securities	$ 715,304	$ 647,907	$ 749,090	$ 703,375

No securities were sold during the first six nine months of 2024 or the full-year 2023.

Securities issued by the State of Michigan and all its political subdivisions had combined amortized costs of $202 $211 million and $203 million as of June September 30, 2024 and December 31, 2023, respectively, with estimated market values of $193 $206 million and $197 million at the respective dates. We had no securities issued by all other states and their political subdivisions as of June September 30, 2024, and December 31, 2023. Total securities of any other specific issuer, other than the U.S. Government and its agencies and the State of Michigan and all its political subdivisions, did not exceed 10% of shareholders' equity.

The carrying value of U.S. Government agency debt obligation securities that are pledged to secure repurchase agreements was $222 $221 million and $230 million at June September 30, 2024, and December 31, 2023, respectively.

3. LOANS AND ALLOWANCE FOR CREDIT LOSSES

Commercial loans are divided among five segments based primarily on collateral type, risk characteristics, and primary and secondary sources of repayment. These segments are then further stratified based on the commercial loan grade that is assigned using our standard loan grading paradigm. Retail loans are divided into one of two groups based on risk characteristics and source of repayment. Our allowance for credit loss pools are consistent with those used for loan note disclosure purposes.

Our loan portfolio segments as of both June September 30, 2024 and December 31, 2023 were as follows:

- Commercial Loans
  - Commercial and Industrial: Risks to this loan category include industry concentration and the practical limitations associated with monitoring the condition of the collateral which often consists of inventory, accounts receivable, and other non-real estate assets. Equipment and inventory obsolescence can also pose a risk. Declines in general economic conditions and other events can cause cash flows to fall to levels insufficient to service debt.
  - Owner Occupied Commercial Real Estate: Risks to this loan category include industry concentration and the inability to monitor the condition of the collateral. Declines in general economic conditions and other events can cause cash flows to fall to levels insufficient to service debt. Also, declines in real estate values and lack of suitable alternative use for the properties are risks for loans in this category.
  - Non-Owner Occupied Commercial Real Estate: Loans in this category are susceptible to declines in occupancy rates, business failure, and general economic conditions. Also, declines in real estate values and lack of suitable alternative use for the properties are risks for loans in this category.
  - Multi-Family and Residential Rental: Risks to this loan category include industry concentration and the inability to monitor the condition of the collateral. Loans in this category are susceptible to weakening general economic conditions and increases in unemployment rates, as well as market demand and supply of similar property and the resulting impact on occupancy rates, market rents, cash flow, and income-based real estate values. Also, the lack of a suitable alternative use for the properties is a risk for loans in this category.
  - Vacant Land, Land Development and Residential Construction: Risks common to commercial construction loans are cost overruns, changes in market demand for property, inadequate long-term financing arrangements, and declines in real estate values. Residential construction loans are susceptible to those same risks as well as those associated with residential mortgage loans. Changes in market demand for property could lead to longer marketing times resulting in higher carrying costs, declining values, and higher interest rates.
- Retail Loans
  - 1-4 Family Mortgages: Residential mortgage loans are susceptible to weakening general economic conditions and increases in unemployment rates and declining real estate values.
  - Other Consumer Loans: Risks common to these loans include regulatory risks, unemployment, and changes in local economic conditions as well as the inability to monitor collateral consisting of personal property.

During the year ended December 31, 2023, we changed the segmentation of credit cards to business customers from other consumer loans to commercial and industrial loans. This division of the credit card balances was done to better align the risk characteristics of the portfolio, which include the customer type and source of repayment. Credit cards to business customers totaled $17.8 million as of December 31, 2023. We also changed the segmentation of home equity lines of credit from 1-4 family mortgage loans to other consumer loans during the year ended December 31, 2023. Home equity lines of credit share many of the same risk characteristics of both segments, however, losses are primarily driven by a lack of underlying collateral value during distressed situations as many of the loans are in a second lien position, and thus, best segmented within the other consumer portfolio. Home equity lines of credit totaled $38.1 million as of December 31, 2023.

3. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Our total loans at June September 30, 2024 were $4.44 $4.55 billion compared to $4.30 billion at December 31, 2023, an increase of $134 $249 million, or 3.1% 5.8%. The components of our loan portfolio disaggregated by class of loan within the loan portfolio segments at June September 30, 2024 and December 31, 2023, and the percentage change in loans from the end of 2023 to the end of the second third quarter of 2024, are as follows:

(Dollars in thousands)	June 30, 2024 Balance	June 30, 2024 %	December 31, 2023 Balance	December 31, 2023 %	Percent Increase (Decrease)	September 30, 2024 Balance	September 30, 2024 %	December 31, 2023 Balance	December 31, 2023 %	Percent Increase (Decrease)
Commercial:										
Commercial and industrial	$ 1,275,745	28.8 %	$ 1,254,586	29.2 %	1.7 %	$ 1,312,774	28.8 %	$ 1,254,586	29.2 %	4.6 %
Vacant land, land development, and residential construction	76,247	1.7	74,753	1.7	2.0	66,374	1.5	74,753	1.7	(11.2)
Real estate – owner occupied	732,844	16.5	717,667	16.7	2.1	746,714	16.4	717,667	16.7	4.0
Real estate – non-owner occupied	1,059,053	23.9	1,035,684	24.1	2.3	1,095,988	24.1	1,035,684	24.1	5.8
Real estate – multi-family and residential rental	389,390	8.8	332,609	7.7	17.1	426,438	9.4	332,609	7.7	28.2
Total commercial	3,533,279	79.7	3,415,299	79.4	3.5	3,648,288	80.2	3,415,299	79.4	6.8
Retail:										
1-4 family mortgages	849,625	19.1	837,406	19.5	1.5	844,093	18.5	837,406	19.5	0.8
Other consumer loans	55,341	1.2	51,053	1.1	8.4	60,637	1.3	51,053	1.1	18.8
Total retail	904,966	20.3	888,459	20.6	1.9	904,730	19.8	888,459	20.6	1.8
Total loans	$ 4,438,245	100.0 %	$ 4,303,758	100.0 %	3.1 %	$ 4,553,018	100.0 %	$ 4,303,758	100.0 %	5.8 %

(Continued)

3. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

An age analysis of past due loans is as follows as of June September 30, 2024:

30 – 59	60 – 89	Greater Than 89	Recorded Balance > 89	30 – 59	60 – 89	Greater Than 89	Recorded Balance > 89

(Dollars in thousands)	Days Past Due	Days Past Due	Days Past Due	Total Past Due	Current	Total Loans	Days and Accruing	Days Past Due	Days Past Due	Days Past Due	Total Past Due	Current	Total Loans	Days and Accruing
Commercial:														
Commercial and industrial	$ 0	$ 115	$ 4,803	$ 4,918	$ 1,270,827	$ 1,275,745	$ 0	$ 0	$ 0	$ 4,803	$ 4,803	$ 1,307,971	$ 1,312,774	$ 0
Vacant land, land development, and residential construction	0	0	0	0	76,247	76,247	0	0	0	0	0	66,374	66,374	0
Real estate – owner occupied	0	0	0	0	732,844	732,844	0	0	0	0	0	746,714	746,714	0
Real estate – non- owner occupied	0	0	0	0	1,059,053	1,059,053	0	0	0	0	0	1,095,988	1,095,988	0
Real estate – multi-family and residential rental	0	0	0	0	389,390	389,390	0	0	0	0	0	426,438	426,438	0
Total commercial	0	115	4,803	4,918	3,528,361	3,533,279	0	0	0	4,803	4,803	3,643,485	3,648,288	0
Retail:														
1-4 family mortgages	702	519	123	1,344	848,281	849,625	0	420	735	21	1,176	842,917	844,093	0
Other consumer loans	108	18	0	126	55,215	55,341	0	6	14	0	20	60,617	60,637	0
Total retail	810	537	123	1,470	903,496	904,966	0	426	749	21	1,196	903,534	904,730	0
Total past due loans	$ 810	$ 652	$ 4,926	$ 6,388	$ 4,431,857	$ 4,438,245	$ 0	$ 426	$ 749	$ 4,824	$ 5,999	$ 4,547,019	$ 4,553,018	$ 0

(Continued)

3. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

An age analysis of past due loans is as follows as of December 31, 2023:

(Dollars in thousands)	30 – 59 Days Past Due	60 – 89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Current	Total Loans	Recorded Balance > 89 Days and Accruing

Commercial:							
Commercial and industrial	$ 4	$ 0	$ 249	$ 253	$ 1,254,333	$ 1,254,586	$ 0
Vacant land, land development, and residential construction	0	0	0	0	74,753	74,753	0
Real estate – owner occupied	0	0	70	70	717,597	717,667	0
Real estate – non-owner occupied	0	0	0	0	1,035,684	1,035,684	0
Real estate – multi-family and residential rental	0	0	0	0	332,609	332,609	0
Total commercial	4	0	319	323	3,414,976	3,415,299	0
Retail:							
1-4 family mortgages	934	145	38	1,117	836,289	837,406	0
Other consumer loans	97	0	0	97	50,956	51,053	0
Total retail	1,031	145	38	1,214	887,245	888,459	0
Total past due loans	$ 1,035	$ 145	$ 357	$ 1,537	$ 4,302,221	$ 4,303,758	$ 0

3. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Nonaccrual loans as of June September 30, 2024 were as follows:

(Dollars in thousands)	Recorded Principal Balance	Related Allowance	Recorded Principal Balance	Related Allowance
With no allowance recorded:				
Commercial:				
Commercial and industrial	$ 249	$ 0	$ 0	$ 0
Vacant land, land development and residential construction	0	0	0	0
Real estate – owner occupied	0	0	0	0
Real estate – non-owner occupied	0	0	0	0
Real estate – multi-family and residential rental	0	0	0	0
Total commercial	249	0	0	0
Retail:				
1-4 family mortgages	1,389	0	1,358	0
Other consumer loans	0	0	0	0
Total retail	1,389	0	1,358	0
Total with no allowance recorded	$ 1,638	$ 0	$ 1,358	$ 0
With an allowance recorded:				
Commercial:				

Commercial and industrial	$ 6,591	$ 5,830	$ 6,769	$ 5,775
Vacant land, land development and residential construction	0	0	0	0
Real estate – owner occupied	0	0	0	0
Real estate – non-owner occupied	0	0	0	0
Real estate – multi-family and residential rental	0	0	0	0
Total commercial	6,591	5,830	6,769	5,775
Retail:				
1-4 family mortgages	794	210	1,647	349
Other consumer loans	106	106	103	103
Total retail	900	316	1,750	452
Total with an allowance recorded	$ 7,491	$ 6,146	$ 8,519	$ 6,227
Total nonaccrual loans:				
Commercial	$ 6,840	$ 5,830	$ 6,769	$ 5,775
Retail	2,289	316	3,108	452
Total nonaccrual loans	$ 9,129	$ 6,146	$ 9,877	$ 6,227

Nonaccrual loans represent the entire balance of collateral dependent loans. As of June September 30, 2024 and December 31, 2023, all collateral dependent loans were secured by real estate, with the exception of those classified as commercial and industrial, which were secured by accounts receivable, inventory, and equipment. Interest income recognized on nonaccrual loans totaled $0.4 $0.5 million and less than $0.1 million during the six nine months ended June September 30, 2024 and 2023, respectively, reflecting the collection of interest at the time of principal pay-off.

3. <u>LOANS AND ALLOWANCE FOR CREDIT LOSSES</u> (Continued)

Nonaccrual loans as of December 31, 2023 were as follows:

(Dollars in thousands)	Recorded Principal Balance	Related Allowance
With no allowance recorded:		
Commercial:		
Commercial and industrial	$ 0	$ 0
Vacant land, land development and residential construction	0	0
Real estate – owner occupied	70	0
Real estate – non-owner occupied	0	0
Real estate – multi-family and residential rental	0	0
Total commercial	70	0
Retail:		
1-4 family mortgages	2,272	0
Other consumer loans	0	0
Total retail	2,272	0

Total with no allowance recorded	$ 2,342	$ 0
With an allowance recorded:		
Commercial:		
Commercial and industrial	$ 249	$ 1
Vacant land, land development and residential construction	0	0
Real estate – owner occupied	0	0
Real estate – non-owner occupied	0	0
Real estate – multi-family and residential rental	0	0
Total commercial	249	1
Retail:		
1-4 family mortgages	824	240
Other consumer loans	0	0
Total retail	824	240
Total with an allowance recorded	$ 1,073	$ 241
Total nonaccrual loans:		
Commercial	$ 319	$ 1
Retail	3,096	240
Total nonaccrual loans	$ 3,415	$ 241

(Continued)

3. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Credit Quality Indicators. We utilize a comprehensive grading system for our commercial loans. All commercial loans are graded on a ten grade rating system. The rating system utilizes standardized grade paradigms that analyze several critical factors such as cash flow, operating performance, financial condition, collateral, industry condition and management. All commercial loans are graded at inception and reviewed and, if appropriate, re-graded at various intervals thereafter. The primary risk elements with respect to commercial loans are the financial condition of the borrower, sufficiency of collateral, and timeliness of scheduled payments. We have a policy of requesting and reviewing periodic financial statements from commercial loan customers and employ a disciplined and formalized review of the existence of collateral and its value. All commercial loans are graded using the following criteria:

Grade 1. “Exceptional” Loans with this rating contain very little, if any, risk.

Grade 2. “Outstanding” Loans with this rating have excellent and stable sources of repayment and conform to bank policy and regulatory requirements.

Grade 3. “Very Good” Loans with this rating have strong sources of repayment and conform to bank policy and regulatory requirements. These are loans for which repayment risks are acceptable.

Grade 4. “Good” Loans with this rating have solid sources of repayment and conform to bank policy and regulatory requirements. These are loans for which repayment risks are modest.

Grade 5. “Acceptable” Loans with this rating exhibit acceptable sources of repayment and conform with most bank policies and all regulatory requirements. These are for loans for which repayment risks are satisfactory.

Grade 6. “Monitor” Loans with this rating are considered to have emerging weaknesses which may include negative current cash flow, high leverage, or operating losses. Generally, if further deterioration is observed, these credits will be downgraded to the criticized asset report.

Grade 7. “Special Mention” Loans with this rating have potential weaknesses that deserve management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan at some future date.

Grade 8. “Substandard” Loans with this rate are inadequately protected by current sound net worth, paying capacity of the obligor, or of the pledged collateral, if any. A Substandard loan normally has one or more well-defined weaknesses that jeopardize the repayment of the debt. They are characterized by the distinct possibility of loss if the deficiencies are not corrected.

Grade 9. “Doubtful” Loans with this rating exhibit all the weaknesses inherent in the Substandard classification and where collection or liquidation in full is highly questionable and improbable.

Grade 10. “Loss” Loans with this rating are considered uncollectable, and of such little value that continuance as an active asset is not warranted.

The primary risk element with respect to each residential real estate loan and consumer loan is the timeliness of scheduled payments. We have a reporting system that monitors past due loans and have adopted policies to pursue creditors’ rights in order to preserve our collateral position. Retail loans that reach 90 days or more past due are generally placed into nonaccrual status and are categorized as nonperforming.

3 . LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The following table reflects amortized cost basis of loans and year-to-date loan charge-offs as of June September 30, 2024 based on year of origination:

(Dollars in thousands)	2024	2023	2022	2021	2020	Prior	Term Total	Revolving Loans	Grand Total	2024	2023	2022	2021	2020	Prior	Term Total
Commercial:																
Commercial and Industrial:	Commercial and Industrial:									Commercial and Industrial:						
Grades 1 – 4	$ 43,698	$ 90,915	$ 65,201	$ 77,081	$ 16,477	$ 10,412	$ 303,784	$ 404,668	$ 708,452	$ 63,639	$ 76,905	$ 58,621	$ 61,130	$ 12,067	$ 9,425	$ 281,787
Grades 5 – 7	92,443	130,979	24,222	13,297	16,270	7,819	285,030	266,315	551,345	139,901	120,560	22,257	21,654	3,372	1,313	309,057
Grades 8 – 9	2,037	57	6,104	270	0	0	8,468	7,480	15,948	1,966	428	5,981	266	90	0	8,731
Total	$ 138,178	$ 221,951	$ 95,527	$ 90,648	$ 32,747	$ 18,231	$ 597,282	$ 678,463	$ 1,275,745	$ 205,506	$ 197,893	$ 86,859	$ 83,050	$ 15,529	$ 10,738	$ 599,575
Year-to-date gross write offs	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 6	$ 6	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Vacant Land, Land Development and Residential Construction:	Vacant Land, Land Development and Residential Construction:									Vacant Land, Land Development and Residential Construction:						

Grades 1 – 4	$ 14,474	$ 9,656	$ 818	$ 593	$ 185	$ 257	$ 25,983	$ 0	$ 25,983	$ 17,767	$ 6,127	$ 633	$ 582	$ 181	$ 247	$ 25,537
Grades 5 – 7	19,055	14,192	16,344	131	1	534	50,257	0	50,257	24,921	11,178	4,106	127	0	499	40,831
Grades 8 – 9	0	7	0	0	0	0	7	0	7	0	6	0	0	0	0	6
Total	$ 33,529	$ 23,855	$ 17,162	$ 724	$ 186	$ 791	$ 76,247	$ 0	$ 76,247	$ 42,688	$ 17,311	$ 4,739	$ 709	$ 181	$ 746	$ 66,374
Year-to-date gross write offs	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Real Estate – Owner Occupied:	Real Estate – Owner Occupied:									Real Estate – Owner Occupied:						
Grades 1 – 4	$ 46,569	$ 190,322	$ 106,598	$ 78,420	$ 40,171	$ 10,883	$ 472,963	$ 0	$ 472,963	$ 81,625	$ 182,509	$ 92,008	$ 76,843	$ 38,009	$ 9,954	$ 480,948
Grades 5 – 7	46,889	89,336	59,326	24,475	18,467	7,423	245,916	13,564	259,480	63,444	78,766	58,796	23,374	13,954	6,504	244,838
Grades 8 – 9	0	0	365	0	36	0	401	0	401	0	0	3,327	0	34	0	3,361
Total	$ 93,458	$ 279,658	$ 166,289	$ 102,895	$ 58,674	$ 18,306	$ 719,280	$ 13,564	$ 732,844	$ 145,069	$ 261,275	$ 154,131	$ 100,217	$ 51,997	$ 16,458	$ 729,147
Year-to-date gross write offs	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Real Estate – Non-Owner Occupied:	Real Estate – Non-Owner Occupied:									Real Estate – Non-Owner Occupied:						
Grades 1 – 4	$ 45,856	$ 98,824	$ 80,072	$ 103,974	$ 93,341	$ 21,332	$ 443,399	$ 0	$ 443,399	$ 68,535	$ 96,238	$ 80,564	$ 101,176	$ 81,723	$ 18,585	$ 446,821
Grades 5 – 7	131,366	185,976	90,646	87,715	90,308	19,979	605,990	0	605,990	157,802	198,594	87,866	86,993	92,925	16,917	641,097
Grades 8 – 9	9,664	0	0	0	0	0	9,664	0	9,664	8,070	0	0	0	0	0	8,070
Total	$ 186,886	$ 284,800	$ 170,718	$ 191,689	$ 183,649	$ 41,311	$ 1,059,053	$ 0	$ 1,059,053	$ 234,407	$ 294,832	$ 168,430	$ 188,169	$ 174,648	$ 35,502	$ 1,095,988
Year-to-date gross write offs	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Real Estate – Multi-Family and Residential Rental:	Real Estate – Multi-Family and Residential Rental:									Real Estate – Multi-Family and Residential Rental:						
Grades 1 – 4	$ 5,856	$ 45,763	$ 10,311	$ 64,188	$ 34,139	$ 6,279	$ 166,536	$ 0	$ 166,536	$ 7,017	$ 47,062	$ 10,218	$ 63,289	$ 32,616	$ 4,171	$ 164,373
Grades 5 – 7	11,524	122,550	60,570	4,247	8,537	3,208	210,636	45	210,681	29,458	145,458	70,270	4,727	8,424	3,117	261,454
Grades 8 – 9	0	11,199	0	0	974	0	12,173	0	12,173	0	0	0	0	570	0	570
Total	$ 17,380	$ 179,512	$ 70,881	$ 68,435	$ 43,650	$ 9,487	$ 389,345	$ 45	$ 389,390	$ 36,475	$ 192,520	$ 80,488	$ 68,016	$ 41,610	$ 7,288	$ 426,397
Year-to-date gross write offs	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Total Commercial	$ 469,431	$ 989,776	$ 520,577	$ 454,391	$ 318,906	$ 88,126	$ 2,841,207	$ 692,072	$ 3,533,279	$ 664,145	$ 963,831	$ 494,647	$ 440,161	$ 283,965	$ 70,732	$ 2,917,481
Total Commercial year-to-date gross write offs	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 6	$ 6	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Retail:																
1-4 Family Mortgages:																
Performing	$ 31,524	$ 142,900	$ 323,590	$ 220,541	$ 75,844	$ 53,043	$ 847,442	$ 0	$ 847,442	$ 55,181	$ 132,916	$ 316,815	$ 211,887	$ 74,497	$ 49,766	$ 841,062
Nonperforming	0	101	886	265	0	931	2,183	0	2,183	0	91	1,737	262	0	916	3,006
Total	$ 31,524	$ 143,001	$ 324,476	$ 220,806	$ 75,844	$ 53,974	$ 849,625	$ 0	$ 849,625	$ 55,181	$ 133,007	$ 318,552	$ 212,149	$ 74,497	$ 50,682	$ 844,068

Year-to-date gross write offs	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Other Consumer Loans:																
Performing	$ 3,104	$ 3,972	$ 1,952	$ 1,067	$ 480	$ 713	$ 11,288	$ 43,947	$ 55,235	$ 5,125	$ 3,460	$ 1,664	$ 861	$ 415	$ 709	$ 12,234
Nonperforming	106	0	0	0	0	0	106	0	106	104	0	0	0	0	0	104
Total	$ 3,210	$ 3,972	$ 1,952	$ 1,067	$ 480	$ 713	$ 11,394	$ 43,947	$ 55,341	$ 5,229	$ 3,460	$ 1,664	$ 861	$ 415	$ 709	$ 12,338
Year-to-date gross write offs	$ 0	$ 1	$ 18	$ 8	$ 0	$ 5	$ 32	$ 3	$ 35	$ 0	$ 1	$ 18	$ 8	$ 0	$ 6	$ 33
Total Retail	$ 34,734	$ 146,973	$ 326,428	$ 221,873	$ 76,324	$ 54,687	$ 861,019	$ 43,947	$ 904,966	$ 60,410	$ 136,467	$ 320,216	$ 213,010	$ 74,912	$ 51,391	$ 856,406
Total Retail year-to-date gross write offs	$ 0	$ 1	$ 18	$ 8	$ 0	$ 5	$ 32	$ 3	$ 35	$ 0	$ 1	$ 18	$ 8	$ 0	$ 6	$ 33
Total	$ 504,165	$ 1,136,749	$ 847,005	$ 676,264	$ 395,230	$ 142,813	$ 3,702,226	$ 736,019	$ 4,438,245	$ 724,555	$ 1,100,298	$ 814,863	$ 653,171	$ 358,877	$ 122,123	$ 3,773,887
Total year-to-date gross write offs	$ 0	$ 1	$ 18	$ 8	$ 0	$ 5	$ 32	$ 9	$ 41	$ 0	$ 1	$ 18	$ 8	$ 0	$ 6	$ 33

There were lines of credit with principal balances of $5.0 million that were converted to term loans during the first six nine months of 2024.

(Continued)

3. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The following table reflects amortized cost basis of loans as of December 31, 2023 and loan charge-offs during the six nine months ended June September 30, 2023 based on year of origination:

(Dollars in thousands)	2023	2022	2021	2020	2019	Prior	Term Total	Revolving Loans	Grand Total	2023	2022	2021	2020	2019	Prior	Term Total	R
Commercial:																	
Commercial and Industrial:																	
Grades 1 – 4	$ 103,531	$ 79,883	$ 90,107	$ 20,577	$ 5,978	$ 9,160	$ 309,236	$ 414,920	$ 724,156	$ 103,531	$ 79,883	$ 90,107	$ 20,577	$ 5,978	$ 9,160	$ 309,236	$
Grades 5 – 7	174,668	57,979	20,075	18,361	7,450	119	278,652	227,155	505,807	174,668	57,979	20,075	18,361	7,450	119	278,652	
Grades 8 – 9	3,671	2,122	277	0	0	0	6,070	18,553	24,623	3,671	2,122	277	0	0	0	6,070	
Total	$ 281,870	$ 139,984	$ 110,459	$ 38,938	$ 13,428	$ 9,279	$ 593,958	$ 660,628	$ 1,254,586	$ 281,870	$ 139,984	$ 110,459	$ 38,938	$ 13,428	$ 9,279	$ 593,958	$
Year-to-date gross write offs	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 218	$ 218	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$
Vacant Land, Land Development and Residential Construction:	Vacant Land, Land Development and Residential Construction:									Vacant Land, Land Development and Residential Construction:							

Grades 1 – 4	$ 24,875	$ 6,570	$ 1,108	$ 2,110	$ 0	$ 281	$ 34,944	$ 0	$ 34,944	$ 24,875	$ 6,570	$ 1,108	$ 2,110	$ 0	$ 281	$ 34,944	$
Grades 5 – 7	17,799	21,244	138	2	40	496	39,719	0	39,719	17,799	21,244	138	2	40	496	39,719	
Grades 8 – 9	9	0	0	0	0	81	90	0	90	9	0	0	0	0	81	90	
Total	$ 42,683	$ 27,814	$ 1,246	$ 2,112	$ 40	$ 858	$ 74,753	$ 0	$ 74,753	$ 42,683	$ 27,814	$ 1,246	$ 2,112	$ 40	$ 858	$ 74,753	$
Year-to-date gross write offs	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$
Real Estate – Owner Occupied:	Real Estate – Owner Occupied:									Real Estate – Owner Occupied:							
Grades 1 – 4	$ 205,379	$ 110,130	$ 85,982	$ 47,630	$ 14,362	$ 2,908	$ 466,391	$ 1,948	$ 468,339	$ 205,379	$ 110,130	$ 85,982	$ 47,630	$ 14,362	$ 2,908	$ 466,391	$
Grades 5 – 7	111,197	63,271	27,729	27,029	9,419	439	239,084	9,718	248,802	111,197	63,271	27,729	27,029	9,419	439	239,084	
Grades 8 – 9	0	417	0	38	0	71	526	0	526	0	417	0	38	0	71	526	
Total	$ 316,576	$ 173,818	$ 113,711	$ 74,697	$ 23,781	$ 3,418	$ 706,001	$ 11,666	$ 717,667	$ 316,576	$ 173,818	$ 113,711	$ 74,697	$ 23,781	$ 3,418	$ 706,001	$
Year-to-date gross write offs	$ 0	$ 14	$ 0	$ 0	$ 0	$ 0	$ 14	$ 0	$ 14	$ 0	$ 14	$ 0	$ 0	$ 0	$ 40	$ 54	$
Real Estate – Non-Owner Occupied:										Real Estate – Non-Owner Occupied:							
Grades 1 – 4	$ 109,125	$ 84,912	$ 113,846	$ 102,279	$ 27,664	$ 13,193	$ 451,019	$ 0	$ 451,019	$ 109,125	$ 84,912	$ 113,846	$ 102,279	$ 27,664	$ 13,193	$ 451,019	$
Grades 5 – 7	233,471	118,464	109,238	88,315	6,148	18,135	573,771	0	573,771	233,471	118,464	109,238	88,315	6,148	18,135	573,771	
Grades 8 – 9	10,894	0	0	0	0	0	10,894	0	10,894	10,894	0	0	0	0	0	10,894	
Total	$ 353,490	$ 203,376	$ 223,084	$ 190,594	$ 33,812	$ 31,328	$ 1,035,684	$ 0	$ 1,035,684	$ 353,490	$ 203,376	$ 223,084	$ 190,594	$ 33,812	$ 31,328	$ 1,035,684	$
Year-to-date gross write offs	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$
Real Estate – Multi-Family and Residential Rental:	Real Estate – Multi-Family and Residential Rental:									Real Estate – Multi-Family and Residential Rental:							
Grades 1 – 4	$ 36,038	$ 28,512	$ 64,244	$ 35,129	$ 4,883	$ 3,649	$ 172,455	$ 0	$ 172,455	$ 36,038	$ 28,512	$ 64,244	$ 35,129	$ 4,883	$ 3,649	$ 172,455	$
Grades 5 – 7	72,916	55,964	4,816	9,372	2,699	2,136	147,903	0	147,903	72,916	55,964	4,816	9,372	2,699	2,136	147,903	
Grades 8 – 9	11,250	0	0	1,001	0	0	12,251	0	12,251	11,250	0	0	1,001	0	0	12,251	
Total	$ 120,204	$ 84,476	$ 69,060	$ 45,502	$ 7,582	$ 5,785	$ 332,609	$ 0	$ 332,609	$ 120,204	$ 84,476	$ 69,060	$ 45,502	$ 7,582	$ 5,785	$ 332,609	$
Year-to-date gross write offs	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$
Total Commercial	$ 1,114,823	$ 629,468	$ 517,560	$ 351,843	$ 78,643	$ 50,668	$ 2,743,005	$ 672,294	$ 3,415,299	$ 1,114,823	$ 629,468	$ 517,560	$ 351,843	$ 78,643	$ 50,668	$ 2,743,005	$
Total Commercial year-to-date gross write offs	$ 0	$ 14	$ 0	$ 0	$ 0	$ 0	$ 14	$ 218	$ 232	$ 0	$ 14	$ 0	$ 0	$ 0	$ 40	$ 54	$
Retail:																	
1-4 Family Mortgages:																	
Performing	$ 133,823	$ 332,098	$ 231,842	$ 82,002	$ 10,515	$ 44,003	$ 834,283	$ 27	$ 834,310	$ 133,823	$ 332,098	$ 231,842	$ 82,002	$ 10,515	$ 44,003	$ 834,283	$
Nonperforming	108	1,728	305	0	10	945	3,096	0	3,096	108	1,728	305	0	10	945	3,096	
Total	$ 133,931	$ 333,826	$ 232,147	$ 82,002	$ 10,525	$ 44,948	$ 837,379	$ 27	$ 837,406	$ 133,931	$ 333,826	$ 232,147	$ 82,002	$ 10,525	$ 44,948	$ 837,379	$
Year-to-date gross write offs	$ 0	$ 52	$ 0	$ 0	$ 0	$ 239	$ 291	$ 21	$ 312	$ 0	$ 136	$ 0	$ 0	$ 0	$ 239	$ 375	$

Other Consumer Loans:																	
Performing	$ 5,138	$ 2,569	$ 1,664	$ 608	$ 651	$ 716	$ 11,346	$ 39,707	$ 51,053	$ 5,138	$ 2,569	$ 1,664	$ 608	$ 651	$ 716	$ 11,346	$
Nonperforming	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Total	$ 5,138	$ 2,569	$ 1,664	$ 608	$ 651	$ 716	$ 11,346	$ 39,707	$ 51,053	$ 5,138	$ 2,569	$ 1,664	$ 608	$ 651	$ 716	$ 11,346	$
Year-to-date gross write offs	$ 0	$ 3	$ 0	$ 0	$ 0	$ 3	$ 6	$ 17	$ 23	$ 2	$ 3	$ 0	$ 0	$ 0	$ 3	$ 8	$
Total Retail	$ 139,069	$ 336,395	$ 233,811	$ 82,610	$ 11,176	$ 45,664	$ 848,725	$ 39,734	$ 888,459	$ 139,069	$ 336,395	$ 233,811	$ 82,610	$ 11,176	$ 45,664	$ 848,725	$
Total Retail year-to-date gross write offs	$ 0	$ 55	$ 0	$ 0	$ 0	$ 242	$ 297	$ 38	$ 335	$ 2	$ 139	$ 0	$ 0	$ 0	$ 242	$ 383	$
Total	$ 1,253,892	$ 965,863	$ 751,371	$ 434,453	$ 89,819	$ 96,332	$ 3,591,730	$ 712,028	$ 4,303,758	$ 1,253,892	$ 965,863	$ 751,371	$ 434,453	$ 89,819	$ 96,332	$ 3,591,730	$
Total year-to-date gross write offs	$ 0	$ 69	$ 0	$ 0	$ 0	$ 242	$ 311	$ 256	$ 567	$ 2	$ 153	$ 0	$ 0	$ 0	$ 282	$ 437	$

There were lines of credit with principal balances of $6.4 million as of December 31, 2022 that were converted to term loans during 2023.

(Continued)

3. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

We use a migration to loss methodology to determine historical loss rates for commercial loans given the comprehensive loan grading process employed by our bank for over two decades, while an open pool approach is best suited for retail loans given the smaller dollar size of the segments. A baseline loss rate is produced at each reporting date for each loan portfolio segment using bank-specific loan charge-off and recovery data over a defined historical look-back period. The look-back period represents the number of data periods that will be used to calculate a baseline loss rate for each loan portfolio segment. We determined that the look-back period commencing on January 1, 2011 through the current reporting date was reasonable and appropriate, which was used in the calculation of both the June September 30, 2024 and December 31, 2023 allowance for credit losses.

Our historical loss rate is then applied to future loan balances at the instrument level based on remaining contractual life adjusted for amortization, prepayment and default to develop a baseline lifetime loss. Our prepayment speed assumptions are developed at the loan segment level based upon the consideration of all relevant data which we believe could impact anticipated customer behavior, including changes in interest rates, economic conditions, and underlying property valuations. For the commercial portfolio segments, we assumed a 2.0% prepayment speed as of both June September 30, 2024 and December 31, 2023 as we deemed there to be no considerable changes from historical experience. For the retail 1-4 family mortgage and retail other consumer portfolios, we used a prepayment speed of 9.0% as of June September 30, 2024 and December 31, 2023.

During each reporting period, we also consider the need to adjust the historical loss rates as determined to reflect the extent to which we expect current conditions and reasonable and supportable economic forecasts to differ from the conditions that existed for the period over which the historical loss information was determined. These qualitative adjustments may increase or decrease our estimate of expected future credit losses. As of June September 30, 2024 and December 31, 2023, we used a one-year reasonable and supportable economic forecast period, with a six-month straight-line reversion period for all loan segments. The economic forecasts used for our June September 30, 2024 allowance calculation reflected a $2.3 $2.1 million allowance balance reduction. The forecasts used for our December 31, 2023 allowance calculation reflected a $2.0 million allowance balance reduction.

Individual loans exhibiting unique risk characteristics, which differentiated the loans from other loans within the loan segments and were evaluated for expected credit losses on an individual basis, totaled $10.9 $11.6 million and $5.4 million as of June September 30, 2024 and December 31, 2023, respectively. Individual allowance allocations totaled $6.3 million and $0.4 million as of June September 30, 2024 and December 31, 2023, respectively.

MERCANTILE BANK CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

3. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Activity in the allowance for credit losses during the three and six nine months ended June September 30, 2024 is as follows:

(Dollars in thousands)	Commercial and industrial	Commercial vacant land, land development and residential construction	Commercial real estate – owner occupied	Commercial real estate – non-owner occupied	Commercial real estate – multi-family and residential rental	1-4 family mortgages
Balance at 6-30-24	$ 13,215	$ 393	$ 7,190	$ 10,249	$ 3,589	$ 18,513
Provision for credit losses	1,671	(40)	336	351	(369)	(354
Charge-offs	(3)	0	0	0	0	0
Recoveries	31	1	2	0	4	33
Ending balance	$ 14,914	$ 354	$ 7,528	$ 10,600	$ 3,224	$ 18,192
Balance at 12-31-23	$ 7,441	$ 384	$ 7,186	$ 9,852	$ 3,184	$ 18,986
Provision for credit losses	7,147	(34)	181	748	28	(923
Charge-offs	(9)	0	0	0	0	0
Recoveries	335	4	161	0	12	129
Ending balance	$ 14,914	$ 354	$ 7,528	$ 10,600	$ 3,224	$ 18,192

(Dollars in thousands)	Commercial and industrial	Commercial vacant land, land development and residential construction	Commercial real estate – owner occupied	Commercial real estate – non-owner occupied	Commercial real estate – multi-family and residential rental	1-4 family mortgages	Other consumer loans	Unallocated	Total
Balance at 3-31-24	$ 9,178	$ 387	$ 7,092	$ 10,141	$ 3,420	$ 18,580	$ 2,825	$ 15	$ 51,638
Provision for credit losses	4,010	4	(4)	108	165	(93)	(684)	(6)	3,500
Charge-offs	0	0	0	0	0	0	(26)	0	(26)
Recoveries	27	2	102	0	4	26	135	0	296
Ending balance	$ 13,215	$ 393	$ 7,190	$ 10,249	$ 3,589	$ 18,513	$ 2,250	$ 9	$ 55,408
Balance at 12-31-23	$ 7,441	$ 384	$ 7,186	$ 9,852	$ 3,184	$ 18,986	$ 2,881	$ 0	$ 49,914
Provision for credit losses	5,476	6	(155)	397	397	(569)	(761)	9	4,800
Charge-offs	(6)	0	0	0	0	0	(35)	0	(41)
Recoveries	304	3	159	0	8	96	165	0	735
Ending balance	$ 13,215	$ 393	$ 7,190	$ 10,249	$ 3,589	$ 18,513	$ 2,250	$ 9	$ 55,408

Activity in the allowance for credit losses during the three and six nine months ended June September 30, 2023 is as follows:

(Dollars in thousands)	Commercial and industrial	Commercial vacant land, land development and residential construction	Commercial real estate – owner occupied	Commercial real estate – non-owner occupied	Commercial real estate – multi-family and residential rental	1-4 famil mortgage

Commercial
vacant land,

(Dollars in thousands)	Commercial and industrial	land development and residential construction	Commercial real estate – owner occupied	Commercial real estate – non-owner occupied	Commercial real estate – multi-family and residential rental	1-4 family mortgages	Other consumer loans	Unallocated	Total						
Balance at 3-31-23	$ 10,181	$ 510	$ 5,711	$ 9,168	$ 2,427	$ 14,648	$ 156	$ 76	$ 42,877						
Balance at 6-30-23										$ 6,472	$ 304	$ 5,838	$ 8,689	$ 3,700	$ 19,49
Provision for credit losses	(3,616)	(217)	105	(479)	1,268	4,973	21	(55)	2,000	2,500	31	627	564	(1,071)	72
Charge-offs	(182)	0	0	0	0	(270)	(9)	0	(461)	0	0	(40)	0	0	(20
Recoveries	89	11	22	0	5	147	31	0	305	26	22	9	0	6	16
Ending balance	$ 6,472	$ 304	$ 5,838	$ 8,689	$ 3,700	$ 19,498	$ 199	$ 21	$ 44,721	$ 8,998	$ 357	$ 6,434	$ 9,253	$ 2,635	$ 20,18
Balance at 12-31-22	$ 10,203	$ 490	$ 5,914	$ 9,242	$ 2,191	$ 14,027	$ 160	$ 19	$ 42,246	$ 10,203	$ 490	$ 5,914	$ 9,242	$ 2,191	$ 14,02
Provision for credit losses	(3,623)	(198)	(132)	(553)	1,497	5,591	16	2	2,600	(1,123)	(167)	495	11	426	6,31
Charge-offs	(218)	0	(14)	0	0	(312)	(23)	0	(567)	(218)	0	(54)	0	0	(51
Recoveries	110	12	70	0	12	192	46	0	442	136	34	79	0	18	35
Ending balance	$ 6,472	$ 304	$ 5,838	$ 8,689	$ 3,700	$ 19,498	$ 199	$ 21	$ 44,721	$ 8,998	$ 357	$ 6,434	$ 9,253	$ 2,635	$ 20,18

(Continued)

3. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The following table presents the period-end amortized cost basis of modifications to borrowers experiencing financial difficulty by type of modification made during the three months ended June September 30, 2024:

(Dollars in thousands)	Interest Rate Reduction	Term Extension	Principal Forgiveness	Interest Rate Reduction	Term Extension	Principal Forgiveness
Commercial:						
Commercial and industrial	$ 0	$ 1,818	$ 0	$ 0	$ 5,670	$ 0
Vacant land, land development and residential construction	0	0	0	0	0	0
Real estate – owner occupied	0	0	0	0	0	0

Real estate – non-owner occupied	0	0	0	0	0	0
Real estate – multi-family and residential rental	0	0	0	0	0	0
Total commercial	$ 0	$ 1,818	$ 0	$ 0	$ 5,670	$ 0
Retail:						
1-4 family mortgages	0	0	0	0	0	0
Other consumer loans	0	0	0	0	0	0
Total retail	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Total loans	$ 0	$ 1,818	$ 0	$ 0	$ 5,670	$ 0

The following table presents the period-end amortized cost basis of modifications to borrowers experiencing financial difficulty by type of modification made during the six nine months ended June September 30, 2024:

(Dollars in thousands)	Interest Rate Reduction	Term Extension	Principal Forgiveness	Interest Rate Reduction	Term Extension	Principal Forgiveness
Commercial:						
Commercial and industrial	$ 0	$ 2,318	$ 0	$ 0	$ 7,454	$ 0
Vacant land, land development and residential construction	0	0	0	0	0	0
Real estate – owner occupied	0	0	0	0	0	0
Real estate – non-owner occupied	0	0	0	0	0	0
Real estate – multi-family and residential rental	0	0	0	0	0	0
Total commercial	$ 0	$ 2,318	$ 0	$ 0	$ 7,454	$ 0
Retail:						
1-4 family mortgages	0	0	0	0	0	0
Other consumer loans	0	0	0	0	0	0
Total retail	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Total loans	$ 0	$ 2,318	$ 0	$ 0	$ 7,454	$ 0

Loans listed under Term Extension were generally granted a series of short-term maturity extensions as part of the workout process and associated forbearance agreements.

3. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

There were no loans modified to borrowers experiencing financial difficulty during the firstthree months of ended September 30, 2023. The following table presents the period-end amortized cost basis of modifications to borrowers experiencing financial difficulty by type of modification made during the three and six nine months ended June September 30, 2023 2023::

(Dollars in thousands)	Interest Rate Reduction	Term Extension	Principal Forgiveness	Interest Rate Reduction	Term Extension	Principal Forgiveness

Commercial:						
Commercial and industrial	$ 0	$ 10,520	$ 0	$ 0	$ 8,184	$ 0
Vacant land, land development and residential construction	0	0	0	0	0	0
Real estate – owner occupied	0	207	0	0	0	0
Real estate – non-owner occupied	0	0	0	0	0	0
Real estate – multi-family and residential rental	0	0	0	0	0	0
Total commercial	$ 0	$ 10,727	$ 0	$ 0	$ 8,184	$ 0
Retail:						
1-4 family mortgages	0	0	0	0	0	0
Other consumer loans	0	0	0	0	0	0
Total retail	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Total loans	$ 0	$ 10,727	$ 0	$ 0	$ 8,184	$ 0

The following table presents the amortized cost basis of loans that have been modified in the past twelve months to borrowers experiencing financial difficulty by payment status and loan segment as of June September 30, 2024:

(Dollars in thousands)	Current	30 – 89 Days Past Due	90 + Days Past Due	Total	Current	30 – 89 Days Past Due	90 + Days Past Due	Total
Commercial:								
Commercial and industrial	$ 4,818	$ 0	$ 0	$ 4,818	$ 9,842	$ 0	$ 0	$ 9,842
Vacant land, land development and residential construction	0	0	0	0	0	0	0	0
Real estate – owner occupied	0	0	0	0	0	0	0	0
Real estate – non-owner occupied	9,664	0	0	9,664	8,070	0	0	8,070
Real estate – multi-family and residential rental	0	0	0	0	0	0	0	0
Total commercial	$ 14,482	$ 0	$ 0	$ 14,482	$ 17,912	$ 0	$ 0	$ 17,912
Retail:								
1-4 family mortgages	0	0	0	0	0	0	0	0
Other consumer loans	0	0	0	0	0	0	0	0
Total retail	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Total loans	$ 14,482	$ 0	$ 0	$ 14,482	$ 17,912	$ 0	$ 0	$ 17,912

(Continued)

4. PREMISES AND EQUIPMENT, NET

Premises and equipment are comprised of the following:

(Dollars in thousands)	June 30, 2024	December 31, 2023	September 30, 2024	December 31, 2023

Land and improvements	$ 12,782	$ 12,782	$ 13,984	$ 12,782
Buildings	58,388	56,778	62,469	56,778
Furniture and equipment	25,790	25,157	26,075	25,157
	96,960	94,717	102,528	94,717
Less: accumulated depreciation	46,802	43,789	48,298	43,789
Premises and equipment, net	$ 50,158	$ 50,928	$ 54,230	$ 50,928

Depreciation expense totaled $1.5 million and $1.4 million during the second third quarters of both 2024 and 2023. Depreciation expense totaled $4.6 million during the first nine months of 2024, respectively. compared to $4.4 million during the first nine months of 2023.

We enter into facility leases in the normal course of business. As of June September 30, 2024, we were under lease contracts for ten eleven of our banking facilities. The leases have maturity dates ranging from February, 2025 through May, 2048, with a weighted average life of 9.2 9.1 years as of June September 30, 2024. All of our leases have multiple three- to five-year extensions; however, these were not factored in the lease maturities and weighted average lease term as it was not reasonably certain we would exercise the options on the dates we entered into the lease agreements.

Leases are classified as either operating or finance leases at the lease commencement date, with all of our current leases determined to be operating leases. Lease expense for operating leases is recognized on a straight-line basis over the lease term. Right-of-use assets represent our right to use an underlying asset for the lease term, while lease liabilities represent our obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date at the estimated present value of lease payments over the lease term. We use our incremental borrowing rate, on a collateralized basis, at lease commencement to calculate the present value of lease payments. The weighted average discount rate for leases was 6.5% 6.7% as of June September 30, 2024.

The right-of-use assets, included in premises and equipment, net on our Consolidated Balance Sheets, and the lease liabilities, included in other liabilities on our Consolidated Balance Sheets, totaled $4.9 $4.7 million and $3.7 million as of June September 30, 2024, and December 31, 2023, respectively. As permitted by applicable accounting standards, we have elected not to recognize short-term leases with original terms of twelve months or less on our Consolidated Balance Sheets. Total operating lease expense associated with the leases aggregated $0.4 million during the second third quarter of 2024 and $0.5 million during the second third quarter 2023. 2023, respectively, and $1.2 million and $1.3 million during the nine months ended September 30, 2024 and 2023, respectively.

(Continued)

4. PREMISES AND EQUIPMENT, NET (Continued)

Future lease payments were as follows as of June September 30, 2024:

(Dollars in thousands)		
2024	$ 605	$ 300
2025	1,124	1,134
2026	1,068	1,079
2027	999	1,010
2028	822	833
Thereafter	1,647	1,674
Total undiscounted lease payments	6,265	6,030
Less effect of discounting	(1,343)	(1,366)
Present value of future lease payments (lease liability)	$ 4,922	$ 4,664

5. DEPOSITS

Our total deposits at June September 30, 2024 totaled $4.15 $4.46 billion, an increase of $246 $555 million, or 6.3% 14.2%, from December 31, 2023. The components of our outstanding balances at June September 30, 2024 and December 31, 2023, and percentage change in deposits from the end of 2023 to the end of the second third quarter of 2024, are as follows:

	June 30, 2024		December 31, 2023		Percent Increase	September 30, 2024		December 31, 2023		Percent Increase
(Dollars in thousands)	Balance	%	Balance	%	(Decrease)	Balance	%	Balance	%	(Decrease)
Noninterest-bearing checking	$ 1,119,888	27.0 %	$ 1,247,640	32.1 %	(10.2)%	$ 1,182,219	26.4 %	$ 1,247,640	32.1 %	(5.2)%
Interest-bearing checking	641,923	15.5	635,790	16.3	1.0	710,749	16.0	635,790	16.3	11.8
Money market	1,268,759	30.6	957,434	24.5	32.5	1,441,774	32.4	957,434	24.5	50.6
Savings	246,614	5.9	262,566	6.7	(6.1)	230,046	5.2	262,566	6.7	(12.4)
Time, under $100,000	198,147	4.8	175,741	4.5	12.7	207,255	4.7	175,741	4.5	17.9
Time, $100,000 and over	518,090	12.5	453,366	11.6	14.3	560,701	12.5	453,366	11.6	23.7
Total local deposits	3,993,421	96.3	3,732,537	95.7	7.0	4,332,744	97.2	3,732,537	95.7	16.1
Out-of-area time, $100,000 and over	153,153	3.7	168,381	4.3	(9.0)	123,154	2.8	168,381	4.3	(26.9)
Total deposits	$ 4,146,574	100.0 %	$ 3,900,918	100.0 %	6.3 %	$ 4,455,898	100.0 %	$ 3,900,918	100.0 %	14.2 %

6. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase (“repurchase agreements”) are offered principally to certain large deposit customers. Information relating to our repurchase agreements is as follows:

(Dollars in thousands)	Six Months Ended June 30, 2024	Twelve Months Ended December 31, 2023	Nine Months Ended September 30, 2024	Twelve Months Ended December 31, 2023
Outstanding balance at end of period	$ 221,898	$ 229,734	$ 220,936	$ 229,734
Average interest rate at end of period	3.43 %	3.17 %	4.00 %	3.17 %
Average daily balance during the period	$ 221,103	$ 204,334	$ 226,139	$ 204,334
Average interest rate during the period	3.09 %	1.33 %	3.32 %	1.33 %
Maximum daily balance during the period	$ 258,253	$ 269,324	$ 278,227	$ 269,324

Repurchase agreements have maturities of one business day. Repurchase agreements are treated as financings, and the obligations to repurchase securities sold are reflected as liabilities on our Consolidated Balance Sheets. Repurchase agreements are secured by U.S. Government agency securities with an aggregate fair value equal to the aggregate outstanding balance of the repurchase agreements. The securities, which are included in securities available for sale on our Consolidated Balance Sheets, are held in safekeeping by a correspondent bank.

7. **FEDERAL HOME LOAN BANK OF INDIANAPOLIS ADVANCES**

FHLBI bullet advances totaled $400 $390 million at June September 30, 2024, and were scheduled to mature at varying dates from July November 2024 through January 2029, with fixed rates of interest from 0.69% to 4.54% and averaging 3.03%. FHLBI bullet advances totaled $440 million at December 31, 2023, and were scheduled to mature at varying dates from January 2024 through December 2028, with fixed rates of interest from 0.55% to 5.05% and averaging 2.93%.

Maturities of FHLBI bullet advances as of June September 30, 2024 were as follows:

(Dollars in thousands)			
2024	$	40,000	$ 30,000
2025		80,000	80,000
2026		80,000	80,000
2027		100,000	100,000
2028		90,000	90,000
Thereafter		10,000	10,000

(Continued)

7. **FEDERAL HOME LOAN BANK OF INDIANAPOLIS ADVANCES** (Continued)

FHLBI amortizing advances totaled $27.1 million as of June September 30, 2024, with an average rate of 2.52% and with final maturities in 2042. FHLBI amortizing advances totaled $27.9 million as of December 31, 2023, with an average rate of 2.52% and with final maturities in 2042. FHLBI amortizing advances are obtained periodically to assist in managing interest rate risk associated with certain longer-term fixed rate commercial loans, with annual principal payments that closely align with the scheduled amortization of the underlying commercial loans.

Scheduled principal payments on FHLBI amortizing advances as of June September 30, 2024 were as follows:

(Dollars in thousands)		
2024	$	0
2025		826
2026		862
2027		899
2028		938
Thereafter		23,558

Each advance is payable at its maturity date, and is subject to a prepayment fee if paid prior to the maturity date. The 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. Our borrowing line of credit as of June September 30, 2024 totaled $1.01 $1.03 billion, with remaining availability based on collateral of $576 $607 million.

8. **COMMITMENTS AND OFF-BALANCE SHEET RISK**

We are a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to extend credit and standby letters of credit. Loan commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Standby letters of credit are conditional commitments issued by our bank to guarantee the performance of a customer to a third party.

Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized, if any, in the balance sheet. Our maximum exposure to loan loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. We use the same credit policies in making commitments and conditional obligations as we do for on-balance sheet instruments. Collateral, such as accounts receivable, securities, inventory, and property and equipment, is generally obtained based on management's credit assessment of the borrower.

We are required to consider expected credit losses associated with loan commitments over the contractual period in which we are exposed to credit risk on the underlying commitments unless the obligation is unconditionally cancellable by us. Any allowance for off-balance sheet credit exposures is reported as an other liability on our Consolidated Balance Sheet and is increased or decreased via other noninterest expense on our Consolidated Statement of Income. The calculation includes consideration of the likelihood that funding will occur and forecasted credit losses on commitments expected to be funded over their estimated lives. The allowance is calculated using the same aggregate reserve rates calculated for the funded portion of loans at the portfolio level applied to the amount of commitments expected to be funded.

(Continued)

8. COMMITMENTS AND OFF-BALANCE SHEET RISK (Continued)

For commercial lines of credit, retail lines of credit and credit card average outstanding balances, we determined allowance requirements by calculating the difference between the average percent outstanding of the funded commitments over the past several years to actual percent outstanding at the end of the period and applying the respective expected loss allocation factors to the difference as this difference represents the average of unfunded commitments we expect to eventually be drawn upon. For commitments to make loans, we determine an allowance by applying the expected loss allocation factor to the amount expected to be funded. The calculated allowance aggregated $0.7 $0.8 million and $1.3 million as of June September 30, 2024 and December 31, 2023, respectively. We do not reserve for residential mortgage construction loans, as the loans are for one year or less and draws are governed by the receipt and satisfactory review of contractor and subcontractor sworn statements, lien waivers and title insurance company endorsements. Letters of credit are rarely drawn.

At June September 30, 2024, and December 31, 2023, the rates on existing off-balance sheet instruments were substantially equivalent to current market rates, considering the underlying credit standing of the counterparties.

A summary of the contractual amounts of our financial instruments with off-balance sheet risk at June September 30, 2024 and December 31, 2023 is as follows:

(Dollars in thousands)	June 30, 2024	December 31, 2023	September 30, 2024	December 31, 2023
Commercial unused lines of credit	$ 1,504,628	$ 1,557,429	$ 1,459,779	$ 1,557,429
Unused lines of credit secured by 1–4 family residential properties	77,957	74,120	81,467	74,120
Credit card unused lines of credit	157,426	142,096	163,380	142,096
Other consumer unused lines of credit	40,822	50,063	37,578	50,063
Commitments to make loans	255,382	270,403	236,048	270,403
Standby letters of credit	19,937	19,393	19,092	19,393
	$ 2,056,152	$ 2,113,504	$ 1,997,344	$ 2,113,504

9. DERIVATIVES AND HEDGING ACTIVITIES

We are exposed to certain risks arising from both business operations and economic conditions. We principally manage the exposure to a wide variety of operational risks through core business activities. Economic risks, including interest rate, liquidity and credit risk, are primarily administered via the amount, sources and duration of assets and liabilities. Derivative financial instruments may also be used to assist in managing economic risks.

Derivatives not designated as hedges are not speculative and result from a service provided to certain commercial loan borrowers. We execute interest rate swaps with commercial banking customers desiring longer-term fixed rate loans, while simultaneously entering into interest rate swaps with correspondent banks to offset the impact of the interest rate swaps with the commercial banking customers. The net result is the desired floating rate loans and a minimization of the risk exposure of the interest rate swap transactions.

As the interest rate swaps associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the commercial banking customer interest rate swaps and the offsetting interest rate swaps with the correspondent banks are recognized directly to earnings. Fees paid to us by the correspondent banks are recognized as noninterest income on our Consolidated Statements of Income on the settlement date.

(Continued)

9. DERIVATIVES AND HEDGING ACTIVITIES (Continued)

The fair values of derivative instruments as of June September 30, 2024, are reflected in the following table.

(Dollars in thousands)	Notional Amount	Balance Sheet Location	Fair Value	Notional Amount	Balance Sheet Location	Fair Value
Derivative Assets						
Interest rate swaps	$ 822,106	Other Assets	$ 30,164	$ 858,310	Other Assets	$ 29,646
Derivative Liabilities						
Interest rate swaps	820,536	Other Liabilities	30,520	856,283	Other Liabilities	30,255

The effect of interest rate swaps that are not designated as hedging instruments resulted in income expense of $0.1 million during the first six nine months of 2024 that was recorded in other noninterest expense on our Consolidated Statements of Income. We have master netting arrangements with our correspondent banks that allow us to net receivables and payables. The netting agreement also allows us to net related cash collateral received and transferred up to the fair value exposure amount. We have elected to not offset these transactions on the Consolidated Balance Sheets. The netting of derivative instruments as of June September 30, 2024 is presented in the following table.

(Dollars in thousands)	Net Amounts Recognized	Gross Amounts Not Offset on the Consolidated Balance Sheet: Financial Instruments	Gross Amounts Not Offset on the Consolidated Balance Sheet: Cash Collateral Received or Posted	Net Amount	Net Amounts Recognized	Gross Amounts Not Offset on the Consolidated Balance Sheet: Financial Instruments	Gross Amounts Not Offset on the Consolidated Balance Sheet: Cash Collateral Received or Posted	Net Amount
Derivative Assets								
Interest rate swaps	$ 30,164	$ 2,867	$ 21,810	$ 5,487	$ 29,646	$ 11,782	$ 2,620	$ 15,244
Derivative Liabilities								
Interest rate swaps	30,520	2,867	1,750	25,903	30,255	11,782	8,030	10,443

The fair values of derivative instruments as of December 31, 2023, are reflected in the following table.

(Dollars in thousands)	Notional Amount	Balance Sheet Location	Fair Value
Derivative Assets			
Interest rate swaps	$ 676,526	Other Assets	$ 27,505
Derivative Liabilities			
Interest rate swaps	674,499	Other Liabilities	27,964

(Continued)

9. DERIVATIVES AND HEDGING ACTIVITIES (Continued)

The effect of interest rate swaps that are not designated as hedging instruments resulted in expense of $0.1 million during the six nine months ended June September 30, 2023 that was recorded in other noninterest expense on our Consolidated Statements of Income. The netting of derivative instruments as of December 31, 2023 is presented in the following table.

		Gross Amounts Not Offset on the Consolidated Balance Sheet		
(Dollars in thousands)	Net Amounts Recognized	Financial Instruments	Cash Collateral Received or Posted	Net Amount
Derivative Assets				
Interest rate swaps	$ 27,505	$ 5,175	$ 14,010	$ 8,320
Derivative Liabilities				
Interest rate swaps	27,964	5,175	3,120	19,669

(Continued)

10. FAIR VALUES OF FINANCIAL INSTRUMENTS

The carrying amounts, estimated fair values and level within the fair value hierarchy of financial instruments were as follows as of June September 30, 2024 and December 31, 2023:

	Level in Fair Value	June 30, 2024		December 31, 2023		Level in Fair Value	September 30, 2024		December 31, 2023	
		Carrying	Fair	Carrying	Fair		Carrying	Fair	Carrying	Fair

(Dollars in thousands)	Hierarchy	Values	Values	Values	Values	Hierarchy	Values	Values	Values	Values
Financial assets:										
Cash and cash equivalents	Level 1	$ 197,629	$ 197,629	$ 130,533	$ 130,533	Level 1	$ 328,546	$ 328,546	$ 130,533	$ 130,533
Securities available for sale	(1)	647,907	647,907	617,092	617,092	(1)	703,375	703,375	617,092	617,092
FHLBI stock	(2)	21,513	21,513	21,513	21,513	(2)	21,513	21,513	21,513	21,513
Loans, net	Level 3	4,382,837	4,346,871	4,253,844	4,191,644	Level 3	4,496,428	4,553,183	4,253,844	4,191,644
Mortgage loans held for sale	Level 2	22,126	22,466	18,607	19,027	Level 2	29,260	29,713	18,607	19,027
Accrued interest receivable	Level 2	20,975	20,975	19,806	19,806	Level 2	22,414	22,414	19,806	19,806
Interest rate swaps	Level 2	30,164	30,164	27,505	27,505	Level 2	29,646	29,646	27,505	27,505
Financial liabilities:										
Deposits	Level 2	4,146,574	4,030,366	3,900,918	3,814,778	Level 2	4,455,898	4,377,403	3,900,918	3,814,778
Securities sold under agreements to repurchase	Level 2	221,898	221,898	229,734	229,734	Level 2	220,936	220,936	229,734	229,734
FHLBI advances	Level 2	427,083	410,487	467,910	454,857	Level 2	417,083	410,057	467,910	454,857
Subordinated debentures	Level 2	49,987	49,994	49,644	49,653	Level 2	50,158	50,165	49,644	49,653
Subordinated notes	Level 2	89,143	79,064	88,971	77,218	Level 2	89,228	80,925	88,971	77,218
Accrued interest payable	Level 2	10,705	10,705	9,012	9,012	Level 2	10,267	10,267	9,012	9,012
Interest rate swaps	Level 2	30,520	30,520	27,964	27,964	Level 2	30,255	30,255	27,964	27,964

(1) See Note 11 for a description of the fair value hierarchy as well as a disclosure of levels for classes of financial assets and liabilities.

(2) It is not practical to determine the fair value of FHLBI stock due to transferability restrictions; therefore, fair value is estimated at carrying amount.

Carrying amount is the estimated fair value for cash and cash equivalents, FHLBI stock, accrued interest receivable and payable, noninterest-bearing checking accounts and securities sold under agreements to repurchase. Security fair values are based on market prices or dealer quotes, and if no such information is available, on the rate and term of the security and information about the issuer. Fair value for loans is based on an exit price model as required by ASU 2016-01, taking into account inputs such as discounted cash flows, probability of default and loss given default assumptions. The fair value for deposit accounts other than noninterest-bearing checking accounts is based on discounted cash flows using current market rates applied to the estimated life. The fair value of mortgage servicing rights is estimated using a valuation model that calculates the present value of estimated future net servicing cash flows, taking into consideration expected mortgage loan prepayment rates, discount rates, servicing costs and other economic factors, which are determined based on current market conditions. The fair values of subordinated debentures, subordinated notes, and FHLBI advances are based on current rates for similar financing. The fair values of interest rate swaps are based on discounted cash flows using forecasted yield curves, along with insignificant unobservable inputs, such as borrower credit spreads. The fair value of other off-balance sheet items is estimated to be nominal.

(Continued)

11. FAIR VALUES

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability, or in the absence of a principal market, the most advantageous market for the asset or liability. The price of the principal (or most advantageous) market used to measure the fair value of the asset or liability is not adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

We are required to use valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from independent sources, or unobservable, meaning those that reflect our own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances. In that regard, we utilize a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that we have the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be derived from or corroborated by observable market data by correlation or other means.

Level 3: Significant unobservable inputs that reflect our own conclusions about the assumptions that market participants would use in pricing an asset or liability.

The following is a description of our valuation methodologies used to measure and disclose the fair values of our financial assets and liabilities that are recorded at fair value on a recurring or nonrecurring basis:

Securities available for sale. Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based on quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models. Level 2 securities include U.S. Government agency debt obligations, mortgage-backed securities issued or guaranteed by U.S. Government agencies, and municipal general obligation and revenue bonds. Level 3 securities include bonds issued by certain relatively small municipalities located within our markets that have very limited marketability due to their size and lack of ratings from a recognized rating service. We carry these bonds at historical cost, which we believe approximates fair value, unless our periodic financial analysis or other information that becomes known to us necessitates an impairment. There was no such impairment as of June September 30, 2024, or December 31, 2023. We have no Level 1 securities available for sale.

Derivatives. We measure fair value utilizing models that use primarily market observable inputs, such as forecasted yield curves. Insignificant unobservable inputs, such as borrower credit spreads, are also utilized.

11. FAIR VALUES (Continued)

Mortgage loans held for sale. Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or market, as determined by outstanding commitments from investors, and are measured on a nonrecurring basis. Fair value is based on independent quoted market prices, where applicable, or the prices for other mortgage whole loans with similar characteristics. As of June September 30, 2024 and December 31, 2023, we determined the fair value of our mortgage loans held for sale to be $22.5 $29.7 million and $19.0 million, respectively.

Loans. We do not record loans at fair value on a recurring basis. However, from time to time, we record nonrecurring fair value adjustments to collateral dependent loans to reflect partial write-downs or specific reserves that are based on the observable market price or current estimated value of the collateral. These loans are reported in the nonrecurring table below at initial recognition of significant borrower distress and on an ongoing basis until recovery or charge-off. The fair values of distressed loans are determined using either the sales comparison approach or income approach; respective unobservable inputs for the approaches consist of adjustments for differences between comparable sales and the utilization of appropriate capitalization rates.

Foreclosed Assets. At time of foreclosure or repossession, foreclosed and repossessed assets are adjusted to fair value less costs to sell upon transfer of the loans to foreclosed and repossessed assets, establishing a new cost basis. We subsequently adjust estimated fair value of foreclosed assets on a nonrecurring basis to reflect write-downs based on revised fair value estimates. The fair values of parcels of other real estate owned are determined using either the sales comparison approach or income approach; respective unobservable inputs for the approaches consist of adjustments for differences between comparable sales and the utilization of appropriate capitalization rates.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The balances of assets and liabilities measured at fair value on a recurring basis as of June September 30, 2024 are as follows:

(Dollars in thousands)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities								
U.S. Government agency debt obligations	$ 427,882	$ 0	$ 427,882	$ 0	$ 469,321	$ 0	$ 469,321	$ 0
Mortgage-backed securities	26,978	0	26,978	0	27,600	0	27,600	0
Municipal general obligation bonds	164,306	0	163,861	445	176,845	0	176,394	451
Municipal revenue bonds	28,241	0	28,241	0	29,109	0	29,109	0
Other investments	500	0	500	0	500	0	500	0
Interest rate swaps	30,164	0	30,164	0	29,646	0	29,646	0
Total assets	$ 678,071	$ 0	$ 677,626	$ 445	$ 733,021	$ 0	$ 732,570	$ 451
Interest rate swaps	30,520	0	30,520	0	30,255	0	30,255	0
Total liabilities	$ 30,520	$ 0	$ 30,520	$ 0	$ 30,255	$ 0	$ 30,255	$ 0

(Continued)

11. FAIR VALUES (Continued)

There were no sales, purchases or transfers in or out of Level 3 during the six nine months ended June September 30, 2024. The $0.1 million reduction in Level 3 municipal general obligation bonds during the six nine months ended June September 30, 2024 reflects the scheduled maturities of such bonds.

The balances of assets and liabilities measured at fair value on a recurring basis as of December 31, 2023 are as follows:

	Quoted Prices in Active Markets for Identical	Significant Other Observable	Significant Unobservable

(Dollars in thousands)	Total	Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)
Available for sale securities				
U.S. Government agency debt obligations	$ 390,496	$ 0	$ 390,496	$ 0
Mortgage-backed securities	29,473	0	29,473	0
Municipal general obligation bonds	167,860	0	167,347	513
Municipal revenue bonds	28,763	0	28,763	0
Other investments	500	0	500	0
Interest rate swaps	27,505	0	27,505	0
Total assets	$ 644,597	$ 0	$ 644,084	$ 513
Interest rate swaps	27,964	0	27,964	0
Total liabilities	$ 27,964	$ 0	$ 27,964	$ 0

There were no sales, purchases or transfers in or out of Level 3 during 2023. The $0.1 million reduction in Level 3 municipal general obligation bonds during 2023 reflects the scheduled maturities of such bonds.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

The balances of assets and liabilities measured at fair value on a nonrecurring basis as of June September 30, 2024 are as follows:

(Dollars in thousands)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Collateral dependent loans	$ 1,345	$ 0	$ 0	$ 1,345	$ 2,292	$ 0	$ 0	$ 2,292
Foreclosed assets	0	0	0	0	0	0	0	0
Total	$ 1,345	$ 0	$ 0	$ 1,345	$ 2,292	$ 0	$ 0	$ 2,292

(Continued)

11. <u>FAIR VALUES</u> (Continued)

The balances of assets and liabilities measured at fair value on a nonrecurring basis as of December 31, 2023 are as follows:

	Quoted Prices in Active Markets for Identical	Significant Other Observable	Significant Unobservable

(Dollars in thousands)	Total	Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)
Collateral dependent loans	$ 1,434	$ 0	$ 0	$ 1,434
Foreclosed assets	200	0	0	200
Total	$ 1,634	$ 0	$ 0	$ 1,634

The carrying values are based on the estimated value of the property or other assets. Fair value estimates of collateral on nonperforming loans and foreclosed assets are reviewed periodically. Our credit policies establish criteria for obtaining appraisals and determining internal value estimates. We may also adjust outside appraisals and internal evaluations based on identifiable trends within our markets, such as sales of similar properties or assets, listing prices and offers received. In addition, we may discount certain appraised and internal value estimates to address current distressed market conditions. We generally assign a discount factor range of 25% to 35% for commercial real estate dependent loans and foreclosed assets, and a discount factor range of 25% to 50% for residential-related properties. In a vast majority of cases, we assign a 10% discount factor for estimated selling costs.

12. REGULATORY MATTERS

We are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings, and other factors, and the regulators can lower classifications in certain cases. Failure to meet various capital requirements can initiate regulatory action that could have a direct material effect on the financial statements.

The prompt corrective action regulations provide five classifications, including well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If an institution is not well capitalized, regulatory approval is required to accept brokered deposits. Subject to limited exceptions, no institution may make a capital distribution if, after making the distribution, it would be undercapitalized. If an institution is undercapitalized, it is subject to close monitoring by its principal federal regulator, its asset growth and expansion are restricted, and plans for capital restoration are required. In addition, further specific types of restrictions may be imposed on the institution at the discretion of the federal regulator. As of June September 30, 2024 and December 31, 2023, our bank was in the well capitalized category under the regulatory framework for prompt corrective action. There are no conditions or events since June September 30, 2024, that we believe have changed our bank's categorization.

12. REGULATORY MATTERS (Continued)

Our actual capital levels and the minimum levels required to be categorized as adequately and well capitalized were:

	Actual		Minimum Required for Capital Adequacy Purposes		Minimum Required to be Well Capitalized Under Prompt Corrective Action Regulations		Actual		Minimum Required for Capital Adequacy Purposes		Minimum Required to be Well Capitalized Under Prompt Corrective Action Regulations	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
June 30, 2024												
September 30, 2024												

Total capital (to risk weighted assets)												
Consolidated	$ 748,097	14.1 %	$ 424,553	8.0 %	$ NA	NA%	$ 764,653	14.1 %	$ 433,140	8.0 %	$ NA	NA%
Bank	730,638	13.9	421,594	8.0	526,992	10.0 %	747,020	13.9	430,184	8.0	537,729	10.0 %
Tier 1 capital (to risk weighted assets)												
Consolidated	602,835	11.4	318,415	6.0	NA	NA	618,038	11.4	324,855	6.0	NA	NA
Bank	674,519	12.8	316,196	6.0	421,594	8.0	689,634	12.8	322,638	6.0	430,184	8.0
Common equity tier 1 (to risk weighted assets)												
Consolidated	554,922	10.5	238,812	4.5	NA	NA	569,954	10.5	243,642	4.5	NA	NA
Bank	674,519	12.8	237,147	4.5	342,545	6.5	689,634	12.8	241,979	4.5	349,524	6.5
Tier 1 capital (to average assets)												
Consolidated	602,835	10.9	222,193	4.0	NA	NA	618,038	10.7	231,529	4.0	NA	NA
Bank	674,519	12.2	220,842	4.0	276,053	5.0	689,634	12.0	230,051	4.0	287,564	5.0
December 31, 2023												
Total capital (to risk weighted assets)												
Consolidated	$ 710,905	13.7 %	$ 415,841	8.0 %	$ NA	NA%	$ 710,905	13.7 %	$ 415,841	8.0 %	$ NA	NA%
Bank	694,431	13.4	414,019	8.0	517,524	10.0	694,431	13.4	414,019	8.0	517,524	10.0
Tier 1 capital (to risk weighted assets)												
Consolidated	570,730	11.0	311,881	6.0	NA	NA	570,730	11.0	311,881	6.0	NA	NA
Bank	643,227	12.4	310,514	6.0	414,019	8.0	643,227	12.4	310,514	6.0	414,019	8.0
Common equity tier 1 (to risk weighted assets)												
Consolidated	523,160	10.1	233,911	4.5	NA	NA	523,160	10.1	233,911	4.5	NA	NA
Bank	643,227	12.4	232,886	4.5	336,391	6.5	643,227	12.4	232,886	4.5	336,391	6.5
Tier 1 capital (to average assets)												
Consolidated	570,730	10.8	210,527	4.0	NA	NA	570,730	10.8	210,527	4.0	NA	NA
Bank	643,227	12.2	210,427	4.0	263,034	5.0	643,227	12.2	210,427	4.0	263,034	5.0

(Continued)

12. REGULATORY MATTERS (Continued)

Our consolidated capital levels as of June September 30, 2024 and December 31, 2023 include $47.9 million $48.1 million and $47.6 million, respectively, of trust preferred securities. Under applicable Federal Reserve guidelines, the trust preferred securities constitute a restricted core capital element. The guidelines provide that the aggregate amount of restricted core elements that may be included in our Tier 1 capital must not exceed 25% of the sum of all core capital elements, including restricted core capital elements, net of goodwill less any associated deferred tax liability. Our ability to include the trust preferred securities in Tier 1 capital in accordance with the guidelines is not affected by the provision of the Dodd-Frank Act generally restricting such treatment, because (i) the trust preferred securities were issued before May 19, 2010, and (ii) our total consolidated assets as of December 31, 2009 were less than $15.0 billion. As of June September 30, 2024 and December 31, 2023, all $47.9 million $48.1 million and $47.6 million, respectively, of the trust preferred securities were included in our consolidated Tier 1 capital.

Under the final BASEL III capital rules that became effective on January 1, 2015, there is a requirement for a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets which is in addition to the other minimum risk-based capital standards in the rule. Institutions that do not meet this required capital buffer will become subject to progressively more stringent limitations on the percentage of earnings that can be paid out in cash dividends or used for stock repurchases and on the payment of discretionary bonuses to senior executive management. The capital buffer requirement was phased in over three years beginning in 2016. The capital buffer requirement raised the minimum required common equity Tier 1 capital ratio to 7.0%, the Tier 1 capital ratio to 8.5% and the total capital ratio to 10.5% on a fully phased-in basis on January 1, 2019. We believe that, as of June September 30, 2024, our bank meets all capital adequacy requirements under the BASEL III capital rules on a fully phased-in basis.

Our and our bank's ability to pay cash and stock dividends is subject to limitations under various laws and regulations and to prudent and sound banking practices. On January 11, 2024, our Board of Directors declared a cash dividend on our common stock in the amount of $0.35 per share that was paid on March 13, 2024 to shareholders of record as of March 1, 2024. On April 11, 2024, our Board of Directors declared a cash dividend on our common stock in the amount of $0.35 per share that was paid on June 19, 2024, to shareholders of record as of June 7, 2024. On July 11, 2024, our Board of Directors declared a cash dividend on our common stock in the amount of $0.36 per share that was paid on September 18, 2024, to shareholders of record as of September 6, 2024.

As of June September 30, 2024, we had the ability to repurchase up to $6.8 million in common stock shares from time to time in open market transactions at prevailing market prices or by other means in accordance with applicable regulations as part of a $20.0 million common stock repurchase program announced in May 2021. No shares were repurchased during the first six nine months of 2024. Historically, stock repurchases have been funded from cash dividends paid to us from our bank. Additional repurchases may be made in future periods under the authorized plan or a new plan, which would also likely be funded from cash dividends paid to us from our bank. The actual timing, number and value of shares repurchased will be determined by us in our discretion and will depend on a number of factors, including the stock price, capital position, financial performance, general market and economic conditions, alternative uses of capital and applicable legal requirements.

13. SUBSEQUENT EVENTS

On July 11, October 10, 2024, our Board of Directors declared a cash dividend on our common stock in the amount of $0.36 per share that will be paid on September December 18, 2024, to shareholders of record as of September December 6, 2024.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements

This report contains forward-looking statements that are based on management's beliefs, assumptions, current expectations, estimates and projections about the financial services industry, the economy, and our company. Words such as "anticipates," "believes," "estimates," "expects," "intends," "plans," "projects," "indicates," "strategy," "future," "likely," "may," "should," "will," and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions ("Future Factors") that are difficult to predict with regard to timing, extent, likelihood and degree of occurrence. Therefore, actual results and outcomes may materially differ from what may be expressed or forecasted in such forward-looking statements. We undertake no obligation to update, amend, or clarify forward-looking statements, whether as a result of new information, future events (whether anticipated or unanticipated), or otherwise.

Future Factors include, among others, adverse changes in interest rates and interest rate relationships; increasing rates of inflation and slower growth rates or recession; significant declines in the value of commercial real estate; market volatility; demand for products and services; climate impacts; labor markets; the degree of competition by traditional and non-traditional financial services companies; changes in banking regulation or actions by bank regulators; changes in tax laws and other laws and regulations applicable to us; changes in prices, levies, and assessments; the impact of technological advances; potential cyber-attacks, information security breaches, and other criminal activities; litigation liabilities; governmental and regulatory policy changes; the outcomes of existing or future contingencies; trends in customer behavior as well as their ability to repay loans; changes in local real estate values; damage to our reputation resulting from adverse publicity, regulatory actions, litigation, operational failures, and the failure to meet client expectations and other facts; the transition from Libor to SOFR; changes in the national and local economies; unstable political and economic environments; disease outbreaks, such as the Covid-19 pandemic or similar public health threats, and measures implemented to combat them; and other risk factors, including those described in our annual report on Form 10-K for the year ended December 31, 2023. These are representative of the Future Factors that could cause a difference between an ultimate actual outcome and a forward-looking statement.

Introduction

The following discussion compares the financial condition of Mercantile Bank Corporation and its consolidated subsidiaries, including Mercantile Community Partners, LLC ("MCP") and Mercantile Bank ("our bank") and its subsidiaries, including Mercantile Insurance Center, Inc. at June 30, 2024 September 30, 2024 and December 31, 2023 and the results of operations for the six three and nine months ended June 30, 2024 September 30, 2024 and June 30, 2023. 2023. This discussion should be read in conjunction with the interim consolidated financial statements and footnotes included in this report. Unless the text clearly suggests otherwise, references in this report to “us,” “we,” “our” or “the company” include Mercantile Bank Corporation and its consolidated subsidiaries referred to above.

Critical Accounting Policies

Accounting principles generally accepted in the United States of America (“GAAP”) are complex and require us to apply significant judgment to various accounting, reporting and disclosure matters. We must use assumptions and estimates to apply these principles where actual measurements are not possible or practical. This Management’s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our unaudited financial statements included in this report. For a discussion of our significant accounting estimates, see Note 1 of the Notes to our Consolidated Financial Statements included in our Form 10-K for the fiscal year ended December 31, 2023 (Commission file number 000-26719). Our critical accounting policies are highly dependent upon subjective or complex judgments, assumptions and estimates. Changes in such estimates may have a significant impact on the financial statements, and actual results may differ from those estimates. We have reviewed the application of these policies with the Audit Committee of our Board of Directors.

Allowance for Credit Losses (“allowance”): The allowance is maintained at a level we believe is adequate to absorb estimated credit losses identified and expected in the loan portfolio. Our evaluation of the adequacy of the allowance is an estimate based on historical credit loss experience, the nature and volume of the loan portfolio, information about specific borrower situations and estimated collateral values, guidance from bank regulatory agencies, and assessments of the impact of current and anticipated economic conditions on the loan portfolio. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in our judgment, should be charged-off. Credit losses are charged against the allowance when we believe the uncollectability of a loan is likely. The balance of the allowance represents our best estimate, but significant downturns in circumstances relating to loan quality or economic conditions could result in a requirement for an increased allowance in the future. Likewise, an upturn in loan quality or improved economic conditions may result in a decline in the required allowance in the future. In either instance, unanticipated changes could have a significant impact on the allowance and operating results. The allowance is increased through a provision charged to operating expense. Uncollectable loans are charged-off through the allowance, while recoveries of loans previously charged-off are added to the allowance.

See Note 1- Significant Accounting Policies in this Quarterly Report on Form 10-Q for further detailed descriptions of our estimation process and methodology related to the allowance. See also Note 3 – Loans and Allowance for Credit Losses in this Quarterly Report on Form 10-Q for further information regarding our loan portfolio and allowance.

Mortgage Servicing Rights: Mortgage servicing rights are recognized as assets based on the allocated fair value of retained servicing rights on loans sold. Servicing rights are carried at the lower of amortized cost or fair value and are expensed in proportion to, and over the period of, estimated net servicing income. We utilize a discounted cash flow model to determine the value of our servicing rights. The valuation model utilizes mortgage loan prepayment speeds, the remaining life of the mortgage loan pool, delinquency rates, our cost to service loans, and other factors to determine the cash flow that we will receive from servicing each grouping of loans. These cash flows are then discounted based on current interest rate assumptions to arrive at the fair value of the right to service those loans. Impairment is evaluated quarterly based on the fair value of the servicing rights, using groupings of the underlying loans classified by interest rates. Any impairment of a grouping is reported as a valuation allowance.

Goodwill: Accounting rules require us to determine the fair value of all the assets and liabilities of an acquired entity, and to record their fair value on the date of acquisition. We employ a variety of means in determining fair value, including the use of discounted cash flow analysis, market comparisons and projected future revenue streams. For those items for which we conclude that we have the appropriate expertise to determine fair value, we may choose to use our own calculation of fair value. In other cases, where the fair value is not readily determined, consultation with outside parties is used to determine fair value. Once valuations have been determined, the net difference between the price paid for the acquired entity and the fair value of the balance sheet is recorded as goodwill. Goodwill is assessed at least annually for impairment, with any such impairment recognized in the period identified. A more frequent assessment is performed if there are material changes in the market place or within the organizational structure.

Financial Overview

We reported net income of $18.8 $19.6 million, or $1.17 $1.22 per diluted share, for the second third quarter of 2024, compared with net income of $20.4 $20.9 million, or $1.27 $1.30 per diluted share, during the second third quarter of 2023. Net income during the first six nine months of 2024 totaled $40.3 million $60.0 million, or $2.50 $3.72 per diluted share, compared to $41.3 million $62.2 million, or $2.58 $3.89 per diluted share, during the first six nine months of 2023.

While noninterest income increased during both periods, net income was negatively impacted by higher provisions for credit losses expected lower net interest income and increased noninterest expenses. Net interest income levels were relatively similar in both comparable periods. Provision expense was lower during the third quarter of 2024 when compared to the third quarter of 2023, and was the same during the first nine months of 2024 as it was during the first nine months of 2023.

Commercial loans increased $118 million $233 million during the first six nine months of 2024, providing for an annualized growth rate of about 7% 9%. Multi-family and residential rental property loans increased $56.8 million $93.8 million, in large part reflecting draws on multi-family construction loans, while non-owner occupied commercial real estate ("CRE") loans grew $23.4 million $60.3 million, and commercial and industrial loans increased $21.2 million $58.2 million and owner occupied CRE loans were up $29.0 million. As a percent of total commercial loans, commercial and industrial loans and owner occupied CRE loans combined equaled 56.8% 56.5% as of June 30, 2024 September 30, 2024, compared to 57.7% at December 31, 2023. The commercial loan pipeline remains strong, and as of June 30, 2024 September 30, 2024, we had $320 million $241 million in unfunded loan commitments on commercial construction and development loans that are in the construction phase.

Residential mortgage loans increased $12.2 million $6.7 million during the first six nine months of 2024, representing an annualized growth rate of about 3% 1%. Residential mortgage loan originations totaled $203 million $364 million during the first six nine months of 2024, of which almost 75% 77% were originated with the intent to sell.

The overall quality of our loan portfolio remains strong, with nonperforming loans equaling 0.21% 0.22% of total loans as of June 30, 2024 September 30, 2024. Accruing loans past due 30 to 89 days remain very low, and we had no foreclosed properties at quarter end. Gross loan charge-offs totaled less than $0.1 million during the first six nine months of 2024, while recoveries of prior period loan charge-offs aggregated $0.7 million $0.8 million.

We recorded a provision expense of $3.5 million $1.1 million and $4.8 million $5.9 million during the second third quarter and first six nine months of 2024, respectively. The second third quarter 2024 provision expense primarily reflects a specific allocation an increase in environmental factor allocations associated with a nonperforming nonreal-estate-related the commercial and industrial loan relationship segment and allocations necessitated by net loan growth, which were partially mitigated by lower baseline reserve allocations stemming decreases in the calculated allowance due primarily from ongoing low levels the payoffs of loan charge-offs. two larger accruing problem commercial lending relationships. The first six months' provision expense also includes a specific allocation recorded during the first quarter nine months of 2024 also includes specific allocations for a different two nonperforming nonreal-estate-related non-real-estate-related commercial loan relationship. relationships that were established during the first and second quarters, along with allocations necessitated by net loan growth.

Interest-earning deposits, a vast majority of which is comprised of funds on deposit with the Federal Reserve Bank of Chicago, averaged $166 million $206 million during the first six nine months of 2024, compared to $48.1 million $102 million during the first six nine months of 2023. The higher average balance primarily reflects an increase in deposits and our desire to maintain higher levels of on balance sheet liquidity.

Total deposits increased $246 million $555 million during the first six nine months of 2024, providing for an annualized growth rate of about 13% 19%. Growth in money market deposit accounts and local time deposits more than offset a reduction in business noninterest-bearing checking accounts primarily reflecting the customary level of customers' tax and bonus payments and partnership distributions during the early part of each first quarter. Federal Home Loan Bank of Indianapolis ("FHLBI") advances declined $40.8 million $50.8 million during the first six nine months of 2024. Wholesale funds, comprised of out-of-area deposits and FHLBI advances, totaled $580 million $540 million, or about 12% 11% of total funds, as of June 30, 2024 September 30, 2024.

Net interest income declined $0.5 million $0.7 million and $1.5 million $2.2 million during the second third quarter and first six nine months of 2024, respectively, compared to the same prior-year time periods, reflecting the net impact of $13.0 million $12.2 million and $29.2 million $41.4 million increases in interest income and $13.5 million $12.9 million and $30.7 million $43.6 million increases in interest expense, during the respective periods. Our net interest margin declined 42 46 basis points and 48 basis points during the second third quarter and first six nine months of 2024, respectively, compared to the same prior-year time periods. Although our yield on earning assets increased 46 30 basis points and 58 47 basis points, respectively, during those time periods, our cost of funds was up 88 76 basis points and 106 95 basis points, respectively. While we experienced rapid growth in our earning asset yield during the period of March of 2022 through July of 2023 when the Federal Open Market Committee ("FOMC") raised the targeted federal funds rate by 525 basis points, meaningful increases in our cost of funds did not begin to materialize until the latter part of 2022 when competition for deposit balances increased deposit rates, and depositors began to move funds from no- and lower-costing deposit types to higher-costing deposit products. Our net interest margin peaked during the latter part of 2022 and early stages of 2023.

Noninterest income totaled $9.7 million and $20.5 million $30.2 million during the second third quarter and first six nine months of 2024, respectively, compared to $7.6 million $9.2 million and $14.6 million $23.8 million during the second third quarter and first six nine months of 2023, respectively. The higher level of noninterest income during both time periods primarily stemmed from increases in service charges on deposit accounts, primarily reflecting growth in treasury management fees, and mortgage banking income. Growth in interest rate swap payroll service income and revenue associated with a private equity investment also benefited noninterest income during both time periods, while revenue associated with a private equity investment positively impacted noninterest income during the first six months of 2024. Benefit and benefit claims on bank owned life insurance policies were recorded during the first quarter of 2024.

Noninterest expense totaled $29.7 million $32.3 million and $59.7 million $92.0 million during the second third quarter and first six nine months of 2024, respectively, compared to $27.8 million $28.9 million and $56.4 million $85.3 million during the second third quarter and first six nine months of 2023, respectively. The higher level of noninterest expense primarily resulted from increased compensation and benefit costs along with higher data processing expenses. Contributions to The Mercantile Bank Foundation ("Foundation") totaled $0.7 million during the first six months quarter of 2024. 2024 and $0.4 million during the third quarter of 2023.

Financial Condition

Our total assets increased $249 million $564 million during the first six nine months of 2024, and totaled $5.60 billion $5.92 billion as of June 30, 2024 September 30, 2024. Total loans increased $134 million $249 million, interest-earning deposits were up $75.6 million $181 million and securities available for sale grew $30.8 million $86.3 million. Total deposits increased $246 million $555 million, while FHLBI advances decreased $40.8 million $50.8 million during the first six nine months of 2024.

Commercial loans increased $118 million $233 million during the first six nine months of 2024, providing for an annualized growth rate of about 7% 9%. Multi-family and residential rental property loans increased $56.8 million $93.8 million, in large part reflecting draws on multi-family construction loans, while non-owner occupied CRE loans grew $23.4 million $60.3 million, and commercial and industrial loans increased $21.2 million $58.2 million and owner occupied CRE loans were up $29.0 million. As a percent of total commercial loans, commercial and industrial loans and owner occupied CRE loans combined equaled 56.8% 56.5% as of June 30, 2024 September 30, 2024, compared to 57.7% at December 31, 2023. Commercial loans totaled $3.53 billion, or 79.6% of total loans, as of June 30, 2024, compared to $3.42 billion, or 79.4% of total loans, as of December 31, 2023.

As of June 30, 2024 September 30, 2024, we had $320 million $241 million in unfunded loan commitments on commercial construction and development loans that are in the construction phase, which we expect to be drawn over the next 12 to 18 months. Our current pipeline reports indicate continued strong commercial loan funding opportunities in future periods, including approximately $255 million $236 million in new lending commitments, a majority of which we expect to be accepted and funded over the next 12 to 18 months. Our commercial bankers also report ongoing additional opportunities they are currently discussing with existing and potentially new borrowers. We remain committed to prudent underwriting standards that provide for an appropriate yield and risk relationship, as well as concentration limits we have established within our commercial loan portfolio. Usage of existing commercial lines of credit averaged about 40% 42% during the first six nine months of 2024, unchanged from the average compared to approximately 40% during all of 2023.

Residential mortgage loans increased $12.2 million $6.7 million during the first six nine months of 2024, representing an annualized growth rate of about 3% 1%. Residential mortgage loan originations totaled $203 million $364 million during the first six nine months of 2024, of which almost 75% 77% were originated with the intent to sell. Residential mortgage loan originations totaled $190 million $298 million during the first six nine months of 2023, of which about 40% 49% were originated with the intent to sell. In mid-2023, we altered our residential mortgage loan pricing strategy to encourage borrowers to select fixed rate residential mortgage loan products that we could sell rather than selecting adjustable rate residential mortgage loan products that we had to fund on our balance sheet. The strategy not only provided for less residential mortgage loans being funded on our balance sheet, but also resulted in higher mortgage banking income.

Other consumer-related loans totaled $55.3 million $60.6 million, or 1.2% 1.3% of total loans, at June 30, 2024 September 30, 2024, compared to $51.1 million, or 1.1% of total loans, as of December 31, 2023. We expect this loan portfolio segment to remain relatively stable in dollar amount but decline as a percentage of total loans in future periods as the commercial loan segment grows.

Our credit policies establish guidelines to manage credit risk and asset quality. These guidelines include loan review and early identification of problem loans to provide effective loan portfolio administration. The credit policies and procedures are meant to minimize the risk and uncertainties inherent in lending. In following these policies and procedures, we must rely on estimates, appraisals and evaluations of loans and the possibility that changes in these could occur quickly because of changing economic conditions or other factors. Identified problem loans, which exhibit characteristics (financial or otherwise) that could cause the loans to become nonperforming or require modification in the future, are included on an internal watch list. Senior management and the Board of Directors review this list regularly. Market value estimates of collateral on nonperforming loans, as well as on foreclosed and repossessed assets, are reviewed periodically. We also have a process in place to monitor whether value estimates at each quarter-end are reflective of current market conditions. Our credit policies establish criteria for obtaining appraisals and determining internal value estimates. We may also adjust outside and internal valuations based on identifiable trends within our markets, such as recent sales of similar properties or assets, listing prices and offers received. In addition, we may discount certain appraised and internal value estimates to address distressed market conditions.

Nonperforming loans totaled $9.1 million $9.9 million, or 0.2% of total loans, as of June 30, 2024 September 30, 2024, compared to $3.4 million, or 0.1% of total loans, as of December 31, 2023. Nonperforming assets, comprised of nonaccrual loans, loans past due 90 days or more and accruing interest and foreclosed properties, totaled $9.1 million $9.9 million (0.2% of total assets) as of June 30, 2024 September 30, 2024, compared to $3.6 million (0.1% of total assets) as of December 31, 2023. The volume of nonperforming assets has remained under 0.3% of total assets since year-end 2015. Given the low levels of nonperforming loans and accruing loans 30 to 89 days delinquent, combined with what we believe are strong credit administration practices, we are pleased with the overall quality of the loan portfolio.

During the first six nine months of 2024, loan charge-offs totaled less than $0.1 million, while recoveries of prior period loan charge-offs equaled $0.7 million $0.8 million. We continue our collection efforts on charged-off loans and expect to record recoveries in future periods; however, given the nature of these efforts, it is not practical to forecast the dollar amount and timing of the recoveries.

The primary risk elements with respect to commercial loans are the financial condition of the borrower, the sufficiency of collateral, and timeliness of scheduled payments. We have a policy of requesting and reviewing periodic financial statements from commercial loan customers, and we have a disciplined and formalized review of the existence of collateral and its value. The primary risk element with respect to each residential mortgage loan and consumer loan is the timeliness of scheduled payments. We have a reporting system that monitors past due loans and have adopted policies to pursue creditors' rights in order to preserve our collateral position.

See Note 1- Significant Accounting Policies in this Quarterly Report on Form 10-Q for further detailed descriptions of our estimation process and methodology related to the allowance. See also Note 3 – Loans and Allowance for Credit Losses in this Quarterly Report on Form 10-Q for further information regarding our loan portfolio and allowance.

MERCANTILE BANK CORPORATION

The allowance equaled $55.4 million $56.6 million, or 1.25% 1.24% of total loans and 607% 573% of nonperforming loans, as of June 30, 2024 September 30, 2024. As of June 30, 2024 September 30, 2024, the allowance was comprised of $49.1 million $50.3 million in general reserves relating to performing loans and $6.3 million in specific reserves on other loans, primarily nonperforming loans. Loans with an aggregate carrying value of $0.3 million as of June 30, 2024 September 30, 2024 had been subject to previous partial charge-offs aggregating $0.3 million over the past several years. As of June 30, 2024 September 30, 2024, there were no specific reserves allocated to loans that had been subject to a previous partial charge-off.

Although we believe the allowance is adequate to absorb loan losses in our loan portfolio as they arise, there can be no assurance that we will not sustain loan losses in any given period that could be substantial in relation to, or greater than, the size of the allowance.

The following table reflects the composition of our allowance for credit losses, nonaccrual loans, and net charge-offs as of and for the six nine months ended June 30, 2024 September 30, 2024.

(Dollars in thousands)	Allowance for Credit Losses	Total Loans	Allowance for Credit Losses to Total Loans	Nonaccrual Loans	Nonaccrual Loans to Total Loans	Allowance for Credit Losses to Nonaccrual Loans	Net Charge-Offs	Annualized Net Charge-Offs to Average Loans	Allowance for Credit Losses	Total Loans	Allowance for Credit Losses to Total Loans	Nonaccrual Loans	Nonaccrual Loans to Total Loans	A f L N
Commercial:														
Commercial and industrial	$ 13,215	$ 1,275,745	1.04 %	$ 6,840	0.54 %	193.20 %	$ (298)	(0.05)%	$ 14,914	$ 1,312,774	1.14 %	$ 6,769	0.52 %	
Vacant land, land development and residential construction	393	76,247	0.52	0	0	NA	(3)	(0.01)	354	66,374	0.53	0	0	

Real estate – owner occupied	7,190	732,844	0.98	0	0	NA	(159)	(0.04)	7,528	746,714	1.01	0	0
Real estate – non-owner occupied	10,249	1,059,053	0.97	0	0	NA	0	0.00	10,600	1,095,988	0.97	0	0
Real estate – multi-family and residential rental	3,589	389,390	0.92	0	0	NA	(8)	(0.00)	3,224	426,438	0.76	0	0
Total commercial	34,636	3,533,279	0.98	6,840	0.19	506.37	(468)	(0.03)	36,620	3,648,288	1.00	6,769	0.19
Retail:													
1-4 family mortgages	18,513	849,625	2.18	2,183	0.26	848.05	(96)	(0.02)	18,192	844,093	2.16	3,005	0.36
Other consumer	2,250	55,341	4.07	106	0.19	NA	(130)	(0.49)	1,725	60,637	2.84	103	0.17
Total retail	20,763	904,966	2.29	2,289	0.25	907.08	(226)	(0.05)	19,917	904,730	2.20	3,108	0.34
Unallocated	9	0	0	0	0	0	0	0.00	53	NA	NA	NA	NA
Total	$ 55,408	$ 4,438,245	1.25 %	$ 9,129	0.21 %	606.94 %	$ (694)	(0.03)%	$ 56,590	$ 4,553,018	1.24 %	$ 9,877	0.22 %

Securities available for sale increased $30.8 million $86.3 million during the first six nine months of 2024, totaling $648 million $703 million as of June 30, 2024 September 30, 2024. Purchases of U.S. Government agency bonds during the first six nine months of 2024 aggregated $46.0 million $83.6 million, while proceeds from maturities totaled $10.0 million $22.0 million. There were no purchases of U.S. Government agency guaranteed mortgage-backed securities during the first six nine months of 2024, while proceeds from principal paydowns aggregated $1.6 million $2.6 million. Purchases of municipal bonds totaled $11.6 million $20.9 million during the first six nine months of 2024, while proceeds from matured municipal bonds aggregated $11.6 million $12.0 million. At June 30, 2024 September 30, 2024, the portfolio was primarily comprised of U.S. Government agency bonds (66% (67%), municipal bonds (30% (29%) and U.S. Government agency guaranteed mortgage-backed securities (4%). All of our securities are currently designated as available for sale, and are therefore stated at fair value. The fair value of securities designated as available for sale at June 30, 2024 September 30, 2024 totaled $648 million $703 million, including a net unrealized loss of $67.4 million $45.7 million. The net unrealized loss equaled $63.9 million as of December 31, 2023. After we considered whether the securities were issued by the federal government or its agencies and whether downgrades by bond rating agencies had occurred, we determined that the unrealized losses were due to changing interest rate environments. We maintain the securities portfolio at levels to provide adequate pledging and secondary liquidity for our daily operations. In addition, the securities portfolio serves a primary interest rate risk management function. We expect any upcoming purchases to generally consist of U.S. Government agency bonds and municipal bonds, with the securities portfolio maintained at about 12% to 15% of total assets.

Market values on our U.S. Government agency bonds, mortgage-backed securities issued or guaranteed by U.S. Government agencies and municipal bonds are generally determined on a monthly basis with the assistance of a third-party vendor. Evaluated pricing models that vary by type of security and incorporate available market data are utilized. Standard inputs include issuer and type of security, benchmark yields, reported trades, broker/dealer quotes and issuer spreads. The market value of certain non-rated securities issued by relatively small municipalities generally located within our markets is estimated at carrying value. We believe our valuation methodology provides for a reasonable estimation of market value, and that it is consistent with the requirements of accounting guidelines.

FHLBI stock totaled $21.5 million as of June 30, 2024 September 30, 2024, unchanged from December 31, 2023. Our investment in FHLBI stock is necessary to engage in the FHLBI's advance and other financing programs. We have regularly received quarterly cash dividends, and we expect a cash dividend will continue to be paid in future quarterly periods.

Interest-earning deposits, a vast majority of which is comprised of funds on deposit with the Federal Reserve Bank of Chicago, averaged $166 million $206 million during the first six nine months of 2024, compared to $48.1 million $102 million during the first six nine months of 2023. The higher average balance primarily reflects an increase in local deposits and our desire to maintain higher levels of on balance sheet liquidity. Historically, we have maintained interest-earning deposits at approximately $75.0 million.

Net premises and equipment equaled $50.2 million $54.2 million at June 30, 2024 September 30, 2024, compared to $50.9 million as of December 31, 2023. Depreciation expense totaled $3.1 million $4.6 million during the first six nine months of 2024, while investments associated with the purchase of an office building that will house certain administrative functions and renovations of existing facilities totaled $2.4 million $7.9 million.

Total deposits increased $246 million $555 million during the first six nine months of 2024, providing for an annualized growth rate of about 13% 19%. Growth in money market deposit accounts and local time deposits more than offset a reduction in business noninterest-bearing checking accounts primarily reflecting the customary level of customers' tax and bonus payments and partnership distributions during the early part of each first quarter. FHLBI advances declined $50.8 million during the first nine months of 2024. Wholesale funds, comprised of out-of-area deposits and FHLBI advances, totaled $580 million $540 million, or about 12% 11% of total funds, as of June 30, 2024, compared to $636 million, or about 14% of total funds, as of December 31, 2023 September 30, 2024.

Noninterest-bearing deposits decreased $128 million $65.4 million during the first six nine months of 2024, in large part reflecting the aforementioned customary level of customers' tax and bonus payments and partnership distributions in early 2024. Interest-bearing checking accounts increased $6.1 million $75.0 million, primarily reflecting growth in and savings transfers from noninterest-bearing checking accounts to the IntraFi insured cash sweep account product. Savings deposits were down $16.0 million. $32.5 million, in large part reflecting transfers to higher-costing money market deposit and time deposit accounts. Money market deposit accounts increased $311 million $484 million, and local time deposits were up $71.9 million $139 million, primarily reflecting growth in deposits from existing customers and initial deposits from new customers. customers stemming from our strategic initiative to grow local deposits to lower the loan-to-deposit ratio. Out-of-area deposits were down $45.2 million from year-end 2023.

Uninsured deposits totaled approximately $2.0 billion $2.3 billion, or 49% about 53% of total deposits, as of June 30, 2024 September 30, 2024, compared to approximately $1.9 billion, or 48% 49% of total deposits, as of December 31, 2023. The uninsured amounts are estimates based on the methodologies and assumptions we use for regulatory reporting requirements.

Securities sold under agreements to repurchase ("sweep accounts") decreased $7.8 million $8.8 million during the first six nine months of 2024, totaling $222 million $221 million as of June 30, 2024 September 30, 2024. 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. The average balance of sweep accounts equaled $221 million $226 million during the first six nine months of 2024, with a high daily balance of $258 million $278 million and a low balance of $166 million. Our sweep account program entails transferring collected funds from certain business noninterest-bearing checking accounts and savings deposits into overnight interest-bearing repurchase agreements. Such sweep accounts are not deposit accounts and are not afforded federal deposit insurance, and are accounted for as secured borrowings. All of our repurchase agreements are accounted for as secured borrowings.

FHLBI advances decreased $40.8 million $50.8 million during the first six nine months of 2024, totaling $427 million $417 million as of June 30, 2024 September 30, 2024. Bullet advances aggregating $10.0 million were obtained during the first six nine months of 2024, while bullet advance maturities aggregated $50.0 million $60.0 million. 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. 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. Our borrowing line of credit as of June 30, 2024 September 30, 2024 totaled $1.01 billion $1.03 billion, with remaining availability based on collateral equaling $576 million $607 million.

Shareholders' equity increased $29.0 million $61.2 million during the first six nine months of 2024, equaling $551 million $583 million at June 30, 2024 September 30, 2024. Positively impacting shareholders' equity during the first six nine months of 2024 was net income of $40.3 million $60.0 million, which was partially offset by the payment of cash dividends totaling $11.1 million $16.8 million. 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 $3.6 million. A $2.8 million $14.4 million after-tax decrease increase in the market value of our available for sale securities portfolio, reflecting an increase a decline in market interest rates, negatively positively impacted shareholders' equity during the first six nine months of 2024.

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. These funds are used to fund loans, meet deposit withdrawals, and operate our company. 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.

To assist in providing needed funds and managing interest rate risk, we periodically obtain monies from wholesale funding sources. Wholesale funds, comprised of out-of-area deposits and FHLBI advances, totaled $580 million $540 million, or about 12% 11% of total funds, as of June 30, 2024 September 30, 2024, compared to $636 million, or about 14% of total funds, as of December 31, 2023.

Sweep accounts decreased $7.8 million $8.8 million during the first six nine months of 2024, totaling $222 million $221 million as of June 30, 2024 September 30, 2024. 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. The average balance of sweep accounts equaled $221 million $226 million during the first six nine months of 2024, with a high daily balance of $258 million $278 million and a low balance of $166 million. Our sweep account program entails transferring collected funds from certain business noninterest-bearing checking accounts and savings deposits into overnight interest-bearing repurchase agreements. Such sweep accounts are not deposit accounts and are not afforded federal deposit insurance, and are accounted for as secured borrowings. All of our repurchase agreements are accounted for as secured borrowings.

Information regarding our repurchase agreements as of June 30, 2024 September 30, 2024 and during the first six nine months of 2024 is as follows:

(Dollars in thousands)		
Outstanding balance at June 30, 2024	$	221,898
Weighted average interest rate at June 30, 2024		3.43
Maximum daily balance six months ended June 30, 2024	$	258,253
Average daily balance for six months ended June 30, 2024	$	221,103
Weighted average interest rate for six months ended June 30, 2024		3.09

(Dollars in thousands)		
Outstanding balance at September 30, 2024	$	220,936
Weighted average interest rate at September 30, 2024		4.00
Maximum daily balance nine months ended September 30, 2024	$	278,227
Average daily balance for nine months ended September 30, 2024	$	226,139
Weighted average interest rate for nine months ended September 30, 2024		3.32

FHLBI advances decreased $40.8 million $50.8 million during the first six nine months of 2024, totaling $427 million $417 million as of June 30, 2024 September 30, 2024. Bullet advances aggregating $10.0 million were obtained during the first six nine months of 2024, while bullet advance maturities aggregated $50.0 million $60.0 million. 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. 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. Our borrowing line of credit as of June 30, 2024 September 30, 2024 totaled $1.01 billion $1.03 billion, with remaining availability based on collateral equaling $576 million $607 million.

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. We did not access these lines of credit during the first six nine months of 2024. In contrast, our interest-earning deposit balance with the Federal Reserve Bank of Chicago averaged $154 million $192 million during the first six nine months of 2024. We also have a line of credit through the Discount Window of the Federal Reserve Bank of Chicago. Using certain municipal bonds as collateral, we could have borrowed up to $25.7 million $158 million as of June 30, 2024 September 30, 2024. We did not utilize this line of credit during the first six nine 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.

The following table reflects, as of June 30, 2024 September 30, 2024, significant fixed and determinable contractual obligations to third parties by payment date, excluding accrued interest:

(Dollars in thousands)	One Year or Less	One to Three Years	Three to Five Years	Over Five Years	Total	One Year or Less	One to Three Years	Three to Five Years	Over Five Years	Total
Deposits without a stated maturity	$ 3,277,184	$ 0	$ 0	$ 0	$ 3,277,184	$ 3,564,788	$ 0	$ 0	$ 0	$ 3,564,788
Time deposits	763,227	62,772	43,391	0	869,390	841,582	44,029	5,499	0	891,110
Short-term borrowings	221,898	0	0	0	221,898	220,936	0	0	0	220,936
Federal Home Loan Bank advances	90,862	181,838	132,000	22,383	427,083	90,862	181,838	122,000	22,383	417,083
Subordinated debentures	0	0	0	49,987	49,987	0	0	0	50,158	50,158
Subordinated notes	0	0	0	89,143	89,143	0	0	0	89,228	89,228
Other borrowed money	0	0	0	1,216	1,216	0	0	0	1,263	1,263
Premises and equipment leases	936	2,155	1,719	1,455	6,265	1,161	2,112	1,625	1,132	6,030

The balance of certificates of deposit exceeding the FDIC insured limit and their maturity profile as of June 30, 2024 September 30, 2024 and December 31, 2023 were as follows:

(Dollars in thousands)	June 30, 2024	December 31, 2023	September 30, 2024	December 31, 2023
Up to three months	$ 91,187	$ 104,400	$ 66,906	$ 104,400
Three months to six months	95,556	86,500	106,411	86,500
Six months to twelve months	153,816	133,800	164,427	133,800
Over twelve months	73,445	104,200	16,472	104,200
Total certificates of deposit	$ 414,004	$ 428,900	$ 354,216	$ 428,900

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. As of June 30, 2024 September 30, 2024, we had a total of $2.04 billion $1.98 billion in unfunded loan commitments and $19.9 million $19.1 million in unfunded standby letters of credit. Of the total unfunded loan commitments, $1.78 billion $1.74 billion were commitments available as lines of credit to be drawn at any time as customers' cash needs vary, and $255 million $236 million were for loan commitments generally expected to close and become funded within the next 12 to 18 months. We regularly monitor fluctuations in loan balances and commitment levels, and include such data in our overall liquidity management.

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. We have developed contingency funding plans that provide a framework for meeting liquidity disruptions.

Capital Resources

Shareholders' equity increased $29.0 million $61.2 million during the first six nine months of 2024, equaling $551 million $583 million at June 30, 2024 September 30, 2024. Positively impacting shareholders' equity during the first six nine months of 2024 was net income of $40.3 million $60.0 million, which was partially offset by the payment of cash dividends totaling $11.1 million $16.8 million. 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 $3.6 million. A $2.8 million $14.4 million after-tax decrease increase in the market value of our available for sale securities portfolio, reflecting an increase a decline in market interest rates, negatively positively impacted shareholders' equity during the first six nine months of 2024.

We and our bank are subject to regulatory capital requirements administered by state and federal banking agencies. Failure to meet the various capital requirements can initiate regulatory action that could have a direct material effect on the financial statements. As of June 30, 2024 September 30, 2024, our bank's total risk-based capital ratio was 13.9%, compared to 13.4% at December 31, 2023. Our bank's total regulatory capital increased $36.2 million $52.6 million during the first six nine months of 2024, in large part reflecting net income totaling $45.9 million $68.2 million, which was partially offset by cash dividends paid to us aggregating $14.6 million $21.8 million. Our bank's total risk-based capital ratio was also impacted by a $94.7 million $202 million increase in total risk-weighted assets. assets, in large part reflecting net growth in commercial loans. As of June 30, 2024 September 30, 2024, our bank's total regulatory capital equaled $731 million $747 million, or $204 million $209 million in excess of the 10.0% minimum that is among the requirements to be categorized as “well capitalized.” Our and our bank’s capital ratios as of June 30, 2024 September 30, 2024 and December 31, 2023 are disclosed in Note 12 of the Notes to Consolidated Financial Statements.

Results of Operations

We recorded net income of $18.8 million $19.6 million, or $1.17 $1.22 per basic and diluted share, for the second third quarter of 2024, compared with net income of $20.4 million $20.9 million, or $1.27 $1.30 per basic and diluted share, for the second third quarter of 2023. We recorded net income of $40.3 million $60.0 million, or $2.50 $3.72 per basic and diluted share, for the first six nine months of 2024, compared with net income of $41.3 million $62.2 million, or $2.58 $3.89 per basic and diluted share, for the first six nine months of 2023. Diluted earnings per share decreased $0.10, $0.08, or 7.9% 6.2%, during the second third quarter of 2024, and $0.08, $0.17, or 3.1% 4.4%, during the first six nine months of 2024, compared with the respective prior-year periods.

The lower levels of net income during the second third quarter and first six nine months of 2024 compared to the respective 2023 periods primarily resulted from higher increased overhead costs and provisions for credit losses and decreased net interest income, which more than offset notable increases in higher levels of noninterest income. 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 nine months of 2024. 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. 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. The growth in noninterest income during the 2024 periods mainly primarily resulted from increased mortgage banking income and service charges on accounts; treasury management fees; 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. Revenue associated with a private equity investment and benefit claims on bank owned life insurance policies positively impacted noninterest income during the first six nine months of 2024. The provision expense recorded during the third quarter of 2024 primarily reflected an increase in environmental factor allocations and allocations necessitated by net loan growth, which were partially offset by decreases in the calculated allowance due primarily from the payoffs of two larger problem commercial lending relationships previously included in the collective evaluation. The provision expense recorded during the first nine months of 2024 mainly reflected individual allocations assigned to two different nonperforming nonreal-estate-related commercial loan relationships and allocations necessitated by net loan growth, which were partly offset by the aforementioned reduction in the calculated allowance. The provision expense recorded during the prior-year third quarter mainly reflected the establishment of a specific reserve for a distressed commercial loan relationship, a qualitative factor assessment for local economic conditions, allocations necessitated by net loan growth, and a higher reserve for residential mortgage loans stemming from slower principal prepayment rates and the resulting extended average life of the portfolio. The provision expense recorded during the first nine months of 2023 generally reflected allocations necessitated by net loan growth, adjustments to historical loss information to better represent our expectations for future credit losses, and the previously mentioned higher reserve for residential mortgage loans.

Interest income during the second third quarter of 2024 was $78.9 million $83.4 million, an increase of $13.0 million $12.3 million, or 19.7% 17.2%, from the $65.9 million $71.1 million earned during the second third quarter of 2023. The increase resulted from growth in, and a higher yield on, average earning assets. Average earning assets equaled $5.22 billion $5.45 billion during the second third quarter of 2024, up $502 million $561 million, or 10.7% 11.5%, from the level of $4.72 billion $4.89 billion during the second quarter of 2023; prior-year third quarter; average loans were up $379 million $413 million, average interest-earning deposits grew $118 million $75.3 million, and average securities increased $6.0 million $73.2 million. The yield on average earning assets was 6.07% 6.08% during the second third quarter of 2024, up from 5.61% 5.78% during the respective 2023 period. The higher yield primarily resulted from an increased yield on loans. The yield on loans was 6.64% 6.69% during the second third quarter of 2024, up from 6.19% 6.37% during the second third 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 curb elevated inflation levels. levels and a significant level of commercial loans being originated over the past 15 months in the higher interest rate environment. The FOMC increased the targeted federal funds rate by 75 25 basis points during the period in July of March 2023, through July 2023, during at which time average variable-rate commercial loans represented approximately 68% 65% of average total commercial loans. The positive impact of the rate hike was partially mitigated by the FOMC’s lowering of the targeted federal funds rate by 50 basis points in mid-September 2024. Increased yields on securities and interest-earning deposits, reflecting the rising higher 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 improved yield on average earning assets.

Interest income during the first six nine months of 2024 was $156 million $239 million, an increase of $29.2 million $41.5 million, or 23.1% 21.0%, from the $126 million $198 million earned during the first six nine months of 2023. The increase primarily resulted stemmed from growth in, and a higher yield on, average earning assets. Average earning assets equaled $5.15 billion $5.25 billion during the first six nine months of 2024, up $499 million $520 million, or 10.7% 11.0%, from the level of $4.65 billion $4.73 billion during the first six nine months of 2023; average loans increased $375 million $387 million, average interest-earning deposits were up $118 million $104 million, and average securities grew $6.2 million $28.7 million. The yield on average earning assets was 6.06% during the first six nine months of 2024, up from 5.48% 5.59% during the respective 2023 period. The higher yield mainly resulted from an increased yield on loans. The yield on loans, was 6.65% which rose from 6.16% during the first six nine months of 2024, up from 6.05% 2023 to 6.66% during the first six nine months of 2023 2024 primarily due to higher interest rates on variable-rate commercial loans stemming from FOMC rate hikes. hikes and a substantial level of commercial loans being originated since the beginning of 2023 in the higher interest rate environment. 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. Higher yields The positive impact of the rate hikes was somewhat mitigated by the FOMC's lowering of the targeted federal funds rate by 50 basis points in mid-September 2024. An increased yield on securities, and interest-earning deposits, reflecting the rising higher 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 improved yield on average earning assets.

Interest expense during the second third quarter of 2024 was $31.8 million $35.1 million, an increase of $13.4 million $12.9 million, or 73.2% 58.3%, from the $18.4 million $22.2 million expensed during the second third quarter of 2023. The increase is mainly attributable to a higher average weighted cost of interest-bearing liabilities, which rose grew from 2.37% 2.69% during the second third quarter of 2023 to 3.40% 3.53% during the current-year second third quarter primarily due to higher rates on deposits and borrowings. 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. Reflecting the rising higher interest rate environment, the cost of interest-bearing, non-time deposits increased from 1.85% 2.17% during the second third quarter of 2023 to 2.79% 2.96% during the second third quarter of 2024, while the cost of time deposits increased from 3.27% 3.85% to 4.73% 4.79% during the respective periods. The higher heightened cost of interest-bearing, non-time deposits primarily resulted from increased rates paid on, and levels of, higher-cost money market and interest-bearing business checking accounts. The cost of borrowed funds increased from 2.90% 2.98% during the second third quarter of 2023 to 3.56% 3.75% during the second third quarter of 2024 mainly due to higher costs of sweep accounts and FHLBI advances. The cost of sweep accounts increased from 1.45% 1.33% during the second third quarter of 2023 to 3.12% 3.73% during the second third quarter of 2024, while the cost of FHLBI advances increased from 2.68% 2.78% to 2.96% 3.00% during the respective periods, reflecting the rising higher interest rate environment. Growth in interest-bearing liabilities also contributed to the increase in interest expense during the second third quarter of 2024 compared to the prior-year second third quarter. Average interest-bearing liabilities totaled $3.76 billion $3.94 billion during the second third quarter of 2024, compared to $3.11 billion $3.27 billion during the second third quarter of 2023, representing an increase of $652 million $669 million, or 21.0% 20.4%.

Interest expense during the first six nine months of 2024 was $61.2 million $96.3 million, an increase of $30.7 million $43.6 million, or 101% 82.9%, from the $30.5 million $52.7 million expensed during the first six nine months of 2023. The increase primarily stemmed from a higher average weighted cost of interest-bearing liabilities, which rose from 2.06% 2.28% during the first six nine months of 2023 to 3.33% 3.40% during the respective 2024 period mainly due to higher rates on deposits and borrowings. 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. Reflecting the rising higher interest rate environment, the cost of interest-bearing, non-time deposits increased from 1.56% 1.77% during the first six nine months of 2023 to 2.70% 2.80% during the first six nine months of 2024, while the cost of time deposits increased from 2.84% 3.25% to 4.67% 4.71% during the respective periods. The higher cost of interest-bearing, non-time deposits primarily resulted from increased rates paid on, and amounts of, money market and interest-bearing business checking accounts. The cost of borrowed funds increased from 2.73% 2.82% during the first six nine months of 2023 to 3.53% 3.60% during the first six nine months of 2024 mainly due to higher costs of sweep accounts and FHLBI advances. The cost of sweep accounts increased from 1.17% 1.22% during the first six nine months of 2023 to 3.09% 3.32% during the first six nine months of 2024, while the cost of FHLBI advances increased from 2.44% 2.57% to 2.94% 2.96% during the respective periods, reflecting the rising higher interest rate environment. Growth in interest-bearing liabilities also contributed to the increase in interest expense during the first six nine months of 2024 compared to the respective 2023 period. Average interest-bearing liabilities totaled $3.68 billion $3.77 billion during the first six nine months of 2024, compared to $2.98 billion $3.08 billion during the first six nine months of 2023, representing an increase of $698 million $688 million, or 23.4% 22.3%.

Net interest income during the second third quarter of 2024 was $47.1 million $48.3 million, a decrease of $0.5 million $0.7 million, or 1.0% 1.4%, from the $47.6 million $49.0 million earned during the respective 2023 period. The decline reflected a lower net interest margin, which more than offset growth in earning assets. The net interest margin was 3.63% 3.52% in the second third quarter of 2024, down from 4.05% 3.98% in the prior-year second third quarter due to a higher cost of funds, which more than offset an increased yield on earning assets. The cost of funds equaled 2.44% 2.56% in the second third quarter of 2024, up from 1.56% 1.80% in the second third quarter of 2023 primarily due to higher costs of deposits and borrowed funds, reflecting the impact of the rising higher interest rate environment. environment, and 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. The increased yield on average earning assets mainly resulted from a higher yield on commercial loans primarily stemming from the previously mentioned FOMC rate hikes. hike and a significant level of commercial loans being originated over the past 15 months in the higher interest rate environment.

Net interest income during the first six nine months of 2024 was $94.4 million $143 million, a decline of $1.5 million $2.2 million, or 1.6% 1.5%, from the $95.9 million $145 million earned during the respective 2023 period. The decrease reflected a lower net interest margin, which more than offset growth in earning assets. The net interest margin was 3.68% 3.62% in the first six nine months of 2024, down from 4.16% 4.10% in the first six nine months of 2023 due to an increased cost of funds, which more than offset a higher yield on earning assets. The cost of funds equaled 2.38% 2.44% in the first six nine months of 2024, up from 1.32% 1.49% in the respective prior-year period mainly due to higher costs of deposits and borrowed funds, reflecting the impact of the rising heightened interest rate environment. environment, and a change in funding mix, comprising of a decline in noninterest-bearing and lower-cost deposits and an increase in higher-cost money market accounts and time deposits resulting from deposit migration and new deposit relationships. The increased yield on average earning assets mainly primarily resulted from a higher yield on commercial loans primarily mainly stemming from the aforementioned FOMC rate increases. hikes and a substantial level of commercial loans being originated since the beginning of 2023 in the higher interest rate environment.

The following tables set forth certain information relating to our consolidated average interest-earning assets and interest-bearing liabilities and reflect the average yield on assets and average cost of liabilities for the second third quarters and first six nine months of 2024 and 2023. Such yields and costs are derived by dividing income or expense by the average daily balance of assets or liabilities, respectively, for the period presented. Tax-exempt securities interest income and yield for the second third quarters and first six nine months of 2024 and 2023 have been computed on a tax equivalent basis using a marginal tax rate of 21.0%. Securities interest income was increased by $60,000 in the second third quarter of both 2024 and 2023 and $120,000 $180,000 in the first six nine months of both 2024 and 2023 for this non-GAAP, but industry standard, adjustment. These adjustments equated to increases in our net interest margin of less than one basis point for each of the 2024 and 2023 periods.

MERCANTILE BANK CORPORATION

	Quarters ended June 30,						Quarters ended September 30,					
	2024			2023			2024			2023		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	(dollars in thousands)						(dollars in thousands)					
ASSETS												
Loans	$ 4,396,475	$ 72,819	6.64 %	$ 4,017,690	$ 62,006	6.19 %	$ 4,467,365	$ 75,316	6.69 %	$ 4,054,279	$ 65,073	6.37 %
Investment securities	640,627	3,684	2.30	634,607	3,171	2.00	699,872	4,256	2.43	626,714	3,333	2.13
Interest-earning deposits	182,636	2,436	5.28	64,958	801	4.88	284,187	3,900	5.37	208,932	2,807	5.26
Total interest - earning assets	5,219,738	78,939	6.07	4,717,255	65,978	5.61	5,451,424	83,472	6.08	4,889,925	71,213	5.78
Allowance for credit losses	(53,163)			(44,025)			(56,267)			(46,060)		
Other assets	366,687			315,244			385,954			336,982		
Total assets	$ 5,533,262			$ 4,988,474			$ 5,781,111			$ 5,180,847		
LIABILITIES AND SHAREHOLDERS' EQUITY												
Interest-bearing deposits	$ 2,957,011	$ 24,710	3.35 %	$ 2,278,877	$ 12,379	2.18 %	$ 3,145,799	$ 27,588	3.48 %	$ 2,466,834	$ 16,143	2.60 %
Short-term borrowings	225,607	1,757	3.12	237,270	914	1.55	236,103	2,219	3.73	207,410	693	1.33
Federal Home Loan Bank advances	434,776	3,252	2.96	450,767	3,051	2.68	419,475	3,218	3.00	459,649	3,270	2.78
Other borrowings	140,194	2,088	5.89	139,068	2,023	5.75	140,499	2,095	5.83	139,317	2,086	5.86
Total interest-bearing liabilities	3,757,588	31,807	3.40	3,105,982	18,367	2.37	3,941,876	35,120	3.53	3,273,210	22,192	2.69
Noninterest-bearing deposits	1,139,887			1,361,901			1,191,642			1,359,238		
Other liabilities	94,919			46,608			80,741			63,777		
Shareholders' equity	540,868			473,983			566,852			484,622		

Total liabilities and shareholders' equity	$ 5,533,262			$ 4,988,474			$ 5,781,111			$ 5,180,847		
Net interest income		$ 47,132			$ 47,611			$ 48,352			$ 49,021	
Net interest rate spread			2.67%			3.24%			2.55%			3.09%
Net interest spread on average assets			3.41%			3.82%			3.32%			3.75%
Net interest margin on earning assets			3.63%			4.05%			3.52%			3.98%

MERCANTILE BANK CORPORATION

	Six months ended June 30,						Nine months ended September 30,					
	2024			2023			2024			2023		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	(dollars in thousands)						(dollars in thousands)					
ASSETS												
Loans	$ 4,347,819	$ 144,089	6.65%	$ 3,973,255	$ 119,159	6.05%	$ 4,387,958	$ 219,405	6.66%	$ 4,000,561	$ 184,232	6.16%
Investment securities	637,363	7,166	2.25	631,137	6,238	1.98	658,352	11,422	2.31	629,646	9,572	2.03
Interest-earning deposits	166,435	4,469	5.31	48,113	1,125	4.65	205,972	8,369	5.34	102,309	3,932	5.07
Total interest - earning assets	5,151,617	155,724	6.06	4,652,505	126,522	5.48	5,252,282	239,196	6.06	4,732,516	197,736	5.59
Allowance for credit losses	(52,104)			(43,553)			(53,502)			(44,398)		
Other assets	359,456			313,590			368,353			321,472		
Total assets	$ 5,458,969			$ 4,922,542			$ 5,567,133			$ 5,009,590		
LIABILITIES AND SHAREHOLDERS' EQUITY												
Interest-bearing deposits	$ 2,873,659	$ 46,934	3.28%	$ 2,231,902	$ 20,286	1.83%	$ 2,965,035	$ 74,522	3.35%	$ 2,311,073	$ 36,429	2.11%
Short-term borrowings	221,141	3,412	3.09	218,678	1,373	1.27	226,165	5,631	3.32	214,881	2,066	1.29
Federal Home Loan Bank advances	447,513	6,651	2.94	394,708	4,845	2.44	438,099	9,868	2.96	416,593	8,115	2.57
Other borrowings	140,059	4,173	5.89	138,944	3,963	5.67	140,206	6,270	5.88	139,069	6,049	5.74
Total interest-bearing liabilities	3,682,372	61,170	3.33	2,984,232	30,467	2.06	3,769,505	96,291	3.40	3,081,616	52,659	2.28
Noninterest-bearing deposits	1,157,886			1,426,331			1,169,220			1,403,721		
Other liabilities	84,687			48,169			83,362			53,429		

Shareholders' equity	534,024	463,810	545,046	470,824
Total liabilities and shareholders' equity	$ 5,458,969	$ 4,922,542	$ 5,567,133	$ 5,009,590
Net interest income	$ 94,554	$ 96,055	$ 142,905	$ 145,077
Net interest rate spread	2.73%	3.42%	2.65%	3.31%
Net interest spread on average assets	3.47 %	3.93 %	3.42 %	3.87 %
Net interest margin on earning assets	3.68 %	4.16 %	3.62 %	4.10 %

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Provisions for credit losses of $3.5 million $1.1 million and $2.0 million $3.3 million were recorded during the second third quarters of 2024 and 2023, respectively, and $4.8 million and $2.6 million $5.9 million during both the first six nine months of 2024 and 2023, respectively. 2023. The provision expense recorded during the second current-year third quarter of 2024 primarily reflected an individual allocation for a nonperforming nonreal-estate-related commercial loan relationship increase in environmental factor allocations and allocations necessitated by net loan growth, while which were partially offset by reductions in the calculated allowance due primarily from the payoffs of two larger problem commercial lending relationships previously included in the collective evaluation. The provision expense recorded during the first six nine months of 2024 mainly reflected the aforementioned individual allocation, an individual allocation for a allocations assigned to two different nonperforming nonreal-estate-related commercial loan relationship during the first quarter, relationships and allocations required necessitated by net loan growth. growth, which were partly offset by the previously mentioned decrease in the calculated allowance. The provision expense recorded during the third quarter of 2023 periods primarily mainly reflected the establishment of a specific reserve for a distressed commercial loan relationship, a qualitative factor assessment for local economic conditions, allocations necessitated by net loan growth, and a higher reserve for residential mortgage loans resulting from slower principal prepayment rates and the resulting extended average life of the portfolio. The provision expense recorded during the first nine months of 2023 generally reflected allocations necessitated by net loan growth, and adjustments to historical loss factors information to better represent our expectations for future credit losses. Ongoing strong losses, and the aforementioned higher reserve for residential mortgage loans. Sustained strength in loan quality metrics, including low levels of loan charge-offs, during the 2024 and 2023 periods largely mitigated additional reserves associated with the previously mentioned above-mentioned factors.

Noninterest income totaled $9.7 million during the second third quarter of 2024, up $2.0 million $0.4 million, or 26.6% 4.6%, from the $7.7 million $9.3 million recorded during the second third quarter of 2023. The growth primarily resulted from increases in mortgage banking income, treasury management fees, and payroll service charges on accounts, with the latter mainly stemming from enhanced use of cash management products. fees. The higher level of mortgage banking income primarily mainly resulted from an increased increases in the percentage of loans originated with the intent to sell, which rose from approximately 43% 64% during the second third quarter of 2023 to approximately 75% 80% during the second third quarter of 2024. Increases 2024, and total loan originations, which were up approximately 48% in payroll service the current-year third quarter compared to the respective 2023 period. The increase in treasury management fees primarily stemmed from customers' expanded use of cash management products. Growth in bank owned life insurance income and interest rate swap credit and debit card income also contributed to the higher level of noninterest income. Noninterest income during the current-year second third quarter of 2023 included $0.3 million in gains a $0.4 million gain on the sales sale of other real estate owned.

Noninterest income totaled $20.5 million $30.2 million during the first six nine months of 2024, compared to $14.6 million $23.8 million during the first six nine months of 2023. Noninterest income during the first six nine months of 2024 included bank owned life insurance death benefit claims and gains on the sales of other real estate owned totaling $0.7 million and $0.4 million, respectively. respectively, while noninterest income during the respective 2023 period included a gain on the sale of other real estate owned of $0.4 million. Excluding these transactions, noninterest income increased $4.8 million, $5.6 million, or 33.1% 24.0%, in the first six nine months of 2024 compared to the respective 2023 period. first nine months of 2023. The growth primarily stemmed from higher levels of mortgage banking income, mainly reflecting an increased increases in the percentage of residential mortgage loans originated with the intent to sell and service charges on accounts, total loan production, and treasury management fees, in large part reflecting customers' expanded use of cash management products. The percentage of residential mortgage loans originated with the intent to sell increased from approximately 40% 49% during the first six nine months of 2023 to approximately 74% 77% during the first six nine months of 2024. 2024, and total loans originated were up nearly 22% during the respective periods. Increases in interest rate swap income and payroll service fees, along with revenue associated with a private equity investment, also contributed to the growth in noninterest income.

Noninterest expense totaled $29.7 million $32.3 million during the second third quarter of 2024, compared to $27.8 million $28.9 million during the prior-year second third quarter. Noninterest expense totaled $59.7 million $92.0 million during the first six nine months of 2024, compared to $56.4 million $85.3 million during the first six nine months of 2023. The increases during the 2024 periods primarily resulted from larger salary costs, reflecting annual merit pay increases, market adjustments, higher residential mortgage lender commissions and incentives, and lower residential mortgage loan deferred salary costs. costs; an increased bonus accrual also contributed to the higher salary costs in the current-year third quarter compared to the prior-year third quarter. Higher levels of data processing costs, mainly reflecting increased transaction volume and software support costs, and health insurance claims also contributed to the rises in noninterest expense. Reduced expense during both 2024 periods. A reduced credit reserves reserve for unfunded loan commitments during both the first nine months of 2024 periods compared to the respective first nine months of 2023 periods partially offset mitigated the increases in these cost categories. Overhead the overhead costs noted above in the respective periods. Noninterest expense during the third quarter of 2023, first six nine months of 2024, and first nine months of 2023 included contributions to the Foundation totaling $0.4 million, $0.7 million, and $0.4 million, respectively, while overhead costs during the respective first nine months of 2023 period included a $0.4 million write-down of a former branch facility in the first quarter. facility.

During the second third quarter of 2024, we recorded income before federal income tax of $23.5 million $24.5 million and a federal income tax expense of $4.7 million $4.9 million. During the second third quarter of 2023, we recorded income before federal income tax of $25.4 million $26.0 million and a federal income tax expense of $5.0 million $5.1 million. During the first six nine months of 2024, we recorded income before federal income tax of $50.5 million $75.1 million and a federal income tax expense of $10.2 million $15.1 million. During the first six nine months of 2023, we recorded income before federal income tax of $51.5 million $77.5 million and a federal income tax expense of $10.2 million $15.3 million. The decrease decreases in federal income tax expense in during the second quarter of 2024 periods compared to the respective prior-year second quarter periods primarily resulted from a lower level of income before federal income tax. Although income before federal income tax expense was $1.0 million lower in the first six months of 2024 compared to respective 2023 period, federal income tax expense was similar during the periods mainly due to our Our election to apply the proportional amortization method to our tax credit equity investments during the fourth quarter of 2023 which resulted in $0.2 million $0.1 million and $0.3 million in tax expense being recorded during the year-to-date third quarter and first nine months of 2024, period. respectively. Amortization costs related to tax credit equity investments were included in noninterest expense in the first six nine months of 2023. Our effective tax rate was 20.1% during the second third quarter and first six nine months of 2024, compared to 19.8% 19.7% during the respective 2023 periods. The tax credit equity investments-related tax election negatively impacted the effective tax rate in the 2024 periods, while the previously mentioned bank owned life insurance death benefit claims, substantially all of which were nontaxable, positively impacted the effective tax rate in the first six nine months of 2024.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our primary market risk exposure is interest rate risk and, to a lesser extent, liquidity risk. All of our transactions are denominated in U.S. dollars with no specific foreign exchange exposure. We have only limited agricultural-related loan assets and therefore have no significant exposure to changes in commodity prices. Any impact that changes in foreign exchange rates and commodity prices would have on interest rates is assumed to be insignificant. Interest rate risk is the exposure of our financial condition to adverse movements in interest rates. We derive our income primarily from the excess of interest collected on our interest-earning assets over the interest paid on our interest-bearing liabilities. The rates of interest we earn on our assets and owe on our liabilities generally are established contractually for a period of time. Since market interest rates change over time, we are exposed to lower profitability if we cannot adapt to interest rate changes. Accepting interest rate risk can be an important source of profitability and shareholder value; however, excessive levels of interest rate risk could pose a significant threat to our earnings and capital base. Accordingly, effective risk management that maintains interest rate risk at prudent levels is essential to our safety and soundness.

Evaluating the exposure to changes in interest rates includes assessing both the adequacy of the process used to control interest rate risk and the quantitative level of exposure. Our interest rate risk management process seeks to ensure that appropriate policies, procedures, management information systems and internal control procedures are in place to maintain interest rate risk at prudent levels with consistency and continuity. In evaluating the quantitative level of interest rate risk, we assess the existing and potential future effects of changes in interest rates on our financial condition, including capital adequacy, earnings, liquidity and asset quality.

We use two interest rate risk measurement techniques. The first, which is commonly referred to as GAP analysis, measures the difference between the dollar amounts of interest sensitive assets and liabilities that will be refinanced or repriced during a given time period. A significant repricing gap could result in a negative impact to our net interest margin during periods of changing market interest rates.

The following table depicts our GAP position as of June 30, 2024 September 30, 2024:

(Dollars in thousands)	Within Three Months	Three to Twelve Months	One to Five Years	After Five Years	Total	Within Three Months	Three to Twelve Months	One to Five Years	After Five Years	Total
Assets:										
Loans (1)	$ 2,561,384	$ 155,566	$ 1,117,707	$ 603,588	$ 4,438,245	$ 2,716,487	$ 162,902	$ 1,132,487	$ 541,142	$ 4,553,018
Securities available for sale (2)	33,924	48,052	267,205	320,239	669,420	46,299	40,841	290,217	347,531	724,888
Interest-earning deposits	131,012	1,004	3,750	0	135,766	236,275	755	3,750	0	240,780
Mortgage loans held for sale	22,126	0	0	0	22,126	29,260	0	0	0	29,260
Allowance for credit losses	0	0	0	0	(55,408)	0	0	0	0	(56,590)
Other assets	0	0	0	0	392,239	0	0	0	0	425,771
Total assets	2,748,446	204,622	1,388,662	923,827	$ 5,602,388	3,028,321	204,498	1,426,454	888,673	$ 5,917,127
Liabilities:										
Interest-bearing deposits	2,359,740	560,782	106,164	0	3,026,686	2,597,220	626,931	49,528	0	3,273,679
Short-term borrowings	221,898	0	0	0	221,898	220,936	0	0	0	220,936
Federal Home Loan Bank advances	10,000	80,862	313,838	22,383	427,083	30,000	60,862	303,838	22,383	417,083
Other borrowed money	51,203	0	89,143	0	140,346	51,421	0	89,228	0	140,649
Noninterest-bearing checking	0	0	0	0	1,119,888	0	0	0	0	1,182,219
Other liabilities	0	0	0	0	115,336	0	0	0	0	99,250
Total liabilities	2,642,841	641,644	509,145	22,383	5,051,237	2,899,577	687,793	442,594	22,383	5,333,816
Shareholders' equity	0	0	0	0	551,151	0	0	0	0	583,311
Total liabilities & shareholders' equity	2,642,841	641,644	509,145	22,383	$ 5,602,388	2,899,577	687,793	442,594	22,383	$ 5,917,127
Net asset (liability) GAP	$ 105,605	$ (437,022)	$ 879,517	$ 901,444		$ 128,744	$ (483,295)	$ 983,860	$ 866,290	
Cumulative GAP	$ 105,605	$ (331,417)	$ 548,100	$ 1,449,544		$ 128,744	$ (354,551)	$ 629,309	$ 1,495,599	
Percent of cumulative GAP to total assets	1.9%	(5.9)%	9.8%	25.9%		2.2%	(6.0)%	10.6%	25.3%	

(1) Floating rate loans that are currently at interest rate floors are treated as fixed rate loans and are reflected using maturity date and not repricing frequency.

(2) Mortgage-backed securities are categorized by expected maturities based upon prepayment trends as of June 30, 2024 September 30, 2024.

The second interest rate risk measurement we use is commonly referred to as net interest income simulation analysis. We believe that this methodology provides a more accurate measurement of interest rate risk than the GAP analysis, and therefore, it serves as our primary interest rate risk measurement technique. The simulation model assesses the direction and magnitude of variations in net interest income resulting from potential changes in market interest rates.

Key assumptions in the model include prepayment speeds on various loan and investment assets; cash flows and maturities of interest sensitive assets and liabilities; and changes in market conditions impacting loan and deposit volume and pricing. These assumptions are inherently uncertain, subject to fluctuation and revision in a dynamic environment; therefore, the model cannot precisely estimate net interest income or exactly predict the impact of higher or lower interest rates on net interest income. Actual results will differ from simulated results due to timing, magnitude, and frequency of interest rate changes and changes in market conditions and our strategies, among other factors.

We conducted multiple simulations as of June 30, 2024 September 30, 2024, in which it was assumed that changes in market interest rates occurred ranging from up 300 basis points to down 300 400 basis points in equal quarterly instalments over the next twelve months. The following table reflects the suggested dollar and percentage changes in net interest income over the next twelve months in comparison to the $205 $206 million in net interest income projected using our balance sheet amounts and anticipated replacement rates as of June 30, 2024 September 30, 2024. The resulting estimates are generally within our policy parameters established to manage and monitor interest rate risk.

(Dollars in thousands) Interest Rate Scenario	Dollar Change In Net Interest Income	Percent Change In Net Interest Income	Dollar Change In Net Interest Income	Percent Change In Net Interest Income
Interest rates down 400 basis points			$ (22,400)	(10.9)%
Interest rates down 300 basis points	$ (17,300)	(8.5)%	(13,600)	(6.6)
Interest rates down 200 basis points	(11,700)	(5.7)	(12,600)	(6.1)
Interest rates down 100 basis points	(5,400)	(2.6)	(6,100)	(3.0)
Interest rates up 100 basis points	5,200	2.5	5,800	2.8
Interest rates up 200 basis points	10,800	5.3	11,900	5.8
Interest rates up 300 basis points	15,900	7.8	17,700	8.6

The resulting estimates have been significantly impacted by the current interest rate and economic environments, as adjustments have been made to critical model inputs with regards to traditional interest rate relationships. This is especially important as it relates to floating rate commercial loans, which comprise a sizable portion of our balance sheet.

In addition to changes in interest rates, the level of future net interest income is also dependent on a number of other variables, including: the growth, composition and absolute levels of loans, deposits, and other earning assets and interest-bearing liabilities; level of nonperforming assets; economic and competitive conditions; potential changes in lending, investing, and deposit gathering strategies; client preferences; and other factors.

Item 4. Controls and Procedures

As of June 30, 2024 September 30, 2024, an evaluation was performed under the supervision of and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of June 30, 2024 September 30, 2024.

There have been no changes in our internal control over financial reporting during the quarter ended June 30, 2024 September 30, 2024 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we may be involved in various legal proceedings that are incidental to our business. In our opinion, we are not a party to any current legal proceedings that are material to our financial condition, either individually or in the aggregate.

Item 1A. Risk Factors.

There have been no material changes in our risk factors from those previously disclosed in our annual report on Form 10-K for the year ended December 31, 2023.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

We made no unregistered sales of equity securities during the quarter ended June 30, 2024 September 30, 2024.

Issuer Purchases of Equity Securities

On May 27, 2021, we announced that our Board of Directors had authorized a program to repurchase up to $20.0 million of our common stock from time to time in open market transactions at prevailing market prices or by other means in accordance with applicable regulations. The actual timing, number and value of shares repurchased under the program will be determined by management in its discretion and will depend on a number of factors, including the market price of our stock, general market and economic conditions, our capital position, financial performance and alternative uses of capital, and applicable legal requirements. The program may be discontinued at any time. No shares were repurchased during the first six nine months of 2024. Historically, stock repurchases have been funded from cash dividends paid to us from our bank. Additional repurchases may be made in future periods under the authorized plan or a new plan, which would also likely be funded from cash dividends paid to us from our bank. As of June 30, 2024 September 30, 2024, repurchases aggregating $6.8 million were available to be made under the current repurchase program.

Repurchases made during the second third quarter of 2024 are detailed in the table below.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares or Approximate Dollar Value that May Yet Be Purchased Under the Plans or Programs (Dollars in thousands)
April 1 – 30	0	$ 0	0	$ 6,818
May 1 – 31	0	0	0	6,818
June 1 – 30	0	0	0	6,818
Total	0	$ 0	0	$ 6,818

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares or Approximate Dollar Value that May Yet Be Purchased Under the Plans or Programs (Dollars in thousands)
July 1 – 31	0	$ 0	0	$ 6,818
August 1 – 31	0	0	0	6,818
September 1 – 30	0	0	0	6,818
Total	0	$ 0	0	$ 6,818

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

OtherNot Information. applicable.

Director Robert B. Kaminski, Jr. entered into a 10b5-1 Plan on April 2, 2024. The plan is intended to satisfy the affirmative defenses of Rule 10b5-1(c). The plan permits the sale of up to 4,500 shares beginning on July 2, 2024 through December 31, 2025.

REFINITIV

Item 6. Exhibits

EXHIBIT NO.	EXHIBIT DESCRIPTION
3.1	Articles of Incorporation of Mercantile Bank Corporation, including all amendments thereto, incorporated by reference to Exhibit 3.1 of our Form S-4 Registration Statement filed February 16, 2022
3.2	Our Amended and Restated Bylaws dated as of February 26, 2015 are incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K filed February 26, 2015
4.1	Instruments defining the Rights of Security Holders – reference is made to Exhibits 3.1 and 3.2. In accordance with Regulation S-K Item 601(b)(4), Mercantile Bank Corporation is not filing copies of instruments defining the rights of holders of long-term debt because none of those instruments authorizes debt in excess of 10% of the total assets of Mercantile Bank Corporation and its subsidiaries on a consolidated basis. Mercantile Bank Corporation hereby agrees to furnish a copy of any such instrument to the Securities and Exchange Commission upon request.
4.2	Subordinated indenture, dated December 15, 2021, by and between Mercantile Bank Corporation and Wilmington Trust, National Association, as trustee, incorporated by reference to our Current Report on Form 8-K filed December 17, 2021
4.3	First Supplemental Indenture to Subordinated indenture, dated December 15, 2021, by and between Mercantile Bank Corporation and Wilmington Trust, National Association, as trustee, incorporated by reference to our Current Report on Form 8-K filed December 17, 2021
4.4	Form of 3.25% Fixed-to-Floating Rate Subordinated Note due 2032, incorporated by reference to our Current Report on Form 8-K filed December 17, 2021
4.5	Form of Subordinated Note Purchase Agreement dated December 15, 2021, by and among Mercantile Bank Corporation and the Purchasers, incorporated by reference to our Current Report on Form 8-K filed December 17, 2021
4.6	Form of Registration Rights Agreement dated December 15, 2021, by and among Mercantile Bank Corporation and the Purchasers, incorporated by reference to our Current Report on Form 8-K filed December 17, 2021
10.1	Amended and Restated Employment Agreement of Raymond E. Reitsma dated November 29, 2018, effective December 31, 2018, 2024 Mercantile Executive Officer Bonus Plan, incorporated by reference to exhibit 10.3 of Exhibit 10.1 on our Form 8-K filed December 3, 2018
10.2	First Amendment to Amended and Restated Employment Agreement of Raymond E. Reitsma dated May 31, 2024, incorporated by reference to exhibit 10.2 of our Form 8-K filed June 3, 2024
10.3	Amended and Restated Employment Agreement of Scott P. Setlock effective January 1, 2024 incorporated by reference to exhibit 10.3 of our Form 8-K filed June 3, 2024
10.4	First Amendment to Amended and Restated Employment Agreement of Scott P. Setlock dated May 31, 2024 incorporated by reference to exhibit 10.4 of our Form 8-K filed June 3, 2024 July 11, 2024
31	Rule 13a-14(a) Certifications
32.1	Section 1350 Chief Executive Officer Certification
32.2	Section 1350 Chief Financial Officer Certification
101	The following financial information from Mercantile's Quarterly Report on Form 10-Q for the quarter ended June 30, 2024 September 30, 2024, formatted in Inline XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Shareholders' Equity, (v) the Consolidated Statements of Cash Flows, and (vi) the Notes to Consolidated Financial Statements
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on August 2, 2024 November 1, 2024.

MERCANTILE BANK CORPORATION

By: /s/ Raymond E. Reitsma

Raymond E. Reitsma

President and Chief Executive Officer

(Principal Executive Officer)

By: /s/ Charles E. Christmas

Charles E. Christmas

Executive Vice President, Chief Financial Officer and Treasurer

(Principal Financial and Accounting Officer)

EXHIBIT 31

RULE 13a-14(a) CERTIFICATIONS

I, Raymond E. Reitsma, President and Chief Executive Officer of Mercantile Bank Corporation, certify that:

1. I have reviewed this report on Form 10-Q of Mercantile Bank Corporation (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, November 1, 2024	/s/ Raymond E. Reitsma
	Raymond E. Reitsma
	President and Chief Executive Officer

I, Charles E. Christmas, Executive Vice President, Chief Financial Officer and Treasurer of Mercantile Bank Corporation, certify that:

1. I have reviewed this report on Form 10-Q of Mercantile Bank Corporation (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, November 1, 2024

/s/ Charles E. Christmas

Charles E. Christmas

Executive Vice President, Chief Financial Officer and Treasurer

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EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

This certification is provided pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. § 1350, and accompanies the quarterly report on Form 10-Q for the quarter ended June September 30, 2024 (the "Form 10-Q") of Mercantile Bank Corporation (the "Issuer").

I, Raymond E. Reitsma, President and Chief Executive Officer of the Issuer, certify that to my knowledge:

(i) the Form 10-Q fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and

(ii) the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Issuer.

Dated: August 2, November 1, 2024

/s/ Raymond E. Reitsma

Raymond E. Reitsma

President and Chief Executive Officer

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

This certification is provided pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. § 1350, and accompanies the quarterly report on Form 10-Q for the quarter ended June September 30, 2024 (the "Form 10-Q") of Mercantile Bank Corporation (the "Issuer").

I, Charles E. Christmas, Executive Vice President, Chief Financial Officer and Treasurer of the Issuer, certify that to my knowledge:

(i) the Form 10-Q fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and

(ii) the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Issuer.

Dated: August 2, November 1, 2024

/s/ Charles E. Christmas

Charles E. Christmas

Executive Vice President, Chief Financial Officer and Treasurer

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