



CHARTER OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

I. Purpose and Role

The primary purpose of the Audit Committee is to assist the Board of Directors (the "**Board**") by overseeing the quality and integrity of Mercantile Bank Corporation's (the "**Company**") accounting, auditing, and reporting practices; the performance of the Company's internal audit function and independent auditor; and the Company's disclosure controls and system of internal control regarding finance, accounting, legal compliance, and ethics that management and the Board have established.

The primary role of the Audit Committee is to oversee the financial reporting and disclosure process of the Company. To fulfill this obligation, the Audit Committee relies on: management for the preparation and accuracy of the Company's financial statements; both management and the Company's internal audit function for establishing effective internal controls and procedures to ensure the Company's compliance with accounting standards, financial reporting procedures, and applicable laws and regulations; and the Company's independent auditor for an unbiased, diligent audit or review, as applicable, of the Company's financial statements and the effectiveness of the Company's internal controls. The members of the Audit Committee are not employees of the Company and are not responsible for conducting the audit or performing other accounting procedures.

The Audit Committee serves a Board-level oversight role where it oversees the relationship with the independent auditor, as set forth in this Charter. The Audit Committee should provide an open avenue of communication among the independent auditor, financial and senior management, the internal auditing function, and the Board.

II. Membership

- A. Composition and Independence – The Audit Committee shall be comprised of three or more directors as determined by the Board, each of whom shall be an "independent director" for purposes of Audit Committee membership in accordance with Exchange Act Rule 10A-3 and the rules of The Nasdaq Stock Market and any other applicable legal or regulatory requirements. No member of the Audit Committee shall have participated in the preparation of the financial statements of the Company or any subsidiary during the prior three-year period. Each member of the Audit Committee shall be free from any relationship (including disallowed compensatory arrangements) that, in the opinion of the Board, would interfere with the exercise of his or her independent judgment as a member of the Audit Committee. Each member of the Audit Committee shall be able to read and understand fundamental financial statements, including a company's balance sheet, income statement, and cash flow statement, and have a working familiarity with

basic finance and accounting practices, and (i) at least one member of the Audit Committee shall be an "audit committee financial expert" in compliance with the criteria established by the U.S. Securities and Exchange Commission (the "SEC") in Item 407(d)(5)(ii) of Regulation S-K (or any successor regulation thereto); and (ii) at least two members of the Audit Committee shall have "banking or related financial management expertise," as defined in Appendix A to Part 363 of the FDIC Rules and Regulations (it being noted that an individual may simultaneously satisfy the requirements of both clauses (i) and (ii), depending upon his or her qualifications). The existence of such members, including his or her name and whether or not he or she is independent, shall be disclosed in periodic filings as required by the SEC. A person who satisfies the definition of "audit committee financial expert" will also be presumed to have financial sophistication; *provided, however*, that the designation or identification of a person as having such financial sophistication or as a financial expert shall not (i) impose on such person any duties, obligations, or liability that are greater than the duties, obligations, and liability imposed on such person as a member of the Audit Committee in the absence of such designation or identification; or (ii) affect the duties, obligations, or liability of any other member of the Audit Committee.

- B. Appointment and Removal – The members of the Audit Committee shall be designated by the Board annually and shall serve until such member's successor is duly designated or until such member's earlier resignation or removal. Any member of the Audit Committee may be removed, with or without cause, by a majority vote of the Board. Unless a chairperson or vice-chairperson is elected by the full Board, the members of the Audit Committee may designate a chairperson and a vice-chairperson by majority vote of the full Audit Committee membership. The chairperson shall chair the meetings of the Audit Committee that he or she attends, and may set the agenda for the meetings of the Audit Committee.
- C. Limitations – A member of the Audit Committee shall not simultaneously serve on the audit committee of more than two other public companies.

III. Meetings

- A. Frequency – The Audit Committee shall ordinarily meet at least four times annually, or more frequently as circumstances dictate. Any member of the Audit Committee may call a meeting of the Audit Committee. The Audit Committee shall meet in executive session, absent members of management, at least twice a year, and on such terms and conditions as the Audit Committee may elect. Such executive sessions may be held in conjunction with regular meetings of the Audit Committee. As part of its job to foster open communication, the Audit Committee should meet periodically with management, the internal audit director, and representatives of the Company's independent auditor in separate executive sessions to discuss any matters that the Audit Committee or each of these groups believe should be discussed privately, and shall invite such individuals to its meetings as it deems appropriate, to assist in carrying out its duties and responsibilities. However, the Audit Committee shall also meet regularly without such individuals present.

- B. Reporting – The Audit Committee shall report regularly to the Board on its discussions and actions, including the performance of its duties and any significant issues or concerns that arise at its meetings, and shall make recommendations to the Board as appropriate.
- C. Notice and Conduct of Meetings – In accordance with Article VI, Section 7 of the Company's Bylaws, notice of regular meetings of the Audit Committee shall not be required. Notice of special meetings of the Audit Committee may be given to the members by telephone, telegram, letter, facsimile transmission, or by a form of electronic transmission. A majority of the members of the Audit Committee shall constitute a quorum for the transaction of the business of the Audit Committee. At all meetings of the Audit Committee, the action of a majority of the total number of members of the Audit Committee members present at any meeting at which there is a quorum shall be the act of the Audit Committee, except as may be otherwise specifically provided by statute or by the Company's Articles of Incorporation. Except as provided above, the Audit Committee is governed by the same rules regarding meetings (including meetings in person or by telephone or other similar communications equipment), action without meetings, notice, waiver of notice, and quorum and voting requirements as are applicable to the Board.
- D. Minutes – The Audit Committee shall keep written minutes of its meetings, which minutes shall be maintained with the books and records of the Company.

IV. Responsibilities, Duties, and Authority

The Audit Committee shall have the following responsibilities, duties, and authority:

- A. Documents, Reports, and Accounting Information Review
 - 1. Review this Charter at least annually and recommend to the Board for approval any changes to this Charter that the Audit Committee considers necessary or appropriate.
 - 2. Review and discuss with management and the independent auditor the Company's audited annual and unaudited quarterly financial statements, the form of audit opinion to be issued by the independent auditor on the financial statements, and the disclosure under "Management's Discussion and Analysis of Financial Condition and Results of Operations" to be included in the Company's annual report on Form 10-K prior to its filing with the SEC.
 - 3. Recommend to the Board whether the financial statements should be included in the Annual Report on Form 10-K.
 - 4. Review with management and the independent auditor each quarterly report on Form 10-Q prior to its filing with the SEC.
 - 5. Review, or have a member of the Audit Committee review, earnings press releases with management and the independent auditor, including review of "pro-forma" or "adjusted" non-GAAP information, and any financial

information and earnings guidance provided to analysts and ratings agencies, including the type of information to be disclosed and type of presentation to be made.

6. Review the regular internal reports (or summaries of the reports) with management prepared by the internal auditing department including management's response thereto.
7. With respect to the Company's 401(k) retirement plan, establish, oversee, and maintain procedures for the proper and timely filing of Form 11-K in accordance with applicable SEC and other regulatory requirements.

B. Independent Auditor

1. Select, evaluate, determine the compensation of, and, where appropriate, replace the independent registered public accounting firm that acts as the Company's independent auditor for the purpose of auditing the Company's annual financial statements, books, records, accounts and internal controls over financial reporting. The independent auditor shall report directly to the Audit Committee, and the Audit Committee shall oversee the work done by the Company's independent auditor. The Audit Committee shall review the performance of the independent auditor at least annually, including reviewing and discussing any other matters required to be discussed by PCAOB Auditing Standard No. 1301: *Communications with Audit Committees* and other applicable requirements of the PCAOB and the SEC, and make determinations regarding the appointment or termination of the independent auditor. The Audit Committee shall oversee the resolution of disagreements between management and the independent auditor in the event that such disagreements arise.
2. Review and discuss with the Company's independent auditor (a) the auditor's responsibilities under generally accepted auditing standards and the responsibilities of management in the audit process; (b) the overall audit strategy; (c) the scope and timing of the annual audit; and (d) any significant risks identified during the auditor's risk assessment procedures.
3. Review with the independent auditor any problems or difficulties that the independent auditor brings to the attention of the Audit Committee and discuss management's response thereto.
4. Keep the Company's independent auditor informed of the Audit Committee's understanding of the Company's relationships and transactions with related parties that are significant to the Company; and review and discuss with the Company's independent auditor the auditor's evaluation of the Company's identification of, accounting for, and disclosure of its relationships and transactions with related parties, including any significant matters arising from the audit regarding the Company's relationships and transactions with related parties.

5. Review with the independent auditor the results of the annual financial statement audit and the attestation and report on management's internal control report. Hold timely discussions with the independent auditor regarding:
 - a. all critical accounting policies and practices;
 - b. all alternative treatments of financial information within generally accepted accounting principles ("**GAAP**") that have been discussed with management, the ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor;
 - c. other material written communications between the independent auditor and management including, but not limited to, the management letter and schedule of unadjusted differences;
 - d. an analysis of the auditor's judgment as to the quality of the Company's accounting principles, setting forth significant reporting issues and judgments made in connection with the preparation of the financial statements and related disclosures;
 - e. any significant unusual transactions and the business rationale for such transactions;
 - f. all significant relationships the auditors have with the Company to determine the auditors' objectivity and independence, undertaking or recommending appropriate action to ensure and continue that independence; and
 - g. any other matters required to be discussed by applicable auditing standards.
6. At least annually, obtain and review a report by the independent auditor describing:
 - a. the firm's internal quality control procedures;
 - b. any material issues raised by the most recent internal quality-control review, peer review, or Public Company Accounting Oversight Board ("**PCAOB**") review, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the audit firm, and any steps taken to deal with any such issues; and
 - c. all relationships between the independent auditor and the Company, in order to assess the auditor's independence. This communication should

also be documented in writing in the independent auditor's SAS 61 letter to the Audit Committee at the conclusion of each audit.

7. Review and preapprove both audit and permissible non-audit and tax services to be provided by the independent auditor (other than with respect to *de minimis* exceptions permitted by the Sarbanes-Oxley Act of 2002). This duty may be delegated to one or more designated members of the Audit Committee with any such preapproval reported to the Audit Committee at its next regularly scheduled meeting. To the extent required by the rules of The Nasdaq Stock Market or any other applicable legal or regulatory requirements, approval of non-audit services shall be disclosed to investors in periodic reports required by Section 13(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act").
8. Review hiring policies for employees or former employees of the independent auditor for compliance with applicable laws and regulations, and consider the impact on the independent auditor's independence from the Company.
9. At least annually, evaluate the qualifications, performance, and independence of the Company's independent auditor, including an evaluation of the lead audit partner; and to assure the regular rotation of the lead audit partner at the Company's independent auditor and consider regular rotation of the accounting firm serving as the Company's independent auditor.

C. Financial Reporting Processes and Accounting Policies

1. In consultation with the independent auditor and the internal auditors or management, review the effectiveness and adequacy of the Company's financial reporting processes (both internal and external), and the internal control structure (including disclosure controls), any significant deficiencies in their design and operation, any special audit steps taken by management in light of the deficiencies, and discuss with management and the independent auditor the disclosure relating to the Company's internal controls or financial reporting processes to be included in the Company's annual report on Form 10-K or quarterly report on Form 10-Q. Meet with representatives of the disclosure committee on a periodic basis to discuss any matters of concern arising from the disclosure committee's quarterly process to assist the Chief Executive Officer and Chief Financial Officer in their certifications under Section 302 of the Sarbanes-Oxley Act of 2002.
2. Consider and approve, as appropriate, major changes to the Company's auditing and accounting principles and practices as suggested by the independent auditor, management, or the internal auditor.
3. Review analyses prepared by management (and the independent auditor as noted in item B above) setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements,

including analyses of the effects of alternative GAAP methods on the financial statements.

4. Review with management the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Company.
5. Review and approve all related party transactions (as defined in Item 404 of Regulation S-K) to the extent required by applicable rules of The Nasdaq Stock Market, and to keep the Company's independent auditor informed of the Audit Committee's understanding of the Company's relationships and transactions with related parties that are significant to the Company.
6. Establish, oversee, and maintain procedures for the receipt, retention, and treatment of complaints regarding accounting or auditing matters, including procedures necessary to receive and respond to confidential and anonymous submissions by Company employees regarding questionable accounting or auditing matters.

D. Internal Audit

1. Review and approve the appointment, replacement, reassignment, or dismissal of the internal audit director.
2. Review organizational structure and qualifications of the internal audit function.
3. At least annually, review and approve the internal audit plan, and periodically ensure adequate resources are available to execute the plan.
4. Periodically review with the internal audit director any significant difficulties, disagreements with management, or scope restrictions encountered in the course of the internal audit function's work.
5. Review the results of completed internal audits and monitor corrective actions taken by management, as deemed appropriate.
6. Review with the independent auditor its assessment of the internal audit function's practices and objectivity.

E. Ethical and Legal Compliance

1. Establish, review, and update, as the Audit Committee deems necessary or appropriate, a code of ethics for the principal executive officer and senior financial personnel of the Company in accordance with applicable law, rules, and regulations.
2. Discuss the Company's major financial and accounting risk exposures and steps taken by management to control and mitigate those exposures.

F. Other Responsibilities

1. Prepare the report of the Audit Committee that the SEC requires be included in the Company's annual proxy statement.
2. Select, retain, compensate, oversee, and terminate, if necessary, any other registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review, tax, or attest services for the Company.
3. Conduct an annual evaluation of the performance of its duties under this Charter and present the results of the evaluation to the Board. The Audit Committee shall conduct this evaluation in such manner as it deems appropriate.
4. To the extent the Audit Committee deems appropriate, and with or without full Board approval, obtain advice and assistance from outside legal, accounting, or other advisors to perform its duties and responsibilities under this Charter. The Audit Committee shall set the compensation, and oversee the work, of any such outside legal, accounting, or other advisors. The Audit Committee shall receive appropriate funding from the Company, as determined by the Audit Committee in its capacity as a committee of the Board, for the payment of compensation to the Company's independent auditor, any other accounting firm engaged to perform services for the Company, any outside counsel, and any other advisors to the Audit Committee.
5. Perform any other activities consistent with this Charter, the Company's Bylaws, and governing law, as the Audit Committee or the Board deems necessary or appropriate.

V. Limitation of the Audit Committee's Role

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. This is the responsibility of the independent auditor and the Company's management, respectively.