



Mercantile<sup>®</sup>  
Bank Corporation

2025 ANNUAL REPORT





# A Letter to Our Shareholders

This past year has reaffirmed the strength of who we are at Mercantile Bank, community hearted and professionally excellent. We've always believed that local relationships, responsible growth, and disciplined execution form the foundation of what makes us a strong and trusted partner. That belief continues to guide every decision we make.

As we present this year's financial results, we do so with confidence in our strategy and deep gratitude for the trust you place in us. Our commitment to delivering exceptional performance, while elevating the customers, employees, and communities we serve, remains at the center of how we operate. This balanced focus has once again enabled us to generate strong financial outcomes, maintain a well-capitalized position, and continue investing in the communities and relationships that define us.

In 2025, Mercantile delivered net income of \$88.8 million for our shareholders, driven by outstanding performance in the following areas:

- **Significant local deposit growth of more than 13%, enabling customers to build resources for their goals and dreams.**
- **Nearly 6% growth in commercial loans, supporting our existing customers' expansion and attracting new customers to Mercantile's value proposition.**
- **A 19% increase in treasury management income, helping ensure security and safety for our customers' ongoing cash management needs.**
- **A 14% increase in payroll services income, empowering businesses to support their employees with ease and reliability.**
- **A 6% increase in mortgage banking income despite relatively high interest rates, supporting the American Dream of homeownership.**

The year 2025 marked another successful year in our long history of building value for our shareholders. Over the last five years, Mercantile has posted strong compounded annual growth rates (CAGR) in key categories, including:

- **Total Loans: 8.6% CAGR**
- **Total Deposits: 9.2% CAGR**
- **Earnings Per Share: 15.1% CAGR**
- **Cash Dividends: 6.0% CAGR**
- **Tangible Book Value Per Share: 9.0% CAGR**



Our Banks' strong performances continued to support well-capitalized regulatory positions. Mercantile Bank and Eastern Michigan Bank had total risk-based capital ratios of 13.8% and 19.0%, respectively, and approximately \$214 million and \$26 million more than the 10% minimum threshold required to be categorized as "well-capitalized" institutions at year-end 2025, respectively.

Looking ahead, we remain steadfast in our mission to deliver financial solutions that empower people to achieve their goals and dreams, while building strong, resilient communities. Our vision and values continue to shape our path—ensuring we approach every opportunity with accountability, collaboration, inclusivity, innovation, and an unwavering commitment to excellence.

This year also marked an exciting milestone in our history with the addition of Eastern Michigan Bank to the Mercantile family. We believe this partnership expands our reach, strengthens our market presence, and deepens our ability to serve both customers and communities across a broader region. We are confident that this strategic acquisition positions us for an even brighter future defined by enhanced capabilities, expanded relationships, and greater value for our shareholders.

We are encouraged by what is ahead and energized by the momentum we've built together. Thank you for your continued partnership and trust. As always, we remain dedicated to serving our shareholders, customers, employees, and communities with a community-hearted spirit and professionally excellent execution.

**Ray Reitsma**  
President & CEO  
Mercantile Bank Corporation



UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2025

or

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

Commission file number 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)

(I.R.S. Employer Identification No.)

310 Leonard Street NW, Grand Rapids, Michigan

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 Act:

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

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 emerging growth company (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer

Accelerated filer

Emerging growth company

Non-accelerated filer

Smaller reporting 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.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes Oxley Act (15 USC.7262(b)) by the registered public accounting firm that prepared or issued its audit report. Yes  No

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. Yes  No

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to Section 240.10D-1(b). Yes  No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

The aggregate value of the common equity held by non-affiliates (persons other than directors and executive officers) of the registrant, computed by reference to the closing price of the common stock as of the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$730 million. As of February 20, 2026, there were issued and outstanding 17,272,961 shares of the registrant's common stock.

**DOCUMENTS INCORPORATED BY REFERENCE**

This Annual Report on Form 10-K for the fiscal year ended December 31, 2025 (this "Annual Report") incorporates portions of the Company's proxy statement for the Annual Meeting of Shareholders to be held May 21, 2026 by reference into Part III. The registrant will file its proxy statement with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Annual Report. Additionally, portions of Part II of this Annual Report are incorporated by reference from the F pages attached hereto.

## PART I

### Item 1. Business.

#### The Company

Mercantile Bank Corporation is a registered bank holding company under the Bank Holding Company Act of 1956, as amended (the "Bank Holding Company Act"). Unless the text clearly suggests otherwise, references to "us," "we," "our," or "the company" include Mercantile Bank Corporation and its wholly owned subsidiaries. As a bank holding company, we are subject to regulation by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"). We were organized on July 15, 1997, under the laws of the State of Michigan, primarily for the purpose of holding all of the stock of Mercantile Bank, and of such other subsidiaries as we may acquire or establish. Mercantile Bank commenced business on December 15, 1997. During the third quarter of 2013, we filed an election to become a financial holding company, which election became effective April 14, 2014. Mercantile Insurance Center, Inc. ("our insurance company"), a subsidiary of Mercantile Bank, commenced operations during 2002 to offer insurance products. Mercantile Community Partners ("MCP"), our subsidiary, began operations during 2023 to invest in community development tax credit investments. On July 22, 2025, we entered into a merger agreement with Eastern Michigan Financial Corporation, the bank holding company for Eastern Michigan Bank. Eastern Michigan Financial Corporation shareholders had the right to receive 0.7116 shares of Mercantile Bank Corporation stock and \$32.32 in exchange for each share of Eastern Michigan Financial Corporation stock they owned. The merger was completed on December 31, 2025, and Eastern Michigan Bank operates alongside Mercantile Bank Corporation's existing bank, Mercantile Bank (collectively, "our banks"). We plan for our banks to operate alongside each other until the conversion of our core processor is completed in the first quarter of 2027, at which time we plan to consolidate Eastern Michigan Bank into Mercantile Bank. Prior to completing the merger, we were required to obtain approval from the Federal Reserve Board, which we did on December 16, 2025. See Note 17 – Business Combinations for additional information regarding the merger. Our expenses have generally been paid using cash dividends from Mercantile Bank. Our principal source of future operating funds is expected to be dividends from our banks.

#### Our Banks

Our banks are state banking companies that operate under the laws of the State of Michigan, pursuant to charters issued by the Michigan Department of Insurance and Financial Services. Our banks' deposits are insured to the maximum extent permitted by law by the Federal Deposit Insurance Corporation ("FDIC"). Our banks, through their combined 54 office locations, provide commercial banking services, primarily to small- to medium-sized businesses, and retail banking services. Mercantile Bank's main office is located in Grand Rapids, Michigan, and its operations are centered around the West and Central portions of Michigan. Mercantile Bank also has banking offices located in the metropolitan Detroit area, Traverse City, Petoskey, and Midland. Eastern Michigan Bank's main office is located in Crosswell, Michigan, and its operations are centered around Eastern Michigan. Our banks make secured and unsecured commercial, construction, mortgage and consumer loans, and accept checking, savings and time deposits. Our banks collectively own 16 automated teller machines ("ATM") and 37 video banking machines, which are located at our office locations that participate in the ACCEL/EXCHANGE and PLUS regional network systems, as well as other ATM networks throughout the country. Our banks also enable their customers to conduct certain loan and deposit transactions by personal computer and through mobile applications. Courier service is provided to certain commercial customers, and safe deposit boxes are available at a vast majority of our office locations. Our banks do not have trust powers.

#### Our Insurance Company

Our insurance company acquired an existing shelf insurance agency effective April 15, 2002. An Agency and Institution Agreement was entered into among our insurance company, Mercantile Bank and Hub International for the purpose of providing programs of mass marketed personal lines of insurance. Insurance product offerings include private passenger automobile, homeowners, personal inland marine, boat owners, recreational vehicle, dwelling fire, umbrella policies, small business and life insurance products, all of which are provided by and written through companies that have appointed Hub International as their agent. To date, we have not provided the insurance products noted above and currently have no plans to do so.

#### Our Trusts

We have five business trusts that are wholly owned subsidiaries of Mercantile Bank Corporation but are not consolidated. Each of the trusts was formed to issue preferred securities that were sold in private sales, as well as to sell common securities to Mercantile Bank Corporation. The proceeds from the preferred and common securities sales were used by the trusts to purchase floating rate notes issued by Mercantile Bank Corporation. The rates of interest, interest payment dates, call features and maturity dates of each floating rate note are identical to its respective preferred securities. The net proceeds from the issuance of the floating rate notes were used for a variety of purposes, including contributions to Mercantile Bank as capital to provide support for asset growth and the funding of stock repurchase programs and certain acquisitions. The only significant assets of our trusts are the floating rate notes, and the only significant liabilities of our trusts are the preferred securities. The floating rate notes are categorized on our Consolidated Balance Sheets as subordinated debentures, and the interest expense is recorded on our Consolidated Statements of Income under interest expense on other borrowings.

## Effect of Government Monetary Policies

Our earnings are affected by domestic economic conditions and the monetary and fiscal policies of the United States Government, its agencies, and the Federal Reserve Board. The Federal Reserve Board's monetary policies have had, and will likely continue to have, an important impact on the operating results of commercial banks through its power to implement national monetary policy in order to, among other things, curb inflation, maintain or encourage employment, and mitigate economic recessions. The policies of the Federal Reserve Board have a major effect upon the levels of bank loans, investments and deposits through its open market operations in United States Government securities, and through its regulation of, among other things, the discount rate on borrowings of member banks. It is not possible to predict the nature and impact of future changes in monetary and fiscal policies.

## Regulation and Supervision

Bank holding companies and banks, like many other financial institutions, are regulated under a variety of federal and state statutes and the regulations that implement those statutes. These statutes include, among others, the Bank Holding Company Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), the Economic Growth, Regulatory Relief, and Consumer Protection Act ("EGRRCPA"), the Truth in Lending Act, the Truth in Savings Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Expedited Funds Availability Act, the Community Reinvestment Act, the Real Estate Settlement Procedures Act, the FACT Act, the Gramm-Leach-Bliley Act, the Sarbanes Oxley Act, the Bank Secrecy Act of 1970, as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, electronic funds transfer laws, redlining laws, predatory lending laws, antitrust laws, environmental laws, anti-money laundering laws, privacy laws, state usury statutes, and statutes relating to fiduciaries. Our growth and earnings performance may be impacted by the statutes administered by, and the regulations and policies of, various governmental regulatory authorities. Those regulatory authorities include, but are not limited to, the FDIC, the Michigan Department of Insurance and Financial Services, the Internal Revenue Service and state taxing authorities. The effect of such statutes, regulations and policies, and any changes thereto, may significantly impact our business, which cannot necessarily be predicted.

As a registered bank holding company under the Bank Holding Company Act, we are required to file an annual report with the Federal Reserve Board and such additional information as the Federal Reserve Board may require. We are also subject to periodic examinations by the Federal Reserve Board.

The Bank Holding Company Act limits the activities of bank holding companies and their subsidiaries to banking and the management of banks and to certain permitted non-banking activities. The permitted non-banking activities generally include limited activities that the Federal Reserve Board has determined, by order or regulation as of the day prior to enactment of the Gramm-Leach-Bliley Act, to be so closely related to banking as to be a proper incident to banking. These permitted non-banking activities include, among other things: operating a mortgage company (engaged in certain limited functions), finance company, or factoring company; performing certain data processing operations; providing certain investment and financial advice; acting as an insurance agent for certain types of credit-related insurance; leasing property on a full-payout, nonoperating basis; and providing discount securities brokerage services for customers. Neither we nor any of our subsidiaries engage in any of the non-banking activities listed above.

On April 14, 2014, our election to become a financial holding company, as permitted by the Bank Holding Company Act, as amended by Title I of the Gramm-Leach-Bliley Act, was accepted and made effective by the Federal Reserve Board. In order to maintain our status as a financial holding company, we, Mercantile Bank, and Eastern Michigan Bank, must satisfy statutory requirements regarding capitalization, management and compliance with the Community Reinvestment Act. As a financial holding company, we are permitted to engage in a broader range of activities under the Bank Holding Company Act than are permitted for bank holding companies. Those expanded activities include any activity which the Federal Reserve Board (in certain instances in consultation with the Department of the Treasury) determines, by order or by regulation, to be financial in nature or incidental to such financial activity, or to be complementary to a financial activity, and not to pose a substantial risk to the safety and soundness of depository institutions or the financial system generally. Such expanded activities that have been previously approved by the Federal Reserve Board include, among others: insuring, guaranteeing, or indemnifying against loss, harm, damage, illness, disability or death, or issuing annuities, and acting as principal, agent or broker for such purposes; providing financial, investment or economic advisory services, including advising a mutual fund; and underwriting, dealing in, or making a market in securities. While our insurance company is permitted to engage in the insurance agency activities described above by virtue of our financial holding company status, neither we nor any of our subsidiaries currently engage in these expanded activities.

Mercantile Bank and Eastern Michigan Bank are subject to restrictions imposed by federal and state laws and regulations. Among other things, these restrictions limit the transactions Mercantile Bank and Eastern Michigan Bank conduct with us, our other subsidiaries or other affiliates, limit our securities borrowing or lending, derivatives, and repurchase transactions with us, our other subsidiaries or other affiliates, limit investments in stock or other securities that we issue, limit the taking of such stock or securities as collateral for loans to any borrower, and limit acquisitions of assets or services from, and sales of certain types of assets to, us, our other subsidiaries or other affiliates. Michigan banking laws place additional restrictions on various aspects of banking, including branching, payment of dividends, and loan interest rates, in addition to capital and surplus requirements. Federal law restricts our ability to borrow from our banks by limiting the aggregate amount we may borrow and by requiring that all loans to us be secured in designated amounts by specified forms of collateral.

With respect to the acquisition of banking organizations, we are generally required to obtain the prior approval of the Federal Reserve Board before we can acquire all or substantially all of the assets of any bank, or acquire ownership or control of any voting shares of any bank or bank holding company, if, after the acquisition, we would own or control more than 5% of the voting shares of the bank or bank holding company. Acquisitions of banking organizations across state lines are subject to additional restrictions imposed by federal and state laws and regulations.

The scope of regulations and supervision of various aspects of our business have expanded as a result of the adoption in July, 2010 of the Dodd-Frank Act, and may continue to expand as the result of implementing regulations being adopted by federal regulators. However, on May 24, 2018, EGRRCPA amended certain provisions of the Dodd-Frank Act to tailor them to the specific circumstances of various categories of financial institutions and transactions. Many of the statutes and regulations under which we and our banks operate may change in the future, which may significantly impact our business.

As a member bank of the Federal Reserve System, Eastern Michigan Bank is subject to comprehensive regulation and supervision by the Federal Reserve Board and, as applicable, state banking authorities. Eastern Michigan Bank's operations are governed by the Federal Reserve Act and related regulations, including capital adequacy, liquidity, affiliate transaction, insider lending, and safety and soundness requirements. It is also subject to applicable federal and state consumer protection laws, the Bank Secrecy Act and anti-money laundering regulations, and, as an FDIC-insured institution, deposit insurance assessments and related requirements. These regulatory requirements may affect Eastern Michigan Bank's business operations, growth strategies, and financial performance.

## **Competition**

We face substantial competition in all phases of our operations from a variety of different competitors. We compete for deposits, loans and other financial services with numerous Michigan-based and national and regional banks, savings banks, thrifts, credit unions and other financial institutions as well as with other entities that provide financial services. Some of the financial institutions and financial service organizations with whom we compete are not subject to the same degree of regulation as we are. Many of our primary competitors have been in business for many years, have established customer bases, are larger, have substantially higher lending limits than we do, and offer larger branch networks and other services which we do not. Most of these same entities have greater capital resources than we do, which, among other things, may allow them to price their services at levels more favorable to the customer and to provide larger credit facilities than we do. Under specified circumstances (that have been modified by the Dodd-Frank Act and EGRRCPA), securities firms and insurance companies that elect to become financial holding companies under the Bank Holding Company Act may acquire banks and other financial institutions. Federal and state banking law affects the competitive environment in which we conduct our business. The financial services industry is also likely to become more competitive as further technological advances enable more companies to provide financial services. We also face new competition as a result of expansion into new markets.

## **Human Capital**

As of December 31, 2025, we employed 744 full-time and 42 part-time persons. Our human capital is the most valuable asset we have, and we believe embracing human diversity makes us a better financial institution. The collective sum of the individual differences, life experiences, knowledge, inventiveness, innovation, self-expression, unique capabilities and talent that our employees invest in their work represents a significant part of not only our culture, but our reputation and our achievements as well. We embrace and encourage our employees' differences in age, color, disability, ethnicity, family or marital status, gender identity or expression, language, national origin, physical and mental ability, political affiliation, race, religion, sexual orientation, socio-economic status, veteran status and other characteristics that make our employees unique.

*Talent Acquisition.* We hire people who connect with, listen to and deliver the best solutions to customers and team members. Through a personalized and systematic recruiting process, our experienced team of Human Resources Business Partners is devoted to working with Hiring Managers and matching candidate skills and experience to a position where they can thrive. Hiring long-term successful team members is critical to our success. We believe our successful hiring practices are reflected in our annual turnover rate of 12%, which is consistently below our peers.

*Employee Safety and Health.* The prioritization of our people is reflected in the robust employee benefits and compensation packages offered to our staff, including health and wellness insurance plans and incentives, a 401(k) plan with matching contributions, dedicated internship programs for young professionals in finance and business, and employee stock ownership plan participation, as well as clothing, home office and fitness equipment interest-free loans. Approximately 82% of our eligible employees participate in our medical benefit plans, which include a health savings account plan in which we pay the full monthly premiums. We offer our employees generous paid time off for vacations, holidays, sick time and bereavement, along with pay-it-forward initiatives and paid volunteer time. In addition, with obstacles in maintaining balance between work responsibilities and personal time, we have enabled staff to pursue a safe and healthy work-life balance by increasing paid time off benefits for our employees.

## Climate Change

We define sustainability as the leveraging of combined abilities to ensure our ongoing impact on people and the environment, and our success is always focused on upholding long-lasting, positive results. From an efficient branch footprint to utilizing the latest technology, we are continuously focused on seeking new and better ways to be more productive with our time and energy while remaining good stewards of the resources with which we are entrusted. In each of our facilities, we follow LEED green certification guidelines wherever practical, evaluating all facilities for opportunities to incorporate energy efficient updates and space planning for new construction, renovations, or expansion projects. All of our new construction and renovation projects include low-flow devices as well as LED lighting to enhance our efficiency of utility usage. When applicable, renovation and expansion projects involve the donation of former office furniture to non-profit organizations.

We continue to strive for the reduction of mail and paper usage through the promotion of customer eStatement adoption. The eStatement adoption rate is holding steady at 61% as of year-end 2025. Our online accounts payable system has also enabled us to significantly reduce paper and printing and save time. Every effort is made to recycle all paper, and we continue to offer periodic community secure paper shredding events. Additionally, we have implemented an employee battery recycling program at larger office locations and recycling stations at many of our office locations to divert cardboard, plastic, and metal items from landfills. Water bottle refill stations also aid to reduce plastic bottle usage.

Our Enterprise Excellence Committee supports our ongoing commitment to environmental, health and safety, corporate social responsibility, corporate governance, sustainability, and other public policy matters relevant to our organization. The Enterprise Excellence Committee is a cross-functional management committee, with oversight from the Governance and Nominating Committee and the Board of Directors, that assists us in: (1) establishing a cadence of improvement throughout our banks for process efficiency and effectiveness, (2) monitoring and assessing developments related to improving our banks' understanding and execution of governance, environment, and community matters, and (3) recommending communications with employees, investors and stakeholders with respect to governance, environment, and community matters. The Enterprise Excellence Committee met three times during 2025. Highlights for 2025 included continued growth of MCP to facilitate low-income housing tax credits and our investment in energy tax credits, completion of the Enterprise Excellence Report, full utilization of a sustainability reporting platform for data tracking, continued support of first-time home buyer mortgage programs, and over 28,000 hours of volunteering in the community completed by employees.

## Lending Policy

As a routine part of our business, we make loans to businesses and individuals located within our market areas. Our lending policy states that the function of the lending operation is twofold: to provide a means for the investment of funds at a profitable rate of return with an acceptable degree of risk, and to meet the credit needs of the creditworthy businesses and individuals who are our customers. We recognize that in the normal business of lending, some losses on loans will be inevitable and should be considered a part of the normal cost of doing business.

Our lending policy anticipates that priorities in extending loans will be modified from time to time as interest rates, market conditions and competitive factors change. The policy sets forth guidelines on a nondiscriminatory basis for lending in accordance with applicable laws and regulations. The policy describes various criteria for granting loans, including the ability to pay; the character of the customer; evidence of financial responsibility; purpose of the loan; knowledge of collateral and its value; terms of repayment; source of repayment; payment history; and economic conditions.

The lending policy further limits the amount of funds that may be loaned against specified types of real estate collateral. For certain loans secured by real estate, the policy requires an appraisal of the property offered as collateral by a state-certified independent appraiser. The policy also provides general guidelines for loan to value for other types of collateral, such as accounts receivable and machinery and equipment. In addition, the policy provides general guidelines as to environmental analysis, loans to employees, executive officers and directors, problem loan identification, maintenance of an allowance for credit losses, loan review and grading, mortgage and consumer lending, and other matters relating to our lending practices.

The Board of Directors has delegated significant lending authority to officers of our banks. The Board of Directors believes this empowerment, supported by our strong credit culture and the significant experience of our commercial lending staff, enables us to be responsive to our customers. Our loan policies specify lending authority for our lending officers with amounts based on the experience level and ability of each lender. Our loan officers and loan managers are generally able to approve loans ranging from \$0.25 million to \$2.5 million. We have established higher approval limits for Mercantile Bank's President and Chief Executive Officer and Mercantile Bank's Chief Commercial Banking Officer, ranging from \$4.0 million up to \$10.0 million. These lending authorities, however, are typically used only in rare circumstances where timing is of the essence. At Mercantile Bank, loan requests exceeding \$5.0 million require approval by the Officers Loan Committee, and loan requests exceeding \$15.0 million, up to Mercantile Bank's legal lending limit of \$101.4 million, require approval by Mercantile Bank's Board of Directors. At Eastern Michigan Bank, loan requests exceeding \$1.5 million require approval by the Officers Credit Committee, and loan requests exceeding \$6.0 million, up to Eastern Michigan Bank's legal lending limit of \$23.9 million, require approval by Eastern Michigan Bank's Board of Directors. We generally apply in-house lending limits that are significantly less than our banks' legal lending limits.

## Lending Activity

*Commercial Loans.* Our commercial lending group originates commercial loans primarily in our market areas. Our commercial lenders have extensive commercial lending experience, with most having at least ten years' experience. Loans are originated for general business purposes, including working capital, accounts receivable financing, machinery and equipment acquisition, and commercial real estate financing, including new construction and land development.

In most instances, commercial line of credit facilities have terms ranging from 12 to 24 months with floating rates tied to the Wall Street Journal Prime Rate or 30-Day Secured Overnight Funding Rate ("SOFR"). Commercial term loans secured by real estate are generally at a floating rate tied to the Wall Street Journal Prime Rate or 30-Day SOFR. Since the fourth quarter of 2020, a fixed rate option for commercial term loans secured by real estate is generally not offered for loans over \$2.5 million; instead, customers are offered participation in our back-to-back interest rate swap program to achieve a desired fixed rate. For loans under \$2.5 million, we offer a rate primarily equal to the commensurate cost of funds using Federal Home Loan Bank of Indianapolis ("FHLBI") advance rates as a proxy and a credit spread as indicated by the credit rating we assign. Commercial term loans secured by real estate generally balloon within five years, with payments based on amortizations ranging from 10 to 25 years. Commercial term loans secured by non-real estate collateral are generally at a floating rate tied to the Wall Street Journal Prime Rate or 30-Day SOFR, or a fixed rate primarily equal to the commensurate cost of funds using FHLBI advance rates as a proxy and a credit spread as indicated by the credit rating we assign, and generally mature and fully amortize within three to seven years.

We evaluate many aspects of a commercial loan transaction in order to minimize credit and interest rate risk. Underwriting includes an assessment of the management, products, markets, cash flow, capital, income and collateral of the borrowing entity. This analysis includes a review of the borrower's historical and projected financial results. Appraisals are generally required to be performed by state-certified independent appraisers where real estate is the primary collateral, and in some cases, where equipment is the primary collateral. In certain situations, for creditworthy customers, we may accept title reports instead of requiring lenders' policies of title insurance.

We have no material foreign loans and only limited exposure to companies engaged in energy producing and agricultural-related activities.

*Commercial Real Estate loans.* Commercial real estate loans, consisting of non-owner occupied, owner occupied, multi-family and residential rental, and vacant land, land development, and residential construction loans, totaled 52.8% and 52.6% of our total loans as of December 31, 2025 and 2024, respectively. We also adhere to the FDIC's commercial real estate lending concentration guidelines specified in the *Joint Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices*. Total commercial real estate loans (as defined in the guidance) represented 253% and 256% of total regulatory capital as of December 31, 2025 and 2024, respectively, with both ratios being below the maximum guideline of 300%.

Commercial real estate lending involves more risk than residential lending because loan balances are typically greater and repayment is dependent upon the borrower's business operations. We attempt to minimize the risks associated with these transactions by generally limiting our commercial real estate lending to owner operated properties and to owners of non-owner occupied properties who have established profitable histories and satisfactory tenant structures. In many cases, risk is further reduced by requiring personal guarantees, limiting the amount of credit to any one borrower to an amount considerably less than our legal lending limit and avoiding certain types of commercial real estate financings.

Risks of repayment can arise from general downward shifts in the valuations of specific property types often driven by changes in demand and other economic factors, which could further influence cash flows associated with the borrower and/or the underlying property. To mitigate these risks, we actively monitor market conditions in the markets we originate loans. The majority of our commercial real estate portfolio is located within our primary geographic footprint within the state of Michigan. As of December 31, 2025 and 2024, 91.0% and 90.7%, respectively, of our commercial real estate loans were for projects located within the state of Michigan. Loans made outside the state of Michigan are usually to customers located or headquartered within our footprint doing business in other states.

The following table presents the composition of the commercial real estate portion of the total loan portfolio as of December 31, 2025 and 2024:

(Dollars in thousands)	December 31, 2025		December 31, 2024	
	Balance	%	Balance	%
Real estate – owner occupied				
Industrial	\$ 369,576	7.7%	\$ 364,327	7.9%
Automotive	103,852	2.2	109,408	2.4
Office	75,943	1.6	66,354	1.4
Retail	75,921	1.6	63,303	1.4
Medical Office	38,367	0.8	33,997	0.7
Restaurants	20,270	0.4	32,946	0.7
Other	94,940	1.9	78,502	1.8
Subtotal	778,869	16.2	748,837	16.3
Real estate – non-owner occupied				
Office	245,998	5.1	265,774	5.8
Retail	240,206	5.0	249,239	5.4
Industrial	341,479	7.1	315,867	6.9
Assisted Living	69,771	1.4	102,480	2.2
Hotel	152,299	3.2	152,591	3.3
Other	60,921	1.2	42,453	0.9
Subtotal	1,110,674	23.0	1,128,404	24.5
Vacant land, land development, and residential construction	117,373	2.4	66,936	1.5
Real estate – multi-family and residential rental	537,224	11.2	475,819	10.3
Total	<u>\$ 2,544,140</u>	<u>52.8%</u>	<u>\$ 2,419,996</u>	<u>52.6%</u>

*Single-Family Residential Real Estate Loans.* We originate single-family residential real estate loans in our market areas, generally according to secondary market underwriting standards. Loans not conforming to those standards are made in certain circumstances. Single-family residential real estate loans provide borrowers with a fixed or adjustable interest rate with terms up to 30 years, with the fixed interest rate loans generally sold to various investors.

*Consumer Loans.* We originate various types of consumer loans, including new and used automobile and boat loans, credit cards and overdraft protection lines of credit for our checking account customers. Consumer loans generally have shorter terms and higher interest rates and usually involve more credit risk than single-family residential real estate loans because of the type and nature of the collateral. Our banks have a home equity line of credit program. Home equity lines of credit are generally secured by either a first or second mortgage on the borrower's primary residence. The program provides revolving credit at a rate tied to the Wall Street Journal Prime Rate.

We believe our consumer loans are underwritten carefully, with a strong emphasis on the amount of the down payment, credit quality, employment stability and monthly income of the borrower. These loans are generally repaid on a monthly repayment schedule with the source of repayment tied to the borrower's periodic income. In addition, consumer lending collections are dependent on the borrower's continuing financial stability, and are thus likely to be adversely affected by job loss, illness and personal bankruptcy. In many cases, repossessed collateral for a defaulted consumer loan will not provide an adequate source of repayment of the outstanding loan balance because of depreciation of the underlying collateral. We believe that the generally higher yields earned on consumer loans compensate for the increased credit risk associated with such loans, and that consumer loans are important to our efforts to serve the credit needs of the communities and customers that we serve.

### Loan Portfolio Quality

We utilize a comprehensive grading system for our commercial loans, whereby 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 at various intervals.

Our independent loan review program is primarily responsible for the administration of the grading system and ensuring adherence to established lending policies and procedures. The loan review program is an integral part of maintaining our strong asset quality culture. Using a risk-based approach to selecting credits for review, our loan review program covered approximately 65% of total commercial loans outstanding during 2025. In addition, a random sampling of retail loans is reviewed each quarter. Our watch list credits are reviewed monthly by our Board of Directors and our Watch List Committee, the latter of which is comprised of senior level officers from the administration, lending and loan review functions.

Loans are placed in a nonaccrual status when, in our opinion, uncertainty exists as to the ultimate collection of all principal and interest. As of December 31, 2025, loans placed in nonaccrual status totaled \$7.9 million, or 0.2% of total loans, compared to \$5.7 million, or 0.1% of total loans, at December 31, 2024. We had no loans past due 90 days or more and still accruing interest at year-end 2025 or 2024.

Additional information relative to the loan portfolio is incorporated by reference to Management's Discussion and Analysis of Financial Condition and Results of Operations ("Management's Discussion and Analysis") and Note 3 of the Notes to Consolidated Financial Statements in this Annual Report.

### **Allowance for Credit Losses**

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 past loan 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 uncollectibility 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. Uncollectible loans are charged-off through the allowance, while recoveries of loans previously charged-off are added to the allowance.

Additional detail regarding the allowance is incorporated by reference to Management's Discussion and Analysis and Note 3 of the Notes to Consolidated Financial Statements included in this Annual Report.

### **Investments**

*Bank Holding Company Investments.* The principal investments of our bank holding company are the investments in the common stocks of our banks, the common securities of our trusts, and the community development tax credit investments made by MCP. Other funds of our bank holding company may be invested from time to time in various debt instruments.

Subject to the limitations of the Bank Holding Company Act, we are also permitted to make portfolio investments in equity securities and to make equity investments in subsidiaries engaged in a variety of non-banking activities, which include real estate-related activities such as community development, real estate appraisals, arranging equity financing for commercial real estate, and owning and operating real estate used substantially by our banks or acquired for their future use. MCP invests as a limited liability member in real estate entities engaged in community development. Our bank holding company has no plans at this time to make directly any other types of equity investments at the bank holding company level. Our Board of Directors may, however, alter the investment policy at any time without shareholder approval.

*Our Banks' Investments.* Our banks may invest their funds in a wide variety of debt instruments and may participate in the federal funds market with other depository institutions. Subject to certain exceptions, our banks are prohibited from investing in equity securities. Among the equity investments permitted for our banks under various conditions and subject in some instances to amount limitations, are shares of a subsidiary insurance agency, mortgage company, real estate company, or Michigan business and industrial development company, such as our insurance company. Under another such exception, in certain circumstances and with prior notice to or approval of the FDIC, our banks could invest up to 10% of their total assets in the equity securities of a subsidiary corporation engaged in the acquisition and development of real property for sale or the improvement of real property by construction or rehabilitation of residential or commercial units for sale or lease. Our banks have no present plans to make such an investment. Real estate acquired by our banks in satisfaction of or foreclosure upon loans may be held by our banks for specified periods. Our banks are also permitted to invest in such real estate as is necessary for the convenient transaction of their business. Our banks' Boards of Directors may alter our banks' investment policies without shareholder approval at any time.

Additional detail and information relative to the securities portfolio is incorporated by reference to Management's Discussion and Analysis and Note 2 of the Notes to Consolidated Financial Statements included in this Annual Report.

### **Available Information**

We maintain an internet website at [www.mercbank.com](http://www.mercbank.com). We make available on or through our website, free of charge, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practical after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. We do not intend the address of our website to be an active link or to otherwise incorporate the contents of our website into this Annual Report.

## **Item 1A. Risk Factors.**

The following risk factors could affect our business, financial condition or results of operations. These risk factors should be considered in connection with evaluating the forward-looking statements contained in this Annual Report because they could cause the actual results and conditions to differ materially from those projected in forward-looking statements. Before you buy our common stock, you should know that investing in our common stock involves risks, including the risks described below. The risks that are highlighted here are not the only ones we face. If the adverse matters referred to in any of the risks actually occur, our business, financial condition or operations could be adversely affected. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment.

### **Risks Related to Our Business**

#### **We are subject to interest rate risk.**

Our earnings and cash flows are largely dependent upon our net interest income. Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Federal Reserve Board. Generally speaking, increases in the targeted federal funds rate positively impact our net interest income. In contrast, higher interest rates generally have a negative impact on both the housing market, by reducing refinancing activity and new home purchases, and the U.S. economy.

We principally manage interest rate risk by managing the volume and mix of our earning assets and funding liabilities. Changes in monetary policy, including changes in interest rates, could influence not only the interest we receive on loans and investments and the amount of interest we pay on deposits and borrowings, but these changes could also affect: (1) our ability to originate and/or sell loans and obtain deposits; (2) the fair value of our financial assets and liabilities, which could negatively impact shareholders' equity, and our ability to realize gains from the sale of such assets; (3) our ability to obtain and retain deposits in competition with other available investment alternatives; (4) the ability of our borrowers to repay adjustable or variable rate loans; and (5) the average duration of our investment securities portfolio and other interest-earning assets. If the interest rates paid on deposits and borrowings increase at a faster rate than the interest received on loans and other investments, our net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments decline more rapidly than the interest rates paid on deposits and other borrowings. In a changing interest rate environment, we may not be able to manage this risk effectively. If we are unable to manage interest rate risk effectively, our business, financial condition and results of operations could be materially affected.

#### **We are subject to liquidity risk.**

Our banking operations require liquidity to meet our deposit and debt obligations as they come due. There are many potential factors that could reduce our access to liquidity sources, including higher interest rate environments, tightening fiscal policy, a downturn in the U.S. economy, difficult credit markets or adverse regulatory actions. Our access to deposits may also be affected by the liquidity needs of our depositors. A substantial majority of our liabilities are demand, savings, interest checking and money market deposits, which are payable on demand or upon several days' notice, while by comparison, a substantial portion of our assets are loans, which cannot be called or sold in the same time frame. We may not be able to replace maturing deposits and advances as necessary in the future, especially if a large number of our depositors sought to withdraw their accounts, regardless of the reason. Our access to deposits may be negatively impacted by, among other factors, periods of low interest rates or higher interest rates which could promote increased competition for deposits, including from new financial technology competitors, or provide customers with alternative investment options. Additionally, negative news about us or the banking industry in general could negatively impact market and/or customer perceptions of our company, which could lead to a loss of depositor confidence and an increase in deposit withdrawals, particularly among those with uninsured deposits. Furthermore, as we and other regional banking organizations experienced in 2023, the failure of other financial institutions may cause deposit outflows as customers spread deposits among several different banks so as to maximize their amount of FDIC insurance, move deposits to banks deemed "too big to fail" or remove deposits from the banking system entirely. As of December 31, 2025, approximately 54% of our deposits were uninsured, and we rely on these deposits for liquidity. A failure to maintain adequate liquidity could have a material adverse effect on our business, financial condition and results of operations.

#### **Unfavorable economic, geopolitical conflicts and other political conditions could adversely affect our business, financial condition or results of operations.**

Our results of operations could be adversely affected by general conditions in the local, national, and global economies, financial markets and political conditions. Our financial performance generally, and in particular the ability of borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, as well as demand for loans and other products and services we offer, is highly dependent upon the business environment in the markets where we operate. A favorable business environment is generally characterized by, among other factors, economic growth, efficient capital markets, low inflation, low unemployment, high business and investor confidence, and strong business earnings. Unfavorable or uncertain economic and market conditions can be caused by a decline in economic growth both in the U.S. and internationally; declines in business activity or investor or business confidence; limitations on the availability of or increases in the cost of credit and capital; increases in inflation or interest rates; high unemployment; natural disasters; global pandemics, trade policies and tariffs; or a combination of these or other factors. In addition, financial markets and global supply chains

may be adversely affected by the current or anticipated impact of global wars/military conflicts, terrorism or other geopolitical events. A weak or declining economy or political disruption, including any international trade disputes, could also strain our manufacturers or suppliers, possibly resulting in supply disruptions, or cause our customers to delay making payments for our products and services. Any of the foregoing could seriously harm our business, and we cannot anticipate all of the ways in which the political or economic climate and financial market conditions could seriously harm our business.

**Significant declines in the value of commercial real estate could adversely impact us.**

Approximately 63% of our total commercial loans, or about 52% of our total loans, relate to commercial real estate. Commercial real estate lending involves more risk than residential lending because loan balances are typically greater and repayment is dependent upon the borrower's business operations. Stressed economic conditions may reduce the value of commercial real estate and strain the financial conditions of our commercial real estate borrowers, especially in the land development and non-owner occupied commercial real estate segments of our loan portfolio. Those difficulties could adversely affect us and could produce losses and other adverse effects on our business. Additionally, in recent years, commercial real estate markets have been particularly impacted by the economic disruption resulting from the COVID-19 pandemic. The COVID-19 pandemic has also been a catalyst for the evolution of various remote work options that have impacted the long-term performance of some types of office properties within our commercial real estate portfolio. Accordingly, the federal banking regulatory agencies have expressed concerns about weaknesses in the current commercial real estate market. Failures in our risk management policies, procedures and controls could adversely affect our ability to manage this portfolio going forward and could result in an increased rate of delinquencies in, and increased losses from, this portfolio, which, accordingly, could have a material adverse effect on our business, financial condition and results of operations.

**Market volatility may adversely affect us.**

The capital and credit markets may experience volatility and disruption. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers without apparent regard to those issuers' underlying financial strength. Future levels of market disruption and volatility may have an adverse effect, which may be material, on our ability to access capital and on our business, financial condition and results of operations.

**Our future success is dependent on our ability to compete effectively in the highly competitive banking industry.**

We face substantial competition in all phases of our operations from a variety of different competitors. Our future growth and success will depend on our ability to compete effectively in this highly competitive environment. We compete for deposits, loans and other financial services with numerous Michigan-based and national and regional banks, thrifts, credit unions and other financial institutions as well as other entities that provide financial services, including securities firms and mutual funds. Some of the financial institutions and financial service organizations with which we compete are not subject to the same degree of regulation as we are. Many of our competitors have been in business for many years, have established customer bases, are larger, have substantially higher lending limits than we do and offer larger branch networks and other services which we do not, including trust and international banking services. Most of these entities have greater capital and other resources than we do, which, among other things, may allow them to price their services at levels more favorable to the customer and to provide larger credit facilities than we do. This competition may limit our growth or earnings. Under specified circumstances (that have been modified by the Dodd-Frank Act and EGRRCPA), securities firms and insurance companies that elect to become financial holding companies under the Bank Holding Company Act may acquire banks and other financial institutions. Federal banking law affects the competitive environment in which we conduct our business. The financial services industry is also likely to become more competitive as further technological advances enable more companies to provide financial services. These technological advances may diminish the importance of depository institutions and other financial intermediaries in the transfer of funds between parties.

**Our risk management systems may fall short of their intended objectives.**

We seek to monitor and control our risk exposure through a risk and control framework encompassing a variety of separate but complementary financial, credit, operational, compliance and legal reporting systems, internal controls, management review processes and other mechanisms. Our risk management process seeks to balance our ability to profit from investing or lending positions with our exposure to potential losses. While we employ a broad and diversified set of risk monitoring and risk mitigation techniques, those techniques and the judgments that accompany their application cannot anticipate every economic and financial outcome or the specifics and timing of such outcomes. Thus, we may, in the course of our activities, incur losses.

**We may not be able to successfully adapt to evolving industry standards and market pressures.**

Our success depends, in part, on our ability to adapt products and services to evolving industry standards. There is increasing pressure to provide products and services at lower prices. This can reduce net interest income and noninterest income from fee-based products and services. In addition, the widespread adoption of new technologies could require us to make substantial capital expenditures to modify or adapt existing products and services or develop new products and services. We may not be successful in introducing new products and services in response to industry trends or developments in technology, or those new products may not achieve market acceptance. As a result, we could lose business, be forced to price products and services on less advantageous terms to retain or attract clients, or be subject to cost increases. As a result, our business, financial condition, or results of operations may be adversely affected.

**Our inability to execute or integrate potential future acquisitions successfully could impede us from realizing all of the benefits of the acquisitions, which could weaken our operations.**

In addition to pursuing organic growth, we may also pursue strategic acquisition opportunities that we believe will fit our core philosophy and culture, enhance our profitability and provide appropriate risk-adjusted returns. These acquisition opportunities could be material to our business and involve a number of risks, including the following:

- intense competition from other banking organizations and other acquirers for potential merger candidates drives market pricing;
- time and expense associated with identifying and evaluating potential acquisitions and negotiating potential transactions may divert human and capital resources without producing the desired returns;
- estimates and judgments used to evaluate credit, operations, management and market risks with respect to the target institution or assets are inherently complex and may be inaccurate;
- potential exposure to unknown or contingent liabilities of targets; and
- regulatory time frames for review of applications may limit the number and frequency of transactions we may be able to consummate.

If we are unable to successfully integrate potential future acquisitions, we could be impeded from realizing all of the benefits of those acquisitions and could weaken our business operations. The integration process may disrupt our business and, if implemented ineffectively, may preclude realization of the full benefits expected by us and could harm our results of operations. In addition, the overall integration of the combining companies may result in unanticipated problems, expenses, liabilities and competitive responses, and may cause our stock price to decline. The difficulties of integrating an acquisition include, among others:

- unanticipated issues in integration of information, communications and other systems;
- unanticipated incompatibility of logistics, marketing and administrative methods;
- maintaining employee morale and retaining key employees;
- integrating the business cultures of both companies;
- preserving important strategic client relationships;
- coordinating geographically diverse organizations; and
- consolidating corporate and administrative infrastructures and eliminating duplicative operations.

Finally, even if the operations of an acquisition are integrated successfully, we may not realize the full benefits of the acquisition, including the synergies, cost savings or growth opportunities we expect. These benefits may not be achieved within the anticipated time frame as well.

Our inability to overcome these risks could have an adverse effect on our ability to implement our business strategy, which, in turn, could have an adverse effect on our business, financial condition and results of operations.

**The soundness of other financial institutions could adversely affect us.**

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial industry. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. Even routine funding transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the financial instrument exposure due us. There is no assurance that any such losses would not materially and adversely affect our results of operations.

**Our credit losses could increase and our allowance may not be adequate to cover actual loan losses.**

As the risk of nonpayment of loans is inherent in all lending activities, we maintain allowances for credit losses on loans, securities and off-balance sheet credit exposures. Regardless, nonpayment, when it occurs, may have a materially adverse effect on our earnings and overall financial condition as well as the value of our common stock. Our focus on commercial lending may result in a larger concentration of loans to small businesses. As a result, we may assume different or greater lending risks than other banks. We make various assumptions and judgments about the collectability of our loan portfolio and provide an allowance for credit losses based on several factors. If our assumptions are wrong, our allowance may not be sufficient to cover our losses, which would have an adverse effect on our operating results. The actual amounts of future provisions for credit losses cannot be determined at this time and may exceed the amounts of past provisions. Any increase in the allowance for credit losses on loans, securities and/or off-balance sheet credit exposures will result in a decrease in net income and, possibly, capital, and may have a material adverse effect on our business, financial condition and results of operations.

**We rely heavily on our management and other key personnel, and the loss of any of them may adversely affect our operations.**

We are and will continue to be dependent upon the services of our management team, including our executive officers and our other senior managers. The unanticipated loss of our executive officers, or any of our other senior managers, could have an adverse effect on our growth and performance.

In addition, we continue to depend on our key commercial bankers. Several of our commercial bankers are responsible, or share responsibility, for generating and managing a significant portion of our commercial loan portfolio. Our success can be attributed in large part to the relationships these officers as well as members of our management team have developed and are able to maintain with our customers as we continue to implement our community banking philosophy. The loss of any of these commercial bankers could adversely affect our loan portfolio and performance, and our ability to generate new loans. Many of our key employees have signed agreements with us agreeing not to compete with us in one or more of our markets for specified time periods if they leave employment with us. However, we may not be able to effectively enforce such agreements.

Some of the other financial institutions in our markets also require their key employees to sign agreements that preclude or limit their ability to leave their employment and compete with them or solicit their customers. These agreements make it more difficult for us to hire loan officers with experience in our markets who can immediately solicit their former or new customers on our behalf.

**Direct and indirect effects of climate change may adversely affect us.**

Climate change presents immediate and long-term risks to us and to our customers and communities, with risks expected to increase over time. Climate change refers to risk of life and property damage occurring due to naturally occurring events induced by human behavior and can manifest in the form of physical risk and indirect risk. Physical risk refers to results of severe weather, such as floods, hurricanes, rising sea levels, fires and water availability. Indirect risk refers to how changes in regulation, conscious consumer choices, competition for sustainable products, and reduced demand for goods or services that produce significant green-house gas emissions may impact the results and operations of a company. Physical effects of climate change to our offices, branches or personnel could have an immediate adverse effect on our operations and financial condition, whereas indirect consequences may result in increased expenditures to comply with climate-related regulations.

Similarly, physical effects could have a severe impact on the business and operations of our customers and vendors. Furthermore, consumer choices and shareholder demands could require our customers to invest more in cleaner energy manufacturing and procurement and to compete with innovative new products that generate lower emissions, which may or may not be successful. If our customers are not able to keep up with evolving climate change effects, it could ultimately have an adverse effect on our business and results of operations. Lastly, like other financial institutions, we also run a reputational risk of financing businesses that are responsible for significant green-house gas emissions or are related to carbon-based energy sources. While our risk management framework monitors various types of risks and applies risk mitigation techniques including for environmental risks, and while we have been conscious of our own carbon footprint and have established a Enterprise Excellence Committee, introduction of new climate-related legislation and related compliance costs as well as the unpredictable effects of climate change on us or our customers could have a negative impact on our business, financial condition and results of operations, even if temporary in nature.

**Failure to meet the rapidly changing ESG expectations or standards, or achieve our ESG goals, could adversely affect our business, results of operations, financial condition or stock price.**

There are rapidly changing discussions and regulations surrounding ESG matters, including greenhouse gas emissions, sustainability and climate-related risks; diversity, equity and inclusion; responsible sourcing and supply chain; human rights and social responsibility; and corporate governance and oversight. Given our commitment to ESG, we annually publish an Enterprise Excellence Report, which reports on certain goals, commitments and achievements related to ESG, and more broadly to enterprise excellence. Our ESG program and our Enterprise Excellent Report are continually evolving and may change in focus, content or scope in the future. Any goals, commitments or targets that we publish reflect our current plans and aspirations and are not guarantees that we will be able to achieve them. Evolving stakeholder expectations and our efforts and ability to manage these issues, provide updates on them and accomplish our goals, commitments and targets present numerous operational, regulatory, reputational, financial, legal and other risks, any of which may be outside of our control or could have a material adverse impact on our business, including on our reputation and stock price.

**Changes in SOFR could adversely affect the amount of interest that accrues on SOFR-linked instruments.**

Effective January 1, 2022, we replaced the 30-Day Libor Rate with the CME Term SOFR Rate for all new floating rate commercial loan commitments. On or about June 30, 2023, all commercial loans tied to the 30-Day Libor Rate converted to an equivalent fallback SOFR Rate. Because SOFR is published by the Federal Reserve Bank of New York ("FRBNY") based on data received from other sources, we have no control over its determination, calculation or publication. There can be no assurance that SOFR will not be discontinued or fundamentally altered in a manner that is materially adverse to the interests of investors in SOFR-linked instruments. If the manner in which SOFR is calculated is changed, that change may result in a change in the amount of interest that accrues on the SOFR-linked instruments. In addition, the interest rate on SOFR-linked instruments may for any day not be adjusted for any modification or amendments to SOFR for that day that the FRBNY may publish if the interest rate for that day has already been determined prior to such determination. There is no assurance that

changes in SOFR could not have a material adverse effect on the yield on, value of, and market for SOFR-linked instruments, which could have a material adverse effect on our business.

Further, SOFR is a relatively new interest rate, and the FRBNY or any successor, as administrator of SOFR, may make methodological or other changes that could change the value of SOFR, including changes related to the methodology by which SOFR is calculated, eligibility criteria applicable to the transactions used to calculate SOFR or timing related to the publication of SOFR. If the manner in which SOFR is calculated is changed, the change may result in a reduction of the amount of interest payable on loans we have made to customers, which could have a material adverse effect on our business. The administrator of SOFR may withdraw, modify, suspend or discontinue the calculation or dissemination of SOFR in its sole discretion and without notice, and has no obligation to consider the interests of investors in calculating, withdrawing, modifying, amending, suspending or discontinuing SOFR.

**Our accounting policies and methods are the basis for how we prepare our consolidated financial statements, and they require management to make estimates about matters that are inherently uncertain.**

Accounting policies and processes are fundamental to how we record and report our financial condition and results of operations. We must exercise judgment in selecting and applying many of these accounting policies and processes so they comply with U.S. GAAP. In some cases, we must select the accounting policy or method to apply from two or more alternatives, any of which may be reasonable under the circumstances, yet may result in our reporting materially different results than would have been reported under a different alternative.

We have identified certain accounting policies as being critical because they require us to make difficult, subjective or complex judgments about matters that are uncertain. Materially different amounts could be reported under different conditions or using different assumptions or estimates. We have established detailed policies and control procedures that are intended to ensure these critical accounting estimates and judgments are well controlled and applied consistently. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. Because of the uncertainty surrounding management's judgments and the estimates pertaining to these matters, we cannot guarantee that we will not be required to adjust accounting policies or restate prior period financial statements. For additional information, see "Critical Accounting Estimates" beginning on page F-3 of this Annual Report and "Note 1 – Summary of Significant Accounting Policies" beginning on page F-32 of this Annual Report.

**We continually encounter technological change, and we may have fewer resources than our competitors to continue to invest in technological improvements.**

The banking industry is undergoing technological changes with frequent introductions of new technology-driven products and services. We are subject to intense competition from both other financial institutions and from non-bank entities, including FinTech companies. Technology has lowered the barriers to entry, with customers having a growing variety of traditional and nontraditional alternatives, such as crowdfunding, digital wallets, cryptocurrencies, and money transfer services. Our future success will depend, in part, on our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience as well as create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements than we do. There can be no assurance that we will be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. In addition, our implementation of certain new technologies, such as those related to artificial intelligence, automation and algorithms, in our business processes may have unintended consequences due to their limitations or our failure to use them effectively. Failure to successfully manage technological changes could have a material adverse effect on our business, financial condition and results of operations.

**Damage to our reputation could materially harm our business.**

Our relationship with many of our clients is predicated upon our reputation as a fiduciary and a service provider that adheres to the highest standards of ethics, service quality and regulatory compliance. Adverse publicity, regulatory actions, litigation, operational failures, the failure to meet client expectations and other issues with respect to one or more of our businesses could materially and adversely affect our reputation, our ability to attract and retain clients or our sources of funding for the same or other businesses. Preserving and enhancing our reputation also depends on maintaining systems and procedures that address known risks and regulatory requirements, as well as our ability to identify and mitigate additional risks that arise due to changes in our businesses and the marketplaces in which we operate, the regulatory environment and client expectations. If any of these developments have a material effect on our reputation, our business will suffer.

**Our business is subject to operational risks.**

We, like most financial institutions, are exposed to many types of operational risks, including the risk of fraud by employees or outsiders, unauthorized transactions by employees or operational errors. To date, we have not experienced a significant compromise, significant data loss or any material financial losses related to cybersecurity attacks, but our systems and those of our customers and third-party service providers are under constant threat, and it is possible that we could experience a significant event in the future. Operational errors may include clerical or record keeping errors or those resulting from faulty or disabled computer or telecommunication systems. Given our volume of transactions, certain errors may be repeated or compounded before they are discovered and successfully corrected. Our necessary dependence upon automated systems to record and process our transaction volume may further increase the risk that technical system flaws or employee tampering or manipulation of those systems will result in losses that are difficult to detect.

We may also be subject to disruptions of our operating systems arising from events that are wholly or partially beyond our control, including, for example, computer viruses or electrical or telecommunications outages, which may give rise to losses in service to customers and to loss or liability to us. We are further exposed to the risk that our external vendors may be unable to fulfill their contractual obligations to us, or will be subject to the same risk of fraud or operational errors by their respective employees as we are, and to the risk that our or our vendors' business continuity and data security systems prove not to be adequate. We also face the risk that the design of our controls and procedures proves inadequate or is circumvented, causing delays in detection or errors in information. Although we maintain a system of controls designed to keep operational risks at appropriate levels, there can be no assurance that we will not suffer losses from operational risks in the future that may be material in amount.

**We face the risk of cyber-attack to our computer systems.**

In the ordinary course of business, we collect and store sensitive data, including proprietary business information and personally identifiable information of our customers and employees in systems and on networks. The secure processing, maintenance and use of this information is critical to our operations. To date, we have not experienced a significant compromise, significant data loss or any material financial losses related to cybersecurity attacks, but our systems and those of our customers and third-party service providers are under constant threat, and it is possible that we could experience a significant event in the future. Cybersecurity threats include unauthorized access, loss or destruction of data (including confidential client information), account takeovers, unavailability of service, computer viruses or other malicious code, cyber-attacks and other events. Remote working of employees introduces additional potential cybersecurity risks due to the use of home networks, video conferencing and other remote work technologies over which we do not have as much control as our internal systems.

Cyber threats may derive from human error, fraud or malice on the part of employees or third parties, or may result from accidental technological failure. We cannot assure that such breaches, failures or interruptions will not occur or, if they do occur, that they will be adequately addressed by us or the third parties on which we rely. We may not be insured against all types of losses as a result of third-party failures, and insurance coverage may be inadequate to cover all losses resulting from breaches, systems failures or other disruptions. If one or more of these events occurs, it could result in the disclosure of confidential client information, damage to our reputation with our clients and the market, additional costs to us (such as repairing systems or adding new personnel or protection technologies), regulatory penalties and financial losses, to both us and our clients and customers. Such events could also cause interruptions or malfunctions in our operations (such as the lack of availability of our online banking system), as well as the operations of our clients, customers or other third parties. Risks and exposures related to cybersecurity attacks are expected to remain high for the foreseeable future due to the rapidly evolving nature and sophistication of these threats, as well as due to the expanding use of internet banking, mobile banking and other technology-based products and services by us and our customers. Although we maintain safeguards to protect against these risks, there can be no assurance that we will not suffer losses in the future that may be material in amount.

Cybersecurity risks and disclosures are increasingly regulated by various government agencies, including federal and state bank regulatory agencies and the Securities and Exchange Commission. Failure to observe such guidance may result in supervisory identification of unsafe or unsound practices or other deficiencies in risk management or other areas that do not constitute violations of law or regulation.

**Risks Related to the Acquisition of Eastern Michigan Financial Corporation**

**We may not be able to successfully integrate the business of Eastern Michigan Financial Corporation.**

The success of the acquisition of Eastern Michigan Financial Corporation completed on December 31, 2025 depends, in part, on our ability to successfully integrate the operations, systems, and personnel of the acquired business with our own. The integration process may involve operational complexities, potential customer confusion or dissatisfaction, technology and system modifications, and the risk of service interruptions. There is no assurance that the integration process, including the core processor transition, alignment of debit card programs, and alignment of employee benefit programs, will proceed as planned or that we will achieve the anticipated benefits and synergies of the acquisition. Unanticipated issues, delays, or costs may arise, and we may encounter obstacles that could prevent us from realizing the expected advantages of the transaction. If we are unable to effectively integrate the acquired business, our business, financial condition, and results of operations could be materially and adversely affected.

**The integration of the acquired operations will require significant time and attention from our management team.**

The process of integrating Eastern Michigan Financial Corporation and its subsidiaries involves significant efforts and resources from our management and employees. These integration activities include aligning systems, procedures, and personnel, as well as harmonizing corporate cultures and business practices. As a result, our management team and staff may be required to devote substantial time and attention to integration matters, which could detract from their ability to focus on the day-to-day management and operation of our business. This diversion of resources and attention may result in missed business opportunities, reduced productivity, or delays in responding to market developments and customer needs. In addition, integration efforts may create uncertainty or dissatisfaction among customers, employees, or other stakeholders, which could negatively impact our relationships and retention rates. If the integration process is not managed effectively, or if unforeseen challenges arise, our business, financial condition, and results of operations could be materially and adversely affected.

**We may not be able to realize all of the benefits of the acquisition.**

We may not realize the anticipated benefits of the acquisition, including potential synergies, cost savings, growth opportunities, or enhanced competitive position. The failure to achieve these benefits could adversely affect our business, financial condition, and results of operations.

**We have incurred indebtedness in connection with the acquisition.**

We entered into a credit agreement with U.S. Bank National Association for a \$30 million term loan to fund a portion of the purchase price and related expenses of the acquisition. This senior indebtedness requires us to dedicate a portion of our cash flows to debt service payments, which reduces the funds available for other operational needs, capital expenditures, and strategic opportunities. This increased debt level also makes us more vulnerable to adverse changes in general economic, industry, or competitive conditions, and exposes us to the risk of rising interest rates since the indebtedness bears variable interest. Furthermore, our indebtedness may limit our flexibility in responding to changes in our business environment and could place us at a competitive disadvantage compared to other companies with less debt. It may also restrict our ability to obtain additional financing on favorable terms, or at all, should the need arise. Our ability to meet our debt obligations will depend on our future performance, which is subject to a range of factors, including general economic, regulatory, and competitive conditions, many of which are beyond our control. If we are unable to generate sufficient cash flow to service our debt or to refinance our indebtedness as it matures, our business, financial condition, and results of operations could be materially and adversely affected.

**We are in the process of converting our core processing system.**

We have initiated the transfer of our core processing system to Jack Henry & Associates, the core processor used by Eastern Michigan Financial Corporation and Eastern Michigan Bank. This conversion is a complex and resource-intensive project that is not expected to be completed until the first quarter of 2027. During this period, we may encounter operational challenges, including potential disruptions to daily banking activities, data migration errors, or delays in integrating systems and processes. There is also a risk of temporary interruptions in customer service or inadvertent disclosure of sensitive customer information as a result of the system conversion. Any such disruptions or errors could negatively impact customer relationships, cause reputational harm, and result in additional costs. Moreover, the successful completion of the conversion depends on the effective coordination of our personnel, vendors, and third-party service providers. Failure to complete the core processing system conversion in a timely and efficient manner, or to realize the anticipated benefits of the new system, could adversely affect our business, financial condition, and results of operations.

**Regulatory Risks****We are subject to significant government regulation, and any regulatory changes may adversely affect us.**

The banking industry is subject to extensive regulation, supervision and legal requirements under both federal and state law that govern almost all aspects of our operations. These regulations are primarily intended to protect customers, the federal deposit insurance fund, and the stability of the U.S. financial system, not our creditors or shareholders. Existing state and federal banking laws subject us to substantial limitations with respect to our activities, including the making of loans, the purchase of securities, the payment of dividends and many other aspects of our business. Some of these laws may benefit us, others may increase our costs of doing business, or otherwise adversely affect us and create competitive advantages for others. Regulations affecting banks and financial services companies undergo continuous change, which may be accelerated by changes in the administration of federal and state governments, and we cannot predict the ultimate effect of these changes, which could have a material adverse effect on our profitability or financial condition. Federal economic and monetary policy may also affect our ability to attract deposits, make loans and achieve satisfactory interest spreads. The implementation, amendment or repeal of federal financial services laws or regulations may limit our business opportunities, impose additional costs on us, impact our revenues or the value of our assets, or otherwise adversely affect our business, financial condition or results of operations.

**Minimum capital requirements may adversely affect our ability (and that of our banks) to pay cash dividends, reduce our profitability, or otherwise adversely affect our business, financial condition or results of operations.**

We are subject to extensive capital regulations imposed by federal and state banking regulations. These regulations, among other things, establish minimum requirements to qualify as a “well-capitalized” institution. If our banks were to fail to maintain their status of “well-capitalized” under the applicable regulatory capital regulations, we may lose our status as a financial holding company and be subjected to a consent agreement requiring us to bring our banks back to a “well-capitalized” status. Such an agreement may impose restrictions on our activities. If we were to fail to enter into such an agreement or fail to comply with the terms of such agreement, the Federal Reserve Board may impose more severe restrictions on our activities, including requiring us to cease and desist activities permitted under the Bank Holding Company Act. The regulatory environment is constantly evolving, with requirements frequently being introduced or amended. It is possible that increases in regulatory capital requirements and changes in how regulatory capital is calculated could require us to increase our capital levels by issuing additional securities that qualify as regulatory capital, thus potentially diluting our existing shareholders, or by taking other actions, such as selling assets, in order to maintain required capital ratios. We may be unable to sell some of our assets, or we may have to sell assets at a discount from market value, either of which could adversely affect our results of operations, cash flow and financial condition.

## **Risks Related to Our Stock**

### **Issuance of debt securities or sales of our common stock or other securities may dilute the value of our common stock.**

We have issued both trust preferred securities and subordinated notes. In the event of our liquidation, the holders of our debt securities would receive a distribution of our available assets before distributions are made to holders of our common stock. In many situations, our Board of Directors has the authority, without any vote of our shareholders, to issue shares of our authorized but unissued preferred or common stock, including shares authorized and unissued under our equity incentive plans. In the future, we may issue additional debt or equity securities, through public or private offerings, in order to raise additional capital. Any such issuance of equity securities would dilute the percentage of ownership interest of existing shareholders and may dilute the per share book value of the common stock. In addition, option holders under our stock-based incentive plans may exercise their options at a time when we would otherwise be able to obtain additional equity capital on more favorable terms.

### **We may need to raise additional capital in the future, and such capital may not be available when needed or at all.**

We may need or want to raise additional capital in the future by issuing debt or equity securities to provide us with sufficient capital resources and liquidity to meet our commitments and business needs, particularly if our asset quality or earnings were to deteriorate significantly. Our ability to raise additional capital will depend on, among other things, conditions in the capital markets at that time, which are outside of our control, and our financial performance. Economic conditions and any loss of confidence in financial institutions generally may increase our cost of funding and limit access to certain customary sources of capital.

There can be no assurance that capital will be available on acceptable terms or at all. Any occurrence that may limit our access to the capital markets, such as a decrease in our credit rating or a decline in the confidence of equity or debt purchasers, or counterparties participating in the capital markets, may adversely affect our capital costs and our ability to raise capital and, potentially, our liquidity. Also, if we need to raise capital in the future, we may have to do so when many other financial institutions are also seeking to raise capital and would have to compete with those institutions for investors. An inability to raise additional capital on acceptable terms when needed could have a materially adverse effect on our business, financial condition and results of operations.

### **Our Articles of Incorporation, By-laws, the corporate laws of the State of Michigan, and federal banking laws contain provisions that may discourage or prevent a takeover of our company and reduce any takeover premium.**

Our Articles of Incorporation, By-laws, the corporate laws of the State of Michigan, and federal banking laws include provisions which are designed to provide our Board of Directors with time to consider whether a hostile takeover offer is in our and our shareholders' best interest. These provisions, however, could discourage potential acquisition proposals and could delay or prevent a change in control. The provisions also could diminish the opportunities for a holder of our common stock to participate in tender offers, including tender offers at a price above the then-current market price for our common stock. These provisions could also prevent transactions in which our shareholders might otherwise receive a premium for their shares over then-current market prices, and may limit the ability of our shareholders to approve transactions that they may deem to be in their best interest.

The Michigan Business Corporation Act contains provisions intended to protect shareholders and prohibit or discourage various types of hostile takeover activities. In addition to these provisions and the provisions of our Articles of Incorporation and By-laws, federal banking laws require the Federal Reserve Board's approval prior to acquiring "control" of a bank holding company. All of these provisions may delay or prevent a change in control without action by our shareholders and could adversely affect the price of our common stock.

### **There is a limited trading market for our common stock.**

The price of our common stock has been, and will likely continue to be, subject to fluctuations based on, among other things, economic and market conditions for bank holding companies and the stock market in general, as well as changes in investor perceptions of our company. The issuance of new shares of our common stock also may affect the market for our common stock.

Our common stock is traded on the Nasdaq Global Select Market under the symbol "MBWM." The development and maintenance of an active public trading market depends upon the existence of willing buyers and sellers, the presence of which is beyond our control. While we are a publicly traded company, the volume of trading activity in our stock is still relatively limited. Even if a more active market develops, there can be no assurance that such a market will continue, or that our shareholders will be able to sell their shares at or above the price at which they acquired shares.

### **The value of securities in our investment securities portfolio may be negatively affected by disruptions in securities markets.**

Prices and volumes of transactions in the nation's securities markets can be affected suddenly by economic crises, or by other national or international crises, such as national disasters, acts of war or terrorism, changes in commodities markets, or instability in foreign governments. Disruptions in securities markets may detrimentally affect the value of securities that we hold in our investment portfolio, such as through reduced valuations due to the perception of heightened credit and liquidity risks. There can be no assurance that declines in market value associated with these disruptions will not result in a loss in principal value of these assets, which would lead to accounting charges that could have a material adverse effect on our net income and capital levels.

## **Item 1B. Unresolved Staff Comments**

We have received no written comments regarding our periodic or current reports from the staff of the Securities and Exchange Commission that were issued 180 days or more before the end of our 2025 fiscal year and that remain unresolved.

## **Item 1C. Cybersecurity**

### *Risk Management and Strategy*

Our enterprise risk management program is designed to identify, assess, and mitigate risks across various aspects of our company, including financial, operational, regulatory, reputational, and legal. Cybersecurity is a critical component of this program given the increasing reliance on technology and potential of cyber threats. Our Chief Information Security Officer (the "CISO") is primarily responsible for this cybersecurity component and is a key member of the risk management organization, reporting directly to the Senior Management Team ("SMT") and our Tech Oversight Committee. Our Tech Oversight Committee includes members of our Board of Directors and management. Our CISO has served in this capacity for more than a decade and maintains multiple certifications issued by the Information Systems Audit and Control Association ("ISACA") and the SANS Institute. As part of our overall enterprise risk management program, we maintain both an Information & Cyber Security Program Policy ("ICSPP") and Information & Cyber Security Incident Response Policy ("ICSIRP").

Our ICSPP is overseen by the SMT, which is responsible for designating the CISO. The CISO is responsible for leading company-wide cybersecurity strategy, policy, standards, architecture, and processes. The CISO is charged with all logical security related matters, which include but are not limited to, PC/server security, network security, internet security, and database and application security. Our ICSIRP is based on applicable federal and state laws as well as cybersecurity incident response best practices. The purpose of the ICSIRP is to define procedures for reporting and responding to cybersecurity incidents. It creates objectives for actionable procedures that can be measured, evaluated, scaled and revised as necessary for each specific incident. These objectives include maximizing the effectiveness of our company's operations through an established plan of action and assigning responsibilities to appropriate personnel and/or third-party contractors.

Our company has engaged a third-party managed detection and response company to monitor the security of our information systems around-the-clock, including intrusion detection and response, and to provide instantaneous alerting should a cybersecurity event occur. If a cybersecurity threat or cybersecurity incident is identified through our company's information systems, the CISO and Incident Response Team ("IRT") will take immediate steps to mitigate the threat and assess any damages. Upon report from the CISO, the SMT will evaluate the materiality of the cybersecurity threat or cybersecurity incident to determine if any public disclosures are required under the Security and Exchange Commission's cybersecurity disclosure rule. If deemed necessary, third-party consultants, legal counsel, and assessors will be engaged to evaluate the materiality assessment.

Our company has training and awareness programs designed to educate its employees about cybersecurity risks and how to protect our company, our customers and themselves from cyber-attacks and to keep its employees informed about cybersecurity threats and how to stay safe online, including secure access practice, phishing schemes, remote work and response to suspicious activities.

Our cybersecurity program interfaces with other functional areas within our company, including but not limited to, our company's business segments and information technology, legal, risk, human resources and internal audit departments, as well as external third-party partners, to identify and understand potential cybersecurity threats. We regularly assess and update our processes, procedures and management techniques in light of ongoing cybersecurity developments.

Recognizing the complexity and evolving nature of cybersecurity threats, we also engage with a range of external experts, including cybersecurity assessors, consultants, and auditors in evaluating and testing our risk management systems. These partnerships enable our company to leverage specialized knowledge and insights, ensuring its cybersecurity strategies and processes remain at the forefront of industry best practices. Our company's collaboration with these third parties includes regular audits, testing, threat assessments and consultation on security enhancements.

To date, risks from cybersecurity threats or incidents have not materially affected our company. However, the sophistication of and risks from cybersecurity threats and incidents continue to increase, and the preventative actions that we have taken and continue to take to reduce the risk of cybersecurity threats and incidents and protect our systems and information may not successfully protect against all cybersecurity threats and incidents. For more information on how cybersecurity risk could materially affect our company's business strategy, results of operations, or financial condition, please refer to Item 1A Risk Factors.

### *Governance*

Our company recognizes the importance of safeguarding company and customer information. Therefore, our Board of Directors recognizes that the protection of this information ranks as one of our highest priorities. Our Board of Directors is responsible for reviewing and approving the ICSPP and ICSIRP at least annually and monitoring material risks facing our company. In January 2025, our Board of Directors added a member who possesses specialized expertise in cybersecurity matters. Director Sara A. Schmidt currently serves as chief information security officer for US Foods and executive sponsor of the West Michigan Cyber Security Consortium.

Our Board of Directors has tasked the SMT with overseeing efforts to develop, implement and maintain an effective information and cybersecurity program. The SMT designates the CISO, who also serves as the IRT leader. As part of its oversight responsibilities, our Board of Directors is responsible for discussing with the SMT our company's major risk exposures, such as cybersecurity, and the steps management has taken to monitor and control those exposures, including our risk assessment and risk management policies. Our Board of Directors also monitors our compliance with legal and regulatory requirements and the risks associated therewith. On a regular basis, our Tech Oversight Committee reviews with the SMT significant areas of risk exposure involving cybersecurity.

At the direction of the SMT, the CISO and IRT monitor internal and external cybersecurity threats and review and revise our company's cybersecurity defenses on an ongoing basis. The CISO, together with other members of the IRT, bring a wealth of expertise to their respective roles, including expertise in security technologies; designing and implementing security strategies; security standards such as NIST, ISO, COBIT and ITIL; and risk management and incident response. The CISO prepares reports on IT general controls and cybersecurity metrics for the SMT and Tech Oversight Committee periodically. Our Board of Directors meets with the CISO periodically to discuss cybersecurity.

## **Item 2. Properties.**

Our headquarters is located in Mercantile Bank's main office facility in Grand Rapids, Michigan. Mercantile Bank operates 43 banking offices primarily concentrated throughout Western and Central Michigan, most of which are full-service facilities. Mercantile Bank also has banking offices located in the metropolitan Detroit area, Traverse City, Petoskey, and Midland. Mercantile Bank has larger banking facilities in Kalamazoo, Lansing, Mt. Pleasant and West Branch. In addition, certain functions operate out of our standalone facility located in Alma. The remaining banking offices generally range in size from 1,200 to 3,200 square feet, based on the location and number of employees located at the facility. Eastern Michigan Bank operates 11 banking offices throughout Eastern Michigan, most of which are full-service facilities. All of our banking offices are owned by our banks except for ten that are rented under various operating lease agreements.

We consider our properties and equipment to be well maintained, in good operating condition and capable of accommodating current growth forecasts. However, we may choose to add branch locations to expand our presence in current markets and/or in new markets or, alternatively, to consolidate, close or relocate branches if we believe it would be beneficial to our overall performance.

## **Item 3. Legal Proceedings.**

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

## **Item 4. Mine Safety Disclosures.**

Not applicable.

## **PART II**

## **Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

### Market Information and Holders

Our common stock is traded on the Nasdaq Global Select Market under the symbol "MBWM." As of February 20, 2026, there were approximately 1,200 record holders of our common stock. In addition, we estimate that there were approximately 7,500 beneficial owners of our common stock who own their shares through brokers or banks.

## Dividend Policy

The following table shows the high and low sales prices for our common stock as reported by the Nasdaq Global Select Market for the periods indicated and the quarterly cash dividends paid by us during those periods.

	<u>High</u>	<u>Low</u>	<u>Dividend</u>
<b><u>2025</u></b>			
First Quarter	\$ 51.89	\$ 40.57	\$ 0.37
Second Quarter	47.82	37.76	0.37
Third Quarter	50.52	43.71	0.38
Fourth Quarter	50.41	42.75	0.38
<b><u>2024</u></b>			
First Quarter	\$ 42.82	\$ 34.25	\$ 0.35
Second Quarter	41.11	33.46	0.35
Third Quarter	51.21	38.02	0.36
Fourth Quarter	52.98	40.85	0.36

Holders of our common stock are entitled to receive dividends that the Board of Directors may declare from time to time. We may only pay dividends out of funds that are legally available for that purpose. We are a financial holding company and substantially all of our assets are held by our banks. Our ability to pay dividends to our shareholders depends primarily on our banks' abilities to pay dividends to us. Dividend payments and extensions of credit to us from our banks are subject to legal and regulatory limitations, generally based on capital levels and current and retained earnings, imposed by law and regulatory agencies with authority over our banks. The abilities of our banks to pay dividends are also subject to their profitability, financial condition, capital expenditures and other cash flow requirements. In addition, under the terms of our subordinated debentures, we would be precluded from paying dividends on our common stock if an event of default has occurred and is continuing under the subordinated debentures, or if we exercised our right to defer payments of interest on the subordinated debentures, until the deferral ended.

We and our banks 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 our financial statements. Our ability to pay cash and stock dividends or repurchase equity securities 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. On October 10, 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 December 18, 2024 to shareholders of record as of December 6, 2024.

On January 16, 2025, our Board of Directors declared a cash dividend on our common stock in the amount of \$0.37 per share that was paid on March 19, 2025, to shareholders of record as of March 7, 2025. On April 17, 2025, our Board of Directors declared a cash dividend on our common stock in the amount of \$0.37 per share that was paid on June 18, 2025, to shareholders of record as of June 6, 2025. On July 17, 2025, our Board of Directors declared a cash dividend on our common stock in the amount of \$0.38 per share that was paid on September 17, 2025, to shareholders of record as of September 5, 2025. On October 16, 2025, our Board of Directors declared a cash dividend on our common stock in the amount of \$0.38 per share that was paid on December 17, 2025, to shareholders of record as of December 5, 2025.

On January 15, 2026, our Board of Directors declared a cash dividend on our common stock in the amount of \$0.39 per share that will be paid on March 18, 2026, to shareholders of record as of March 6, 2026.

## Issuer Purchases of Equity Securities

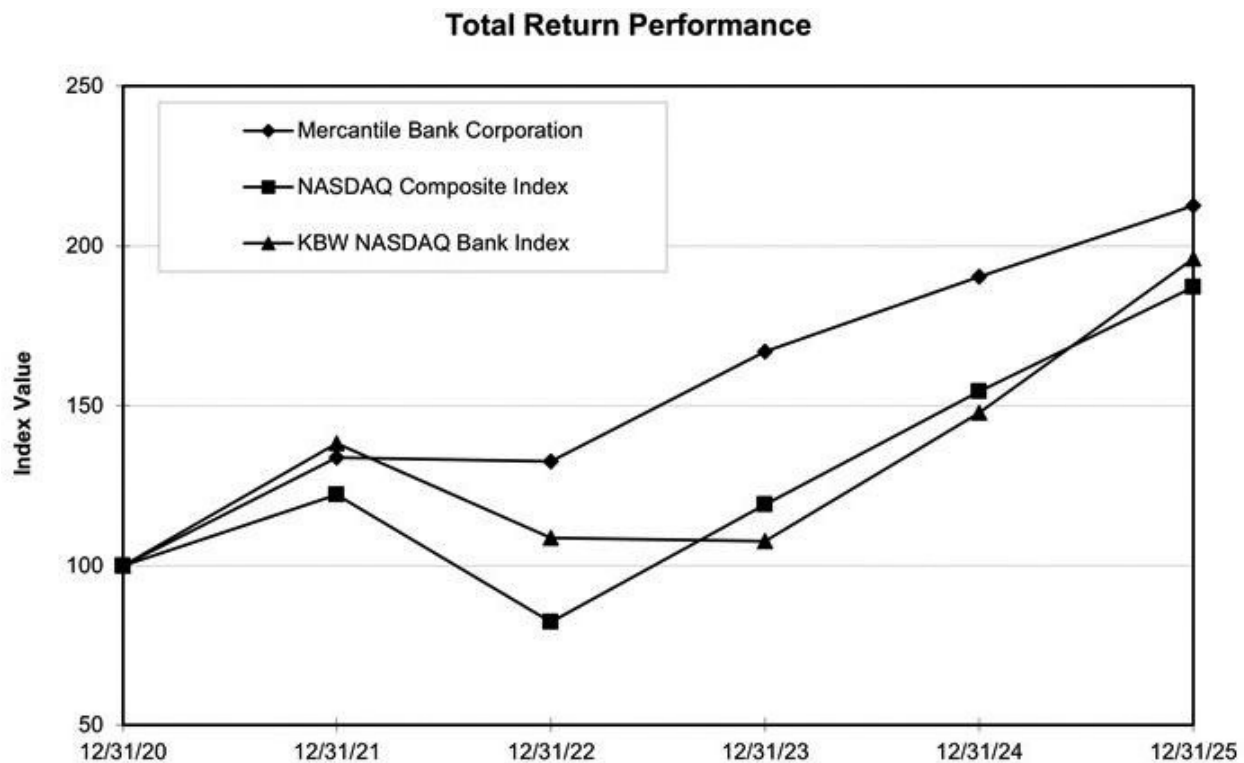
On May 27, 2021, we announced that our Board of Directors had authorized a program to repurchase up to \$20.0 million of our common stock from time to time in open market transactions at prevailing market prices or by other means in accordance with applicable regulations. The actual timing, number and 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 2024 or 2025. Historically, stock repurchases have been funded from cash dividends paid to us from Mercantile Bank. Additional repurchases may be made in future periods under the authorized plan or a new plan, which would likely be funded from cash dividends paid to us from our banks. As of December 31, 2025, repurchases aggregating \$6.8 million were available to be made under the current repurchase program.

Repurchases made during the fourth quarter of 2025 are detailed in the table below. The approximate dollar value that may yet be purchased under the plans or programs is presented in thousands.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares or Approximate Dollar Value that May Yet Be Purchased Under the Plans or Programs
October 1 – 31	0	\$ NA	0	\$ 6,818
November 1 – 30	0	NA	0	6,818
December 1 – 31	0	NA	0	6,818
Total	0	\$ NA	0	\$ 6,818

#### Shareholder Return Performance Graph

Set forth below is a line graph comparing the yearly percentage change in the cumulative total shareholder return on our common stock (based on the last reported sales price of the respective year) with the cumulative total return of the Nasdaq Composite Index and the KBW Nasdaq Bank Index from December 31, 2020 through December 31, 2025. The following is based on an investment of \$100 on December 31, 2020 in our common stock, the Nasdaq Composite Index and the KBW Nasdaq Bank Index, with dividends reinvested where applicable.



Index	Period Ending					
	12/31/20	12/31/21	12/31/22	12/31/23	12/31/24	12/31/25
Mercantile Bank Corporation	100.00	133.79	132.66	166.90	190.32	212.56
NASDAQ Composite Index	100.00	122.18	82.43	119.22	154.48	187.14
KBW NASDAQ Bank Index	100.00	138.33	108.73	107.76	147.85	196.00

**Item 6. Reserved.**

**Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.**

Management’s Discussion and Analysis included in this Annual Report is incorporated here by reference.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk.**

The information under the heading “Market Risk Analysis” included in this Annual Report is incorporated here by reference.

**Item 8. Financial Statements and Supplementary Data.**

The Consolidated Financial Statements, the Notes to Consolidated Financial Statements and the Reports of Independent Registered Public Accounting Firm included in this Annual Report are incorporated here by reference.

**Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.**

None.

**Item 9A. Controls and Procedures.**

As of December 31, 2025, 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 December 31, 2025.

There have been no significant changes in our internal control over financial reporting during the year ended December 31, 2025, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). There are inherent limitations in the effectiveness of any system of internal control. Accordingly, even an effective system of internal control can provide only reasonable assurance with respect to financial statement preparation.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2025. This evaluation was based on criteria for effective internal control over financial reporting described in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on our evaluation under the COSO framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2025. Refer to page F-23 for management’s report. The Report by Mercantile Bank Corporation’s Management on Internal Control Over Financial Reporting included in this Annual Report is incorporated here by reference.

Our independent registered public accounting firm has issued an audit report on our internal control over financial reporting which is included on page F-22 of this report. The Reports of the Independent Registered Public Accounting Firm included in this Annual Report are incorporated here by reference.

**Item 9B. Other Information.**

None.

**Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections.**

Not applicable.

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance.**

The information presented under the captions “Information About Our Directors,” “Information About Our Executive Officers,” “Section 16(a) Beneficial Ownership Reporting Compliance,” “Corporate Governance – Code of Ethics and Insider Trading Policy”, and “Board Committees -- Audit Committee” in the definitive Proxy Statement of Mercantile Bank Corporation for our May 21, 2026 Annual Meeting of Shareholders (the “Proxy Statement”), a copy of which will be filed with the Securities and Exchange Commission before April 30, 2026, is incorporated here by reference.

**Item 11. Executive Compensation.**

The information presented under the captions “Executive Compensation,” “Corporate Governance – Compensation Committee Interlocks and Insider Participation” and “Compensation Committee Report” in the Proxy Statement is incorporated here by reference.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

The information presented under the caption “Stock Ownership of Certain Beneficial Owners and Management” in the Proxy Statement is incorporated here by reference.

**Equity Compensation Plan Information**

The following table summarizes information, as of December 31, 2025, relating to compensation plans under which equity securities are authorized for issuance.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	0	\$ 0	292,612 (1)
Equity compensation plans not approved by security holders	0	\$ 0	0
Total	0	\$ 0	292,612

(1) These securities are available under the Stock Incentive Plan of 2023. Incentive awards may include, but are not limited to, stock options, restricted stock, stock appreciation rights and stock awards.

**Item 13. Certain Relationships and Related Transactions, and Director Independence.**

The information presented under the captions “Transactions with Related Persons” and “Corporate Governance – Director Independence” in the Proxy Statement is incorporated here by reference.

**Item 14. Principal Accountant Fees and Services.**

The information presented under the caption “Audit Committee Matters - Principal Accountant Fees and Services” in the Proxy Statement is incorporated here by reference.

**PART IV****Item 15. Exhibits and Financial Statement Schedules**

(a) (1) Financial Statements. The following financial statements and reports of the independent registered public accounting firm of Mercantile Bank Corporation and its subsidiaries are filed as part of this report:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets --- December 31, 2025 and 2024

Consolidated Statements of Income for each of the three years in the period ended December 31, 2025

Consolidated Statements of Comprehensive Income (Loss) for each of the three years in the period ended December 31, 2025

Consolidated Statements of Changes in Shareholders' Equity for each of the three years in the period ended December 31, 2025

Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2025

Notes to Consolidated Financial Statements

The Consolidated Financial Statements, the Notes to Consolidated Financial Statements, and the Reports of Independent Registered Public Accounting Firm listed above are incorporated by reference in Item 8 of this report.

(2) Financial Statement Schedules

Not applicable.

(b) Exhibits:

The Exhibit Index immediately preceding the Signatures Page hereto is incorporated by reference under this item.

(c) Financial Statements Not Included In Annual Report

Not applicable.

**Item 16. Form 10-K Summary**

None.

MERCANTILE BANK CORPORATION

FINANCIAL INFORMATION

December 31, 2025 and 2024

MERCANTILE BANK CORPORATION

FINANCIAL INFORMATION

December 31, 2025 and 2024

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### FORWARD-LOOKING STATEMENTS

The following discussion and other portions of this Annual Report contain 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," "could," "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; 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; 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; changes in the national and local economies, and unstable political and economic environments; difficulties integrating the business of Eastern Michigan Financial Corporation; focus of time and effort of our management team toward integration efforts; the anticipated benefits of the acquisition may not be realized; risks related to the indebtedness incurred to finance the merger; risks associated with the ongoing conversion of the core processing systems; and risk factors described in this Annual Report. These are representative of the Future Factors that could cause a difference between an ultimate actual outcome and a forward-looking statement.

Discussions of 2023 items and year-to-year comparisons between 2024 and 2023 that are not included in this Annual Report can be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report for the fiscal year ended December 31, 2024.

### CRITICAL ACCOUNTING ESTIMATES

Management's Discussion and Analysis of Financial Condition and Results of Operations ("Management's Discussion and Analysis") is based on Mercantile Bank Corporation's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Our critical accounting estimates are highly dependent upon subjective or complex judgments and assumptions, and changes in such may have a significant impact on the financial statements, just as actual results may differ. We have reviewed the application of our critical accounting estimates 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. While historical credit loss experience provides the basis for the estimation of expected credit losses, our qualitative model adjusts for risk factors that are not inherently considered in the quantitative modeling process, but are nonetheless relevant in assessing the expected credit losses within the loan portfolio. These adjustments may increase or decrease the estimate of expected credit losses based upon the assessed level of risk for each qualitative factor. The various risks that may be considered in making qualitative adjustments include, among other things, the impact of (i) changes in lending policies and procedures, (ii) changes in the nature and volume of the loan portfolio and in the terms of loans, (iii) changes in the experience, ability and depth of lending management and staff, (iv) changes in the volume and severity of past due loans, nonaccrual loans and adversely classified loans, (v) changes in the quality of the credit review function, (vi) changes in the value of underlying collateral dependent loans, (vii) existence and effect of any concentrations of credit and any changes in such, and (viii) effect of other factors such as competition and legal and regulatory requirements.

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 uncollectibility 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. Uncollectible 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 the Notes to our Consolidated Financial Statements in this Annual Report for additional information on our estimation process and methodology related to the allowance. See also Note 3 – Loans and Allowance for Credit Losses in the Notes to our Consolidated Financial Statements in this Annual Report 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 lives of the mortgage loan pools, 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.

**Core Deposit Intangible:** In whole bank or bank branch acquisitions, the primary identifiable intangible asset recorded is the value of core deposit intangibles, representing the estimated value of long-term deposit relationships acquired. The determination involves assumptions and estimates, typically determined through discounted cash flow analysis, considering customer attrition/runoff, alternative funding costs, deposit servicing costs, and discount rates. Amortization of core deposit intangibles occurs over estimated useful lives reviewed periodically for reasonableness. These estimated useful lives, typically ranging from seven to 10 years with an accelerated rate of amortization, are periodically reviewed for reasonableness. Identifiable intangible assets, including core deposit intangibles, are assessed for impairment when events or changes suggest the carrying value may not be recoverable. Our policy dictates recognition of an impairment loss equal to the difference between the asset's carrying amount and fair value if the expected undiscounted future cash flows are less than the carrying amount. Estimating future cash flows involves multiple estimates and assumptions, as previously mentioned.

**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.

## **INTRODUCTION**

This Management's Discussion and Analysis should be read in conjunction with the consolidated financial statements contained in this Annual Report. This discussion provides information about the consolidated financial condition and results of operations of Mercantile Bank Corporation and its consolidated subsidiaries, Mercantile Bank, Eastern Michigan Bank (collectively "our banks"), Mercantile Community Partners LLC ("MCP"), and Mercantile Insurance Center, Inc. ("our insurance company"), a subsidiary of Mercantile Bank. Unless the text clearly suggests otherwise, references to "us," "we," "our," or "the company" include Mercantile Bank Corporation and its wholly owned subsidiaries referred to above.

## **CLIMATE CHANGE**

The potential impact of climate change on our operations and the needs of our customers remains uncertain. Scientists have proposed that the impacts of climate change could include changes in rainfall patterns, water shortages, changes to the water levels of lakes and other bodies of water, changing storm patterns and intensities, and changing temperature levels. These changes could be severe and vary by geographic location. Climate change may also affect the occurrence of certain natural events, the incidence and severity of which are inherently unpredictable, and may impact our borrowers or the value of our loan collateral.

## **ENVIRONMENTAL, SOCIAL, AND GOVERNANCE MATTERS**

Our Enterprise Excellence Committee supports our ongoing commitment to environmental, health and safety, corporate social responsibility, corporate governance, sustainability, and other public policy matters relevant to our organization. The Enterprise Excellence Committee is a cross-functional management committee, with oversight from the Governance and Nominating Committee and the Board of Directors, that assists us in: (1) establishing a cadence of improvement throughout our banks for process efficiency and effectiveness, (2) monitoring and assessing developments related to improving our banks' understanding and execution of governance, environment, and community matters, and (3) recommending communications with employees, investors and stakeholders with respect to governance, environment, and community matters. The Enterprise Excellence Committee met three times during 2025. Highlights for 2025 included continued growth of MCP to facilitate low-income housing tax credits and our investment in energy tax credits, completion of the Enterprise Excellence Report, full utilization of a sustainability reporting platform for data tracking, continued support of first-time home buyer mortgage programs, and over 28,000 hours of volunteering in the community completed by employees. We also maintain a Clawback Policy; an Insider Trading Policy; Code of Ethics; Corporate Governance Guidelines; an Anti-Bribery and Anti-Corruption Policy; an Anti-Money

Laundering, Bank Secrecy Act, Customer Identification and Due Diligence Programs Letter; Vendor and Supplier Code of Conduct; Environmental Policy; Human Rights Policy; and Community Supplier Program Policy, which are reviewed and approved by our Board of Directors at least annually and can be found on our website.

## FINANCIAL OVERVIEW

On December 31, 2025, we consummated the acquisition of Eastern Michigan Financial Corporation and its wholly owned banking subsidiary, Eastern Michigan Bank, headquartered in Croswell, Michigan. The newly acquired Eastern Michigan Bank will operate alongside our existing bank, Mercantile Bank, until the first quarter of 2027, at which time we plan to consolidate Eastern Michigan Bank into Mercantile Bank in conjunction with a conversion of our core operating system to a new provider. Consideration totaled \$95.8 million, consisting of 924,999 shares of common stock with an aggregate value of \$44.9 million and cash totaling \$50.9 million. The aggregate fair value of assets acquired was \$549 million, consisting largely of loans (\$201 million) and securities (\$198 million). The aggregate value of liabilities acquired was \$476 million, comprised almost exclusively of deposits. We recorded goodwill of \$23.2 million and a core deposit intangible asset of \$20.4 million.

We use the word “our” throughout the following discussion to represent Mercantile Bank Corporation’s balance sheets as of December 31, 2024, and December 31, 2025, excluding the impact of the Eastern Michigan Financial Corporation acquisition consummated as of close of business on December 31, 2025. This format provides for a delineation of Mercantile Bank Corporation’s results during 2025 and the acquisition impact.

We recorded net income of \$88.8 million, or \$5.47 per basic and diluted share, for 2025, compared with net income of \$79.6 million, or \$4.93 per basic and diluted share, for 2024. Growth in net income largely reflected increased net interest income and noninterest income, lower provision expense and reduced federal income tax expense, which more than offset increased noninterest expenses.

Commercial loans increased \$211 million, or approximately 6%, during 2025. Our commercial loans grew \$58.6 million during 2025, with Eastern Michigan Bank’s commercial loans aggregating \$153 million at year-end 2025. Our commercial loan growth during 2025 was impacted by increased payoffs and partial paydowns of larger commercial loan relationships totaling \$312 million during the year, compared to \$194 million during 2024. As a percentage of total commercial loans, commercial and industrial loans and owner-occupied commercial real estate (“CRE”) loans combined equaled 55.0% at December 31, 2025, compared to 54.9% at year-end 2024. The new commercial loan pipeline remains strong, and at year-end 2025, we had \$237 million in unfunded loan commitments on commercial construction and development loans that are in the construction phase.

Residential mortgage loans decreased \$36.7 million, or approximately 4%, during 2025. Our residential mortgage loans declined \$60.7 million during 2025, with Eastern Michigan Bank’s residential mortgage loans aggregating \$24.0 million at year-end 2025. Residential mortgage loan originations totaled \$521 million during 2025, compared to \$485 million in 2024. Approximately 81% of the residential mortgage loans originated during 2025 were done so with the intent to sell, compared to about 78% and 53% in 2024 and 2023, respectively. Combined with increased prepayments speeds of our residential mortgage loan portfolio during the past two years, the increase in the percentage of loans sold has resulted in a declining portfolio balance. The increases in volume of loans originated and percentage of loans sold have had a positive impact on mortgage banking income.

The overall quality of our loan portfolio remains strong, with nonperforming loans totaling \$7.9 million, or 0.16% of total loans, as of December 31, 2025. Our nonperforming loans totaled \$6.9 million with Eastern Michigan Bank’s nonperforming loans aggregating \$1.0 million at year-end 2025. Accruing loans past due 30 to 89 days remain very low with very limited foreclosed property activity throughout 2025 at both banks. Our loan charge-offs totaled \$3.1 million during 2025, while recoveries of prior period loan charge-offs totaled \$1.2 million, providing for net loan charge-offs of \$1.9 million, or 0.04% of average total loans, for the year.

Interest-earning deposits, a vast majority of which is comprised of funds on deposit with the Federal Reserve Bank of Chicago, are used to manage daily liquidity needs and interest rate risk sensitivity. The average balance of these funds equaled \$309 million during 2025, compared to \$237 million in 2024. The higher average balance primarily reflects an increase in deposits associated with our strategic initiative to lower the loan-to-deposit ratio.

Total deposits increased \$586 million during 2025, or approximately 12%. Our deposits grew \$111 million during 2025, with Eastern Michigan Bank’s deposits aggregating \$475 million at year-end 2025. A majority of the growth was in money market, interest checking and local time deposit products. Securities sold under agreements to repurchase (“sweep accounts”) grew \$111 million, while Federal Home Loan Bank of Indianapolis (“FHLBI”) advances declined \$60.9 million during 2025. Wholesale funds, comprised of out-of-area deposits and FHLBI advances, totaled \$457 million, or about 8% of total funds, as of December 31, 2025.

Net interest income increased \$10.0 million during 2025 compared to 2024. Interest income was up \$8.7 million, in large part reflecting \$460 million growth in average earning assets, which more than offset a 32 basis point decline in the yield on average earning assets. Interest expense was down \$1.3 million, primarily reflecting a 35 basis point decline in the cost of interest-bearing liabilities which more than offset growth in interest-bearing liabilities aggregating \$415 million.

We recorded a credit loss provision expense of \$3.2 million during 2025, compared to \$7.4 million during 2024. The provision expense recorded during 2025 in large part reflected a reserve increase related to changes in the economic forecast, a net increase in specific reserve allocations and a net increase from changes in several qualitative factors, which were partially mitigated by reductions to the allowance for credit losses stemming from faster residential mortgage and consumer loan prepayment speeds that shortened the average durations of the portfolios and lower baseline loss rates.

Noninterest income increased \$1.2 million during 2025 compared to 2024, primarily reflecting growth in service charges on deposit accounts, mortgage banking income, credit and debit card income, and payroll service fees, as well as benefit claims on bank owned life insurance policies. Swap income declined in large part due to a lower volume of new swap transactions.

Noninterest expense increased \$10.2 million during 2025 compared to 2024. Aggregate salary and benefit costs grew \$5.3 million, primarily reflecting annual merit pay increases, market adjustments and lower residential mortgage loan deferred salary costs. Increased data processing costs were also recorded during 2025, largely reflecting higher transaction volumes and software support costs, along with the introduction of new treasury management products and services. Higher allocations to the reserve for unfunded loan commitments were also recorded, largely reflecting a higher level of committed and accepted commercial loans. Professional fees associated with the acquisition of Eastern Michigan Financial Corporation totaled \$1.8 million during 2025.

Despite increased pre-tax income during 2025 compared to 2024, federal income tax expense was \$4.0 million lower. The reduction primarily reflects the acquisition of transferable energy tax credits, combined with net benefits associated with our low-income housing and historical tax credit activities.

## **FINANCIAL CONDITION**

Total assets increased \$783 million during 2025, totaling \$6.84 billion as of December 31, 2025. Our total assets increased \$211 million during 2025, with Eastern Michigan Bank's assets totaling \$572 million at year-end 2025. Total loans increased \$221 million, securities available for sale were up \$372 million and interest-earning deposits grew \$82.6 million. Our loans increased \$17.4 million, securities available for sale were up \$174 million and interest-earning deposits grew \$40.5 million during 2025, with Eastern Michigan Bank's loans, securities available for sale and interest-earning deposits totaling \$204 million, \$198 million and \$42.1 million at year-end 2025, respectively. Total deposits increased \$586 million during 2025, with our deposits growing \$111 million during the year and Eastern Michigan Bank's deposits aggregating \$475 million at year-end 2025. Sweep accounts grew \$111 million, while FHLBI advances declined \$60.9 million during 2025. Shareholders' equity was up \$140 million during 2025.

### ***Earning Assets***

Average earning assets equaled 94.5% of average total assets during 2025, compared to 94.7% during 2024. The loan portfolio continued to comprise a majority of earning assets, followed by securities and other interest-earning assets. Average total loans equaled 79.9% of average earning assets during 2025, compared to 82.6% in 2024, while average securities and other interest-earning assets comprised 14.1% and 6.0% of average earning assets during 2025 and 12.2% and 5.2% of average earning assets during 2024, respectively. The decline in the percentage of loans to average earning assets and similar increase in the percentage of securities to average earning assets largely reflect our strategic initiative to reduce our loan-to-deposit ratio.

Our loan portfolio has historically been primarily comprised of commercial loans. Commercial loans increased \$211 million during 2025, and totaled \$3.92 billion at year-end 2025. Our commercial loans grew \$58.6 million during 2025, with Eastern Michigan Bank's commercial loans aggregating \$153 million at year-end 2025. Our multi-family and residential rental property loans were up \$59.9 million, commercial and industrial loans increased \$47.7 million and vacant land, land development and residential construction loans were up \$12.5 million. Nonowner-occupied CRE loans declined \$43.0 million and owner-occupied CRE loans were down \$18.5 million. Our commercial loan growth during 2025 was impacted by increased payoffs and partial paydowns of larger commercial loan relationships totaling \$312 million during the year, compared to \$194 million during 2024. Eastern Michigan Bank's commercial loan portfolio is well-diversified, with owner-occupied CRE loans totaling \$48.5 million, commercial and industrial loans aggregating \$39.4 million, vacant land, land development and residential construction loans totaling \$37.9 million, nonowner-occupied CRE loans aggregating \$25.3 million and multi-family and residential rental property loans totaling \$1.5 million as of December 31, 2025. As a percentage of total commercial loans, commercial and industrial loans and owner-occupied CRE loans combined equaled 55.0% as of December 31, 2025, compared to 54.9% at year-end 2024.

Availability on commercial construction and development loans that are in the construction phase totaled \$237 million as of December 31, 2025, with most of the funds expected 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 \$298 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 lenders also report additional opportunities they are currently discussing with existing borrowers and potential new customers. 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 was relatively stable during 2025 at approximately 44%, a small increase from 2024 but similar to our historical average.

Residential mortgage loans decreased \$36.7 million during 2025, and totaled \$791 million at year-end 2025. Our residential mortgage loans declined \$60.7 million during 2025, with Eastern Michigan Bank's residential mortgage loans aggregating \$24.0 million at year-end 2025. Residential mortgage loan originations totaled \$521 million during 2025, compared to \$485 million in 2024. Approximately 81% of the residential mortgage loans originated during 2025 were done so with the intent to sell, compared to about 78% and 53% in 2024 and 2023, respectively. Combined with increased prepayments speeds of our residential mortgage loan portfolio during the past two years, the increase in the percentage of loans sold has resulted in a declining portfolio balance. The increases in volume of loans originated and percentage of loans sold have had a positive impact on mortgage banking income.

Other consumer-related loans increased \$46.5 million during 2025, and totaled \$112 million at year-end 2025 with about 74% comprised of home equity lines of credit. Our consumer loans increased \$19.5 million during 2025, with Eastern Michigan Bank's other consumer-related loans aggregating \$27.0 million at year-end 2025. We expect this loan portfolio segment to remain relatively steady in dollar amount but decline as a percent of total loans in future periods as the commercial loan segment grows.

The following table presents total loans outstanding as of December 31, 2025, according to scheduled repayments of principal on fixed rate loans and repricing frequency on variable rate loans. Floating rate commercial loans that are currently at interest rate floors are treated as fixed rate loans and are reflected using maturity date and not repricing frequency.

(Dollars in thousands)	Less Than One Year	One Through Five Years	After Five Years	Total
Construction and land development	\$ 322,222	\$ 42,447	\$ 18,830	\$ 383,499
Real estate - residential properties	168,718	430,199	298,070	896,987
Real estate - multi-family properties	308,169	49,928	2,653	360,750
Real estate - commercial properties	1,334,504	432,061	69,710	1,836,275
Commercial and industrial	1,167,431	120,458	27,350	1,315,239
Consumer	2,594	20,380	6,164	29,138
Total loans	<u>\$ 3,303,638</u>	<u>\$ 1,095,473</u>	<u>\$ 422,777</u>	<u>\$ 4,821,888</u>
Fixed rate loans	\$ 229,553	\$ 666,800	\$ 194,728	\$ 1,091,081
Floating rate loans	3,074,085	428,673	228,049	3,730,807
Total loans	<u>\$ 3,303,638</u>	<u>\$ 1,095,473</u>	<u>\$ 422,777</u>	<u>\$ 4,821,888</u>

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 items 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 restructuring in the future, are included on the internal loan 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 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.

The overall quality of our loan portfolio remains strong, with nonperforming loans totaling \$7.9 million, or 0.16% of total loans, as of December 31, 2025. Our nonperforming loans totaled \$6.9 million with Eastern Michigan Bank's nonperforming loans aggregating \$1.0 million at year-end 2025. The volume of nonperforming assets has remained under 0.3% of total assets since year-end 2015 and has averaged 0.1% over the past seven years. Accruing loans past due 30 to 89 days remain very low with very limited foreclosed property activity throughout 2025 at both banks. Given the low level 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.

Our loan charge-offs totaled \$3.1 million during 2025, while recoveries of prior period loan charge-offs totaled \$1.2 million, providing for net loan charge-offs of \$1.9 million, or 0.04% of average total loans, for the year. Loan charge-offs totaled \$3.8 million during 2024, while recoveries of prior period loan charge-offs totaled \$0.9 million, providing for net loan charge-offs of \$2.9 million, or 0.06% of average total loans, for the year. We continue our collection efforts on charged-off loans, and we 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 following table reflects the composition of our allowance for credit losses, nonaccrual loans, and net charge-offs as of and for the year ended December 31, 2025.

(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	Net Charge- Offs to Average Loans
Commercial:								
Commercial and industrial	\$ 12,576	\$ 1,374,522	0.91%	\$ 1,393	0.10%	902.80%	\$ (674)	(0.05)%
Vacant land, land development and residential construction	478	117,373	0.41	201	0.17	237.81	(5)	(0.01)
Real estate – owner occupied	7,629	778,869	0.98	517	0.07	1,475.63	(6)	(0.00)
Real estate – non-owner occupied	15,074	1,110,674	1.36	2,732	0.25	551.76	2,800	0.25
Real estate – multi-family and residential rental	5,514	537,224	1.03	0	NA	NA	(17)	(0.00)
Total commercial	41,271	3,918,662	1.05	4,843	0.12	852.18	2,098	0.06
Retail:								
1-4 family mortgages	14,199	790,857	1.80	2,946	0.37	481.98	(170)	(0.02)
Other consumer	2,638	112,369	2.35	81	0.07	3,256.79	(67)	(0.09)
Total retail	16,837	903,226	1.86	3,027	0.34	556.23	(237)	(0.03)
Unallocated	83	NA	NA	NA	NA	NA	NA	NA
Total	\$ 58,191	\$ 4,821,888	1.21%	\$ 7,870	0.16%	739.40%	\$ 1,861	0.04%

The following table reflects the composition of our allowance for credit losses, nonaccrual loans, and net charge-offs as of and for the year ended December 31, 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	Net Charge- Offs to Average Loans
Commercial:								
Commercial and industrial	\$ 11,165	\$ 1,287,308	0.87%	\$ 2,725	0.21%	409.72%	\$ 3,385	0.27%
Vacant land, land development and residential construction	367	66,936	0.55	0	0	NA	(5)	(0.01)
Real estate – owner occupied	7,671	748,837	1.02	42	0.01	18,264.29	(171)	(0.02)
Real estate – non-owner occupied	10,919	1,128,404	0.97	0	0	NA	0	0
Real estate – multi-family and residential rental	3,667	475,819	0.77	0	0	NA	(15)	(0.00)
Total commercial	33,789	3,707,304	0.91	2,767	0.07	1,221.14	3,194	0.09
Retail:								
1-4 family mortgages	18,702	827,597	2.26	2,975	0.36	628.64	(190)	(0.02)
Other consumer	1,936	65,880	2.94	0	0	NA	(144)	(0.25)
Total retail	20,638	893,477	2.31	2,975	0.33	693.71	(334)	(0.04)
Unallocated	27	NA	NA	NA	NA	NA	NA	NA
Total	\$ 54,454	\$ 4,600,781	1.18%	\$ 5,742	0.12%	948.35%	\$ 2,860	0.06%

The following table reflects the composition of our allowance for credit losses, nonaccrual loans, and net charge-offs as of and for the year ended December 31, 2023.

(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	Net Charge- Offs to Average Loans
Commercial:								
Commercial and industrial	\$ 7,441	\$ 1,254,586	0.59%	\$ 249	0.02%	2,988.35%	\$ 30	0.00%
Vacant land, land development and residential construction	384	74,753	0.51	0	0	NA	(35)	(0.05)
Real estate – owner occupied	7,186	717,667	1.00	70	0.01	10,265.71	(17)	(0.00)
Real estate – non-owner occupied	9,852	1,035,684	0.95	0	0	NA	0	0
Real estate – multi-family and residential rental	3,184	332,609	0.96	0	0	NA	(26)	(0.01)
Total commercial	<u>28,047</u>	<u>3,415,299</u>	<u>0.82</u>	<u>319</u>	<u>0.01</u>	<u>8,792.16</u>	<u>(48)</u>	<u>(0.00)</u>
Retail:								
1-4 family mortgages	18,986	837,406	2.27	3,096	0.37	613.24	(18)	(0.00)
Home equity and other	2,881	51,053	5.64	0	0	NA	98	0.19
Total retail	<u>21,867</u>	<u>888,459</u>	<u>2.46</u>	<u>3,096</u>	<u>0.35</u>	<u>706.30</u>	<u>80</u>	<u>0.01</u>
Unallocated	0	NA	NA	NA	NA	NA	NA	NA
Total	<u>\$ 49,914</u>	<u>\$ 4,303,758</u>	<u>1.16%</u>	<u>\$ 3,415</u>	<u>0.08%</u>	<u>1,461.61%</u>	<u>\$ 32</u>	<u>0.00%</u>

The following table depicts the ratio of our allowance to nonperforming loans:

	12/31/25	12/31/24	12/31/23
Ratio of allowance to nonperforming loans	739.4%	948.3%	1,461.7%

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 Annual Report 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 Annual Report for further information regarding our loan portfolio and allowance.

The allowance equaled \$58.2 million, or 1.21% of total loans, and over 700% of nonperforming loans, as of December 31, 2025. The allowance was comprised of \$54.2 million in general reserves relating to performing loans and \$4.0 million in specific reserves on other loans, primarily nonperforming loans, at year-end 2025. Loans with an aggregate carrying value of \$3.2 million as of December 31, 2025, had been subject to previous partial charge-offs aggregating \$3.5 million over the past several years, including \$2.8 million during 2025. As of December 31, 2025, there were \$2.7 million of 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 originated 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.

Securities available for sale increased \$372 million during 2025, totaling \$1.10 billion as of December 31, 2025. Our securities available for sale increased \$174 million, with Eastern Michigan Bank's securities available for sale totaling \$198 million at year-end 2025. Our purchases of U.S. Government agency bonds during 2025 aggregated \$167 million, while proceeds from matured and called U.S. Government agency bonds totaled \$54.0 million. There were no purchases of U.S. Government agency guaranteed mortgage-backed securities during 2025; principal paydowns on U.S. Government agency guaranteed mortgage-backed securities totaled \$3.4 million. Our purchases of municipal bonds totaled \$35.9 million during 2025; proceeds from matured municipal bonds totaled \$9.9 million.

The portfolio was primarily comprised of U.S. Government agency bonds (58%), municipal bonds (25%), U.S. Government agency guaranteed mortgage-backed securities (7%), U.S. Treasury securities (5%) and corporate bonds (4%) as of December 31, 2025. 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 as of December 31, 2025 totaled \$1.10 billion, including a net unrealized loss of \$30.4 million. The net unrealized loss

equaled \$63.1 million as of December 31, 2024. 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 upcoming purchases to generally consist of U.S. Government agency and municipal bonds, with the securities portfolio maintained at about 15% to 17% of total assets.

Market values on our U.S. Government agency bonds, mortgage-backed securities issued or guaranteed by U.S. Government agencies, U.S. Treasury securities, corporate bonds 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 \$22.1 million as of December 31, 2025, an increase of \$0.6 million during 2025 reflecting Eastern Michigan Bank's stock investment as of year-end 2025. Our investment in FHLBI stock is necessary to engage in their 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.

Other interest-earning assets, a vast majority of which is comprised of a deposit with the Federal Reserve Bank of Chicago, are used to manage daily liquidity needs and interest rate risk sensitivity. The average deposit balance at the Federal Reserve Bank of Chicago equaled \$286 million during 2025 compared to \$221 million in 2024.

The following table shows by class of maturities as of December 31, 2025, the amounts and weighted average yields (on a fully taxable-equivalent basis) of investment securities:

(Dollars in thousands)	Carrying Value	Average Yield
Obligations of U.S. Treasury:		
One year or less	\$ 10,268	3.58%
Over one through five years	45,233	3.59
Over five through ten years	0	0
Over ten years	0	0
	<u>55,501</u>	<u>3.59</u>
Obligations of U.S. Government agencies:		
One year or less	55,076	1.28
Over one through five years	357,012	2.68
Over five through ten years	227,685	3.42
Over ten years	0	0
	<u>639,773</u>	<u>2.82</u>
Obligations of states and political subdivisions:		
One year or less	19,045	3.20
Over one through five years	114,379	3.02
Over five through ten years	75,623	3.41
Over ten years	71,020	4.71
	<u>280,067</u>	<u>3.56</u>
Mortgage-backed securities	75,762	4.50
Other investments	<u>51,127</u>	<u>4.57</u>
Totals	<u>\$ 1,102,230</u>	<u>4.71%</u>

#### ***Non-Earning Assets***

Cash and due from bank balances averaged 0.9% of total assets during 2025, similar to the average level during 2024, with no significant changes expected in future periods. Net premises and equipment equaled \$62.5 million as of December 31, 2025, representing an increase of \$9.0 million during 2025. Our aggregate investments in new and existing offices totaled \$6.7 million, while depreciation expense aggregated \$5.2 million. Eastern Michigan Bank's fixed assets totaled \$7.5 million at year-end 2025. We had no other real estate owned as of December 31, 2025.

Other assets equaled \$218 million as of December 31, 2025, reflecting an increase of \$48.0 million from year-end 2024. Our other assets increased \$32.7 million during 2025, with Eastern Michigan Bank's other assets totaling \$15.3 million as of December 31, 2025. The increase is primarily associated with an increase of \$35.5 million in receivables from the U.S. Department of Treasury largely reflecting activity in transferrable energy tax credit investments and net growth of \$12.2 million in low-income housing and historical tax credit investments.

**Source of Funds**

Total deposits increased \$586 million during 2025, or approximately 12%. Our deposits grew \$111 million during 2025, with Eastern Michigan Bank's deposits aggregating \$475 million at year-end 2025. A majority of the growth was in money market, interest checking and local time deposit products. Sweep accounts grew \$111 million, while FHLBI advances declined \$60.9 million during 2025. Wholesale funds, comprised of out-of-area deposits and FHLBI advances, totaled \$457 million, or about 8% of total funds, as of December 31, 2025.

Our money market, interest-bearing checking and local time deposit accounts increased \$124 million, \$45.3 million and \$24.2 million, respectively, during 2025, largely reflecting growth in deposits from existing customers and initial deposits from new customers stemming from our strategic initiative to grow local deposits to lower the loan-to-deposit ratio. Our noninterest-bearing checking accounts declined \$58.1 million; however, that includes an expected business deposit withdrawal of approximately \$90 million made in early 2025 that had been deposited near the end of 2024. Out-of-area deposits declined \$19.2 million, and savings deposits were down \$5.2 million as of December 31, 2025. Eastern Michigan Bank's deposits were comprised of interest checking accounts totaling \$174 million, noninterest-checking accounts aggregating \$133 million, savings accounts equaling \$93.5 million, money market accounts totaling \$57.0 million and time deposits aggregating \$17.1 million as of December 31, 2025.

Uninsured deposits totaled approximately \$2.9 billion, or about 54% of total deposits, as of December 31, 2025, compared to approximately \$2.5 billion, or about 54% of total deposits, as of December 31, 2024. The uninsured amounts are estimates based on the methodologies and assumptions we use for regulatory reporting requirements. Our level of uninsured deposits, which has remained relatively stable as a percentage of total deposits, is generally higher than industry averages given our focus on commercial lending.

The balance of certificates of deposit exceeding the FDIC insured limit and their maturity profile as of December 31, 2025 are as follows:

(Dollars in thousands)	
Up to three months	\$ 88,138
Three months to six months	103,213
Six months to twelve months	108,745
Over twelve months	<u>74,395</u>
Total certificates of deposit	<u>\$ 374,491</u>

Sweep accounts increased \$111 million during 2025, totaling \$232 million as of December 31, 2025. The aggregate balance of this funding type can be subject to relatively large daily fluctuations given the nature of the customers utilizing this product and the sizable balances that several of the customers maintain. In addition, we had one customer withdraw a large amount of funds near the end of 2024 that were returned in early 2025. The average balance of sweep accounts equaled \$239 million during 2025, with a high balance of \$286 million and a low balance of \$115 million. Our sweep account program entails transferring collected funds from certain business noninterest-bearing checking accounts to overnight interest-bearing repurchase agreements. Such repurchase agreements are not deposit accounts and are not afforded federal deposit insurance. All of our sweep accounts are accounted for as secured borrowings.

FHLBI advances declined \$60.9 million during 2025, totaling \$326 million as of December 31, 2025. Bullet advances aggregating \$20.0 million were obtained during 2025, while bullet advance maturities aggregated \$80.0 million. Payments on amortizing advances totaled \$0.9 million during 2025. Bullet advances are generally obtained to provide funds for loan growth and are used to assist in managing interest rate risk, while amortizing 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. Advances are collateralized by residential mortgage loans, first mortgage liens on multi-family residential property loans, first mortgage liens on certain commercial real estate property loans, and substantially all other assets of Mercantile Bank under a blanket lien arrangement. Our borrowing line of credit at year-end 2025 totaled \$1.08 billion, with remaining availability based on collateral of \$777 million.

Shareholders' equity increased \$140 million during 2025, totaling \$725 million as of December 31, 2025. Positively impacting shareholders' equity was net income of \$88.8 million, while negatively affecting shareholders' equity were cash dividends on our common stock totaling \$24.0 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 a total of \$4.8 million. Positively impacting shareholders' equity during 2025 was a \$25.8 million decline in the after-tax net unrealized loss on available for sale securities. Common stock issued in conjunction with the acquisition of Eastern Michigan Financial Corporation totaled \$44.9 million.

## RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024

### *Summary*

We recorded net income of \$88.8 million, or \$5.47 per basic and diluted share, for 2025, compared to net income of \$79.6 million, or \$4.93 per basic and diluted share, for 2024. Diluted earnings per share increased \$0.54, or 11.0%, during 2025 compared to 2024.

The increase in net income during 2025 compared to 2024 primarily reflected growth in net interest income and lower levels of provisions for credit losses and federal income tax expense, which more than offset increased noninterest expense. A higher level of noninterest income, mainly reflecting growth in treasury management fees, bank owned life insurance income, mortgage banking income, and payroll services fees, also contributed to the increase in net income. Net interest income increased during 2025 as growth in earning assets and a decline in the cost of funds more than offset a lower yield on earning assets and growth in interest-bearing liabilities. The provision expense recorded during 2025 primarily reflected a reserve increase related to changes in the economic forecast, a net increase in specific allocations driven by a significant allocation for a deteriorated commercial construction loan relationship, and a net increase in qualitative factor allocations. The impacts of these factors were partially offset by reductions in the reserve related to faster residential mortgage and consumer loan prepayment speeds and the associated reduced average lives of the portfolios and changes in baseline loss rates. The decrease in federal income tax expense during 2025 primarily reflected the recording of tax benefits associated with the acquisition of transferable energy tax credits and investments in low-income housing and historic tax credit structures. The higher level of noninterest expense during 2025 mainly resulted from increased salary and benefit costs, mainly reflecting annual merit pay increases, market adjustments, and lower residential mortgage loan deferred salary costs, the recording of costs related to the Eastern Michigan Financial Corporation acquisition, growth in data processing costs, and higher allocations to the reserve for unfunded loan commitments.

### *Net Interest Income*

Net interest income, the difference between revenue generated from earning assets and the interest cost of funding those assets, is our primary source of earnings. Interest income (adjusted for tax-exempt income) and interest expense totaled \$331 million and \$129 million, respectively, during 2025, providing for net interest income of \$202 million. During 2024, interest income and interest expense equaled \$322 million and \$130 million, respectively, providing for net interest income of \$192 million. In comparing 2025 with 2024, interest income increased 2.7%, interest expense decreased 1.0%, and net interest income was up 5.2%. The level of net interest income is primarily a function of asset size, as the weighted average interest rate received on earning assets is greater than the weighted average interest cost of funding sources; however, factors such as types and levels of assets and liabilities, the interest rate environment, interest rate risk, asset quality, liquidity, and customer behavior also impact net interest income as well as the net interest margin. The \$10.0 million increase in net interest income in 2025 compared to 2024 resulted from growth in earning assets, which more than offset a decreased net interest margin.

During 2025, earning assets averaged \$5.83 billion, up \$460 million, or 8.6%, from \$5.37 billion during 2024. Average loans increased \$222 million, average securities grew \$165 million, and average other interest-earning assets were up \$73.3 million. During 2025, the net interest margin equaled 3.47%, down from 3.58% during 2024 due to a lower yield on average earning assets, which more than offset a decreased cost of funds. The yield on average earning assets was 5.69% during 2025, a decline from 6.01% during 2024. The decreased yield resulted from a lower yield on loans, a change in earning asset mix, and a reduced yield on other interest-earning assets, which more than offset an improved yield on securities reflecting the reinvestment of relatively low-yielding bonds and portfolio growth activities. The yield on loans was 6.26% during 2025, down from 6.59% during 2024 largely due to reduced interest rates on variable-rate commercial loans stemming from the FOMC lowering the targeted federal funds rate by 50 basis points in September of 2024 and 25 basis points in each of November and December of 2024 and September, October, and December of 2025, during which time average variable-rate commercial loans represented approximately 75% of average total commercial loans. Signifying the success of a strategic initiative to lower the loan-to-deposit ratio and increase on-balance sheet liquidity, higher-yielding loans accounted for a decreased percentage of earning assets and lower-yielding securities represented an increased percentage of earning assets in 2025 compared to 2024. The decreased yield on other interest-earning assets during 2025 primarily reflected the lower interest rate environment. The yield on securities equaled 2.86% during 2025, up from 2.29% during 2024. The cost of funds was 2.22% during 2025, down from 2.43% during 2024, mainly due to decreased rates paid on money market accounts and time deposits, reflecting the reduced interest rate environment that began in September of 2024 in conjunction with the FOMC's lowering of the targeted federal funds rate.

The following table depicts the average balance, interest earned and paid, and weighted average rate of our assets, liabilities, and shareholders' equity during 2025, 2024, and 2023. The subsequent table portrays the dollar amount of change in interest income and interest expense of interest-earning assets and interest-bearing liabilities, respectively, segregated between change due to volume and change due to rate. Tax-exempt securities interest income and yield for 2025, 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 \$1.0 million in 2025, 2024, and 2023 for this non-GAAP, but industry standard, adjustment. These adjustments equated to increases in our net interest margin of less than two basis points in 2025 and 2024 and slightly over two basis points in 2023.

(Dollars in thousands)	Years ended December 31,								
	2025			2024			2023		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Taxable securities	\$ 650,067	\$ 17,544	2.70%	\$ 500,588	\$ 9,917	1.98%	\$ 458,401	\$ 7,611	1.66%
Tax-exempt securities	172,517	5,975	3.46	157,313	5,143	3.27	148,082	4,683	3.16
Total securities	822,584	23,519	2.86	657,901	15,060	2.29	606,483	12,294	2.03
Loans	4,655,077	291,355	6.26	4,432,671	291,921	6.59	4,046,815	252,393	6.24
Other interest-earning assets	350,589	16,340	4.66	277,247	15,541	5.61	137,006	7,691	5.61
Total earning assets	5,828,250	331,214	5.69	5,367,819	322,522	6.01	4,790,304	272,378	5.69
Allowance for credit losses	(58,142)			(54,396)			(45,590)		
Cash and due from banks	58,338			60,223			61,797		
Other non-earning assets	340,194			294,009			257,182		
Total assets	<u>\$ 6,168,640</u>			<u>\$ 5,667,655</u>			<u>\$ 5,063,693</u>		
Interest-bearing checking accounts	\$ 716,456	\$ 10,838	1.51%	\$ 666,814	\$ 9,493	1.42%	\$ 605,220	\$ 5,740	0.95%
Savings deposits	220,450	334	0.15	244,387	368	0.15	310,940	392	0.13
Money market accounts	1,604,297	49,393	3.08	1,279,559	50,596	3.95	899,927	29,149	3.24
Time deposits	988,245	41,945	4.24	867,391	40,938	4.72	567,988	20,163	3.55
Total interest-bearing deposits	3,529,448	102,510	2.90	3,058,151	101,395	3.32	2,384,075	55,444	2.33
Short-term borrowings	239,128	7,464	3.12	224,897	7,717	3.43	206,728	2,847	1.38
Federal Home Loan Bank advances	358,191	11,404	3.18	430,767	13,018	3.02	425,363	11,367	2.67
Other borrowings	142,312	7,772	5.46	140,352	8,286	5.90	139,195	8,155	5.86
Total interest-bearing liabilities	4,269,079	129,150	3.03	3,854,167	130,416	3.38	3,155,361	77,813	2.47
Noninterest checking accounts	1,185,730			1,174,082			1,372,840		
Other liabilities	83,378			84,862			58,465		
Total liabilities	5,538,187			5,113,111			4,586,666		
Average equity	630,453			554,544			477,027		
Total liabilities and equity	<u>\$ 6,168,640</u>			<u>\$ 5,667,655</u>			<u>\$ 5,063,693</u>		
Net interest income		<u>\$ 202,064</u>			<u>\$ 192,106</u>			<u>\$ 194,565</u>	
Rate spread			<u>2.66%</u>			<u>2.63%</u>			<u>3.22%</u>
Net interest margin			<u>3.47%</u>			<u>3.58%</u>			<u>4.06%</u>

(Dollars in thousands)	Years ended December 31,					
	2025 over 2024			2024 over 2023		
	Total	Volume	Rate	Total	Volume	Rate
Increase (decrease) in interest income						
Taxable securities	\$ 7,627	\$ 3,446	\$ 4,181	\$ 2,306	\$ 744	\$ 1,562
Tax exempt securities	832	515	317	460	298	162
Loans	(566)	14,282	(14,848)	39,528	24,914	14,614
Other interest-earning assets	<u>799</u>	<u>3,688</u>	<u>(2,889)</u>	<u>7,850</u>	<u>7,861</u>	<u>(11)</u>
Net change in tax-equivalent interest income	8,692	21,931	(13,239)	50,144	33,817	16,327
Increase (decrease) in interest expense						
Interest-bearing checking deposits	1,345	731	614	3,753	634	3,119
Savings deposits	(34)	(36)	2	(24)	(92)	68
Money market accounts	(1,203)	11,322	(12,525)	21,447	14,079	7,368
Time deposits	1,007	5,370	(4,363)	20,775	12,784	7,991
Short-term borrowings	(253)	470	(723)	4,870	271	4,599
Federal Home Loan Bank advances	(1,614)	(2,282)	668	1,651	146	1,505
Other borrowings	(514)	114	(628)	131	68	63
Net change in interest expense	<u>(1,266)</u>	<u>15,689</u>	<u>(16,955)</u>	<u>52,603</u>	<u>27,890</u>	<u>24,713</u>
Net change in tax-equivalent net interest income	<u>\$ 9,958</u>	<u>\$ 6,242</u>	<u>\$ 3,716</u>	<u>\$ (2,459)</u>	<u>\$ 5,927</u>	<u>\$ (8,386)</u>

Interest income, which is primarily generated from the loan portfolio, increased \$8.7 million during 2025 from that earned in 2024, totaling \$331 million in 2025 compared to \$322 million in 2024. The increase in interest income is attributable to growth in average earning assets, which more than offset a lower yield on average earning assets. During 2025 and 2024, earning assets had an average yield (tax equivalent-adjusted basis) of 5.69% and 6.01%, respectively. The decreased yield on average earning assets primarily resulted from a lower yield on loans, mainly reflecting reduced interest rates on variable-rate commercial loans stemming from the previously mentioned FOMC rate cuts, a change in earning asset mix, reflecting a decrease in higher-yielding loans and an increase in lower-yielding securities as a percentage of earning assets, and a lower yield on other interest-earning assets, reflecting the decreased interest rate environment. An enhanced yield on securities, reflecting the reinvestment of relatively low-yielding bonds and portfolio growth activities, positively impacted the yield on average earning assets during 2025.

Interest income generated from the loan portfolio decreased \$0.6 million in 2025 compared to the level earned in 2024. A reduction in the loan yield from 6.59% in 2024 to 6.26% in 2025 resulted in a \$14.9 million decrease in interest income, while growth in the loan portfolio during 2025 resulted in a \$14.3 million increase in interest income. The lower yield on loans primarily resulted from a decreased yield on commercial loans, which declined from 7.13% during 2024 to 6.63% during 2025 mainly due to the aforementioned FOMC rate cuts. Interest income generated from the securities portfolio increased \$8.5 million in 2025 compared to the level earned in 2024. A rise in the yield on securities from 2.29% during 2024 to 2.86% during 2025 resulted in a \$4.5 million increase in interest income, while growth in the average balance of the securities portfolio during 2025 resulted in an increase in interest income of \$4.0 million. Interest income generated from other interest-earning assets was up \$0.8 million in 2025 compared to 2024, reflecting the net impact of a \$3.7 million increase in interest income resulting from growth in these assets and a \$2.9 million decrease in interest income resulting from a decreased yield on these assets. The growth in average securities and other interest-earning assets during 2025 compared to 2024 primarily reflected the ongoing success of our strategic initiatives to grow local deposits and decrease our loan-to-deposit ratio.

Interest expense is generated from interest-bearing deposits and borrowed funds. Interest expense decreased \$1.3 million during 2025 compared to 2024, totaling \$129 million and \$130 million in the respective periods. A decline in the cost of interest-bearing liabilities from 3.38% during 2024 to 3.03% during 2025 resulted in a decrease in interest expense of \$17.0 million, while growth in the average balance of these liabilities during 2025 compared to 2024 resulted in an increase in interest expense of \$15.7 million. The reduced average cost of interest-bearing liabilities mainly resulted from decreased costs of money market accounts and time deposits, reflecting the lower interest rate environment that began in September of 2024 in conjunction with the FOMC's lowering of the targeted federal funds rate. A change in interest-bearing liability mix, consisting of average higher-cost money market accounts and time deposits representing an increased percentage of average interest-bearing liabilities, negatively impacted the cost of interest-bearing liabilities during 2025 compared to 2024. The growth in these deposits reflected new deposit relationships, increases in existing deposit relationships, and deposit migration. During 2025, interest-bearing liabilities averaged \$4.27 billion, representing an increase of \$415 million, or 10.8%, from the \$3.85 billion average during 2024; average interest-bearing deposits were up \$471 million, while average borrowings declined \$56.4 million.

Growth in the average balance of interest-bearing non-time deposits during 2025 compared to 2024 resulted in a \$12.0 million increase in interest expense, while a lower average rate paid on these deposits during 2025 compared to 2024 resulted in an \$11.9 million decrease in interest expense. An increase in the average balance of time deposits during 2025 compared to 2024 resulted in a \$5.4 million increase in

interest expense, while a reduced average rate paid on these deposits during 2025 compared to 2024 resulted in a \$4.4 million decrease in interest expense. A lower average rate paid on short-term borrowings during 2025 compared to 2024 resulted in a \$0.7 million reduction in interest expense, while growth in the average balance of these borrowings during 2025 compared to 2024 equated to a \$0.5 million increase in interest expense. A decrease in the average balance of FHLBI advances during 2025 compared to 2024 resulted in a decline in interest expense of \$2.3 million, while a higher average rate paid on these borrowings during 2025 compared to 2024 resulted in an increase in interest expense of \$0.7 million. The \$0.5 million decrease in interest expense on other borrowings in 2025 compared to 2024 resulted from a lower average rate paid on these borrowings, which was partially mitigated by a slight increase in the average balance of these borrowings.

#### ***Provision for Credit Losses***

Provisions for credit losses of \$3.2 million and \$7.4 million were recorded during 2025 and 2024, respectively. The provision expense recorded during 2025 primarily reflected a \$1.9 million reserve increase related to changes in the economic forecast, a \$1.8 million net increase in specific allocations driven by a \$5.5 million allocation for a commercial construction loan relationship that was placed on nonaccrual during the second quarter of 2025, and a \$1.5 million net increase in qualitative factor allocations. The impacts of these factors were partially offset by \$2.3 million and \$1.3 million reductions in the reserve related to faster residential mortgage and consumer loan prepayment speeds and the associated reduced average lives of the portfolios and changes in baseline loss rates, respectively. The provision expense recorded during 2024 mainly reflected allocations necessitated by net loan growth, individual allocations made for two deteriorated commercial loan relationships, changes in qualitative factors, and an increased allocation stemming from slower prepayments speeds on residential mortgage loans, which were partially offset by lower loan loss rates. Continued strength in loan quality metrics, including low levels of loan charge-offs, during 2025 and 2024 significantly mitigated the amounts of additional reserves imposed by the previously mentioned factors.

#### ***Noninterest Income***

Noninterest income totaled \$41.6 million during 2025, compared to \$40.4 million during 2024. Noninterest income during 2025 included bank owned life insurance death benefit claims of \$1.0 million. Noninterest income during 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. Excluding these transactions, noninterest income increased \$1.3 million in 2025 compared to 2024. The higher level of noninterest income primarily reflected increased treasury management fees, mortgage banking income, and payroll services fees. Growth in treasury management and payroll services fees mainly stemmed from new commercial relationships and successful marketing efforts leading to customers' expanded use of products and services. The increase in mortgage banking income primarily resulted from rises in the percentage of loans originated with the intent to sell, which equaled approximately 81% in 2025 compared to approximately 78% in 2024, and total loan originations, which were up approximately 7% in 2025 compared to 2024. Interest rate swap income declined during 2025 compared to 2024, generally reflecting a lower volume of new swap transactions.

#### ***Noninterest Expense***

Noninterest expense during 2025 was \$136 million, compared to \$126 million during 2024. The increase in noninterest expense during 2025 primarily resulted from higher salary and benefit costs, mainly reflecting annual merit pay increases, market adjustments, and lower residential mortgage loan deferred salary costs. Costs associated with the acquisition of Eastern Michigan Financial Corporation, growth in data processing costs, primarily reflecting increased software support costs, and higher allocations to the reserve for unfunded loan commitments, largely stemming from an increase in commercial loan commitments, also contributed to the higher level of noninterest expense. Lower depreciation expense, mainly reflecting facility expansion and leasehold improvement projects becoming fully depreciated during 2024, positively impacted noninterest expense during 2025. Contributions to The Mercantile Bank Foundation totaled \$1.1 million and \$1.7 million during 2025 and 2024, respectively.

#### ***Federal Income Tax Expense***

During 2025, we recorded income before federal income tax of \$103 million and a federal income tax expense of \$14.7 million, compared to income before federal income tax of \$98.3 million and a federal income tax expense of \$18.7 million during 2024. The \$4.0 million decrease in federal income tax expense in 2025 compared to 2024 primarily resulted from the acquisition of transferable energy tax credits and the net benefits from investments in low-income housing and historic tax credit structures, which provided for aggregate tax benefits of \$3.5 million and \$1.8 million, respectively, the impacts of which were partially offset by a higher level of income before federal income tax. We recorded net benefits from investments in tax credit structures of \$0.2 million during 2024. The recording of the tax benefits positively impacted our effective tax rate, which equaled 14.2% during 2025, compared to 19.0% during 2024. The aforementioned bank owned life insurance death benefit claims, substantially all of which were nontaxable, positively impacted the effective tax rates in 2025 and 2024.

## **CAPITAL RESOURCES**

Shareholders' equity increased \$140 million during 2025, totaling \$725 million as of December 31, 2025. Positively impacting shareholders' equity was net income of \$88.8 million, while negatively affecting shareholders' equity were cash dividends on our common stock totaling \$24.0 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 a total of \$4.8 million. Positively impacting shareholders' equity during 2025 was a \$25.8 million decline in the after-tax net unrealized loss on available for sale securities. Common stock issued in conjunction with the acquisition of Eastern Michigan Financial Corporation totaled \$44.9 million.

We and our banks 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 December 31, 2025, Mercantile Bank’s total risk-based capital ratio was 13.8%, compared to 13.9% at December 31, 2024. Mercantile Bank’s total regulatory capital increased \$16.5 million during 2025, primarily reflecting the net impact of net income totaling \$98.7 million and cash dividends paid to us aggregating \$84.8 million. Mercantile Bank’s total risk-based capital ratio was also impacted by a \$174 million increase in total risk-weighted assets. As of December 31, 2025, Mercantile Bank’s total regulatory capital equaled \$776 million, or approximately \$214 million in excess of the amount necessary to attain the 10.0% minimum total risk-based capital ratio, which is among the requirements to be categorized as “well capitalized.” Eastern Michigan Bank’s total risk-based capital ratio was 19.0%, or approximately \$26 million in excess of the “well capitalized” threshold, as of December 31, 2025.

We maintain a stock repurchase program, which is discussed in Part II, Item 5 “Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities” in this Annual Report.

## LIQUIDITY

Liquidity is measured by our ability to raise funds through deposits, borrowed funds, 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 essential to our business. An inability to maintain sufficient funds through deposits, borrowings, the sale of assets, and other sources could have a material adverse effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities could be impaired by factors that affect us specifically or the financial services industry in general. 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 deposit balances. Asset and liability management is the process of managing the balance sheet to achieve a mix of earning assets and liabilities that maximizes profitability, while providing adequate liquidity.

To assist in providing needed funds, we have regularly obtained monies from wholesale funding sources. Wholesale funds, comprised of deposits from customers outside of our market areas and advances from the FHLBI, totaled \$457 million, or approximately 8% of combined deposits and borrowed funds, as of December 31, 2025, compared to \$537 million, or about 10% of combined deposits and borrowed funds, as of December 31, 2024.

Sweep accounts increased \$111 million during 2025, totaling \$232 million as of December 31, 2025. The aggregate balance of this funding type can be subject to relatively large daily fluctuations given the nature of the customers utilizing this product and the sizable balances that several of the customers maintain. In addition, we had one customer withdraw a large amount of funds near the end of 2024 that were returned in early 2025. The average balance of sweep accounts equaled \$239 million during 2025, with a high balance of \$286 million and a low balance of \$115 million. Our sweep account program entails transferring collected funds from certain business noninterest-bearing checking accounts to overnight interest-bearing repurchase agreements. Such repurchase agreements are not deposit accounts and are not afforded federal deposit insurance. All of our sweep accounts are accounted for as secured borrowings.

Information regarding our repurchase agreements as of December 31, 2025 and during 2025 is as follows:

(Dollars in thousands)	
Outstanding balance at December 31, 2025	\$ 232,291
Weighted average interest rate at December 31, 2025	2.80%
Maximum daily balance twelve months ended December 31, 2025	\$ 285,679
Average daily balance for twelve months ended December 31, 2025	\$ 239,089
Weighted average interest rate for twelve months ended December 31, 2025	3.12%

FHLBI advances declined \$60.9 million during 2025, totaling \$326 million as of December 31, 2025. Bullet advances aggregating \$20.0 million were obtained during 2025, while bullet advance maturities aggregated \$80.0 million. Payments on amortizing advances totaled \$0.9 million during 2025. Bullet advances are generally obtained to provide funds for loan growth and are used to assist in managing interest rate risk, while amortizing 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. Advances are collateralized by residential mortgage loans, first mortgage liens on multi-family residential property loans, first mortgage liens on certain commercial real estate property loans, and substantially all other assets of Mercantile Bank under a blanket lien arrangement. Our borrowing line of credit at year-end 2025 totaled \$1.08 billion, with remaining availability based on collateral of \$777 million.

We also have the ability to borrow up to \$50.0 million on a daily basis through a correspondent bank using an established unsecured federal funds purchased line of credit; the average balance of these borrowings was less than \$0.1 million during 2025. In contrast, our interest-earning deposit account at the Federal Reserve Bank of Chicago averaged \$286 million during 2025. Both banks have lines of credit through the Discount Window of the Federal Reserve Bank of Chicago. Based on pledged municipal bonds, we could have borrowed up to an aggregate \$199 million as of December 31, 2025. Except for periodic line testing, we have not utilized these lines and we do not plan to access these lines of credit in future periods.

The following table reflects, as of December 31, 2025, significant fixed and determinable contractual obligations to third parties by payment date, excluding accrued interest:

(Dollars in thousands)	<u>One Year or Less</u>	<u>One to Three Years</u>	<u>Three to Five Years</u>	<u>Over Five Years</u>	<u>Total</u>
Deposits without a stated maturity	\$ 4,305,095	\$ 0	\$ 0	\$ 0	\$ 4,305,095
Time deposits	914,764	52,774	11,819	0	979,357
Short-term borrowings	232,291	0	0	0	232,291
Federal Home Loan Bank advances	80,900	191,917	32,087	21,317	326,221
Subordinated debentures	0	0	0	51,015	51,015
Subordinated notes	0	0	0	89,657	89,657
Term note	10,000	20,000	0	0	30,000
Premises and equipment leases	1,191	2,061	811	1,141	5,204

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 December 31, 2025, we had a total of \$2.47 billion in unfunded loan commitments and \$26.8 million in unfunded standby letters of credit. Of the total unfunded loan commitments, \$2.15 billion were commitments available as lines of credit to be drawn at any time as customers' cash needs vary, and \$296 million were for loan commitments generally expected to be accepted 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 liquidity management.

The following table depicts our loan commitments at the end of the past three years:

(Dollars in thousands)	<u>12/31/25</u>	<u>12/31/24</u>	<u>12/31/23</u>
Commercial unused lines of credit	\$ 1,755,132	\$ 1,488,782	\$ 1,557,429
Unused lines of credit secured by 1-4 family residential properties	135,021	84,298	74,120
Credit card unused lines of credit	204,783	172,273	142,096
Other consumer unused lines of credit	53,124	33,892	50,063
Commitments to make loans	297,730	295,566	270,403
Standby letters of credit	26,813	26,491	19,393
Total	<u>\$ 2,472,603</u>	<u>\$ 2,101,302</u>	<u>\$ 2,113,504</u>

We monitor our liquidity position and funding strategies on an ongoing basis, but recognize that unexpected events, economic or market conditions, reductions in earnings performance, declining capital levels, or situations beyond our control could cause liquidity challenges. While we believe it is unlikely that a funding crisis of any significant degree is likely to materialize, we have developed a comprehensive contingency funding plan that provides a framework for meeting liquidity disruptions.

## MARKET RISK ANALYSIS

Our primary market risk exposure is interest rate risk and, to a lesser extent, liquidity risk and inflation 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 interest-earning assets over the interest paid on 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 controls 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 the net interest margin during periods of changing market interest rates.

The following table depicts our GAP position as of December 31, 2025:

(Dollars in thousands)	Within Three Months	Three to Twelve Months	One to Five Years	After Five Years	Total
<b>Assets:</b>					
Loans (1)	\$ 3,089,850	\$ 214,762	\$ 1,094,499	\$ 422,777	\$ 4,821,888
Securities available for sale (2)	15,701	90,983	571,220	424,326	1,102,230
Interest-earning deposits	417,319	1,000	250	0	418,569
Mortgage loans held for sale	17,160	0	0	0	17,160
Allowance for credit losses	0	0	0	0	(58,191)
Other assets	0	0	0	0	533,563
<b>Total assets</b>	<b>\$ 3,540,030</b>	<b>\$ 306,745</b>	<b>\$ 1,665,969</b>	<b>\$ 847,103</b>	<b>\$ 6,835,219</b>
<b>Liabilities:</b>					
Interest-bearing deposits	3,254,773	625,420	64,593	0	3,944,786
Short-term borrowings	232,291	0	0	0	232,291
Federal Home Loan Bank advances	30,900	50,000	224,004	21,317	326,221
Term note	2,500	7,500	20,000	0	30,000
Other borrowed money	51,015	0	89,657	0	140,672
Noninterest-bearing deposits	0	0	0	0	1,339,666
Other liabilities	0	0	0	0	96,699
<b>Total liabilities</b>	<b>3,571,479</b>	<b>682,920</b>	<b>398,254</b>	<b>21,317</b>	<b>6,110,335</b>
Shareholders' equity	0	0	0	0	724,884
<b>Total liabilities &amp; shareholders' equity</b>	<b>\$ 3,571,479</b>	<b>\$ 682,920</b>	<b>\$ 398,254</b>	<b>\$ 21,317</b>	<b>\$ 6,835,219</b>
<b>Net asset (liability) GAP</b>	<b>\$ (31,449)</b>	<b>\$ (376,175)</b>	<b>\$ 1,267,715</b>	<b>\$ 825,786</b>	
<b>Cumulative GAP</b>	<b>\$ (31,449)</b>	<b>\$ (407,624)</b>	<b>\$ 860,091</b>	<b>\$ 1,685,877</b>	
<b>Percent of cumulative GAP to total assets</b>	<b>(0.5)%</b>	<b>(6.0)%</b>	<b>12.6%</b>	<b>24.7%</b>	

(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 December 31, 2025.

The second interest rate risk measurement used 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 and 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 December 31, 2025, in which it was assumed that changes in market interest rates occurred ranging from up 300 basis points to down 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 \$234 million in net interest income projected using our balance sheet amounts and anticipated replacement rates as of December 31, 2025. 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	Percent Change
	In Net	In Net
	<u>Interest Income</u>	<u>Interest Income</u>
Interest rates down 400 basis points	\$ 13,500	5.8%
Interest rates down 300 basis points	20,000	8.5
Interest rates down 200 basis points	(4,900)	(2.1)
Interest rates down 100 basis points	(5,400)	(2.3)
Interest rates up 100 basis points	5,900	2.5
Interest rates up 200 basis points	12,100	5.2
Interest rates up 300 basis points	18,400	7.9

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 interest-earning deposits 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.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Board of Directors  
Mercantile Bank Corporation  
Grand Rapids, Michigan

### Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Mercantile Bank Corporation (the “Company”) as of December 31, 2025 and 2024, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2025, and the related notes (collectively referred to as the “financial statements”). In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2025 and 2024, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2025, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (the “PCAOB”), the Company’s internal control over financial reporting as of December 31, 2025, based on criteria established in *Internal Control - Integrated Framework (2013)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Our report dated February 27, 2026, expressed an unqualified opinion thereon.

### Basis for Opinion

The Company's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

### Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

#### *Allowance for Credit Losses – Qualitative Adjustment*

##### *Critical Audit Matter Description*

As described in Notes 1 and 3 to the consolidated financial statements, management’s estimate of the allowance for credit losses (ACL) at December 31, 2025, includes a reserve on collectively evaluated loans. The reserve on collectively evaluated loans is based on the bank’s historical loss rate adjusted for changes in macroeconomic conditions and qualitative factors. The reserve is based on an institution-specific historical average loss rate applied over the remaining life of loans. During each reporting period, management considers the need to adjust the historical loss rates to reflect the extent to which they 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. Management’s adjustment for qualitative factors is based on the impact of changes in lending policies and procedures; changes in the nature and volume of the loan portfolio; changes in the experience, ability, and depth of lending management and staff; changes in the volume and severity of past-due loans, nonaccrual loans, and adversely classified loans; changes in the quality of the credit review function; changes in the value of underlying collateral dependent loans and existence and effect of any concentrations of credit; and any changes in the effect of other factors, such as competition, legal and regulatory requirements, and historical loss rate information.

Significant judgment was required by management in the selection and measurement of qualitative factor adjustments. Accordingly, performing audit procedures to evaluate the Company's estimated ACL involved a high degree of auditor judgment and required significant effort, including the involvement of professionals with specialized skill and knowledge.

*How the Critical Audit Matter was Addressed in the Audit*

Our audit procedures related to the Company's estimate of the ACL included, but were not limited to, the following:

- We tested the design and operating effectiveness of management's controls over the determination of the qualitative factor adjustments.
- We obtained an understanding of management's process for determining the need for qualitative factor adjustments, identifying appropriate factors, and measuring the direction and magnitude of the adjustment.
- We evaluated management's rationale for determining qualitative adjustments were relevant and warranted for each loan segment and assessed the measurement of qualitative factor adjustments applied by management to segments with significant qualitative factors.
- Where applicable, we tested the accuracy and completeness of data used by management in the measurement of qualitative factor adjustments or vouched factors to relevant external data sources.
- We assessed changes in qualitative factors against overall trends in credit quality within the Company and broader trends within the industry and local and national economies to evaluate reasonableness of management's qualitative factor adjustments.
- We performed an independent calculation of the expected credit losses based on company specific loss history over the expected remaining life.

/s/ Plante & Moran, PLLC  
Plante & Moran, PLLC

We have served as the Company's auditor since 2023.

Grand Rapids, Michigan  
February 27, 2026

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Board of Directors  
Mercantile Bank Corporation  
Grand Rapids, Michigan

### **Opinion on Internal Control over Financial Reporting**

We have audited the internal control over financial reporting as of December 31, 2025 of Mercantile Bank Corporation (the "Company"), based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO framework"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2025, based on the criteria established in the COSO framework.

We also have audited the accompanying consolidated balance sheets of the Company as of December 31, 2025 and 2024, the related consolidated statements of income, comprehensive income (loss), changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2025, and the related notes (collectively referred to as the "consolidated financial statements"), in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"). Our report dated February 27, 2026, expresses an unqualified opinion.

### **Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report by Mercantile Bank Corporation's Management on internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws, the applicable rules and regulations of the Securities and Exchange Commission, and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### **Definition and Limitations of Internal Control over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Plante & Moran, PLLC  
Plante & Moran, PLLC

We have served as the Company's auditor since 2023.

Grand Rapids, Michigan  
February 27, 2026

REPORT BY MERCANTILE BANK CORPORATION'S MANAGEMENT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining an effective system of internal control over financial reporting that is designed to produce reliable financial statements presented in conformity with generally accepted accounting principles. There are inherent limitations in the effectiveness of any system of internal control. Accordingly, even an effective system of internal control can provide only reasonable assurance with respect to financial statement preparation.

On December 31, 2025, the Company completed the merger with Eastern Michigan Financial Corporation. The Company is in the process of evaluating the existing controls and procedures of Eastern Michigan Financial Corporation and integrating Eastern Michigan Financial Corporation into the Company's internal controls over financial reporting. In accordance with the SEC Staff guidance permitting a company to exclude an acquired business from management's assessment of the effectiveness of internal controls over financial reporting for the year in which the acquisition is completed, the Company has excluded Eastern Michigan Financial Corporation from the assessment of the effectiveness of internal controls over financial reporting as of December 31, 2025. Eastern Michigan Financial Corporation represented 8.4% of the Company's total assets as of December 31, 2025.

Management assessed the Company's system of internal control over financial reporting that is designed to produce reliable financial statements presented in conformity with generally accepted accounting principles as of December 31, 2025. This assessment was based on criteria for effective internal control over financial reporting described in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management believes that, as of December 31, 2025, Mercantile Bank Corporation maintained an effective system of internal control over financial reporting that is designed to produce reliable financial statements presented in conformity with generally accepted accounting principles based on those criteria.

The Company's independent auditors have issued an audit report on the effectiveness of the Company's internal control over financial reporting as found on page F-22.

Mercantile Bank Corporation

/s/ Raymond E. Reitsma

Raymond E. Reitsma  
President and Chief Executive Officer

/s/ Charles E. Christmas

Charles E. Christmas  
Executive Vice President, Chief Financial Officer and Treasurer

MERCANTILE BANK CORPORATION  
CONSOLIDATED BALANCE SHEETS  
December 31, 2025 and 2024

(Dollars in thousands)	2025	2024
<b>ASSETS</b>		
Cash and due from banks	\$ 54,755	\$ 56,991
Interest-earning deposits	418,569	336,019
Total cash and cash equivalents	473,324	393,010
Securities available for sale	1,102,230	730,352
Mortgage loans held for sale	17,160	15,824
Loans	4,821,888	4,600,781
Allowance for credit losses	(58,191)	(54,454)
Loans, net	4,763,697	4,546,327
Premises and equipment, net	62,468	53,427
Bank owned life insurance	105,342	93,839
Goodwill	72,656	49,473
Core deposit intangible	20,388	0
Other assets	217,954	169,909
Total assets	\$ 6,835,219	\$ 6,052,161
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits		
Noninterest-bearing	\$ 1,339,666	\$ 1,264,523
Interest-bearing	3,944,786	3,433,843
Total deposits	5,284,452	4,698,366
Securities sold under agreements to repurchase	232,291	121,521
Federal Home Loan Bank advances	326,221	387,083
Subordinated debentures	51,015	50,330
Subordinated notes	89,657	89,314
Term note	30,000	0
Accrued interest and other liabilities	96,699	121,021
Total liabilities	6,110,335	5,467,635
Commitments and contingent liabilities (Note 12)		
Shareholders' equity		
Preferred stock, no par value; 1,000,000 shares authorized; 0 shares outstanding at December 31, 2025 and December 31, 2024	0	0
Common stock, no par value; 40,000,000 shares authorized; 17,181,096 shares outstanding at December 31, 2025 and 16,146,374 shares outstanding at December 31, 2024	349,431	299,705
Retained earnings	399,448	334,646
Accumulated other comprehensive gain/(loss)	(23,995)	(49,825)
Total shareholders' equity	724,884	584,526
Total liabilities and shareholders' equity	\$ 6,835,219	\$ 6,052,161

See accompanying notes to consolidated financial statements.

MERCANTILE BANK CORPORATION  
CONSOLIDATED STATEMENTS OF INCOME  
Years ended December 31, 2025, 2024 and 2023

(Dollars in thousands, except per share data)	2025	2024	2023
<b>Interest income</b>			
Loans, including fees	\$ 291,355	\$ 291,921	\$ 252,393
Securities, taxable	17,544	9,917	7,611
Securities, tax-exempt	4,955	4,123	3,663
Interest-earning deposits	16,340	15,541	7,691
Total interest income	<u>330,194</u>	<u>321,502</u>	<u>271,358</u>
<b>Interest expense</b>			
Deposits	102,510	101,395	55,444
Short-term borrowings	7,464	7,717	2,847
Federal Home Loan Bank advances	11,404	13,018	11,367
Subordinated debentures and other borrowings	7,772	8,286	8,155
Total interest expense	<u>129,150</u>	<u>130,416</u>	<u>77,813</u>
<b>Net interest income</b>	201,044	191,086	193,545
Provision for credit losses	<u>3,200</u>	<u>7,400</u>	<u>7,700</u>
<b>Net interest income after provision for credit losses</b>	197,844	183,686	185,845
<b>Noninterest income</b>			
Mortgage banking activities	13,021	12,301	7,595
Credit and debit card fees	9,207	8,821	8,914
Service charges on deposit and sweep accounts	8,134	6,842	4,954
Payroll processing	3,473	3,058	2,509
Earnings on bank owned life insurance	3,293	2,555	1,500
Interest rate swap program fees	1,957	3,210	3,946
Other income	2,523	3,602	2,725
Total noninterest income	<u>41,608</u>	<u>40,389</u>	<u>32,143</u>
<b>Noninterest expense</b>			
Salaries and benefits	83,198	77,924	68,801
Data processing	15,273	13,772	11,618
Occupancy	8,511	8,643	9,150
Furniture and equipment rent, depreciation and maintenance	3,357	3,716	3,464
FDIC insurance costs	2,715	2,497	2,258
Advertising	1,664	1,604	1,565
Charitable foundation contributions	1,066	1,708	666
Acquisition costs	1,815	0	0
Other expense	18,360	15,925	17,767
Total noninterest expense	<u>135,959</u>	<u>125,789</u>	<u>115,289</u>
<b>Income before federal income tax expense</b>	103,493	98,286	102,699
Federal income tax expense	<u>14,740</u>	<u>18,693</u>	<u>20,482</u>
<b>Net income</b>	<u>\$ 88,753</u>	<u>\$ 79,593</u>	<u>\$ 82,217</u>
<b>Earnings per common share:</b>			
Basic	<u>\$ 5.47</u>	<u>\$ 4.93</u>	<u>\$ 5.13</u>
Diluted	<u>\$ 5.47</u>	<u>\$ 4.93</u>	<u>\$ 5.13</u>

See accompanying notes to consolidated financial statements.

MERCANTILE BANK CORPORATION  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
Years ended December 31, 2025, 2024 and 2023

(Dollars in thousands)	2025	2024	2023
Net income	\$ 88,753	\$ 79,593	\$ 82,217
Other comprehensive income (loss):			
Unrealized holding gains (losses) on securities available for sale	32,697	836	18,804
Total other comprehensive income (loss)	32,697	836	18,804
Tax effect of unrealized holding gains (losses) on securities available for sale	(6,867)	(174)	(3,950)
Total tax effect of other comprehensive income (loss)	(6,867)	(174)	(3,950)
Other comprehensive income (loss), net of tax effect	25,830	662	14,854
<b>Comprehensive income (loss)</b>	<b>\$ 114,583</b>	<b>\$ 80,255</b>	<b>\$ 97,071</b>

See accompanying notes to consolidated financial statements.

MERCANTILE BANK CORPORATION  
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
Years ended December 31, 2025, 2024 and 2023

(Dollars in thousands except per share amounts)	Preferred Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
<b>Balances, January 1, 2023</b>	\$ 0	\$ 290,436	\$ 216,313	\$ (65,341)	\$ 441,408
Employee stock purchase plan (1,410 shares)		45			45
Dividend reinvestment plan (27,306 shares)		891			891
Stock grants to directors for retainer fees (11,529 shares)		350			350
Stock-based compensation expense		3,384			3,384
Cash dividends (\$1.34 per common share)			(21,004)		(21,004)
Net income for 2023			82,217		82,217
Change in net unrealized gain/(loss) on securities available for sale, net of tax effect				14,854	14,854
<b>Balances, December 31, 2023</b>	<u>\$ 0</u>	<u>\$ 295,106</u>	<u>\$ 277,526</u>	<u>\$ (50,487)</u>	<u>\$ 522,145</u>

See accompanying notes to consolidated financial statements.

MERCANTILE BANK CORPORATION  
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (Continued)  
Years ended December 31, 2025, 2024 and 2023

(Dollars in thousands except per share amounts)	<u>Preferred Stock</u>	<u>Common Stock</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income/(Loss)</u>	<u>Total Shareholders' Equity</u>
<b>Balances, January 1, 2024</b>	\$ 0	\$ 295,106	\$ 277,526	\$ (50,487)	\$ 522,145
Employee stock purchase plan (1,194 shares)		50			50
Dividend reinvestment plan (19,684 shares)		810			810
Stock grants to directors for retainer fees (11,316 shares)		423			423
Stock-based compensation expense		3,316			3,316
Cash dividends (\$1.40 per common share)			(22,473)		(22,473)
Net income for 2024			79,593		79,593
Change in net unrealized gain/(loss) on securities available for sale, net of tax effect				662	662
<b>Balances, December 31, 2024</b>	<u>\$ 0</u>	<u>\$ 299,705</u>	<u>\$ 334,646</u>	<u>\$ (49,825)</u>	<u>\$ 584,526</u>

See accompanying notes to consolidated financial statements.

MERCANTILE BANK CORPORATION  
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (Continued)  
Years ended December 31, 2025, 2024 and 2023

(Dollars in thousands except per share amounts)	Preferred Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
<b>Balances, January 1, 2025</b>	\$ 0	\$ 299,705	\$ 334,646	\$ (49,825)	\$ 584,526
Employee stock purchase plan (2,954 shares)		128			128
Dividend reinvestment plan (16,848 shares)		772			772
Stock grants to directors for retainer fees (10,007 shares)		444			444
Stock-based compensation expense		3,473			3,473
Common stock issued to acquire Eastern Michigan Financial Corp. (924,999 shares)		44,909			44,909
Cash dividends (\$1.50 per common share)			(23,951)		(23,951)
Net income for 2025			88,753		88,753
Change in net unrealized gain/(loss) on securities available for sale, net of tax effect				25,830	25,830
<b>Balances, December 31, 2025</b>	<u>\$ 0</u>	<u>\$ 349,431</u>	<u>\$ 399,448</u>	<u>\$ (23,995)</u>	<u>\$ 724,884</u>

See accompanying notes to consolidated financial statements.

MERCANTILE BANK CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Years ended December 31, 2025, 2024 and 2023

(Dollars in thousands)	2025	2024	2023
<b>Cash flows from operating activities</b>			
Net income	\$ 88,753	\$ 79,593	\$ 82,217
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	5,797	10,505	11,496
Provision for credit losses	3,200	7,400	7,700
Deferred income tax expense (benefit)	2,085	(397)	(2,036)
Stock-based compensation expense	3,473	3,316	3,384
Stock grants to directors for retainer fees	444	423	350
Proceeds from sales of mortgage loans held for sale	435,121	384,784	196,217
Origination of mortgage loans held for sale	(423,868)	(370,201)	(204,727)
Net gain on sales of mortgage loans held for sale	(12,589)	(11,800)	(6,532)
Loss from sale of mortgage loans	0	112	0
Net gain from sales and valuation write-downs of foreclosed assets	0	(290)	(419)
Net (gain) loss from sale and write-downs on former bank premises	0	(83)	2
Net loss from sales and disposals of premises and equipment	24	13	471
Earnings on bank owned life insurance	(3,293)	(2,555)	(1,500)
Net (gain) loss on instruments designated at fair value and related derivatives	63	(203)	257
Net change in:			
Accrued interest receivable	(130)	(1,595)	(4,330)
Other assets	(59,097)	(25,797)	(30,189)
Accrued interest and other liabilities	(22,010)	27,893	14,252
Net cash from operating activities	<u>17,973</u>	<u>101,118</u>	<u>66,613</u>
<b>Cash flows from investing activities</b>			
Purchases of securities available for sale	(203,366)	(173,618)	(19,941)
Proceeds from maturities, calls and repayments of securities available for sale	67,317	61,777	24,142
Loan originations and payments, net	(19,250)	(309,834)	(387,283)
Proceeds from sale of mortgage loans	0	9,839	0
Net cash received from acquisition of Eastern Michigan Financial Corp.	53,569	0	0
Purchases of Federal Home Loan Bank stock	0	0	(3,792)
Purchases of bank owned life insurance	0	(7,000)	(3,500)
Proceeds from bank owned life insurance death benefit claims	2,790	1,357	0
Purchases of premises and equipment and lease activity	(6,764)	(8,530)	(6,687)
Proceeds from sales of former bank premises	0	283	598
Proceeds from sales of foreclosed assets	0	290	531
Net cash for investing activities	<u>(105,704)</u>	<u>(425,436)</u>	<u>(395,932)</u>
<b>Cash flows from financing activities</b>			
Net increase in time deposits	5,048	159,727	422,781
Net (decrease) increase in all other deposits	106,140	637,721	(234,674)
Net (decrease) increase in securities sold under agreements to repurchase	110,770	(108,213)	35,394
Proceeds from term note issuance	30,000	0	0
Proceeds from Federal Home Loan Bank advances	20,000	10,000	240,000
Maturities of Federal Home Loan Bank advances	(80,862)	(90,827)	(80,353)
Employee stock purchase plan	128	50	45
Dividend reinvestment plan	772	810	891
Payment of cash dividends to common shareholders	(23,951)	(22,473)	(21,004)
Net cash from financing activities	<u>168,045</u>	<u>586,795</u>	<u>363,080</u>

See accompanying notes to consolidated financial statements.

MERCANTILE BANK CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)  
Years ended December 31, 2025, 2024 and 2023

(Dollars in thousands)	2025	2024	2023
Net change in cash and cash equivalents	80,314	262,477	33,761
Cash and cash equivalents at beginning of period	393,010	130,533	96,772
<b>Cash and cash equivalents at end of period</b>	<b>\$ 473,324</b>	<b>\$ 393,010</b>	<b>\$ 130,533</b>
Supplemental disclosures of cash flows information			
Cash paid during the year for:			
Interest	\$ 129,430	\$ 129,228	\$ 72,024
Federal income taxes*	44,842	21,400	24,850
Noncash financing and investing activities:			
Common stock issued in connection with acquisition of Eastern Michigan Financial Corp.	44,909	0	0
Transfers from loans to foreclosed assets	0	0	112
Transfers from bank premises to other real estate owned	0	0	800

\*Federal income taxes include amounts paid for the acquisition of transferable federal income tax credits.

See accompanying notes to consolidated financial statements.

MERCANTILE BANK CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2025

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Principles of Consolidation: The consolidated financial statements include the accounts of Mercantile Bank Corporation (“Mercantile”) and its subsidiaries, Mercantile Bank and Eastern Michigan Bank (collectively “our banks”), and Mercantile Community Partners LLC (“MCP”), and of Mercantile Insurance Center, Inc. (“our insurance company”), a subsidiary of Mercantile Bank, after elimination of significant intercompany transactions and accounts.

Mercantile has five separate business trusts: Mercantile Bank Capital Trust I, Firstbank Capital Trust I, Firstbank Capital Trust II, Firstbank Capital Trust III and Firstbank Capital Trust IV (“our trusts”). Our trusts were formed to issue trust preferred securities. We issued subordinated debentures to our trusts in return for the proceeds raised from the issuance of the trust preferred securities. Our trusts are not consolidated, but instead we report the subordinated debentures issued to the trusts as liabilities.

Nature of Operations: Mercantile was incorporated on July 15, 1997, to establish and own Mercantile Bank based in Grand Rapids, Michigan. Mercantile Bank began operations on December 15, 1997. Mercantile Bank completed the merger of Firstbank Corporation, a Michigan corporation with approximately \$1.5 billion in total assets and 46 branch locations, into Mercantile as of June 1, 2014. On December 31, 2025, Mercantile completed the merger of Eastern Michigan Financial Corporation, and its wholly owned banking subsidiary, Eastern Michigan Bank, with approximately \$572 million in total assets and 11 branch locations. Mercantile will operate for a period of time as a two-bank holding company. The newly acquired Eastern Michigan Bank will operate alongside Mercantile Bank until the first quarter of 2027, at which time Mercantile plans to consolidate Eastern Michigan Bank into Mercantile Bank.

Mercantile is a financial holding company whose principal activity is the ownership and management of Mercantile Bank and Eastern Michigan Bank. Both Mercantile Bank and Eastern Michigan Bank are community-based financial institutions. Their primary deposit products are checking, saving, and term certificate accounts, and their primary lending products are commercial loans, residential mortgage loans, and instalment loans. Substantially all loans are secured by specific items of collateral, including business assets, real estate or consumer assets. Commercial loans are expected to be repaid from cash flow from operations of businesses. Real estate loans are secured by commercial or residential real estate. We have no material foreign loans or significant overdraft balances. Our banks' loan accounts and retail deposits are primarily with customers located in the communities in which we have bank office locations. As an alternative source of funds, our banks have also issued certificates of deposit to depositors outside of their primary market areas.

Our insurance company acquired an existing shelf insurance agency effective April 15, 2002. An Agency and Institution Agreement was entered into among our insurance company, Mercantile Bank and Hub International for the purpose of providing programs of mass marketed personal lines of insurance. Insurance product offerings include private passenger automobile, homeowners, personal inland marine, boat owners, recreational vehicle, dwelling fire, umbrella policies, small business and life insurance products, all of which are provided by and written through companies that have appointed Hub International as their agent. To date, we have not provided the insurance products noted above and currently have no plans to do so.

We have evaluated subsequent events for potential recognition and/or disclosure through the date these financial statements were issued.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ. The allowance for credit losses and the fair value measurements are particularly subject to change.

Cash and Cash Equivalents and Cash Flow Reporting: Cash and cash equivalents include cash on hand, demand deposits with other financial institutions, short-term investments and federal funds sold. Cash flows are reported net for customer loan and deposit transactions, interest-earning deposits invested with other financial institutions and short-term borrowings with maturities of 90 days or less.

MERCANTILE BANK CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2025

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**NOTE 1 - SUMMARY OF 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.

Changes in the allowance are recorded as provisions for (or reversals of) credit loss expense. Losses are charged against the allowance when the collectibility of an available for sale debt security is confirmed or when either of the criteria regarding intent or requirement to sell is met. At December 31, 2025, 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 and discounts on securities are amortized or accreted on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Accrued interest receivable on available for sale debt securities totaling \$5.5 million and \$3.6 million at December 31, 2025 and 2024, respectively, was reported in other assets on the Consolidated Balance Sheets. Management has made the accounting policy election to exclude accrued interest receivable on available for sale securities from the estimate of credit losses as accrued interest is written off in a timely manner when deemed uncollectible.

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 adjusted for partial charge-offs and the allowance, net of deferred loan fees and costs and purchase premiums and discounts. Interest income on loans is accrued over the term of the loans primarily using the simple interest method based on the principal balance outstanding. Accrued interest is included in other assets in the Consolidated Balance Sheets. Loan origination fees and certain direct costs incurred to extend credit are deferred and amortized over the term of the loan or loan commitment period as an adjustment to the related loan yield.

The December 31, 2025, acquisition of Eastern Michigan Bank resulted in the recognition of \$1.5 million of net purchased loan discounts. Purchased loan discounts were measured at the time of acquisition based upon the difference between the initial amortized cost basis and the par value of the loan. The premiums and discounts will be amortized into interest income over the life of the loans.

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 \$1.3 million and \$2.2 million at December 31, 2025 and 2024, 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. 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.

Commercial Loan Participations: As part of our credit risk administration practices and to manage exposure limits, we engage in commercial loan participations with other financial institutions from time-to-time. In all instances, the commercial loans are participated at par with no loan yield adjustments; therefore, no gain or loss on sale, or servicing right, is recorded. We retain a large portion of the loan exposure and continue to service the lending relationship. Commercial loan participations aggregated \$71.8 million and \$48.6 million as of December 31, 2025 and 2024, respectively.

MERCANTILE BANK CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2025

**NOTE 1 - SUMMARY OF 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. 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 and the carrying value of the related mortgage loan sold, which is reduced by the cost allocated to the servicing right.

Year-end mortgage loans held for sale were as follows:

(Dollars in thousands)	2025	2024
Mortgage loans held for sale	\$ 17,160	\$ 15,824
Less: Allowance to adjust to lower of cost or market	0	0
Mortgage loans held for sale, net	\$ 17,160	\$ 15,824

Mortgage Loan Derivatives: We enter into forward contracts and interest rate lock commitments in the ordinary course of business, which are accounted for as derivatives. The derivatives are not designated as hedges and are carried at fair value. The net gain or loss on derivatives is included in mortgage banking activities in the Consolidated Statements of Income. The net balance of mortgage loan derivatives aggregated to an asset of \$0.3 million as of December 31, 2025, and an asset of \$0.1 million as of December 31, 2024.

Mortgage Banking Activities: Income derived from mortgage banking activities include the net gain on sale of mortgage loans, originated mortgage servicing rights, and servicing fee income net of mortgage servicing rights amortization expense. The net gain on sale of mortgage loans represents the premium received in excess of the unpaid principal balance plus net origination fees.

Originated mortgage loan servicing rights are recorded at fair value at the time of sale and amortized in proportion to, and over the period of, estimated net servicing revenues. At each period end, 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. We have identified four classes of mortgage servicing rights based on the initial term of the underlying mortgage loans: 10 years, 15 years, 20 years and 30 years. We distinguish between these classes based on the differing sensitivities to the change in value from changes in mortgage interest rates. Any impairment of a grouping is reported as a valuation allowance. Servicing fees are earned for servicing mortgage loans and are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned.

Interest rate risk, prepayment risk and default risk are inherent in mortgage servicing rights valuations. Interest rate changes largely drive prepayment rates. Refinance activity generally increases as interest rates decline. A significant decrease in interest rates beyond expectation could cause a decline in the value of mortgage servicing rights. On the contrary, borrowers are less likely to refinance or prepay their mortgage loans if interest rates increase, which would extend the duration of the underlying mortgage loans and the associated mortgage servicing rights value would likely rise. Because of these risks, discount rates and prepayment speeds are used to estimate the fair value of mortgage servicing rights.

MERCANTILE BANK CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2025

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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 provision expense and decreased by charge-offs, net of recoveries of amounts previously charged-off. Loans are charged-off against the allowance when we believe the uncollectibility 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 characteristics that 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 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.

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 collectibility 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.

MERCANTILE BANK CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2025

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Purchased loans are recorded at fair value at the time of acquisition and distinguished between purchased seasoned loans ("PSL"), purchased credit deteriorated loans ("PCD loans"), and non-seasoned new acquisitions. PSL are loans purchased at least 90 days after its original origination date and without significant credit deterioration. PCD loans are acquired loans that have experienced a more-than-insignificant decline in credit quality since their origination. We considered all loans that were currently 60 days or more past due, ever on nonaccrual status, had ever been past due three or more times, consumer loans with borrower credit scores below 600, or commercial loans rated monitor, special mention, substandard or doubtful to be PCD loans. There were no non-seasoned new acquisition loans during 2025, 2024 and 2023.

PSL and PCD loans are accounted for using the gross-up approach prescribed in Accounting Standards Codification 326, Financial Instruments - Credit Losses. The gross-up approach requires recognition of an allowance for the estimate of credit losses at the acquisition date. The allowance is recorded with an offsetting gross-up adjustment to the purchase price of the acquired financial asset.

Accrued interest receivable on loans totaling \$17.5 million and \$17.3 million as of December 31, 2025 and 2024, 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 the loan becomes 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 uncollectible 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 that 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.

For individually analyzed loans that 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 its 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 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.

MERCANTILE BANK CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2025

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from our banks and put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) our banks do not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets. Our transfers of financial assets are generally limited to commercial loan participations sold and residential mortgage loans sold in the secondary market.

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Buildings and related components are depreciated using the straight-line method with useful lives ranging from 5 to 33 years. Furniture, fixtures and equipment are depreciated using the straight-line method with useful lives ranging from 3 to 7 years. Maintenance, repairs and minor alterations are charged to current operations as expenditures occur and major improvements are capitalized. Premises and equipment are reviewed for impairment when events indicate their carrying amount may not be recoverable based on future undiscounted cash flows. If impaired, the assets are recorded at the lower of carrying value or fair value.

Foreclosed Assets: Assets acquired through or in lieu of foreclosure are initially recorded at their estimated fair value net of estimated selling costs, establishing a new cost basis. If fair value subsequently declines, a valuation allowance is recorded through noninterest expense, as are collection and operating costs after acquisition. We had no foreclosed assets as of December 31, 2025 and 2024.

Bank Owned Life Insurance: Our banks have purchased life insurance policies on certain key officers. Bank owned life insurance is recorded at its cash surrender value, or the amount that can be realized. Increases in the net cash surrender value of the policies, as well as insurance proceeds received, are recorded as noninterest income on the Consolidated Statements of Income and are not subject to income taxes.

Goodwill: The acquisition method of accounting requires that assets and liabilities acquired in a business combination to 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, 2025; therefore, goodwill was considered not impaired. Subsequent to the analysis of goodwill, on December 31, 2025, we acquired Eastern Michigan Financial Corporation, resulting in the recognition of \$23.2 million of goodwill. Goodwill recognized from the acquisition of Eastern Michigan Financial Corporation is further discussed in Note 17 - Business Combinations.

Repurchase Agreements: Our banks sell certain securities under agreements to repurchase. The agreements are treated as collateralized financing transactions, with the obligations to repurchase the securities sold reflected as liabilities and the securities underlying the agreements remaining in assets in the Consolidated Balance Sheets.

Financial Instruments and Loan Commitments: Financial instruments include off-balance-sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded. Instruments, such as standby letters of credit, that are considered financial guarantees are recorded at fair value. Reserves for unfunded commitments are recorded as an other liability on our Consolidated Balance Sheets.

Stock-Based Compensation: Compensation cost for equity-based awards is measured on the grant date based on the fair value of the award on that date and recognized over the requisite service period, net of estimated forfeitures. Fair value of stock option awards is estimated using a closed option valuation (Black-Scholes) model. Fair value of restricted stock awards is based upon the quoted market price of the common stock on the date of grant.

MERCANTILE BANK CORPORATION  
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December 31, 2025

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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.

The following table depicts our sources of noninterest income presented in the Consolidated Statements of Income for the years ended December 31, 2025, 2024 and 2023 that are scoped within Topic 606:

(Dollars in thousands)	2025	2024	2023
Credit and debit card fees	\$ 9,207	\$ 8,821	\$ 8,914
Service charges on deposit and sweep accounts	8,134	6,842	4,954
Payroll processing	3,473	3,058	2,509
Customer service fees	876	797	801

*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 Fees:* 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 Processing Fees:* 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 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.

Advertising Costs: Advertising costs are expensed as incurred.

Income Taxes: Income tax expense is the total of the current year income tax due or refundable, the change in deferred income tax assets and liabilities, and any adjustments related to unrecognized tax benefits. Deferred income tax assets and liabilities are recognized for the tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates applicable to future years. A valuation allowance, if needed, reduces deferred income tax assets to the amount expected to be realized.

MERCANTILE BANK CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2025

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Fair Values of Financial Instruments:** Fair values of financial instruments are estimated using relevant market information and other assumptions. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates. The fair value estimates of existing on- and off-balance sheet financial instruments do not include the value of anticipated future business or the values of assets and liabilities not considered financial instruments.

**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 using the treasury stock method. Our unvested stock awards, which contain non-forfeitable rights to dividends whether paid or unpaid (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 stock awards are excluded from the calculations of both basic and diluted earnings per share. There were no dilutive shares outstanding during the years ended December 31, 2025, 2024 and 2023. Weighted average common shares outstanding were 16,237,974, 16,130,696, and 16,015,678 during the years ended December 31, 2025, 2024 and 2023.

**Comprehensive Income (Loss):** Comprehensive income (loss) consists of net income and other comprehensive income (loss). Accumulated other comprehensive gain/(loss) includes unrealized gains and losses on securities available for sale. Accumulated other comprehensive gain/(loss) was comprised of the following as of December 31, 2025, 2024 and 2023:

(Dollars in thousands)	2025	2024	2023
Unrealized gains (losses) on securities available for sale	\$ (30,373)	\$ (63,070)	\$ (63,906)
Tax effect	6,378	13,245	13,419
Accumulated other comprehensive gain/(loss)	\$ (23,995)	\$ (49,825)	\$ (50,487)

**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. 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 December 31, 2025 and 2024.

**Contingencies:** Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. We do not believe there are any such matters outstanding that would have a material effect on the financial statements.

**Recent Accounting Changes Adopted:** Accounting Standards Updated No. 2025-08, *Financial Instruments - Credit Losses (Topic 326): Purchased Loans*. This update expands the population of acquired financial instruments subject to the gross-up approach in Topic 326. In accordance with the amendments in this update, loans (excluding credit cards) acquired without credit deterioration and deemed "seasoned" are purchased seasoned loans and accounted for using the gross-up approach at acquisition. This update takes effect for annual reporting periods beginning after December 15, 2026, and interim reporting periods within those annual reporting periods with adoption being applied prospectively to loans that are acquired on or after the initial application date. We have adopted the standard and included the required disclosures in our financial statements.

MERCANTILE BANK CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2025

**NOTE 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 gain/(loss) were as follows at year-end 2025 and 2024:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>2025</b>				
U.S. Treasury notes and bonds	\$ 55,501	\$ 0	\$ 0	\$ 55,501
U.S. Government agency debt obligations	661,841	4,343	(26,411)	639,773
Mortgage-backed securities	80,475	14	(4,727)	75,762
Municipal general obligation bonds	217,283	1,946	(4,166)	215,063
Municipal revenue bonds	66,376	180	(1,552)	65,004
Other investments	51,127	0	0	51,127
	<u>\$ 1,132,603</u>	<u>\$ 6,483</u>	<u>\$ (36,856)</u>	<u>\$ 1,102,230</u>
<b>2024</b>				
U.S. Government agency debt obligations	\$ 542,676	\$ 131	\$ (47,226)	\$ 495,581
Mortgage-backed securities	31,696	4	(6,332)	25,368
Municipal general obligation bonds	187,484	513	(7,827)	180,170
Municipal revenue bonds	31,066	89	(2,422)	28,733
Other investments	500	0	0	500
	<u>\$ 793,422</u>	<u>\$ 737</u>	<u>\$ (63,807)</u>	<u>\$ 730,352</u>

Securities with unrealized losses at year-end 2025 and 2024, aggregated by investment category and length of time that individual securities have been in a continuous loss position, are as follows:

(Dollars in thousands) Description of Securities	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
<b>2025</b>						
U.S. Treasury notes and bonds	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
U.S. Government agency debt obligations	41,380	234	350,926	26,177	392,306	26,411
Mortgage-backed securities	0	0	22,945	4,727	22,945	4,727
Municipal general obligation bonds	4,465	23	102,736	4,143	107,201	4,166
Municipal revenue bonds	2,956	13	19,893	1,539	22,849	1,552
Other investments	0	0	0	0	0	0
	<u>\$ 48,801</u>	<u>\$ 270</u>	<u>\$ 496,500</u>	<u>\$ 36,586</u>	<u>\$ 545,301</u>	<u>\$ 36,856</u>
<b>2024</b>						
U.S. Government agency debt obligations	\$ 113,942	\$ 2,379	\$ 361,171	\$ 44,847	\$ 475,113	\$ 47,226
Mortgage-backed securities	194	1	24,865	6,331	25,059	6,332
Municipal general obligation bonds	63,387	1,117	92,153	6,710	155,540	7,827
Municipal revenue bonds	2,840	28	21,865	2,394	24,705	2,422
Other investments	0	0	0	0	0	0
	<u>\$ 180,363</u>	<u>\$ 3,525</u>	<u>\$ 500,054</u>	<u>\$ 60,282</u>	<u>\$ 680,417</u>	<u>\$ 63,807</u>

MERCANTILE BANK CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2025

**NOTE 2 – SECURITIES (Continued)**

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 December 31, 2025, 607 debt securities with estimated fair values totaling \$545 million had unrealized losses aggregating \$36.9 million. At December 31, 2024, 843 debt securities with estimated fair values totaling \$680 million had unrealized losses aggregating \$63.8 million. At December 31, 2025, unrealized losses aggregating \$31.1 million were attributable to bonds issued or guaranteed by agencies of the U.S. federal government, while unrealized losses totaling \$5.7 million were associated with bonds issued by state-based municipalities. After considering the issuers of the bonds and taking into account the fact that no municipal issuer had been subject to a credit rating downgrade by bond credit rating agencies, we determined that the unrealized losses were due to changing interest rate environments. As we do not intend to sell our debt securities before recovery of their cost basis and we believe it is more likely than not that we will not be required to sell our debt securities before recovery of the cost basis, no unrealized losses are deemed to represent credit losses.

The amortized cost and fair values of debt securities at December 31, 2025, by maturity, are shown in the following table. The contractual maturity is utilized for U.S. Treasury notes and bonds, 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
Due in one year or less	\$ 85,205	\$ 84,389
Due from one to five years	529,700	516,624
Due from five to ten years	316,053	303,308
Due after ten years	70,043	71,020
Mortgage-backed securities	80,475	75,762
Other investments	51,127	51,127
	<u>\$ 1,132,603</u>	<u>\$ 1,102,230</u>

No securities were sold during the last three years.

Securities issued by the State of Michigan and all its political subdivisions had a combined amortized cost of \$252 million and \$219 million at December 31, 2025 and December 31, 2024, respectively, with estimated market values of \$249 million and \$209 million at the respective dates. Securities issued by all other states and their political subdivisions had both a combined amortized cost and estimated fair value of \$31.3 million as of December 31, 2025. We had no securities issued by all other states and their political subdivisions as of December 31, 2024. 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 obligations and mortgage-backed securities that are pledged to secure repurchase agreements was \$232 million and \$122 million at December 31, 2025 and 2024, respectively. The carrying value of U.S. Government agency debt obligations that are pledged to secure specific customer deposits was \$12.6 million and \$11.7 million as of December 31, 2025 and 2024, respectively.

MERCANTILE BANK CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 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 December 31, 2025 were as follows:

- o 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.
- o 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.

MERCANTILE BANK CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2025

**NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)**

Year-end loans disaggregated by class of loan within the loan portfolio segments were as follows:

(Dollars in thousands)	December 31, 2025		December 31, 2024		Percent Increase (Decrease)
	Balance	%	Balance	%	
<b>Commercial:</b>					
Commercial and industrial	\$ 1,374,522	28.5%	\$ 1,287,308	28.0%	6.8%
Vacant land, land development, and residential construction	117,373	2.4	66,936	1.5	75.4
Real estate – owner occupied	778,869	16.2	748,837	16.3	4.0
Real estate – non-owner occupied	1,110,674	23.0	1,128,404	24.5	(1.6)
Real estate – multi-family and residential rental	<u>537,224</u>	<u>11.2</u>	<u>475,819</u>	<u>10.3</u>	<u>12.9</u>
<b>Total commercial</b>	<u><u>3,918,662</u></u>	<u><u>81.3</u></u>	<u><u>3,707,304</u></u>	<u><u>80.6</u></u>	<u><u>5.7</u></u>
<b>Retail:</b>					
1-4 family mortgages	790,857	16.4	827,597	18.0	(4.4)
Other consumer loans	<u>112,369</u>	<u>2.3</u>	<u>65,880</u>	<u>1.4</u>	<u>70.6</u>
<b>Total retail</b>	<u><u>903,226</u></u>	<u><u>18.7</u></u>	<u><u>893,477</u></u>	<u><u>19.4</u></u>	<u><u>1.1</u></u>
<b>Total loans</b>	<u><u>\$ 4,821,888</u></u>	<u><u>100.0%</u></u>	<u><u>\$ 4,600,781</u></u>	<u><u>100.0%</u></u>	<u><u>4.8%</u></u>

Concentrations within the loan portfolio were as follows at year end:

(Dollars in thousands)	2025		2024	
	Balance	Percentage of Loan Portfolio	Balance	Percentage of Loan Portfolio
Commercial real estate loans to lessors of non-residential buildings	\$ 759,127	15.7%	\$ 822,402	17.9%

MERCANTILE BANK CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2025

**NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)**

An age analysis of past due loans is as follows as of December 31, 2025:

(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
<b>Commercial:</b>							
Commercial and industrial	\$ 294	\$ 0	\$ 0	\$ 294	\$ 1,374,228	\$ 1,374,522	\$ 0
Vacant land, land development, and residential construction	67	0	0	67	117,306	117,373	0
Real estate – owner occupied	219	0	29	248	778,621	778,869	0
Real estate – non-owner occupied	0	0	2,732	2,732	1,107,942	1,110,674	0
Real estate – multi-family and residential rental	0	0	0	0	537,224	537,224	0
Total commercial	<u>580</u>	<u>0</u>	<u>2,761</u>	<u>3,341</u>	<u>3,915,321</u>	<u>3,918,662</u>	<u>0</u>
<b>Retail:</b>							
1-4 family mortgages	992	409	156	1,557	789,300	790,857	0
Other consumer loans	585	40	5	630	111,739	112,369	0
Total retail	<u>1,577</u>	<u>449</u>	<u>161</u>	<u>2,187</u>	<u>901,039</u>	<u>903,226</u>	<u>0</u>
Total past due loans	<u>\$ 2,157</u>	<u>\$ 449</u>	<u>\$ 2,922</u>	<u>\$ 5,528</u>	<u>\$ 4,816,360</u>	<u>\$ 4,821,888</u>	<u>\$ 0</u>

An age analysis of past due loans is as follows as of December 31, 2024:

(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
<b>Commercial:</b>							
Commercial and industrial	\$ 5	\$ 0	\$ 864	\$ 869	\$ 1,286,439	\$ 1,287,308	\$ 0
Vacant land, land development, and residential construction	12	0	0	12	66,924	66,936	0
Real estate – owner occupied	0	0	0	0	748,837	748,837	0
Real estate – non-owner occupied	0	0	0	0	1,128,404	1,128,404	0
Real estate – multi-family and residential rental	0	0	0	0	475,819	475,819	0
Total commercial	<u>17</u>	<u>0</u>	<u>864</u>	<u>881</u>	<u>3,706,423</u>	<u>3,707,304</u>	<u>0</u>
<b>Retail:</b>							
1-4 family mortgages	2,365	713	182	3,260	824,337	827,597	0
Other consumer loans	112	0	0	112	65,768	65,880	0
Total retail	<u>2,477</u>	<u>713</u>	<u>182</u>	<u>3,372</u>	<u>890,105</u>	<u>893,477</u>	<u>0</u>
Total past due loans	<u>\$ 2,494</u>	<u>\$ 713</u>	<u>\$ 1,046</u>	<u>\$ 4,253</u>	<u>\$ 4,596,528</u>	<u>\$ 4,600,781</u>	<u>\$ 0</u>

MERCANTILE BANK CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2025

**NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)**

Nonaccrual loans as of December 31, 2025 were as follows:

(Dollars in thousands)	Recorded Principal Balance	Related Allowance
With no allowance recorded:		
Commercial:		
Commercial and industrial	\$ 170	\$ 0
Vacant land, land development and residential construction	201	0
Real estate – owner occupied	517	0
Real estate – non-owner occupied	0	0
Real estate – multi-family and residential rental	0	0
Total commercial	<u>888</u>	<u>0</u>
Retail:		
1-4 family mortgages	1,892	0
Other consumer loans	81	0
Total retail	<u>1,973</u>	<u>0</u>
Total with no allowance recorded	<u>\$ 2,861</u>	<u>\$ 0</u>
With an allowance recorded:		
Commercial:		
Commercial and industrial	\$ 1,223	\$ 1,063
Vacant land, land development and residential construction	0	0
Real estate – owner occupied	0	0
Real estate – non-owner occupied	2,732	2,732
Real estate – multi-family and residential rental	0	0
Total commercial	<u>3,955</u>	<u>3,795</u>
Retail:		
1-4 family mortgages	1,054	224
Other consumer loans	0	0
Total retail	<u>1,054</u>	<u>224</u>
Total with an allowance recorded	<u>\$ 5,009</u>	<u>\$ 4,019</u>
Total nonaccrual loans:		
Commercial	\$ 4,843	\$ 3,795
Retail	3,027	224
Total nonaccrual loans	<u>\$ 7,870</u>	<u>\$ 4,019</u>

Nonaccrual loans represent the entire balance of collateral dependent loans. As of December 31, 2025 and 2024, 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 \$1.0 million in 2025, \$0.3 million in 2024 and \$0.2 million in 2023, reflecting the collection of interest at the time of principal pay-off.

MERCANTILE BANK CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2025

**NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)**

Nonaccrual loans as of December 31, 2024 were as follows:

(Dollars in thousands)	Recorded Principal Balance	Related Allowance
	<u>          </u>	<u>          </u>
With no allowance recorded:		
Commercial:		
Commercial and industrial	\$ 615	\$ 0
Vacant land, land development and residential construction	0	0
Real estate – owner occupied	42	0
Real estate – non-owner occupied	0	0
Real estate – multi-family and residential rental	0	0
Total commercial	<u>657</u>	<u>0</u>
Retail:		
1-4 family mortgages	1,167	0
Other consumer loans	0	0
Total retail	<u>1,167</u>	<u>0</u>
Total with no allowance recorded	<u>\$ 1,824</u>	<u>\$ 0</u>
With an allowance recorded:		
Commercial:		
Commercial and industrial	\$ 2,110	\$ 1,732
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	<u>2,110</u>	<u>1,732</u>
Retail:		
1-4 family mortgages	1,808	402
Other consumer loans	0	0
Total retail	<u>1,808</u>	<u>402</u>
Total with an allowance recorded	<u>\$ 3,918</u>	<u>\$ 2,134</u>
Total nonaccrual loans:		
Commercial	\$ 2,767	\$ 1,732
Retail	2,975	402
Total nonaccrual loans	<u>\$ 5,742</u>	<u>\$ 2,134</u>

MERCANTILE BANK CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2025

**NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (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

MERCANTILE BANK CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2025

**NOTE 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 reviewed and graded at inception and, if appropriate, re-graded at various intervals thereafter. The risk assessment for retail loans is primarily based on the type of collateral.

Loans by credit quality indicators were as follows as of December 31, 2025:

Commercial credit exposure – credit risk profiled by internal credit risk grades:

(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
Internal credit risk grade groupings:					
Grades 1 – 4	\$ 655,390	\$ 55,915	\$ 493,696	\$ 434,725	\$ 151,521
Grades 5 – 7	704,704	61,257	277,700	673,217	385,703
Grades 8 – 9	14,428	201	7,473	2,732	0
Total commercial	<u>\$ 1,374,522</u>	<u>\$ 117,373</u>	<u>\$ 778,869</u>	<u>\$ 1,110,674</u>	<u>\$ 537,224</u>

Retail credit exposure – credit risk profiled by collateral type:

(Dollars in thousands)	Retail 1-4 Family Mortgages	Retail Other Consumer Loans
Performing	\$ 787,911	\$ 112,288
Nonperforming	2,946	81
Total retail	<u>\$ 790,857</u>	<u>\$ 112,369</u>

Loans by credit quality indicators were as follows as of December 31, 2024:

Commercial credit exposure – credit risk profiled by internal credit risk grades:

(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
Internal credit risk grade groupings:					
Grades 1 – 4	\$ 629,851	\$ 25,191	\$ 466,400	\$ 432,244	\$ 173,109
Grades 5 – 7	637,183	41,740	275,506	688,178	302,100
Grades 8 – 9	20,274	5	6,931	7,982	610
Total commercial	<u>\$ 1,287,308</u>	<u>\$ 66,936</u>	<u>\$ 748,837</u>	<u>\$ 1,128,404</u>	<u>\$ 475,819</u>

Retail credit exposure – credit risk profiled by collateral type:

(Dollars in thousands)	Retail 1-4 Family Mortgages	Retail Other Consumer Loans
Performing	\$ 824,622	\$ 65,880
Nonperforming	2,975	0
Total retail	<u>\$ 827,597</u>	<u>\$ 65,880</u>

MERCANTILE BANK CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2025

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**NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)**

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 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 rating 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 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 employ a disciplined and formalized review of the existence of collateral and its value. The primary risk element with respect to each residential real estate loan and consumer loan is the timeliness of scheduled payments; loans 90 days or more past due are considered nonperforming. 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.

MERCANTILE BANK CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2025

**NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)**

The following table reflects loan balances as of December 31, 2025 based on year of origination:

(Dollars in thousands)	2025	2024	2023	2022	2021	Prior	Term Total	Revolving Loans	Grand Total
<b>Commercial:</b>									
<b>Commercial and Industrial:</b>									
Grades 1 – 4	\$ 82,163	\$ 57,225	\$ 38,063	\$ 12,554	\$ 35,423	\$ 14,878	\$ 240,306	\$ 415,084	\$ 655,390
Grades 5 – 7	143,638	125,617	46,445	23,137	5,396	3,092	347,325	357,379	704,704
Grades 8 – 9	2,189	0	732	0	0	327	3,248	11,180	14,428
Total	<u>\$ 227,990</u>	<u>\$ 182,842</u>	<u>\$ 85,240</u>	<u>\$ 35,691</u>	<u>\$ 40,819</u>	<u>\$ 18,297</u>	<u>\$ 590,879</u>	<u>\$ 783,643</u>	<u>\$ 1,374,522</u>
Current-period gross write-offs	\$ 0	\$ 4	\$ 84	\$ 0	\$ 0	\$ 0	\$ 88	\$ 7	\$ 95
<b>Vacant Land, Land Development and Residential Construction:</b>									
Grades 1 – 4	\$ 22,242	\$ 4,849	\$ 1,703	\$ 7,676	\$ 2,410	\$ 6,752	\$ 45,632	\$ 10,283	\$ 55,915
Grades 5 – 7	37,052	13,281	1,635	2,295	520	5,743	60,526	731	61,257
Grades 8 – 9	0	0	0	0	201	0	201	0	201
Total	<u>\$ 59,294</u>	<u>\$ 18,130</u>	<u>\$ 3,338</u>	<u>\$ 9,971</u>	<u>\$ 3,131</u>	<u>\$ 12,495</u>	<u>\$ 106,359</u>	<u>\$ 11,014</u>	<u>\$ 117,373</u>
Current-period gross write-offs	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
<b>Real Estate – Owner Occupied:</b>									
Grades 1 – 4	\$ 135,403	\$ 137,672	\$ 51,266	\$ 77,169	\$ 66,198	\$ 18,302	\$ 486,010	\$ 7,686	\$ 493,696
Grades 5 – 7	81,750	59,874	51,642	53,479	20,585	9,085	276,415	1,285	277,700
Grades 8 – 9	0	0	3,502	2,674	0	1,297	7,473	0	7,473
Total	<u>\$ 217,153</u>	<u>\$ 197,546</u>	<u>\$ 106,410</u>	<u>\$ 133,322</u>	<u>\$ 86,783</u>	<u>\$ 28,684</u>	<u>\$ 769,898</u>	<u>\$ 8,971</u>	<u>\$ 778,869</u>
Current-period gross write-offs	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
<b>Real Estate – Non-Owner Occupied:</b>									
Grades 1 – 4	\$ 93,669	\$ 83,447	\$ 55,500	\$ 65,525	\$ 73,727	\$ 53,148	\$ 425,016	\$ 9,709	\$ 434,725
Grades 5 – 7	145,795	153,731	170,018	77,964	69,335	51,411	668,254	4,963	673,217
Grades 8 – 9	2,732	0	0	0	0	0	2,732	0	2,732
Total	<u>\$ 242,196</u>	<u>\$ 237,178</u>	<u>\$ 225,518</u>	<u>\$ 143,489</u>	<u>\$ 143,062</u>	<u>\$ 104,559</u>	<u>\$ 1,096,002</u>	<u>\$ 14,672</u>	<u>\$ 1,110,674</u>
Current-period gross write-offs	\$ 0	\$ 0	\$ 2,800	\$ 0	\$ 0	\$ 0	\$ 2,800	\$ 0	\$ 2,800
<b>Real Estate – Multi-Family and Residential Rental:</b>									
Grades 1 – 4	\$ 40,264	\$ 13,603	\$ 32,341	\$ 9,449	\$ 32,465	\$ 23,399	\$ 151,521	\$ 0	\$ 151,521
Grades 5 – 7	165,703	55,785	128,190	27,959	1,862	6,204	385,703	0	385,703
Grades 8 – 9	0	0	0	0	0	0	0	0	0
Total	<u>\$ 205,967</u>	<u>\$ 69,388</u>	<u>\$ 160,531</u>	<u>\$ 37,408</u>	<u>\$ 34,327</u>	<u>\$ 29,603</u>	<u>\$ 537,224</u>	<u>\$ 0</u>	<u>\$ 537,224</u>
Current-period gross write-offs	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Total Commercial	<u>\$ 952,600</u>	<u>\$ 705,084</u>	<u>\$ 581,037</u>	<u>\$ 359,881</u>	<u>\$ 308,122</u>	<u>\$ 193,638</u>	<u>\$ 3,100,362</u>	<u>\$ 818,300</u>	<u>\$ 3,918,662</u>
Current-period gross write-offs	\$ 0	\$ 4	\$ 2,884	\$ 0	\$ 0	\$ 0	\$ 2,888	\$ 7	\$ 2,895
<b>Retail:</b>									
<b>1-4 Family Mortgages:</b>									
Performing	\$ 62,063	\$ 52,546	\$ 102,023	\$ 280,078	\$ 181,242	\$ 107,389	\$ 785,341	\$ 2,570	\$ 787,911
Nonperforming	0	241	451	1,047	347	860	2,946	0	2,946
Total	<u>\$ 62,063</u>	<u>\$ 52,787</u>	<u>\$ 102,474</u>	<u>\$ 281,125</u>	<u>\$ 181,589</u>	<u>\$ 108,249</u>	<u>\$ 788,287</u>	<u>\$ 2,570</u>	<u>\$ 790,857</u>
Current-period gross write-offs	\$ 0	\$ 7	\$ 85	\$ 22	\$ 61	\$ 3	\$ 178	\$ 0	\$ 178
<b>Other Consumer Loans:</b>									
Performing	\$ 6,574	\$ 8,299	\$ 7,056	\$ 3,358	\$ 1,274	\$ 894	\$ 27,455	\$ 84,833	\$ 112,288
Nonperforming	0	0	0	9	5	42	56	25	81
Total	<u>\$ 6,574</u>	<u>\$ 8,299</u>	<u>\$ 7,056</u>	<u>\$ 3,367</u>	<u>\$ 1,279</u>	<u>\$ 936</u>	<u>\$ 27,511</u>	<u>\$ 84,858</u>	<u>\$ 112,369</u>
Current-period gross write-offs	\$ 20	\$ 2	\$ 6	\$ 0	\$ 0	\$ 0	\$ 28	\$ 14	\$ 42
Total Retail	<u>\$ 68,637</u>	<u>\$ 61,086</u>	<u>\$ 109,530</u>	<u>\$ 284,492</u>	<u>\$ 182,868</u>	<u>\$ 109,185</u>	<u>\$ 815,798</u>	<u>\$ 87,428</u>	<u>\$ 903,226</u>
Current-period gross write-offs	\$ 20	\$ 9	\$ 91	\$ 22	\$ 61	\$ 3	\$ 206	\$ 14	\$ 220
Grand Total	<u>\$ 1,021,237</u>	<u>\$ 766,170</u>	<u>\$ 690,567</u>	<u>\$ 644,373</u>	<u>\$ 490,990</u>	<u>\$ 302,823</u>	<u>\$ 3,916,160</u>	<u>\$ 905,728</u>	<u>\$ 4,821,888</u>
Current-period gross write-offs	\$ 20	\$ 13	\$ 2,975	\$ 22	\$ 61	\$ 3	\$ 3,094	\$ 21	\$ 3,115

There were lines of credit with principal balances of \$0.7 million as of December 31, 2024 that were converted to term loans during 2025.

MERCANTILE BANK CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2025

**NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)**

The following table reflects loan balances as of December 31, 2024 based on year of origination:

(Dollars in thousands)	2024	2023	2022	2021	2020	Prior	Term Total	Revolving Loans	Grand Total
<b>Commercial:</b>									
Commercial and Industrial:									
Grades 1 – 4	\$ 102,898	\$ 68,536	\$ 41,609	\$ 47,534	\$ 9,551	\$ 8,412	\$ 278,540	\$ 351,311	\$ 629,851
Grades 5 – 7	188,267	88,471	31,755	13,513	3,298	2,019	327,323	309,860	637,183
Grades 8 – 9	4,813	401	3,436	262	69	0	8,981	11,293	20,274
Total	<u>\$ 295,978</u>	<u>\$ 157,408</u>	<u>\$ 76,800</u>	<u>\$ 61,309</u>	<u>\$ 12,918</u>	<u>\$ 10,431</u>	<u>\$ 614,844</u>	<u>\$ 672,464</u>	<u>\$ 1,287,308</u>
Current-period gross write-offs	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,741	\$ 0	\$ 3,741	\$ 9	\$ 3,750
Vacant Land, Land Development and Residential Construction:									
Grades 1 – 4	\$ 18,536	\$ 4,997	\$ 610	\$ 645	\$ 177	\$ 226	\$ 25,191	\$ 0	\$ 25,191
Grades 5 – 7	31,692	7,681	1,855	49	0	463	41,740	0	41,740
Grades 8 – 9	0	5	0	0	0	0	5	0	5
Total	<u>\$ 50,228</u>	<u>\$ 12,683</u>	<u>\$ 2,465</u>	<u>\$ 694</u>	<u>\$ 177</u>	<u>\$ 689</u>	<u>\$ 66,936</u>	<u>\$ 0</u>	<u>\$ 66,936</u>
Current-period gross write-offs	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Real Estate – Owner Occupied:									
Grades 1 – 4	\$ 179,763	\$ 84,641	\$ 88,794	\$ 75,702	\$ 34,031	\$ 3,469	\$ 466,400	\$ 0	\$ 466,400
Grades 5 – 7	108,316	61,998	52,072	21,833	12,386	5,611	262,216	13,290	275,506
Grades 8 – 9	714	0	6,184	0	33	0	6,931	0	6,931
Total	<u>\$ 288,793</u>	<u>\$ 146,639</u>	<u>\$ 147,050</u>	<u>\$ 97,535</u>	<u>\$ 46,450</u>	<u>\$ 9,080</u>	<u>\$ 735,547</u>	<u>\$ 13,290</u>	<u>\$ 748,837</u>
Current-period gross write-offs	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Real Estate – Non-Owner Occupied:									
Grades 1 – 4	\$ 84,773	\$ 79,911	\$ 76,468	\$ 93,034	\$ 84,355	\$ 13,703	\$ 432,244	\$ 0	\$ 432,244
Grades 5 – 7	194,634	220,681	84,897	91,569	85,828	10,569	688,178	0	688,178
Grades 8 – 9	7,982	0	0	0	0	0	7,982	0	7,982
Total	<u>\$ 287,389</u>	<u>\$ 300,592</u>	<u>\$ 161,365</u>	<u>\$ 184,603</u>	<u>\$ 170,183</u>	<u>\$ 24,272</u>	<u>\$ 1,128,404</u>	<u>\$ 0</u>	<u>\$ 1,128,404</u>
Current-period gross write-offs	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Real Estate – Multi-Family and Residential Rental:									
Grades 1 – 4	\$ 16,271	\$ 46,870	\$ 10,107	\$ 62,744	\$ 33,337	\$ 3,780	\$ 173,109	\$ 0	\$ 173,109
Grades 5 – 7	81,919	174,468	32,506	4,559	5,626	2,985	302,063	37	302,100
Grades 8 – 9	47	0	0	0	563	0	610	0	610
Total	<u>\$ 98,237</u>	<u>\$ 221,338</u>	<u>\$ 42,613</u>	<u>\$ 67,303</u>	<u>\$ 39,526</u>	<u>\$ 6,765</u>	<u>\$ 475,782</u>	<u>\$ 37</u>	<u>\$ 475,819</u>
Current-period gross write-offs	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Total Commercial	<u>\$ 1,020,625</u>	<u>\$ 838,660</u>	<u>\$ 430,293</u>	<u>\$ 411,444</u>	<u>\$ 269,254</u>	<u>\$ 51,237</u>	<u>\$ 3,021,513</u>	<u>\$ 685,791</u>	<u>\$ 3,707,304</u>
Current-period gross write-offs	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,741	\$ 0	\$ 3,741	\$ 9	\$ 3,750
<b>Retail:</b>									
1-4 Family Mortgages:									
Performing	\$ 72,349	\$ 122,718	\$ 307,161	\$ 203,052	\$ 73,052	\$ 46,290	\$ 824,622	\$ 0	\$ 824,622
Nonperforming	0	89	1,626	439	0	821	2,975	0	2,975
Total	<u>\$ 72,349</u>	<u>\$ 122,807</u>	<u>\$ 308,787</u>	<u>\$ 203,491</u>	<u>\$ 73,052</u>	<u>\$ 47,111</u>	<u>\$ 827,597</u>	<u>\$ 0</u>	<u>\$ 827,597</u>
Current-period gross write-offs	\$ 0	\$ 0	\$ 0	\$ 33	\$ 0	\$ 0	\$ 33	\$ 0	\$ 33
Other Consumer Loans:									
Performing	\$ 5,863	\$ 3,008	\$ 1,428	\$ 732	\$ 361	\$ 653	\$ 12,045	\$ 53,835	\$ 65,880
Nonperforming	0	0	0	0	0	0	0	0	0
Total	<u>\$ 5,863</u>	<u>\$ 3,008</u>	<u>\$ 1,428</u>	<u>\$ 732</u>	<u>\$ 361</u>	<u>\$ 653</u>	<u>\$ 12,045</u>	<u>\$ 53,835</u>	<u>\$ 65,880</u>
Current-period gross write-offs	\$ 10	\$ 1	\$ 19	\$ 8	\$ 0	\$ 5	\$ 43	\$ 11	\$ 54
Total Retail	<u>\$ 78,212</u>	<u>\$ 125,815</u>	<u>\$ 310,215</u>	<u>\$ 204,223</u>	<u>\$ 73,413</u>	<u>\$ 47,764</u>	<u>\$ 839,642</u>	<u>\$ 53,835</u>	<u>\$ 893,477</u>
Current-period gross write-offs	\$ 10	\$ 1	\$ 19	\$ 41	\$ 0	\$ 5	\$ 76	\$ 11	\$ 87
Grand Total	<u>\$ 1,098,837</u>	<u>\$ 964,475</u>	<u>\$ 740,508</u>	<u>\$ 615,667</u>	<u>\$ 342,667</u>	<u>\$ 99,001</u>	<u>\$ 3,861,155</u>	<u>\$ 739,626</u>	<u>\$ 4,600,781</u>
Current-period gross write-offs	\$ 10	\$ 1	\$ 19	\$ 41	\$ 3,741	\$ 5	\$ 3,817	\$ 20	\$ 3,837

There were lines of credit with principal balances of \$9.1 million as of December 31, 2023 that were converted to term loans during 2024.

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**NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)**

Mercantile Bank uses a migration to loss methodology to determine historical loss rates for commercial loans given the comprehensive loan grading process employed by Mercantile 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 reporting date was reasonable and appropriate for the calculation of historical loss rates for both December 31, 2025 and 2024.

Mercantile Bank's 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 in which we believe will impact anticipated customer behavior including changes in interest rates, economic conditions, and underlying property valuations. For the commercial loan portfolio segments, we assumed a 2% prepayment speed as of both December 31, 2025 and 2024 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 increased the prepayment speed from 7.8% as of December 31, 2024 to 9.5% as of December 31, 2025. This increase shortened the average lives of the portfolios in which the loss rates were applied, resulting in a decrease to the allowance of \$2.3 million. This change in assumption was driven by lower long-term interest rates and the compositions of the underlying portfolios.

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 December 31, 2025 and 2024, 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 December 31, 2025 and 2024 allowance calculations reflected allowance balance reductions of \$0.3 million and \$2.2 million, respectively.

The allowance for PSL and PCD loans acquired from the acquisition of Eastern Michigan Bank were measured at the loan segment level using proxy expected lifetime loss rates adjusted for qualitative risk factors, including lending management experience, loan review and audit results, asset quality and portfolio trends, loan portfolio growth, industry concentrations, trends in underlying collateral, external factors, and economic conditions not already captured.

Individual loans exhibiting unique risk characteristics, which differentiate the loans from other loans within the loan segments and are evaluated for expected credit losses on an individual basis, totaled \$7.9 million and \$7.4 million as of December 31, 2025 and 2024, respectively. Individual allowance allocations totaled \$4.0 million and \$2.2 million as of December 31, 2025 and 2024, respectively.

MERCANTILE BANK CORPORATION  
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**NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)**

The allowance for credit losses for the year ended December 31, 2025 is as follows:

(Dollars in thousands)	Commercial and industrial	Commercial vacant 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
Beginning balance	\$ 11,165	\$ 367	\$ 7,671	\$ 10,919	\$ 3,667	\$ 18,702	\$ 1,936	\$ 27	\$ 54,454
Provision for credit losses	438	(418)	(654)	6,626	1,810	(4,974)	316	56	3,200
Charge-offs	(95)	0	0	(2,800)	0	(178)	(42)	0	(3,115)
Recoveries	769	5	6	0	17	348	109	0	1,254
Initial allowance on PSL	283	496	569	323	20	289	313	0	2,293
Initial allowance on PCD loans	16	28	37	6	0	12	6	0	105
Ending balance	<u>\$ 12,576</u>	<u>\$ 478</u>	<u>\$ 7,629</u>	<u>\$ 15,074</u>	<u>\$ 5,514</u>	<u>\$ 14,199</u>	<u>\$ 2,638</u>	<u>\$ 83</u>	<u>\$ 58,191</u>

The allowance for credit losses for the year ended December 31, 2024 is as follows:

(Dollars in thousands)	Commercial and industrial	Commercial vacant 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
Beginning balance	\$ 7,441	\$ 384	\$ 7,186	\$ 9,852	\$ 3,184	\$ 18,986	\$ 2,881	\$ 0	\$ 49,914
Provision for credit losses	7,109	(22)	314	1,067	468	(474)	(1,089)	27	7,400
Charge-offs	(3,750)	0	0	0	0	(33)	(54)	0	(3,837)
Recoveries	365	5	171	0	15	223	198	0	977
Ending balance	<u>\$ 11,165</u>	<u>\$ 367</u>	<u>\$ 7,671</u>	<u>\$ 10,919</u>	<u>\$ 3,667</u>	<u>\$ 18,702</u>	<u>\$ 1,936</u>	<u>\$ 27</u>	<u>\$ 54,454</u>

MERCANTILE BANK CORPORATION  
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**NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)**

The allowance for credit losses for the year ended December 31, 2023 is as follows:

(Dollars in thousands)	Commercial and industrial	Commercial 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
Beginning balance	\$ 10,203	\$ 490	\$ 5,914	\$ 9,242	\$ 2,191	\$ 14,027	\$ 160	\$ 19	\$ 42,246
Credit risk reclassifications	90	0	0	0	0	(697)	607	0	0
Balances, December 31, 2022 after reclassifications	10,293	490	5,914	9,242	2,191	13,330	767	19	42,246
Provision for credit losses	(2,822)	(141)	1,255	610	967	5,638	2,212	(19)	7,700
Charge-offs	(218)	0	(54)	0	0	(414)	(177)	0	(863)
Recoveries	188	35	71	0	26	432	79	0	831
Ending balance	<u>\$ 7,441</u>	<u>\$ 384</u>	<u>\$ 7,186</u>	<u>\$ 9,852</u>	<u>\$ 3,184</u>	<u>\$ 18,986</u>	<u>\$ 2,881</u>	<u>\$ 0</u>	<u>\$ 49,914</u>

MERCANTILE BANK CORPORATION  
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**NOTE 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 year ended:

(Dollars in thousands)	December 31, 2025			December 31, 2024		
	Interest Rate Reduction	Term Extension	Principal Forgiveness	Interest Rate Reduction	Term Extension	Principal Forgiveness
	Commercial:					
Commercial and industrial	\$ 0	\$ 9,250	\$ 0	\$ 0	\$ 6,574	\$ 0
Vacant land, land development and residential construction	0	0	0	0	0	0
Real estate – owner occupied	0	0	0	0	42	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	\$ 9,250	\$ 0	\$ 0	\$ 6,616	\$ 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	\$ 9,250	\$ 0	\$ 0	\$ 6,616	\$ 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 agreement.

The following table presents the period-end amortized cost basis of loans that have been modified in the past twelve months as of December 31, 2025, to borrowers experiencing financial difficulty by payment status and loan segment:

(Dollars in thousands)	30 – 89 Days		90 + Days	Total
	Current	Past Due	Past Due	
Commercial:				
Commercial and industrial	\$ 9,250	\$ 0	\$ 0	\$ 9,250
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	\$ 9,250	\$ 0	\$ 0	\$ 9,250
Retail:				
1-4 family mortgages	0	0	0	0
Other consumer loans	0	0	0	0
Total retail	\$ 0	\$ 0	\$ 0	\$ 0
Total loans	\$ 9,250	\$ 0	\$ 0	\$ 9,250

MERCANTILE BANK CORPORATION  
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**NOTE 4 - PREMISES AND EQUIPMENT, NET**

Year-end premises and equipment were as follows:

(Dollars in thousands)	2025	2024
Land and improvements	\$ 16,250	\$ 14,021
Buildings	68,733	62,365
Furniture and equipment	31,585	26,657
	116,568	103,043
Less: accumulated depreciation	(54,100)	(49,616)
 Total premises and equipment	 \$ 62,468	 \$ 53,427

Depreciation expense totaled \$5.2 million for 2025, and \$6.0 million for both 2024 and 2023.

We enter into facility leases in the normal course of business. As of December 31, 2025, we were under lease contracts for eleven of our branch facilities. The leases have maturity dates ranging from August, 2026 through May, 2048, with a weighted average life of 9.4 years as of December 31, 2025. 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 is not reasonably certain we will exercise the options.

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 6.52% as of December 31, 2025.

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 \$3.9 million and \$4.4 million as of December 31, 2025, and December 31, 2024, 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 \$1.6 million, \$1.6 million and \$2.0 million in 2025, 2024 and 2023, respectively.

Future lease payments were as follows as of December 31, 2025:

(Dollars in thousands)	
2026	\$ 1,191
2027	1,119
2028	942
2029	738
2030	73
Thereafter	1,141
Total undiscounted lease payments	5,204
Less effect of discounting	(1,312)
 Present value of future lease payments (lease liability)	 \$ 3,892

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**NOTE 5 – MORTGAGE LOAN SERVICING**

Mortgage loans serviced for others are not reported as assets on the Consolidated Balance Sheets. The year-end aggregate unpaid principal balances of mortgage loans serviced for others were as follows:

(Dollars in thousands)	2025	2024
Mortgage loan portfolios serviced for:		
Federal Home Loan Mortgage Corporation	\$ 1,422,337	\$ 1,364,485
Federal Home Loan Bank	264,517	176,540
Other	0	9,805
Total mortgage loans serviced for others	\$ 1,686,854	\$ 1,550,830

Custodial escrow balances, which are reported as deposits on the Consolidated Balance Sheets, maintained in connection with serviced loans were \$14.5 million and \$10.9 million as of December 31, 2025 and 2024, respectively.

Activity for capitalized mortgage loan servicing rights, which are reported as other assets on the Consolidated Balance Sheets, during 2025 and 2024 was as follows:

(Dollars in thousands)	2025	2024
Balance at beginning of year	\$ 12,475	\$ 11,343
Additions	4,544	4,465
Acquired from Eastern Michigan Bank	439	0
Amortized to expense	(3,854)	(3,333)
Balance at end of year	\$ 13,604	\$ 12,475

Mortgage servicing rights result from our mortgage loan origination activities. Late and ancillary fees, included as part of mortgage banking income and reported as noninterest income in the Consolidated Statements of Income, aggregated less than \$0.1 million during 2025 and 2024.

We determined that no valuation allowance was necessary as of December 31, 2025 or December 31, 2024. The estimated fair value of mortgage servicing rights was \$21.4 million and \$21.0 million as of December 31, 2025 and 2024, respectively. 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. As of December 31, 2025, fair value was determined using a discount rate of 10.00%, a weighted average constant prepayment rate of 9.13%, depending on the stratification of the specific right, and a weighted average delinquency rate of 0.76%. As of December 31, 2024, fair value was determined using a discount rate of 10.50%, a weighted average constant prepayment rate of 7.81%, depending on the stratification of the specific right, and a weighted average delinquency rate of 0.68%.

The weighted average amortization period was 8.2 years and 8.7 years as of December 31, 2025 and 2024, respectively.

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**NOTE 6 – DEPOSITS**

Deposits at year end are summarized as follows:

(Dollars in thousands)	December 31, 2025		December 31, 2024		Percent Increase (Decrease)
	Balance	%	Balance	%	
Noninterest-bearing checking	\$ 1,339,666	25.4%	\$ 1,264,523	26.9%	5.9%
Interest-bearing checking	957,598	18.1	738,291	15.7	29.7
Money market	1,697,604	32.1	1,516,436	32.3	11.9
Savings	310,227	5.9	221,900	4.7	39.8
Time deposits	848,844	16.1	807,517	17.2	5.1
Total local deposits	5,153,939	97.6	4,548,667	96.8	13.3
Out-of-area time, \$100,000 and over	130,513	2.4	149,699	3.2	(12.8)
Total deposits	\$ 5,284,452	100.0%	\$ 4,698,366	100.0%	12.5%

Out-of-area time deposits consist of deposits obtained from depositors outside of our primary market areas exclusively through deposit brokers.

The following table depicts the maturity distribution for time deposits at year end:

(Dollars in thousands)	2025	2024
In one year or less	\$ 914,764	\$ 880,165
In one to two years	43,444	53,660
In two to three years	9,330	14,315
In three to four years	8,398	2,301
In four to five years	3,421	6,775
Total certificates of deposit	\$ 979,357	\$ 957,216

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**NOTE 6 – DEPOSITS (Continued)**

Time deposits of more than \$250,000 totaled \$551 million and \$570 million at year-end 2025 and 2024, respectively.

Deposit overdrafts, which are reported as loans on the Consolidated Balance Sheets, totaled \$0.6 million and \$1.0 million as of December 31, 2025 and 2024, respectively.

**NOTE 7 – SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE**

Information regarding securities sold under agreements to repurchase at year end is summarized below:

(Dollars in thousands)	2025	2024
Outstanding balance at year end	\$ 232,291	\$ 121,521
Weighted average interest rate at year end	2.80%	2.17%
Average daily balance during the year	\$ 239,089	\$ 224,878
Weighted average interest rate during the year	3.12%	3.43%
Maximum daily balance during the year	\$ 285,679	\$ 278,227

Securities sold under agreements to repurchase (“repurchase agreements”) generally have original maturities of less than one year. 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 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. Repurchase agreements are offered principally to certain large deposit customers.

**NOTE 8 - OTHER BORROWINGS**

FHLBI bullet advances totaled \$300 million at December 31, 2025, and were expected to mature at varying dates from January 2026 through June 2030, with fixed rates of interest from 0.90% to 4.50% and averaging 3.27%. FHLBI bullet advances totaled \$360 million at December 31, 2024, and were expected to mature at varying dates from January 2025 through January 2029, with fixed rates of interest from 0.70% to 4.54% and averaging 3.10%.

Maturities of FHLBI bullet advances as of December 31, 2025 were as follows:

(Dollars in thousands)	
2026	\$ 80,000
2027	100,000
2028	90,000
2029	10,000
2030	20,000
Thereafter	0

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**NOTE 8 - OTHER BORROWINGS** (Continued)

FHLBI amortizing advances totaled \$26.2 million and \$27.1 million as of December 31, 2025 and 2024, respectively, with an average fixed rate of 2.52% and 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 December 31, 2025 were as follows:

(Dollars in thousands)	
2026	\$ 900
2027	938
2028	979
2029	1,022
2030	1,065
Thereafter	21,317

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 Mercantile Bank under a blanket lien arrangement. Our borrowing line of credit as of December 31, 2025 totaled \$1.08 billion, with remaining availability based on collateral of \$777 million.

On December 15, 2021, we entered into Subordinated Note Purchase Agreements with certain institutional accredited investors pursuant to which we issued and sold \$75.0 million in aggregate principal amount of 3.25% fixed-to-floating rate subordinated notes (“Notes”). The Notes have a stated maturity of January 30, 2032, and are redeemable by us at our option, in whole or in part, on or after January 30, 2027 on any interest payment date at a redemption price of 100% of the principal amount of the Notes being redeemed. The Notes are not subject to redemption at the option of the holder. The Notes will bear interest at a fixed rate of 3.25% per year until January 29, 2027. Commencing on January 30, 2027 and through the stated maturity date of January 30, 2032, the interest rate will reset quarterly at a variable rate equal to the then-current Three-Month Term SOFR plus 212 basis points. On December 15, 2021, we injected \$70.0 million of the issuance proceeds into Mercantile Bank as an increase to equity capital.

On January 14, 2022, we issued an additional \$15.0 million of Notes to certain institutional accredited investors, reflecting an expansion of the \$75.0 million issuance completed on December 15, 2021. The additional \$15.0 million issuance was completed on the same terms as the prior offering and under the existing indenture. On January 14, 2022, we injected \$15.0 million of the issuance proceeds into Mercantile Bank as an increase to equity capital.

Our unamortized debt issuance costs were \$0.3 million and \$0.7 million as of December 31, 2025 and 2024, respectively.

On December 24, 2025, we entered into a credit agreement with U.S. Bank National Association for a \$30.0 million term note. The term loan bears interest at an annual rate equal to 1.70% plus the greater of (a) zero percent (0.0%) and (b) the one-month forward-looking term rate based on SOFR. Interest and principal are payable beginning March 15, 2026, and on the same date of each third month thereafter, plus a final payment equal to all unpaid interest and principal. Principal shall be paid in installments of \$2.5 million each. The term loan matures on December 24, 2028. Mercantile is permitted to prepay the term note evidencing the term loan in full or in part at any time without indemnity, premium or penalty.

**NOTE 9 - FEDERAL INCOME TAXES**

Pretax income is entirely related to domestic activities; we did not have any foreign operations, tax expense or tax benefits. The consolidated income tax expense was as follows:

(Dollars in thousands)	<u>2025</u>	<u>2024</u>	<u>2023</u>
Current expense	\$ 12,655	\$ 19,090	\$ 22,518
Deferred expense (benefit)	<u>2,085</u>	<u>(397)</u>	<u>(2,036)</u>
Tax expense	<u>\$ 14,740</u>	<u>\$ 18,693</u>	<u>\$ 20,482</u>

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**NOTE 9 - FEDERAL INCOME TAXES (Continued)**

A reconciliation of the differences between the federal income tax expense recorded and the amount computed by applying the federal statutory rate to income before income taxes were as follows:

(Dollars in thousands)	2025		2024		2023	
	Amount	Percent	Amount	Percent	Amount	Percent
Tax at U.S. statutory rate	\$ 21,734	21.0%	\$ 20,640	21.0%	\$ 21,567	21.0%
Tax credits net of proportional amortization and tax losses	(1,929)	(1.9)	(266)	(0.3)	24	0.0
Discount of purchased tax credits	(3,525)	(3.4)	0	NA	0	NA
Non-taxable or non-deductible items						
Tax-exempt interest, net of interest expense disallowance	(1,265)	(1.2)	(1,027)	(1.0)	(862)	(0.8)
Bank owned life insurance	(683)	(0.7)	(529)	(0.5)	(303)	(0.3)
Non-deductible expenses	538	0.5	241	0.2	213	0.2
Other	(130)	(0.1)	(366)	(0.4)	(157)	(0.2)
Tax expense	<u>\$ 14,740</u>	<u>14.2%</u>	<u>\$ 18,693</u>	<u>19.0%</u>	<u>\$ 20,482</u>	<u>19.9%</u>

The statutory tax rate was 21% for 2025, 2024 and 2023. We did not record any state income taxes.

Significant components of deferred tax assets and liabilities, included in other assets on our Consolidated Balance Sheets, as of December 31, 2025 and 2024 were as follows:

(Dollars in thousands)	2025	2024
Deferred income tax assets		
Allowance for credit losses	\$ 12,228	\$ 11,435
Deferred compensation	375	269
Stock compensation	977	1,011
Nonaccrual loan interest income	220	192
Unrealized loss on securities	6,379	13,245
Lease liability	792	928
Net operating loss carryforward	1,525	0
Other	850	567
Deferred tax asset	<u>23,346</u>	<u>27,647</u>
Deferred income tax liabilities		
Depreciation	321	259
Prepaid expenses	780	685
Mortgage loan servicing rights	2,857	2,620
Deferred loan fees and costs	266	471
Right of use lease asset	792	928
Securities discount accretion	2,056	686
Business combination adjustments	4,849	1,626
Other	167	163
Deferred tax liability	<u>12,088</u>	<u>7,438</u>
Total net deferred tax asset	<u>\$ 11,258</u>	<u>\$ 20,209</u>

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**NOTE 9 - FEDERAL INCOME TAXES (Continued)**

As of December 31, 2025, we had net operating loss carryforwards of \$7.3 million related to the acquisition of Eastern Michigan Financial Corporation. The ability to utilize the net operating loss in future periods is limited based on the value of Eastern Michigan Financial Corporation's value at the time of the ownership change and applicable federal rates. A valuation allowance related to deferred tax assets is required when it is considered more likely than not that all or part of the benefits related to such assets will not be realized. We determined that no valuation allowance was required at year-end 2025 or 2024.

We had no unrecognized tax benefits at any time during 2025 or 2024. Should the accrual of any interest or penalties relative to unrecognized tax benefits be necessary, it is our policy to record such accruals in our income tax accounts; no such accruals existed at any time during 2025 or 2024. We are no longer no longer subject to examination by taxing authorities for years before 2022.

**NOTE 10 – STOCK-BASED COMPENSATION**

Stock-based compensation plans are used to provide directors and employees with an increased incentive to contribute to our long-term performance and growth, to align the interests of directors and employees with the interests of our shareholders through the opportunity for increased stock ownership and to attract and retain directors and employees. Stock-based compensation, reported as noninterest expense in the Consolidated Statements of Income, totaled \$3.5 million, \$3.3 million and \$3.4 million in 2025, 2024 and 2023, respectively. The Stock Incentive Plan of 2023 that was approved by shareholders in May, 2023.

Under the Stock Incentive Plan of 2023, incentive awards may include, but are not limited to, stock options, restricted stock, stock appreciation rights and stock awards. Incentive awards that are stock options or stock appreciation rights are granted with an exercise price not less than the closing price of our common stock on the date of grant. Price, vesting and expiration date parameters are determined by Mercantile's Compensation Committee on a grant-by-grant basis. No payments are required from employees for restricted stock awards. The restricted stock awards granted during the years 2023 through 2025 fully vest after three years and, in the case of performance-based restricted stock issued to executive officers in 2023 through 2025, are subject to the attainment of pre-determined performance goals. At year-end 2025, there were approximately 292,600 shares authorized for future incentive awards.

A summary of restricted stock activity during the year ended December 31, 2025 is as follows:

	Shares	Weighted Average Fair Value
Nonvested at beginning of year	228,646	\$ 35.84
Grants	84,685	50.34
Vested	(109,158)	32.10
Forfeited	(4,771)	42.70
	199,402	\$ 43.31
Nonvested at end of year		

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**NOTE 10 – STOCK-BASED COMPENSATION (Continued)**

Of the restricted stock shares granted in 2025 and 2023, a total of 16,589 shares and 25,239 shares, respectively, are performance-based awards made to our Named Executive Officers at the target level and are subject to the attainment of pre-determined performance goals. There were no shares granted in 2024.

We periodically grant shares of common stock to our Corporate and Bank Board Directors for retainer payments with the related expense being recorded over the period of the Directors' service, as summarized below:

Grant Year	Shares Granted	Total Cost (in thousands)	Covered Period
2022	11,166	\$ 359	June 1, 2022 - May 31, 2023
2023	11,529	350	June 1, 2023 - May 31, 2024
2024	11,316	423	June 1, 2024 - May 31, 2025
2025	10,007	444	June 1, 2025 - May 31, 2026

**NOTE 11 – RELATED PARTIES**

Certain directors and executive officers of our banks, including their immediate families and companies in which they are principal owners, were loan customers of our banks. At year-end 2025 and 2024, our banks had \$11.3 million and \$20.4 million in loan commitments to directors and executive officers, of which \$6.3 million and \$7.8 million were outstanding at year-end 2025 and 2024, respectively, as reflected in the following table.

(Dollars in thousands)	2025	2024
Beginning balance	\$ 7,770	\$ 89,507
New loans	750	1,898
Repayments	(2,201)	(3,788)
Effect of changes in related parties	0	(79,847)
Ending balance	<u>\$ 6,319</u>	<u>\$ 7,770</u>

Related party deposits and repurchase agreements totaled \$36.6 million and \$17.9 million at year-end 2025 and 2024, respectively.

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**NOTE 12 – 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 banks 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 Sheets and is increased or decreased via other noninterest expense on our Consolidated 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.

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 period end 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 fund. The calculated allowance aggregated \$2.3 million and \$1.0 million as of December 31, 2025 and 2024, 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.

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**NOTE 12 – COMMITMENTS AND OFF-BALANCE-SHEET RISK (Continued)**

At year-end 2025 and 2024, the rates on existing off-balance sheet instruments were substantially equivalent to current market rates, considering the underlying credit standing of the counterparties.

Our maximum exposure to credit losses for loan commitments and standby letters of credit outstanding at year end was as follows:

(Dollars in thousands)	2025	2024
Commercial unused lines of credit	\$ 1,755,132	\$ 1,488,782
Unused lines of credit secured by 1 – 4 family residential properties	135,021	84,298
Credit card unused lines of credit	204,783	172,273
Other consumer unused lines of credit	53,124	33,892
Commitments to make loans	297,730	295,566
Standby letters of credit	26,813	26,491
Total commitments	\$ 2,472,603	\$ 2,101,302

Commitments to make commercial loans generally reflect our binding obligations to existing and prospective customers to extend credit, including line of credit facilities secured by accounts receivable and inventory, and term loans secured by either real estate or equipment.

In most instances, commercial line of credit facilities have terms ranging from 12 to 24 months with floating rates tied to the Wall Street Journal Prime Rate or 30-Day SOFR. Commercial term loans secured by real estate are generally at a floating rates tied to the Wall Street Journal Prime Rate or 30-Day SOFR. Since the fourth quarter of 2020, a fixed rate option for commercial term loans secured by real estate is generally not offered for loans over \$2.5 million; instead, customers are offered participation in our back-to-back interest rate swap program to achieve a desired fixed rate. For loans under \$2.5 million, we offer a rate primarily equal to the commensurate cost of funds using FHLBI advance rates as a proxy and a credit spread as indicated by the credit rating we assign. Commercial term loans secured by real estate generally balloon within five years, with payments based on amortizations ranging from 10 to 25 years. Commercial term loans secured by non-real estate collateral are generally at a floating rate tied to the Wall Street Journal Prime Rate or 30-Day SOFR, or a fixed rate primarily equal to the commensurate cost of funds using FHLBI advance rates as a proxy and a credit spread as indicated by the credit rating we assign, and generally mature and fully amortize within three to seven years.

The following standby letters of credit are considered financial guarantees under current accounting guidance. These instruments are carried at fair value as an other liability on our Consolidated Balance Sheets. Standby letters of credit are generally cross collateralized with the borrowers' other loans with us, and are included in our borrower collateral analyses.

(Dollars in thousands)	December 31, 2025		December 31, 2024	
	Contract Amount	Carrying Value	Contract Amount	Carrying Value
Standby letters of credit	\$ 26,813	\$ 184	\$ 26,491	\$ 175

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**NOTE 13 – BENEFIT PLANS**

We have a 401(k) benefit plan that covers substantially all of our employees. The percent of our matching contributions to the 401(k) benefit plan is determined annually by the Board of Directors. The matching contribution has been 5.00% since April 1, 2018. Matching contributions, if made, are immediately vested. Our 2025, 2024 and 2023 matching 401(k) contributions charged to expense were \$2.8 million, \$2.6 million and \$2.3 million, respectively.

We have a deferred compensation plan in which all persons serving on the Board of Directors may defer all or portions of their annual retainer and meeting fees, with distributions to be paid upon termination of service as a director or specific dates selected by the director. We also have non-qualified deferred compensation programs in which selected officers may defer all or portions of salary and bonus payments. The deferred amounts, which totaled \$1.8 million and \$1.3 million as of December 31, 2025 and 2024, respectively, are categorized as other liabilities in the Consolidated Balance Sheets. Interest expense was \$0.1 million during 2025, and less than \$0.1 million during 2024 and 2023.

The Mercantile Bank Corporation Employee Stock Purchase Plan of 2025 is a non-compensatory plan intended to encourage full- and part-time employees of Mercantile and its subsidiaries to promote our best interests and to align employees' interests with the interests of our shareholders by permitting employees to purchase shares of our common stock with 5% discount through regular payroll deductions. Shares are purchased on the last business day of each calendar quarter at a price equal to the lower of 95% of the closing price of our common stock reported on The Nasdaq Stock Market on the first business day of each quarter and last business day of the quarter. A total of 200,000 shares of common stock may be issued under the existing plan; however, the number of shares may be adjusted to reflect any stock dividends and other changes in our capitalization. The number of shares issued totaled 2,356 in 2025. As of December 31, 2025, there were approximately 198,000 shares available under our current plan.

The Mercantile Bank Corporation Employee Stock Purchase Plan of 2014 was a non-compensatory plan intended to encourage full- and part-time employees of Mercantile and its subsidiaries to promote our best interests and to align employees' interests with the interests of our shareholders by permitting employees to purchase shares of our common stock through regular payroll deductions. The number of shares issued totaled 598 and 1,194 in 2025 and 2024, respectively.

**NOTE 14 – 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. These swap agreements are cross collateralized with the underlying loans.

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.

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**NOTE 14 – DERIVATIVES AND HEDGING ACTIVITIES** (Continued)

The fair values of derivative instruments as of December 31, 2025, are reflected in the following table.

(Dollars in thousands)	<u>Notional Amount</u>	<u>Balance Sheet Location</u>	<u>Fair Value</u>
Derivative Assets			
Interest rate swaps	\$ 961,474	Other Assets	\$ 23,212
Derivative Liabilities			
Interest rate swaps	959,447	Other Liabilities	23,532

The effect of interest rate swaps that are not designated as hedging instruments resulted in expense of less than \$0.1 million during the year ended December 31, 2025 that was recorded in other noninterest expense on our Consolidated Statement 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 December 31, 2025 is presented in the following table.

(Dollars in thousands)	<u>Net Amounts Recognized</u>	<u>Gross Amounts Not Offset on the Consolidated Balance Sheet</u>		
		<u>Financial Instruments</u>	<u>Cash Collateral Received or posted</u>	<u>Net Amount</u>
Derivative Assets				
Interest rate swaps	\$ 23,212	\$ 9,711	\$ 1,540	\$ 11,961
Derivative Liabilities				
Interest rate swaps	23,532	9,711	6,900	6,921

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**NOTE 14 – DERIVATIVES AND HEDGING ACTIVITIES** (Continued)

The fair values of derivative instruments as of December 31, 2024, are reflected in the following table.

(Dollars in thousands)	<u>Notional Amount</u>	<u>Balance Sheet Location</u>	<u>Fair Value</u>
Derivative Assets			
Interest rate swaps	\$ 866,157	Other Assets	\$ 26,793
Derivative Liabilities			
Interest rate swaps	864,130	Other Liabilities	27,050

The effect of interest rate swaps that are not designated as hedging instruments resulted in expense of less than \$0.1 million during the year ended December 31, 2024 that was recognized in other noninterest expense on our Consolidated Statement of Income. The netting of derivative instruments as of December 31, 2024 is presented in the following table.

(Dollars in thousands)	<u>Net Amounts Recognized</u>	<u>Gross Amounts Not Offset on the Consolidated Balance Sheet</u>		
		<u>Financial Instruments</u>	<u>Cash Collateral Received or posted</u>	<u>Net Amount</u>
Derivative Assets				
Interest rate swaps	\$ 26,793	\$ 3,064	\$ 19,040	\$ 4,689
Derivative Liabilities				
Interest rate swaps	27,050	2,915	1,640	22,495

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**NOTE 15 – FAIR VALUES OF FINANCIAL INSTRUMENTS**

Carrying amount, estimated fair value and level within the fair value hierarchy of financial instruments were as follows at year end:

(Dollars in thousands)	Level in Fair Value Hierarchy	2025		2024	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial assets</b>					
Cash and cash equivalents	Level 1	\$ 473,324	\$ 473,324	\$ 393,010	\$ 393,010
Securities available for sale	(1)	1,102,230	1,102,230	730,352	730,352
Loans, net	Level 3	4,763,697	4,830,844	4,546,327	4,558,628
Mortgage loans held for sale	Level 2	17,160	17,319	15,824	16,047
Federal Home Loan Bank stock	(2)	22,099	22,099	21,513	21,513
Accrued interest receivable	Level 2	23,638	23,638	21,401	21,401
Interest rate swaps	Level 2	23,212	23,212	26,793	26,793
<b>Financial liabilities</b>					
Deposits	Level 2	5,284,452	5,024,489	4,698,366	4,541,896
Securities sold under agreements to repurchase	Level 2	232,291	232,291	121,521	121,521
Federal Home Loan Bank advances	Level 2	326,221	321,069	387,083	374,499
Subordinated debentures	Level 2	51,015	51,019	50,330	50,336
Subordinated notes	Level 2	89,657	86,826	89,314	81,825
Term note	Level 2	30,000	30,000	0	0
Accrued interest payable	Level 2	9,921	9,921	10,201	10,201
Interest rate swaps	Level 2	23,532	23,532	27,050	27,050

- (1) See Note 16 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. 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 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.

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**NOTE 16 – FAIR VALUE MEASUREMENTS**

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 developed based on market data obtained from independent sources, or unobservable, meaning those that reflect our own estimates 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 estimates 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 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 December 31, 2025 or 2024. We have no Level 1 securities available for sale.

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**NOTE 16 – FAIR VALUE MEASUREMENTS (Continued)**

*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.

*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 December 31, 2025 and 2024, we determined the fair value of our mortgage loans held for sale to be \$17.3 million and \$16.0 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.

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**NOTE 16 – FAIR VALUE MEASUREMENTS (Continued)**

*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 December 31, 2025 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)
Available for sale securities				
U.S. Treasury notes and bonds	\$ 55,501	\$ 0	\$ 55,501	\$ 0
U.S. Government agency debt obligations	639,773	0	639,773	0
Mortgage-backed securities	75,762	0	75,762	0
Municipal general obligation bonds	215,063	0	215,063	0
Municipal revenue bonds	65,004	0	65,004	0
Other investments	51,127	0	51,127	0
Interest rate swaps	23,212	0	23,212	0
Total assets	<u>\$ 1,125,442</u>	<u>\$ 0</u>	<u>\$ 1,125,442</u>	<u>\$ 0</u>
Interest rate swaps	23,532	0	23,532	0
Total liabilities	<u>\$ 23,532</u>	<u>\$ 0</u>	<u>\$ 23,532</u>	<u>\$ 0</u>

There were no sales or purchases of Level 3 during 2025. The \$0.4 million reduction in Level 3 municipal general obligation bonds during 2025 reflects the transfer to Level 2 due to a change in observable inputs.

The balances of assets and liabilities measured at fair value on a recurring basis as of December 31, 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)
Available for sale securities				
U.S. Government agency debt obligations	\$ 495,581	\$ 0	\$ 495,581	\$ 0
Mortgage-backed securities	25,368	0	25,368	0
Municipal general obligation bonds	180,170	0	179,777	393
Municipal revenue bonds	28,733	0	28,733	0
Other investments	500	0	500	0
Interest rate swaps	26,793	0	26,793	0
Total assets	<u>\$ 757,145</u>	<u>\$ 0</u>	<u>\$ 756,752</u>	<u>\$ 393</u>
Interest rate swaps	27,050	0	27,050	0
Total liabilities	<u>\$ 27,050</u>	<u>\$ 0</u>	<u>\$ 27,050</u>	<u>\$ 0</u>

There were no sales, purchases or transfers in or out of Level 3 during 2024. The \$0.1 million reduction in Level 3 municipal general obligation bonds during 2024 reflects the scheduled maturities of such bonds.

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**NOTE 16 – FAIR VALUE MEASUREMENTS (Continued)**

*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 December 31, 2025 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)
Collateral dependent loans	\$ 991	\$ 0	\$ 0	\$ 991
Total	<u>\$ 991</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 991</u>

The balances of assets and liabilities measured at fair value on a nonrecurring basis as of December 31, 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)
Collateral dependent loans	\$ 2,173	\$ 0	\$ 0	\$ 2,173
Total	<u>\$ 2,173</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,173</u>

The carrying values are based on the estimated value of the property or other assets. Fair value estimates of collateral on collateral dependent loans and foreclosed assets are review 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. Typically, for real estate dependent loans and foreclosed assets, we assign a discount factor range of 25% to 50%. During 2025, weighted average discount factors of 40.9% and 25.8% were used for commercial-related and residential-related properties, respectively.

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**NOTE 17 – BUSINESS COMBINATIONS**

On December 31, 2025, Mercantile completed its acquisition of Eastern Michigan Financial Corporation, and its wholly owned banking subsidiary, Eastern Michigan Bank, in accordance with the Agreement and Plan of Merger, as amended (the "Merger Agreement") by and between Mercantile, Eastern Michigan Financial Corporation, and Shamrock Merger Sub LLC, a wholly-owned special purpose subsidiary of Mercantile ("Merger Sub") entered into on July 22, 2025. Pursuant to the Merger Agreement, Eastern Michigan Financial Corporation merged with and into Merger Sub, with Merger Sub continuing as the surviving entity (the "Merger"). Immediately following the Merger, and also effective as of December 31, 2025, Merger Sub merged with and into Mercantile, with Mercantile continuing as the surviving entity. The newly acquired Eastern Michigan Bank will operate alongside Mercantile Bank until the first quarter of 2027, at which time Mercantile plans to consolidate Eastern Michigan Bank into Mercantile Bank.

Mercantile accounted for the Eastern Michigan Financial Corporation acquisition as a business combination using the acquisition method of accounting in accordance with ASC 805, Business Combinations ("ASC 805"). ASC 805 requires assets purchased and liabilities assumed to be recorded at their respective fair values as of the date of acquisition. Mercantile determined the fair value of loans, core deposit intangibles, mortgage servicing rights, time deposits, and real property with the assistance of third-party valuations and appraisals. The following table summarizes the preliminary fair value of the total consideration transferred and the fair value of identifiable assets acquired, and liabilities assumed as of the effective date of the transaction:

(Dollars in thousands)

Consideration:

Cash	\$ 50,876
Common stock (924,999 shares issued at \$48.55 per share)	44,909
Total consideration	\$ 95,785

Identifiable assets acquired

Cash and due from banks	\$ 62,361
Interest-earning deposits	42,084
Securities available for sale	198,365
Loans, net	201,320
Premises and equipment	7,482
Core deposit intangible	20,388
Other assets	16,593
Total identifiable assets acquired	548,593

Identifiable liabilities assumed

Deposits	\$ 474,898
Other liabilities	1,093
Total identifiable liabilities acquired	475,991

Net identifiable assets acquired

\$ 72,602

Goodwill

\$ 23,183

As permitted by ASC 805, the above preliminary estimates may be refined during the measurement period (which cannot exceed one year from the Merger date), to reflect any new information obtained about facts and circumstances existing at the Merger date. Any changes in the above preliminary estimates will be recognized in the period identified.

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**NOTE 17 – BUSINESS COMBINATIONS** (Continued)

The following table presents supplemental pro-forma information as if the acquisition had occurred at the beginning of 2024. The unaudited pro forma information includes adjustments for interest income on loans acquired, amortization of intangibles arising from the transaction, depreciation expense on property acquired, interest expenses on deposits acquired, and the related income tax effects. The pro forma financial information is not necessarily indicative of the results of operations that would have occurred had the transaction effected on the assumed dates.

(Dollars in thousands)	<u>2025</u>	<u>2024</u>
Net interest income	\$ 223,697	\$ 212,864
Provision for credit losses	3,591	7,403
Noninterest income	43,691	42,555
Noninterest expense	<u>153,391</u>	<u>142,451</u>
Income before income taxes	<u>110,406</u>	<u>105,565</u>
Income tax expense	<u>16,591</u>	<u>21,125</u>
Net income	<u>\$ 93,815</u>	<u>\$ 84,440</u>
Earnings per share	\$ 5.47	\$ 4.98

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**NOTE 18 – VARIABLE INTEREST ENTITIES**

Variable interest entities ("VIEs") are entities that either have a total equity investment that is insufficient to permit the entity to finance its activities without additional subordinated financial support or whose equity investors lack the characteristics of a controlling financial interest (i.e., ability to make significant decisions, through voting rights, right to receive the expected residual returns of the entity, and obligations to absorb the expected losses of the entity). Variable interest entities can be structured as corporations, trusts, partnerships, or other legal entities. We have relationships with certain variable interest entities related to the issuance of trust preferred securities and our tax credit investments.

We have five business trusts that are wholly owned subsidiaries of Mercantile, four of which were assumed by Mercantile in conjunction with the Firstbank Corporation merger in 2014. A fair value discount of \$15.0 million was recorded at the time of the merger, which is being amortized at \$0.7 million annually over the following 21.5 years, 11 of which are remaining. Each of the trusts was solely formed to issue preferred securities that were sold in private sales. Through a small common stock investment, we own 100% of the voting equity shares of each trust. The proceeds from the preferred securities and common stock sales were used by the trusts to purchase Floating Rate Notes issued by Mercantile. The rates of interest, interest payment dates, call features and maturity dates of each Floating Rate Note are identical to its respective Preferred Securities. The net proceeds from the issuance of the Floating Rate Notes were used for a variety of purposes, including contributions to Mercantile Bank as capital to provide support for asset growth and the funding of stock repurchase programs and certain acquisitions.

The assets, liabilities, operations and cash flows of each trust are solely related to the issuance, administration and repayment of the preferred securities held by third-party investors. We fully and unconditionally guarantee the obligations of each trust and are obligated to redeem the junior subordinated debentures upon maturity. We do not consolidate the trusts as we are not the primary beneficiary of these entities because our wholly-owned and indirect wholly-owned statutory subsidiaries do not have the power to direct the activities of the variable interest entity that most significantly impact the variable interest entity's economic performance and do not have an obligation to absorb losses or the right to receive benefits that could potentially be significant to the variable interest entity. As such, we do not have a controlling financial interest in the variable interest entities.

The only significant assets of our trusts are the Floating Rate Notes, and the only significant liabilities of our trusts are the Preferred Securities. The Floating Rate Notes are categorized on our Consolidated Balance Sheets as subordinated debentures and the interest expense is recorded on our Consolidated Statements of Income under interest expense on other borrowings.

On January 26, 2016, we closed on a repurchase of trust preferred securities that were auctioned as part of a pooled collateralized debt obligation ("Fund"). The Fund owned \$11.0 million of the \$32.0 million in trust preferred securities that had been issued by Mercantile Bank Capital Trust I. The \$11.0 million in trust preferred securities was retired upon the repurchase, resulting in a commensurate reduction in the related Floating Rate Junior Subordinate Note, leaving \$21.0 million outstanding.

The following table depicts our five business trusts as of December 31, 2025:

(Dollars in thousands)				
Trust Name	Preferred Securities Outstanding	Interest Rate	Maturity Date	
Mercantile Bank Capital Trust I	\$ 21,000	3 Month SOFR + 218 bps	September 16, 2034	
Firstbank Capital Trust I	\$ 10,000	3 Month SOFR + 199 bps	October 18, 2034	
Firstbank Capital Trust II	\$ 10,000	3 Month SOFR + 127 bps	April 7, 2036	
Firstbank Capital Trust III	\$ 7,500	3 Month SOFR + 135 bps	July 30, 2037	
Firstbank Capital Trust IV	\$ 7,500	3 Month SOFR + 135 bps	July 30, 2037	

MERCANTILE BANK CORPORATION  
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December 31, 2025

**NOTE 18 – VARIABLE INTEREST ENTITIES (Continued)**

MCP makes equity investments as a limited liability member in affordable housing projects utilizing the Low-Income Housing Tax Credit (“LIHTC”) pursuant to Section 42 of the Internal Revenue Code. Mercantile Bank also invests in multi-investor funds, which in turn invest in projects similar to that of MCP. The purpose of these investments is to achieve a satisfactory return on capital and to support our banks' community reinvestment initiatives. The activities of the limited liability entities include the identification, development, and operation of multi-family housing that is leased to qualifying residential tenants generally within our banks' primary geographic regions. MCP also makes equity investments via special purpose investment entities as a limited liability member in entities that receive Historic Tax Credits (“HTC”) pursuant to Section 47 of the Internal Revenue Code. The purpose of these investments is the rehabilitation of historic buildings with the tax credits provided to incent private investment in the historic cores of cities and towns.

The LIHTC and HTC investment entities are considered VIEs as MCP, or our banks, whomever is the holder of the equity investment at risk, does not have the ability to direct the activities that most significantly affect the performance of the entity through voting rights or similar rights. MCP, or our banks, could absorb losses that are significant to the underlying entities as it has a risk of loss for its capital contributions and funding commitments to each. The general partners, or managing members, are considered the primary beneficiaries as managerial functions give them the power to direct the activities that most significantly impact the entities' economic performances, and the managing members are exposed to all losses beyond MCP's, or our banks', initial capital contributions and funding commitments. We account for these entities using the proportional amortization method with the investment assets amortized in proportion to the income tax credits received in the current period as compared to the total income tax credit benefits expected to be received over the life of the investment.

Equity investments as a limited liability member in LIHTC and HTC investment entities, reported as other assets in the Consolidated Balance Sheets, totaled \$51.5 million and \$38.9 million as of December 31, 2025 and 2024, respectively. Unfunded capital commitments, reported as other liabilities in the Consolidated Financial Statements, totaled \$31.1 million and \$34.4 million as of December 31, 2025 and 2024, respectively.

The following table summarizes quantitative information about our involvement in unconsolidated variable interest entities at year end:

(Dollars in thousands)	2025			2024		
	Aggregate Assets	Aggregate Liabilities	Risk of Loss	Aggregate Assets	Aggregate Liabilities	Risk of Loss
Trust preferred securities	\$ 58,074	\$ 56,000	\$ 2,074	\$ 58,074	\$ 56,000	\$ 2,074
Tax credit equity investments	51,467	31,090	20,377	38,902	34,428	4,474

As of December 31, 2025, our expected payments for unfunded contributions related to investments in tax credit equity investments were as follows:

(Dollars in thousands)	
2026	\$ 30,965
2027	51
2028	11
2029	11
2030	11
Thereafter	39

MERCANTILE BANK CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2025

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**NOTE 19 - 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. At year-end 2025 and 2024, our banks were in the well capitalized category under the regulatory framework for prompt corrective action. There are no conditions or events since December 31, 2025 that we believe have changed our banks' categorizations.

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 December 31, 2025, our banks meet all capital adequacy requirements under the BASEL III capital rules on a fully phased-in basis.

Federal and state banking laws and regulations place certain restrictions on the amount of dividends our banks can transfer to Mercantile and on the capital levels that must be maintained. At year-end 2025, under the most restrictive of these regulations, Mercantile Bank could distribute \$12.0 million and Eastern Michigan Bank could distribute \$4.5 million to Mercantile as dividends without prior regulatory approval. Our and the ability of our banks to pay cash and stock dividends is subject to limitations under various laws and regulations and to prudent and sound banking practices. On January 16, 2025, our Board of Directors declared a cash dividend on our common stock in the amount of \$0.37 per share that was paid on March 19, 2025, to shareholders of record as of March 7, 2025. On April 17, 2025, our Board of Directors declared a cash dividend on our common stock in the amount of \$0.37 per share that was paid on June 18, 2025, to shareholders of record as of June 6, 2025. On July 17, 2025, our Board of Directors declared a cash dividend on our common stock in the amount of \$0.38 per share that was paid on September 17, 2025, to shareholders of record as of September 5, 2025. On October 16, 2025, our Board of Directors declared a cash dividend on our common stock in the amount of \$0.38 per share that was paid on December 17, 2025, to shareholders of record as of December 5, 2025.

As of December 31, 2025, 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 2025 or 2024. Historically, stock repurchases have been funded from cash dividends paid to us from Mercantile 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 banks. 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.

Our consolidated capital levels as of December 31, 2025 and 2024 include \$48.9 million and \$48.3 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 capital elements that may be included in 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. At December 31, 2025 and 2024, all \$48.9 million and \$48.3 million, respectively, of the trust preferred securities were included as Tier 1 capital of Mercantile.

MERCANTILE BANK CORPORATION  
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**NOTE 19 - REGULATORY MATTERS (Continued)**

Our actual capital levels and minimum required levels at year-end 2025 and 2024 were:

(Dollars in thousands)	Actual		Minimum Required for Capital Adequacy Purposes		Minimum Required to be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<u>2025</u>						
Total capital (to risk weighted assets)						
Consolidated	\$ 854,876	14.3%	\$ 476,702	8.0%	\$ NA	NA%
Mercantile Bank Eastern Michigan Bank	775,664	13.8	449,498	8.0	561,873	10.0
Bank	54,612	19.0	22,992	8.0	28,740	10.0
Tier 1 capital (to risk weighted assets)						
Consolidated	704,776	11.8	357,526	6.0	NA	NA
Mercantile Bank Eastern Michigan Bank	717,619	12.8	337,124	6.0	449,498	8.0
Bank	52,214	18.2	17,244	6.0	22,992	8.0
Common equity (to risk weighted assets)						
Consolidated	655,835	11.0	268,145	4.5	NA	NA
Mercantile Bank Eastern Michigan Bank	717,619	12.8	252,843	4.5	365,217	6.5
Bank	52,214	18.2	12,933	4.5	18,681	6.5
Tier 1 capital (to average assets)						
Consolidated	704,776	11.3	249,409	4.0	NA	NA
Mercantile Bank Eastern Michigan Bank	717,619	11.5	248,738	4.0	310,922	5.0
Bank	52,214	10.7	19,450	4.0	24,313	5.0
<u>2024</u>						
Total capital (to risk weighted assets)						
Consolidated	\$ 777,857	14.2%	\$ 439,031	8.0%	\$ NA	NA%
Mercantile Bank Eastern Michigan Bank	759,146	13.9	435,793	8.0	544,741	10.0
Bank						
Tier 1 capital (to risk weighted assets)						
Consolidated	633,134	11.5	329,274	6.0	NA	NA
Mercantile Bank Eastern Michigan Bank	703,737	12.9	326,845	6.0	435,793	8.0
Bank						
Common equity (to risk weighted assets)						
Consolidated	584,879	10.7	246,955	4.5	NA	NA
Mercantile Bank Eastern Michigan Bank	703,737	12.9	245,134	4.5	354,082	6.5
Bank						
Tier 1 capital (to average assets)						
Consolidated	633,134	10.6	238,934	4.0	NA	NA
Mercantile Bank Eastern Michigan Bank	703,737	11.9	237,447	4.0	296,808	5.0
Bank						

MERCANTILE BANK CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2025

**NOTE 20 – MERCANTILE BANK CORPORATION (PARENT COMPANY ONLY)  
CONDENSED FINANCIAL STATEMENTS**

CONDENSED BALANCE SHEETS

(Dollars in thousands)	2025	2024
<b>ASSETS</b>		
Cash and cash equivalents	\$ 27,088	\$ 17,420
Investments in subsidiaries	849,962	691,563
Other assets	21,411	18,188
Total assets	\$ 898,461	\$ 727,171
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Liabilities	\$ 2,905	\$ 3,001
Subordinated debentures	51,015	50,330
Subordinated notes	89,657	89,314
Term note	30,000	0
Shareholders' equity	724,884	584,526
Total liabilities and shareholders' equity	\$ 898,461	\$ 727,171

CONDENSED STATEMENTS OF INCOME

(Dollars in thousands)	2025	2024	2023
<b>Income</b>			
Interest and dividends from subsidiaries	\$ 85,774	\$ 30,061	\$ 26,660
Total income	85,774	30,061	26,660
<b>Expenses</b>			
Interest expense	7,671	8,203	8,091
Other operating expenses	7,885	5,647	5,674
Total expenses	15,556	13,850	13,765
<b>Income before income tax benefit and equity in undistributed net income of subsidiary</b>	70,218	16,211	12,895
Federal income tax benefit	(3,251)	(3,240)	(2,858)
Equity in undistributed net income of subsidiary	15,284	60,142	66,464
<b>Net income</b>	\$ 88,753	\$ 79,593	\$ 82,217
Other comprehensive income (loss)	25,830	662	14,854
Comprehensive income (loss)	\$ 114,583	\$ 80,255	\$ 97,071

MERCANTILE BANK CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2025

**NOTE 20 – MERCANTILE BANK CORPORATION (PARENT COMPANY ONLY)**  
**CONDENSED FINANCIAL STATEMENTS (Continued)**

CONDENSED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	2025	2024	2023
<b>Cash flows from operating activities</b>			
Net income	\$ 88,753	\$ 79,593	\$ 82,217
Adjustments to reconcile net income to net cash from operating activities:			
Equity in undistributed net income of subsidiary	(15,284)	(60,142)	(66,464)
Stock-based compensation expense	3,473	3,316	3,384
Stock grants to directors for retainer fees	444	423	350
Change in other assets	(3,223)	(4,116)	(128)
Change in other liabilities	932	990	1,045
Net cash from operating activities	75,095	20,064	20,404
<b>Cash flows from investing activities</b>			
Net capital investment into subsidiaries	(72,376)	0	0
Net cash for investing activities	(72,376)	0	0
<b>Cash flows from financing activities</b>			
Employee stock purchase plan	128	50	45
Dividend reinvestment plan	772	810	891
Proceeds from term note issuance	30,000	0	0
Cash dividends on common stock	(23,951)	(22,473)	(21,004)
Net cash for financing activities	6,949	(21,613)	(20,068)
Net change in cash and cash equivalents	9,668	(1,549)	336
Cash and cash equivalents at beginning of period	17,420	18,969	18,633
<b>Cash and cash equivalents at end of period</b>	\$ 27,088	\$ 17,420	\$ 18,969

MERCANTILE BANK CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 21 – BUSINESS SEGMENT INFORMATION**

Pursuant to Financial Accounting Standards Codification 280, *Segment Reporting*, operating segments represent components of an enterprise for which separate financial information is available that is regularly evaluated by the chief operating decision makers in determining how to allocate resources and assessing performance.

Prior to our acquisition of Eastern Michigan Financial Corporation on December 31, 2025, our chief operating decision makers, which include our Chief Executive Officer, Chief Financial Officer, and Chief Operating Officer, evaluated interest and noninterest income streams and credit losses from our various products and services, while expense activities, including interest expense and noninterest expense, were managed, and financial performance was evaluated, on a Company-wide basis. As a result, detailed profitability information for each interest and noninterest income stream was not used by our chief operating decision makers to allocate resources or in assessing performance. Rather, our chief operating decision makers used consolidated net income to assess performance by comparing it to and monitoring against budgeted and prior-year results. This information was used to manage resources to drive business and net income growth, including investment in key strategic priorities, as well as determine our ability to return capital to shareholders.

Subsequent to our acquisition of Eastern Michigan Financial Corporation on December 31, 2025, our chief operating decision makers now evaluate interest and noninterest income streams, credit losses, expense activities, and financial performance through our two wholly owned subsidiary banks, Mercantile Bank and Eastern Michigan Bank. Each of these operating segments offer similar products and services, but are managed separately due to different pricing, product demand, and consumer markets. Both segments derive interest and noninterest income through their banking products and services and investment securities. All of our income relates to our operations in the United States. Our chief operating decision makers use subsidiary level net income to assess performance by comparing it to and monitoring against budgeted and prior-year results. This information is used to manage resources to drive business and net income growth, including investment in key strategic priorities, as well as determine our ability to return capital to shareholders.

Segment net income represented net income on our Consolidated Statements of Income during and for the years ended December 31, 2025, 2024 and 2023. Segment assets represented total assets and goodwill represented total goodwill on our Consolidated Balance Sheets as of December 31, 2024. Goodwill, core deposit intangible, and total assets by segment as of December 31, 2025 were as follows:

(Dollars in thousands)	Mercantile Bank	Eastern Michigan Bank	All Other	Intercompany Eliminations	Consolidated Total
Goodwill	\$ 32,171	\$ 23,183	\$ 17,302	\$ -	\$ 72,656
Core deposit intangible	-	20,388	-	-	20,388
Total assets	6,241,994	571,776	1,014,523	(993,074)	6,835,219

**NOTE 22 – SUBSEQUENT EVENTS**

On January 15, 2026, our Board of Directors declared a cash dividend on our common stock in the amount of \$0.39 per share that will be paid on March 18, 2026, to shareholders of record as of March 6, 2026.

## EXHIBIT INDEX

<u>EXHIBIT NO.</u>	<u>EXHIBIT DESCRIPTION</u>
2.1	<a href="#"><u>Agreement and Plan of Merger dated July 22, 2025, between Mercantile Bank Corporation, Eastern Michigan Financial Corporation and Shamrock Merger Sub Inc., included as Annex A to the proxy statement/prospectus, which forms a part of the Registration Statement on Form S-4, as amended, filed with the SEC on October 21, 2025†</u></a>
2.2	<a href="#"><u>First Amendment to Agreement and Plan of Merger dated October 2, 2025, included as Annex A-2 to the proxy statement/prospectus, which forms a part of the Registration Statement on Form S-4, as amended, filed with the SEC on October 21, 2025†</u></a>
3.1	<a href="#"><u>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</u></a>
3.2	<a href="#"><u>Our Amended and Restated By-laws 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</u></a>
4.1	<a href="#"><u>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.</u></a>
4.2	<a href="#"><u>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</u></a>
4.3	<a href="#"><u>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</u></a>
4.4	<a href="#"><u>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</u></a>
4.5	<a href="#"><u>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</u></a>
4.6	<a href="#"><u>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</u></a>
4.7	<a href="#"><u>Description of Securities Registered Under Section 12 of the Exchange Act#</u></a>
10.1	<a href="#"><u>Form of Mercantile Bank Split Dollar Agreement that has been entered into between Mercantile Bank and each of Robert B. Kaminski, Jr., Charles E. Christmas, and certain other officers of Mercantile Bank is incorporated by reference to exhibit 10.33 of our Form 10-K for the year ended December 31, 2005*</u></a>
10.2	<a href="#"><u>Mercantile Bank Corporation Employee Stock Purchase Plan of 2014 is incorporated by reference to exhibit 4(b) of our Registration Statement on Form S-8 that became effective on June 27, 2014</u></a>
10.3	<a href="#"><u>Amended and Restated Employment Agreement of Robert B. Kaminski, Jr. dated November 29, 2018, effective December 31, 2018, incorporated by reference to exhibit 10.1 of our Form 8-K filed December 3, 2018*</u></a>
10.4	<a href="#"><u>Amended and Restated Employment Agreement of Charles E. Christmas dated December 19, 2024, effective January 1, 2025, incorporated by reference to exhibit 10.3 of our Form 8-K filed December 19, 2024*</u></a>
10.5	<a href="#"><u>Amended and Restated Employment Agreement of Raymond E. Reitsma dated December 19, 2024, effective January 1, 2025, incorporated by reference to exhibit 10.2 of our Form 8-K filed December 19, 2024*</u></a>
10.6	<a href="#"><u>Amended and Restated Employment Agreement of Robert T. Worthington dated December 19, 2024, effective January 1, 2025, incorporated by reference to exhibit 10.5 of our Form 8-K filed December 19, 2024*</u></a>

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EXHIBIT NO.EXHIBIT DESCRIPTION

- 10.7 [Amended and Restated Employment Agreement of Brett E. Hoover dated December 19, 2024, effective January 1, 2025, incorporated by reference to exhibit 10.4 of our Form 8-K filed December 19, 2024\\*](#)
- 10.8 [Amended and Restated Change in Control Agreement of Robert B. Kaminski, Jr. dated November 29, 2018, effective December 31, 2018, incorporated by reference to exhibit 10.6 of our Form 8-K filed December 3, 2018\\*](#)
- 10.9 [Amended and Restated Change in Control Agreement of Charles E. Christmas dated November 29, 2018, effective December 31, 2018, incorporated by reference to exhibit 10.7 of our Form 8-K filed December 3, 2018\\*](#)
- 10.10 [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\\*](#)
- 10.11 [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\\*](#)
- 10.12 [2023 Mercantile Executive Officer Bonus Plan, incorporated by reference to exhibit 10.1 of our Form 8-K filed June 22, 2023\\*](#)
- 10.13 [2024 Mercantile Executive Officer Bonus Plan, incorporated by reference to exhibit 10.1 of our Form 8-K filed July 11, 2024\\*](#)
- 10.14 [2024 Mercantile Bank Nonqualified Deferred Compensation Plan #2, incorporated by reference to exhibit 10.1 of our Form 8-K filed with the SEC on November 25, 2024\\*](#)
- 10.15 [Second Amendment to the Mercantile Bank Amended and Restated Deferred Compensation Plan, incorporated by reference to exhibit 10.2 of our Form 8-K filed with the SEC on November 25, 2024\\*](#)
- 10.16 [Mercantile Bank Rabbi Directed Trust Agreement, incorporated by reference to exhibit 10.3 of our Form 8-K filed with the SEC on November 25, 2024\\*](#)
- 10.17 [Mercantile Bank Corporation Stock Incentive Plan of 2020, incorporated by reference to Appendix A to Mercantile's Definitive Proxy Statement on Schedule 14A filed April 9, 2020\\*](#)
- 10.18 [Mercantile Bank Corporation Stock Incentive Plan of 2023, incorporated by reference to exhibit 99 of our Form S-8 filed June 12, 2023\\*](#)
- 10.19 [Form of Performance-Based Restricted Stock Award Agreement, in connection with the Mercantile Bank Corporation Stock Incentive Plan of 2020, incorporated by reference to exhibit 10.17 of our Form 10-K for the year ended December 31, 2020\\*](#)
- 10.20 [Form of Performance-Based Restricted Stock Award Agreement, in connection with the Mercantile Bank Corporation Stock Incentive Plan of 2023, incorporated by reference to exhibit 10.1 of our Form 8-K filed February 6, 2025\\*](#)
- 10.21 [Form of Standard Restricted Stock Award Agreement, in connection with the Mercantile Bank Corporation Stock Incentive Plan of 2023, incorporated by reference to exhibit 10.2 of our Form 8-K filed on February 6, 2025\\*](#)
- 10.22 [Director Fee Summary\\*](#)
- 10.23 [2025 Mercantile Executive Officer Bonus Plan, incorporated by reference to exhibit 10.1 of our Form 8-K filed March 20, 2025\\*](#)
- 10.24 [Mercantile Bank Corporation Employee Stock Purchase Plan of 2025 \(incorporated by reference to Appendix A of Mercantile's Proxy Statement for its 2025 Annual Shareholders Meeting, filed with the Commission on April 4, 2025\)](#)
- 10.25 [Form of Voting Agreement, incorporated by reference to our Form 8-K filed July 22, 2025](#)
- 10.26 [Credit Agreement, dated December 24, 2025, by and between Mercantile Bank Corporation and U.S. Bank National Association, incorporated by reference to exhibit 10.1 of our Form 8-K filed December 31, 2025†](#)
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<u>EXHIBIT NO.</u>	<u>EXHIBIT DESCRIPTION</u>
14	<a href="#">Code of Ethics</a>
19	<a href="#">Policy on Insider Trading</a>
21	<a href="#">Subsidiaries of the Company</a>
23.1	<a href="#">Consent of Plante &amp; Moran, PLLC</a>
31	<a href="#">Rule 13a-14(a) Certifications</a>
32.1	<a href="#">Section 1350 Chief Executive Officer Certification+</a>
32.2	<a href="#">Section 1350 Chief Financial Officer Certification+</a>
97	<a href="#">Clawback Policy</a>
101	The following information from Mercantile's Annual Report on Form 10-K for the year ended December 31, 2025, 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 (Loss), (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)

\* Management contract or compensatory plan.

+ Furnished herewith.

† Exhibits, schedules and similar attachments have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Registrant will furnish supplementally a copy of any omitted schedules or similar attachment to the SEC upon request on a confidential basis.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 February 27, 2026.

MERCANTILE BANK CORPORATION

/s/ Raymond E. Reitsma

Raymond E. Reitsma

President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on February 27, 2026.

/s/ Michael S. Davenport

Michael S. Davenport, Director

/s/ Michelle L. Eldridge

Michelle L. Eldridge, Director

/s/ Joseph D. Jones

Joseph D. Jones, Director

/s/ Richard D. MacDonald

Richard D. MacDonald, Director

/s/ Michael H. Price

Michael H. Price, Chairman of the Board

/s/ David B. Ramaker

David B. Ramaker, Director

/s/ Raymond E. Reitsma

Raymond E. Reitsma

Director, President and Chief Executive Officer

(principal executive officer)

/s/ Nelson F. Sanchez

Nelson F. Sanchez, Director

/s/ Sara A. Schmidt

Sara A. Schmidt, Director

/s/ Steven J. Schwehofer

Steven J. Schwehofer, Director

/s/ Amy L. Sparks

Amy L. Sparks, Director

/s/ Shoran R. Williams

Shoran R. Williams, Director

/s/ Charles E. Christmas

Charles E. Christmas, Executive Vice President,

Chief Financial Officer and Treasurer

(principal financial and accounting officer)

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### Annual Meeting

Mercantile Bank Corporation's Annual Meeting of Shareholders will be held virtually on Thursday, May 21, 2026 at 9:00 am EDT

### Corporation Headquarters

310 Leonard Street NW, Grand Rapids, MI 49504  
616.406.3000 or 800.453.8700  
[www.mercbank.com](http://www.mercbank.com)

### Legal Counsel

Greenberg Traurig, LLP  
2375 East Camelback Road, Suite 800, Phoenix, AZ 85016  
602.455.8000  
[www.gtlaw.com](http://www.gtlaw.com)

### Independent Registered Public Accountants

Plante & Moran, PLLC  
634 Front Street NW, Suite 400, Grand Rapids, MI 49504  
[www.plantemoran.com](http://www.plantemoran.com)

### Common Stock Listing

NASDAQ Global Select Market Symbol: MBWM

### Stock Registrar and Transfer Agent

Computershare Investor Services  
P.O. Box 43006, Providence, RI 02940-3006  
Shareholder Inquiries 800.733.5001  
[www.computershare.com/investor](http://www.computershare.com/investor)

### SEC Form 10-K

Copies of the Corporation's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, are available to shareholders without charge upon written request.

Please mail your request to:

**Charles E. Christmas**  
Mercantile Bank Corporation  
310 Leonard Street NW  
Grand Rapids, MI 49504



Mercantile<sup>®</sup>  
Bank Corporation

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