

**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, 2021 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

0-7818

INDEPENDENT BANK CORPORATION

(Exact name of Registrant as specified in its charter)

Michigan

(State or other jurisdiction of incorporation)

38-2032782

(I.R.S. employer identification no.)

4200 East Beltline, Grand Rapids, Michigan

(Address of principal executive offices)

49525

(Zip Code)

Registrant's telephone number, including area code

(616) 527-5820

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

Common Stock, No Par Value

(Title of class)

IBCP

(Trading Symbol(s))

NASDAQ

(Name of Exchange)

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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer Accelerated Filer Non-accelerated filer Smaller reporting company

Emerging growth company

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

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 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. Yes No

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

Yes No

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant as of June 30, 2021, was \$460,580,409.

The number of shares outstanding of the registrant's common stock as of March 3, 2022 was 21,196,430.

Documents incorporated by reference: Portions of our definitive proxy statement and annual report, to be delivered to shareholders in connection with the April 19, 2022 Annual Meeting of Shareholders, are incorporated by reference into Part I, Part II, Part III, and Part IV of this Form 10-K.

The Exhibit Index appears on Pages 26-27

FORWARD-LOOKING STATEMENTS

Statements in this Annual Report on Form 10-K that are not statements of historical fact, including statements that include terms such as “will,” “may,” “should,” “believe,” “expect,” “forecast,” “anticipate,” “estimate,” “project,” “intend,” “likely,” “optimistic” and “plan” and statements about future or projected financial and operating results, plans, projections, objectives, expectations, and intentions, are forward-looking statements. Forward-looking statements include, but are not limited to, descriptions of plans and objectives for future operations, products or services; projections of our future revenue, earnings or other measures of economic performance; forecasts of credit losses and other asset quality trends; statements about our business and growth strategies; and expectations about economic and market conditions and trends. These forward-looking statements express our current expectations, forecasts of future events, or long-term goals. They are based on assumptions, estimates, and forecasts that, although believed to be reasonable, may turn out to be incorrect. Actual results could differ materially from those discussed in the forward-looking statements for a variety of reasons, including:

- economic, market, operational, liquidity, credit, and interest rate risks associated with our business including the impact of the ongoing COVID-19 pandemic on each of these items;
- economic conditions generally and in the financial services industry, particularly economic conditions within Michigan and the regional and local real estate markets in which our bank operates including the economic impact of the ongoing COVID-19 pandemic in each of these areas;
- the failure of assumptions underlying the establishment of, and provisions made to, our allowance for credit losses;
- increased competition in the financial services industry, either nationally or regionally;
- our ability to achieve loan and deposit growth;
- volatility and direction of market interest rates;
- the continued services of our management team; and
- implementation of new legislation, which may have significant effects on us and the financial services industry.

This list provides examples of factors that could affect the results described by forward-looking statements contained in this Annual Report on Form 10-K, but the list is not intended to be all-inclusive. The risk factors disclosed in Part I – Item 1A below include those risks our management believes could materially affect the results described by forward-looking statements in this report. However, those risks are not the only risks we face. Our results of operations, cash flows, financial position, and prospects could also be materially and adversely affected by additional factors that are not presently known to us, that we currently consider to be immaterial, or that develop after the date of this report. We cannot assure you that our future results will meet our current expectations. While we believe the forward-looking statements in this report are reasonable, you should not place undue reliance on any forward-looking statement. In addition, these statements speak only as of the date made. We do not undertake, and expressly disclaim, any obligation to update or alter any statements, whether as a result of new information, future events, or otherwise, except as required by applicable law.

ITEM 1. BUSINESS

Independent Bank Corporation was incorporated under the laws of the State of Michigan on September 17, 1973, for the purpose of becoming a bank holding company. We are registered under the Bank Holding Company Act of 1956, as amended, and own all of the outstanding stock of Independent Bank (the "bank"), which is also organized under the laws of the State of Michigan. The bank was founded as First National Bank in Ionia in 1864. Over the years, we have grown both organically and as the result of acquisitions of community banks, bank branches, and other organizations within the financial services industry. Our most recent acquisition was our acquisition of Traverse City State Bank in April 2018.

Aside from the stock of our bank, we have no other substantial assets. We conduct no business except for the collection of dividends or returns of capital from our bank and the payment of dividends to our shareholders and the payment of interest on subordinated debt and debentures. We have established certain employee retirement plans, including an employee stock ownership plan (ESOP) and deferred compensation plans, as well as health and other insurance programs, the cost of which is borne by our subsidiaries. We have no material patents, trademarks, licenses or franchises except the corporate charter of our bank, which permits it to engage in commercial banking pursuant to Michigan law.

Our bank transacts business in the single industry of commercial banking. It offers a broad range of banking services to individuals and businesses, including checking and savings accounts, commercial lending, direct and indirect consumer financing, mortgage lending, and safe deposit box services. Our bank does not offer trust services. Our principal markets are the rural and suburban communities across Lower Michigan, which are served by the bank's main office in Grand Rapids, Michigan, and a total of 59 branches, two drive-thru facilities, and seven Michigan based loan production offices. We also have two loan production offices in Ohio (Columbus and Fairlawn). Most of our bank's branches provide full-service lobby and drive-thru services, as well as automatic teller machines (ATMs). In addition, we provide internet and mobile banking capabilities to our customers. We continue to see customer transaction volume declining at our bank offices and increasing through our electronic channels.

Our bank competes with other commercial banks, savings banks, credit unions, mortgage banking companies, fintech companies, securities brokerage companies, insurance companies, and money market mutual funds. Many of these competitors have substantially greater resources than we do and offer certain services that we do not currently provide. Such competitors may also have greater lending limits than our bank. In addition, non-bank competitors are generally not subject to the extensive regulations applicable to us. Price (the interest charged on loans and paid on deposits) remains a principal means of competition within the financial services industry. Our bank also competes on the basis of service and convenience in providing financial services.

As of December 31, 2021, our bank had total loans (excluding loans held for sale) of \$2.905 billion and total deposits of \$4.117 billion.

As of December 31, 2021, we had 866 full-time employees and 120 part-time employees. We compete for talent and human resources with other financial services organizations within our geographic market, which is largely the lower peninsula of Michigan. The market for residential mortgage loan officers and support staff is particularly competitive given the competitive nature of those products, especially in low interest rate environments. We strive to be an employer of choice by offering competitive compensation and benefits as well as fostering strong employee relations through our culture, training and growth opportunities, and similar measures. As a community-oriented bank, we believe it is especially important for our employees to engage with the communities in our market areas, and we encourage and provide opportunities for our employees to volunteer with local organizations in the markets served by our bank branches.

In addition to general banking services, we also offer title insurance services and insurance brokerage services through separate subsidiaries and investment services through a third party agreement with Cetera Investment Services LLC.

On a consolidated basis, our principal sources of revenue are interest and fees on loans, other interest income, and non-interest income. The sources of revenue for the three most recent years are as follows:

	2021	2020	2019
Interest and fees on loans	54.3%	55.8%	68.1%
Other interest income	10.0	7.6	7.7
Non-interest income	35.7	36.6	24.2
	100.0%	100.0%	100.0%

Supervision and Regulation

The following is a summary of certain statutes and regulations affecting us. This summary is qualified in its entirety by reference to the particular statutes and regulations. A change in applicable laws or regulations may have a material effect on us and our bank.

General

Financial institutions and their holding companies are extensively regulated under federal and state law. Consequently, our growth and earnings performance can be affected not only by management decisions and general and local economic conditions, but also by the statutes administered by, and the regulations and policies of, various governmental regulatory authorities. Those authorities include, but are not limited to, the Federal Reserve, the Federal Deposit Insurance Corporation ("FDIC"), the Michigan Department of Insurance and Financial Services ("Michigan DIFS"), the Internal Revenue Service, and state taxing authorities. The effect of such statutes, regulations and policies and any changes thereto can be significant and cannot necessarily be predicted.

Federal and state laws and regulations generally applicable to financial institutions and their holding companies regulate, among other things, the scope of business, investments, reserves against deposits, capital levels, lending activities and practices, the nature and amount of collateral for loans, the establishment of branches, mergers, consolidations and dividends. The system of supervision and regulation applicable to us establishes a comprehensive framework for our operations and is intended primarily for the protection of the FDIC's deposit insurance fund, our depositors, and the public, rather than our shareholders.

Independent Bank Corporation

We are a bank holding company and, as such, are registered with, and subject to regulation by, the Federal Reserve under the Bank Holding Company Act, as amended (the "BHCA"). Under the BHCA, we are subject to periodic examination by the Federal Reserve and are required to file periodic reports of operations and such additional information as the Federal Reserve may require.

Federal law requires bank holding companies to act as a source of strength to their bank subsidiaries and to commit capital and financial resources to support those subsidiaries. Such support may be required by the Federal Reserve at times when we might otherwise determine not to provide it.

In addition, if the Michigan DIFS deems a bank's capital to be impaired, it may require a bank to restore its capital by special assessment upon the bank holding company, as the bank's sole shareholder. If the bank holding company failed to pay such assessment, the directors of that bank would be required, under Michigan law, to sell the shares of bank stock owned by the bank holding company to the highest bidder at either public or private auction and use the proceeds of the sale to restore the bank's capital.

Any capital loans by a bank holding company to a subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to a priority of payment.

Investments and Activities. Federal law places restrictions on the ability of our holding company to engage in certain transactions, make investments, and participate (directly or indirectly through a subsidiary) in various activities.

ITEM 1. BUSINESS (continued)

In general, any direct or indirect acquisition by a bank holding company of any voting shares of any bank which would result in the bank holding company's direct or indirect ownership or control of more than 5% of any class of voting shares of such bank, and any merger or consolidation of the bank holding company with another bank holding company, will require the prior written approval of the Federal Reserve under the BHCA. In acting on such applications, the Federal Reserve must consider various statutory factors including the effect of the proposed transaction on competition in relevant geographic and product markets and each party's financial condition, managerial resources, and record of performance under the Community Reinvestment Act.

The merger or consolidation of an existing bank subsidiary of a bank holding company with another bank, or the acquisition by such a subsidiary of the assets of another bank, or the assumption of the deposit and other liabilities by such a subsidiary requires the prior written approval of the responsible federal regulatory agency under the Bank Merger Act, based upon a consideration of statutory factors similar to those outlined above with respect to the BHCA. In addition, in certain cases, an application to, and the prior approval of, the Federal Reserve under the BHCA and/or Michigan DIFS under Michigan banking laws, may be required.

With certain limited exceptions, the BHCA prohibits any bank holding company from engaging, either directly or indirectly through a subsidiary, in any activity other than managing or controlling banks unless the proposed non-banking activity is one the Federal Reserve has determined to be so closely related to banking as to be a proper incident thereto. Under current Federal Reserve regulations, such permissible non-banking activities include such things as mortgage banking, equipment leasing, securities brokerage, and consumer and commercial finance company operations. Well-capitalized and well-managed bank holding companies may, however, engage *de novo* in certain types of non-banking activities without prior notice to, or approval of, the Federal Reserve, provided that written notice of the new activity is given to the Federal Reserve within 10 business days after the activity is commenced. If a bank holding company wishes to engage in a non-banking activity by acquiring a going concern, prior notice and/or prior approval will be required, depending upon the activities in which the company to be acquired is engaged, the size of the company to be acquired and the financial and managerial condition of the acquiring bank holding company.

Eligible bank holding companies that elect to operate as financial holding companies may engage in, or own shares in companies engaged in, a wider range of non-banking activities, including securities and insurance activities and any other activity the Federal Reserve, in consultation with the U.S. Department of Treasury, (the "Treasury") determines by regulation or order is financial in nature, incidental to any such financial activity or complementary to any such financial activity and does not pose a substantial risk to the safety or soundness of depository institutions or the financial system generally. The BHCA generally does not place territorial restrictions on the domestic activities of non-bank subsidiaries of bank or financial holding companies. We have not applied for approval to operate as a financial holding company and have no current intention of doing so.

Capital Requirements. The Federal Reserve uses capital adequacy guidelines in its examination and regulation of bank holding companies. If capital falls below minimum guidelines, a bank holding company may, among other things, be denied approval to acquire or establish additional banks or non-bank businesses.

Under current federal regulations, our holding company is required to maintain the following minimum capital ratios: (1) a minimum ratio of common equity Tier 1 capital to risk-weighted assets of 4.5%, (2) a minimum ratio of Tier 1 capital to risk-weighted assets of 6%, (3) a minimum ratio of total capital to total risk-weighted assets of 8%, and (4) a minimum leverage ratio of 4%. A 2.5% common equity Tier 1 capital conservation buffer is also required. At December 31, 2021, our holding company's capital ratios exceeded minimum requirements for the well-capitalized category.

It is important to note that these regulatory capital rules provide minimum requirements, and higher capital levels may be required if warranted by the particular circumstances or risk profiles of individual banking organizations. In addition, the federal bank regulatory agencies are required biennially to review risk-based capital standards to ensure that they adequately address interest rate risk, concentration of credit risk and risks from non-traditional activities.

Our Tier 1 capital as of December 31, 2021, includes \$38.4 million of trust preferred securities (classified on our Consolidated Statements of Financial Condition as "Subordinated debentures"). The Federal Reserve has issued rules regarding trust preferred securities as a component of the Tier 1 capital of bank holding companies. The aggregate amount of trust preferred securities and certain other capital elements is limited to 25 percent of Tier 1 capital elements, net of goodwill (net of any associated deferred tax liability). The amount of trust preferred securities and certain other elements in excess of the limit could be included in the Tier 2 capital, subject to restrictions. The provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act adopted in 2010 (the "Dodd-Frank Act") imposed additional limitations on the ability to include trust preferred securities as Tier 1 capital; however, these additional limitations do not apply to our outstanding trust preferred securities.

Our Tier 2 capital as of December 31, 2021 includes \$40.0 million of subordinated notes that were issued during 2020 and mature May, 2030. Generally, for subordinated debt with a minimum maturity of five years, there is no limit on the amount of subordinated debt that can be included in Tier 2 capital.

Dividends. Historically, most of our revenues have been received in the form of dividends paid by our bank. We can also make requests for returns of capital from our bank; however, such requests require the approval of the Michigan DIFS. Thus, our ability to pay dividends to our shareholders is indirectly limited by restrictions on the ability of our bank to pay dividends or return capital to us, as described below. Further, in a policy statement, the Federal Reserve has expressed its view that a bank holding company experiencing earnings weaknesses should not pay cash dividends exceeding its net income or that can only be funded in ways that weaken the bank holding company's financial health, such as by borrowing. The Federal Reserve possesses enforcement powers over bank holding companies and their non-bank subsidiaries to prevent or remedy actions that represent unsafe or unsound practices or violations of applicable statutes and regulations. Among these powers is the ability to proscribe the payment of dividends by banks and bank holding companies. The "prompt corrective action" provisions of federal law and regulation authorize the Federal Reserve to restrict the amount of dividends that can be paid by an insured bank that fails to meet specified capital levels.

In addition to the restrictions on dividends imposed by the Federal Reserve, the Michigan Business Corporation Act provides that dividends may be legally declared or paid only if, after the distribution, the corporation can pay its debts as they come due in the usual course of business and its total assets equal or exceed the sum of its liabilities plus the amount that would be needed to satisfy the preferential rights upon dissolution of any holders of preferred stock whose preferential rights are superior to those receiving the distribution.

Change in Control Limitations. Subject to certain exceptions, the Change in the Bank Control Act ("Control Act") and regulations promulgated thereunder by the Federal Reserve, require any person acting directly or indirectly, or through or in concert with one or more persons, to give the Federal Reserve 60 days' written notice before acquiring control of a bank holding company. Pursuant to the Control Act, the Federal Reserve has the authority to prevent any such acquisition. Transactions that are presumed to constitute the acquisition of control include the acquisition of any voting securities of a bank holding company having securities registered under Section 12 of the Securities Exchange Act of 1934, as amended, if, after the transaction, the acquiring person (or persons acting in concert) owns, controls or holds with power to vote 10% or more of any class of voting securities of the institution.

Federal Securities Regulation. Our common stock is registered under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). We are therefore subject to the information, proxy solicitation, insider trading and other restrictions and requirements of the Securities and Exchange Commission ("SEC") under the Exchange Act.

Independent Bank

Independent Bank is a Michigan banking corporation and a member of the Federal Reserve System, and its deposit accounts are insured by the FDIC's Deposit Insurance Fund ("DIF"). As a member of the Federal Reserve System and a Michigan-chartered bank, our bank is subject to the examination, supervision, reporting and enforcement requirements of the Federal Reserve as its primary federal regulator and the Michigan DIFS as the chartering authority for Michigan banks. These agencies and the federal and state laws applicable to our bank and its operations extensively regulate various aspects of the banking business including, among other things, permissible types and amounts of loans, investments and other activities, capital adequacy, branching, interest rates on loans and on deposits, the maintenance of non-interest bearing reserves on deposit accounts, and the safety and soundness of banking practices.

Deposit Insurance. As an FDIC-insured institution, our bank is required to pay deposit insurance premium assessments to the FDIC. Under the FDIC's risk-based assessment system for deposit insurance premiums, all insured depository institutions are placed into one of four categories (Risk Categories I, II, III, and IV), based primarily on their level of capital and supervisory evaluations, for purposes of determining the institution's assessment rate. Deposit insurance premium assessments are generally based on an institution's total assets minus its tangible equity.

Michigan DIFS Assessments. Michigan banks are required to pay supervisory fees to the Michigan DIFS to fund their operations. The amount of supervisory fees paid by a bank is based upon the bank's total assets.

Capital Requirements. The Federal Reserve has established the following minimum capital standards for state-chartered, FDIC-insured member banks, such as our bank: (1) a minimum ratio of common equity Tier 1 capital to risk-weighted assets of 4.5%, (2) a minimum ratio of Tier 1 capital to risk-weighted assets of 6%, (3) a minimum ratio of total capital to total risk-weighted assets of 8%, and (4) a minimum leverage ratio of 4%. A 2.5% common equity Tier 1 capital conservation buffer is also required. It is important to note that these regulatory capital rules provide minimum requirements, and higher capital levels may be required if warranted by the particular circumstances or risk profiles of individual banking organizations. In addition, the federal bank regulatory agencies are required biennially to review risk-based capital standards to ensure that they adequately address interest rate risk, concentration of credit risk and risks from non-traditional activities.

Federal law provides the federal banking regulators with broad power to take prompt corrective action to resolve the problems of undercapitalized institutions. The extent of the regulators' powers depends on whether the institution in question is "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," or "critically undercapitalized." Federal regulations define these capital categories as follows:

	Total Risk-Based Capital Ratio	Tier 1 Risk-Based Capital Ratio	Common Equity Tier 1 Risk-Based Capital Ratio	Leverage Ratio
Well capitalized	10% or above	8% or above	6.5% or above	5% or above
Adequately capitalized	8% or above	6% or above	4.5% or above	4% or above
Undercapitalized	Less than 8%	Less than 6%	Less than 4.5%	Less than 4%
Significantly undercapitalized	Less than 6%	Less than 4%	Less than 3%	Less than 3%
Critically undercapitalized		Tangible equity to total assets of 2% or less		

At December 31, 2021, our bank's ratios exceeded minimum requirements for the well-capitalized category.

Depending upon the capital category to which an institution is assigned, the regulators' corrective powers include: requiring the submission of a capital restoration plan; placing limits on asset growth and restrictions on activities; requiring the institution to issue additional capital stock (including additional voting stock) or to be acquired; restricting transactions with affiliates; restricting the interest rates the institution may pay on deposits; ordering a new election of directors of the institution; requiring that senior executive officers or directors be dismissed; prohibiting the institution from accepting deposits from correspondent banks; requiring the institution to divest certain subsidiaries; prohibiting the payment of principal or interest on subordinated debt and debentures; and ultimately, appointing a receiver for the institution.

In general, a depository institution may be reclassified to a lower category than is indicated by its capital levels if the appropriate federal depository institution regulatory agency determines the institution to be otherwise in an unsafe or unsound condition or to be engaged in an unsafe or unsound practice. This could include a failure by the institution to correct the deficiency following receipt of a less-than-satisfactory rating on its most recent examination report.

Dividends. Under Michigan law, banks are restricted as to the maximum amount of dividends they may pay on their common stock. Our bank may not pay dividends except out of its net income after deducting its losses and provision for credit losses. In addition, a Michigan bank may not declare or pay a dividend unless the bank will have a surplus amounting to at least 20 percent of its capital after the payment of the dividend.

In addition, as a member of the Federal Reserve System, our bank is required to obtain the prior approval of the Federal Reserve for the declaration or payment of a dividend if the total of all dividends declared in any year will exceed the total of (a) the bank's retained net income (as defined by federal regulation) for that year, *plus* (b) the bank's retained net income for the preceding two years.

Federal law also generally prohibits a depository institution from making any capital distribution (including payment of a dividend) or paying any management fee to its holding company if the depository institution would thereafter be undercapitalized. In addition, the Federal Reserve may prohibit the payment of dividends by a bank if such payment is determined, by reason of the financial condition of the bank, to be an unsafe and unsound banking practice or if the bank is in default of payment of any assessment due to the FDIC.

Insider Transactions. Our bank is subject to certain restrictions imposed by the Federal Reserve Act on "covered transactions" with us or our subsidiaries, which include investments in our stock or other securities issued by us or our subsidiaries, the acceptance of our stock or other securities issued by us or our subsidiaries as collateral for loans, and extensions of credit to us or our subsidiaries. Certain limitations and reporting requirements are also placed on extensions of credit by our bank to the directors and officers of the holding company, the bank, and the subsidiaries of the bank; to the principal shareholders of the holding company; and to "related interests" of such directors, officers, and principal shareholders. In addition, federal law and regulations may affect the terms upon which any person becoming one of our directors or officers or a principal shareholder may obtain credit from banks with which our bank maintains a correspondent relationship.

Safety and Soundness Standards. Pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), the FDIC adopted guidelines to establish operational and managerial standards to promote the safety and soundness of federally-insured depository institutions. The guidelines establish standards for internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, asset quality, and earnings.

Investment and Other Activities. Under federal law and regulations, FDIC-insured state banks are prohibited, subject to certain exceptions, from making or retaining equity investments of a type, or in an amount, that are not permissible for a national bank. FDICIA, as implemented by FDIC regulations, also prohibits FDIC-insured state banks and their subsidiaries, subject to certain exceptions, from engaging as a principal in any activity that is not permitted for a national bank or its subsidiary, respectively, unless the bank meets, and continues to meet, its minimum regulatory capital requirements and the bank's primary federal regulator determines the activity would not pose a significant risk to the DIF. Impermissible investments and activities must be otherwise divested or discontinued within certain time frames set by the bank's primary federal regulator in accordance with federal law. These restrictions are not currently expected to have a material impact on the operations of our bank.

Consumer Banking. Our bank's business includes making a variety of types of loans to individuals. In making these loans, our bank is subject to state usury and other consumer protection laws and to various federal statutes, including provisions of the Gramm Leach-Bliley Act aimed at protecting the privacy of consumer financial information, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act (TILA), the Real Estate Settlement Procedures Act (RESPA), the Home Mortgage Disclosure Act, and the regulations promulgated under these statutes, which (among other things) prohibit discrimination, specify disclosures to be made to borrowers regarding credit and settlement costs, and regulate the mortgage loan servicing activities of our bank, including the maintenance and operation of escrow accounts and the transfer of mortgage loan servicing. In receiving deposits, our bank is subject to extensive regulation under state and federal law and regulations, including the Truth in Savings Act, the Expedited Funds Availability Act, the Electronic Funds Transfer Act, and the Federal Deposit Insurance Act. Violation of these laws could result in the imposition of significant damages and fines upon our bank and its directors and officers.

A number of consumer protection laws were implemented following the 2008 recession, including the Dodd-Frank Act, adopted in 2010. The Dodd-Frank Act created the Consumer Financial Protection Bureau ("CFPB"), which was given the power to issue and enforce certain consumer protection laws. The CFPB has issued a number of consumer protection regulations, including regulations that impact residential mortgage lending and servicing.

We have experienced, and expect to continue to experience, increased costs and expenses related to compliance with these consumer protection regulations as well as new regulations that may be implemented in the future.

Anti-Money Laundering and the USA PATRIOT Act. The bank is subject to a number of financial recordkeeping and anti-money laundering laws and regulations including the Bank Secrecy Act and the USA PATRIOT Act, as well as similar rules and guidelines implemented and enforced by the Department of the Treasury's Financial Crimes Enforcement Network ("FinCEN") and the Federal Financial Institutions Council ("FFIEC"). These laws and regulations require the bank to take certain steps to prevent the use of the bank or its systems from facilitating the flow of illegal or illicit money or terrorist funds. These regulations include FinCEN's Customer Due Diligence Requirements for Financial Institutions, which is designed to identify and verify the identity of natural persons (known as beneficial owners) of legal entity customers who own, control and profit from companies when those companies open accounts.

2018 Regulatory Reform. In May 2018, the Economic Growth, Regulatory Relief and Consumer Protection Act (the "2018 Act") was enacted to modify or remove certain financial reform rules and regulations, including some of those implemented under the Dodd-Frank Act. While the 2018 Act maintained most of the regulatory structure established by the Dodd-Frank Act, it amended certain aspects of the regulatory framework for small depository institutions with assets of less than \$10 billion and for large banks with assets of more than \$50 billion.

The 2018 Act also included regulatory relief for community banks regarding regulatory examination cycles, call reports, the Volcker Rule (proprietary trading prohibitions), mortgage disclosures, and risk weights for certain high-risk commercial real estate loans.

CARES Act. On March 27, 2020, the Coronavirus Aid, Relief and Economic Security ("CARES") Act of 2020 was signed into law. Among other things, the CARES Act allowed banks to elect to suspend requirements under U.S. GAAP for loan modifications related to the COVID-19 pandemic (for loans that were not more than 30 days past due as of December 31, 2019) that would otherwise be categorized as a TDR, including impairment for accounting purposes. The passage of the Bipartisan-Bicameral Omnibus COVID Relief Deal in December 2020 permitted further suspension of these requirements until the earlier of 60 days after the termination date of the national emergency or January 1, 2022. Finally, as discussed below, the CARES Act and this December 2020 legislation delayed the required implementation of the Current Expected Credit Loss (CECL) accounting standard.

Anti-Money Laundering Act of 2020. The National Defense Authorization Act for Fiscal Year 2021 (the "NDAA") enacted January 1, 2021 over a presidential veto, includes a number of significant new requirements intended to enhance U.S. anti-money laundering efforts. These provisions, many of which are contained within a section of the NDAA known as the Anti-Money Laundering Act of 2020 (the "AMLA"), include establishment of a beneficial ownership registration database, the creation of two new criminal offenses regarding money laundering, new penalties for Bank Secrecy Act violations, and increased whistleblower rewards and protections. Under these new laws, various government agencies will also be tasked with identification of policy priorities, establishment of streamlined processes, creation of information sharing programs, and regular reporting to Congress in an effort to modernize anti-money laundering enforcement.

Branching Authority. Michigan banks, such as our bank, have the authority under Michigan law to establish branches anywhere in the State of Michigan, subject to receipt of all required regulatory approvals. Banks may establish interstate branch networks through acquisitions of other banks. The establishment of *de novo* interstate branches or the acquisition of individual branches of a bank in another state (rather than the acquisition of an out-of-state bank in its entirety) is allowed only if specifically authorized by state law.

Michigan permits both U.S. and non-U.S. banks to establish branch offices in Michigan. The Michigan Banking Code permits, in appropriate circumstances and with the approval of the Michigan DIFS (1) the acquisition of Michigan banks by FDIC-insured banks or savings banks located in other states, (2) the sale by a Michigan bank of branches to an FDIC-insured bank or savings bank located in a state in which a Michigan bank could purchase branches of the purchasing entity, (3) the consolidation of Michigan banks and FDIC-insured banks or savings banks located in other states having laws permitting such consolidation, (4) the establishment of branches in Michigan by FDIC-insured banks located in other states, the District of Columbia or U.S. territories or protectorates having laws permitting a Michigan bank to establish a branch in such jurisdiction, and (5) the establishment by foreign banks of branches located in Michigan.

Current Expected Credit Loss ("CECL"). In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, "Financial Instruments — Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments". We were originally required to adopt this ASU on January 1, 2020 but section 4014 of the CARES Act allowed for temporary relief from applying this ASU. Under the amended CARES Act we were allowed to delay the adoption of this ASU until the earlier of the termination of the national emergency that was declared on March 13, 2020, or January 1, 2022. Early adoption was also allowed on either January 1, 2020 or January 1, 2021. As such, we chose to delay the adoption of this ASU during 2020 and adopted this ASU on January 1, 2021. This ASU, also referred to as Current Expected Credit Loss, or CECL, requires financial institutions to determine periodic estimates of lifetime expected credit losses on loans, and recognize the expected credit losses as allowances for credit losses. This represents a change from the previous method of providing allowances for credit losses that are probable and the implementation of the new standard may require us to increase our allowance for credit losses. It may also greatly increase the data we will need to collect and review to determine the appropriate level of the allowance for credit losses. Any increase in our allowance for credit losses, or expenses incurred to determine the appropriate level of the allowance for credit losses, may have a material adverse effect on our financial condition and results of operations. In addition, federal bank regulatory agencies allow for an optional phase-in period for the impact of CECL on regulatory capital. We have elected the three year CECL method for regulatory purposes. See note #1, "Accounting Policies" in the Notes to Consolidated Financial Statements in our annual report, to be delivered to shareholders in connection with the April 19, 2022 Annual Meeting of Shareholders (filed as exhibit 13 to this report on Form 10-K) for additional discussion relating to our adoption of CECL.

Replacement of LIBOR. In 2017, the Chief Executive of the United Kingdom Financial Conduct Authority, which regulates the London Interbank Offered Rate ("LIBOR"), announced that it intended to stop persuading or compelling banks to submit rates for the calibration of LIBOR after 2021. On March 5, 2021, LIBOR's administrator announced that end dates for publication of LIBOR: December 31, 2021 for one-week and two-month USD LIBOR maturities and non-USD LIBOR maturities, and June 30, 2023 for all other tenors. Federal bank regulators have issued guidance indicating that banks should "cease entering into new contracts that use USD LIBOR as a reference rate as soon as practicable and in any event by December 31, 2021."

The Federal Reserve and the Alternative Reference Rates Committee ("ARRC"), a steering committee comprised primarily of large U.S. financial institutions, have identified the Secured Overnight Financing Rate ("SOFR"), a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities, as a potential alternative to LIBOR, and the Federal Reserve announced final plans for the production of SOFR. In July 2021, the ARRC formally recommended the CME SOFR Term Rates. Whether SOFR will become a LIBOR replacement and the ultimate future of LIBOR remain uncertain. Some financial institutions have indicated an intent to use other rates in addition to SOFR. However, both Fannie Mae and Freddie Mac announced in 2020 that they would cease purchasing and issuing LIBOR-based products by the end of 2020 and have begun accepting mortgages based on SOFR.

We have formed a cross-functional project team to lead this transition from LIBOR to a planned adoption of reference rates which could include SOFR, amongst others. Implementation of successor indices may lead to additional documentation requirements, compliance measures, financial impacts, and technology-related challenges, as well as potential disputes or litigation with customers and creditors. We are utilizing the timeline guidance published by the ARRC to develop and achieve internal milestones during this transitional period. We have discontinued the use of new LIBOR-based loans and interest rate derivative as of December 31, 2021, according to regulatory guidelines.

Future Legislation

Various other legislative and regulatory initiatives, including proposals to overhaul the bank regulatory system, are from time to time introduced in Congress and state legislatures, as well as regulatory agencies. Such future legislation regarding financial institutions may change banking statutes and our operating environment in substantial and unpredictable ways and could increase or decrease the cost of doing business, limit or expand permissible activities, or affect the competitive balance among organizations within the industry. The nature and extent of future legislative and regulatory changes affecting financial institutions is very unpredictable. We cannot determine the ultimate effect that any such potential legislation, if enacted, would have upon our financial condition or results of operations.

Available Information

Our annual reports on Forms 10-K, quarterly reports on Forms 10-Q, current reports on Forms 8-K, and all amendments to those reports are available free of charge through our website at www.IndependentBank.com as soon as reasonably practicable after filing with the SEC.

Investing in our common stock involves risks, including (among others) the following factors:

Risk Factors Relating to the COVID-19 Pandemic

The ongoing COVID-19 pandemic and measures intended to prevent its spread could have a material adverse effect on our business, results of operations and financial condition, and such effects will depend on future developments, which remain highly uncertain and difficult to predict.

The COVID-19 pandemic and the related government mandates, restrictions, and guidance have created and may continue to create and contribute to significant economic uncertainty and market disruptions. Throughout 2020 and 2021, the volatility created by the pandemic and responses to the pandemic impacted our performance, customers, and the markets we serve.

Federal and state government responses have also created uncertainty. On November 4, 2021, the U.S. Department of Labor implemented an emergency temporary standard (ETS) mandating that all employers with 100 workers or more must require their employees to be fully vaccinated or submit to weekly testing. The ETS has been met with many subsequent legal challenges. On January 13, 2022, the U.S. Supreme Court stayed the ETS, sending the case back to the U.S. Court of Appeals for the Sixth Circuit for a decision on the merits. Effective January 26, 2022, the U.S. Department of Labor withdrew the ETS as an enforceable emergency temporary standard, but did not withdraw it as a proposed permanent rule. As a result, the future of this proposed standard and its potential impact on our business remains unpredictable. In Michigan, the Department of Health and Human Services announced its intent to update quarantine and isolation periods to align with the Centers for Disease Control and Prevention's newly shortened guidelines. These impending mandates and guidelines may have significant effects on the U.S. and Michigan economies, the banking sector generally, and our business specifically, the scope of which cannot be foreseen.

Based on this uncertainty, it is difficult to predict the extent to which the pandemic will continue to adversely impact our business, results of operations, financial condition, and customers. The potential impacts may include, but are not limited to:

- difficulties encountered by our business customers in addressing the effects of the pandemic may cause increases in loan delinquencies, foreclosures and defaults;
- increases in our allowance for credit losses may be necessary;
- declines in collateral values may occur;
- third party disruptions may occur, including outages at network providers, on-line banking vendors and other suppliers;
- there is increased cyber and payment fraud risk, as cybercriminals attempt to profit from the disruption, given increased online and remote activity;
- we may experience operational failures due to changes in our normal business practices necessitated by the pandemic and related governmental actions; and/or
- our production and efficiency may suffer due to employee illnesses and/or employees having to work remotely.

Given the ongoing uncertainty with respect to the pandemic and potential government responses, these risk factors may continue to some degree for a significant period of time.

The extent to which the COVID-19 pandemic may impact our business, results of operations, asset valuations, financial condition, and customers will depend on future developments, which continue to be highly uncertain and difficult to predict. Those developments and factors are expected to include the evolution of the virus and new and emerging virus variants, vaccination rates and subsequent vaccine "boosters," actions taken by governmental authorities to address the foregoing, and the enforcement thereof, and how quickly and to what extent normal economic and operating conditions stabilize. Potential developments also include market factors, such as interest rates, supply chain disruptions, inflation, consumer-welfare, and employment rates. We do not know the full extent of the potential impact. Material adverse impacts may include all or a combination of valuation impairments on our intangible assets, securities available for sale, loans, capitalized mortgage loan servicing rights or deferred tax assets.

Risk Factors Relating to the Financial Services Industry.

Downturns in general political, economic or industry conditions, either domestically or internationally, would have an adverse effect on our financial condition and performance.

Local, domestic, and international economic, political and industry-specific conditions affect the financial services industry, directly and indirectly. Conditions such as or related to inflation, recession, unemployment, volatile interest rates, international conflicts and other factors outside of our control, such as real estate values, energy costs, fuel prices, state and local municipal budget deficits, and government spending and the U.S. national debt, may, directly and indirectly, adversely affect us. Economic downturns could result in the delinquency of outstanding loans, which could have a material adverse impact on our earnings.

Governmental monetary and fiscal policies may adversely affect the financial services industry and therefore impact our financial condition and results of operations.

Monetary and fiscal policies of various governmental and regulatory agencies, particularly the Federal Reserve, affect the financial services industry, directly and indirectly. The Federal Reserve regulates the supply of money and credit in the U.S., and its monetary and fiscal policies determine in a large part our cost of funds for lending and investing and the return that can be earned on such loans and investments. Changes in such policies, including changes in interest rates, will influence the origination of loans, the value of investments, the value of capitalized mortgage loan servicing rights, the generation of deposits and the rates received on loans and investment securities and paid on deposits. Changes in monetary and fiscal policies are beyond our control and difficult to predict. Our financial condition and results of operations could be materially adversely impacted by changes in governmental monetary and fiscal policies.

Volatility and disruptions in global capital and credit markets may adversely impact our business, financial condition and results of operations.

Even though we operate in a distinct geographic region in the U.S., we are impacted by global capital and credit markets, which are sometimes subject to periods of extreme volatility and disruption. Disruptions, uncertainty or volatility in the capital and credit markets may limit our ability to access capital and manage liquidity, which may adversely affect our business, financial condition and results of operations. Further, our customers may be adversely impacted by such conditions, which could have a negative impact 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 and 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, can lead to market-wide liquidity problems and losses or defaults by us or by other institutions. Many of these transactions could expose us to credit risk in the event of default by a counterparty. In addition, our credit risk may be impacted 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 to us. There is no assurance that any such losses would not adversely affect us and possibly be material in nature.

Changes in regulation or oversight may have a material adverse impact on our operations.

We are subject to extensive regulation, supervision and examination by the Federal Reserve, the FDIC, the Michigan DIFS, the SEC and other regulatory bodies. Such regulation and supervision governs the activities in which we may engage. Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the imposition of restrictions on our operations, limitations related to our securities, the classification of our assets, and the determination of the level of our allowance for credit losses. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, legislation or supervisory action, may have a material adverse impact on our business, financial condition or results of operations.

Additional regulatory focus on the financial services industry is common in connection with an economic downturn, as the industry experienced following the most recent financial crisis. As a result, the adverse effects on our business relating to a future economic downturn could be exacerbated by additional regulations and regulatory scrutiny that accompanied or followed any such downturn. We can neither predict when or whether future regulatory or legislative reforms will be enacted nor what their contents will be. The impact of any future legislation or regulatory actions on our businesses or operations cannot be determined at this time, and such impact may adversely affect us.

We are subject to liquidity risk in our operations, which could adversely impact our ability to fund various obligations.

Liquidity risk is the possibility of being unable to meet obligations as they come due or capitalize on growth opportunities as they arise because of an inability to liquidate assets or obtain adequate funding on a timely basis, at a reasonable cost and within acceptable risk tolerances. Liquidity is required to fund various obligations, including credit obligations to borrowers, loan originations, withdrawals by depositors, repayment of debt, dividends to shareholders, operating expenses and capital expenditures. Liquidity is derived primarily from retail deposit growth and earnings retention, principal and interest payments on loans and investment securities, net cash provided from operations and access to other funding. If we are unable to maintain adequate liquidity, then our business, financial condition and results of operations could be negatively impacted.

Operational difficulties, failure of technology infrastructure or information security incidents could adversely affect our business and operations.

We are exposed to many types of operational risk, including reputational risk, legal and compliance risk, the risk of fraud or theft by employees or outsiders, failure of our controls and procedures and unauthorized transactions by employees or operational errors, including clerical or recordkeeping errors or those resulting from computer or telecommunications systems malfunctions. Given the high volume of transactions we process, certain errors may be repeated or compounded before they are identified and resolved. In particular, our operations rely on the secure processing, storage and transmission of confidential and other information on our technology systems and networks. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan and other systems.

We also face the risk of operational disruption, failure or capacity constraints due to our dependency on third party vendors for components of our business infrastructure, including our core data processing systems which are largely outsourced. While we have selected these third party vendors carefully, we do not control their operations. As such, any failure on the part of these business partners to perform their various responsibilities could also adversely affect our business and operations.

We may also be subject to disruptions of our operating systems arising from events that are wholly or partially beyond our control, which may include, for example, computer viruses, cyber attacks, spikes in transaction volume and/or customer activity, electrical or telecommunications outages, or natural disasters. Although we have programs in place related to business continuity, disaster recovery and information security to maintain the confidentiality, integrity, and availability of our systems, business applications and customer information, such disruptions may give rise to interruptions in service to customers and loss or liability to us.

The occurrence of any failure or interruption in our operations or information systems, or any security breach, could cause reputational damage, jeopardize the confidentiality of customer information, result in a loss of customer business, subject us to regulatory intervention or expose us to civil litigation and financial loss or liability, any of which could have a material adverse effect on us.

Changes in the financial markets, including fluctuations in interest rates and their impact on deposit pricing, could adversely affect our net interest income and financial condition.

The operations of financial institutions such as us are dependent to a large degree on net interest income, which is the difference between interest income from loans and investments and interest expense on deposits and borrowings. Prevailing economic conditions, the trade, fiscal and monetary policies of the federal government and the policies of various regulatory agencies all affect market rates of interest and the availability and cost of credit, which in turn significantly affect financial institutions' net interest income. Volatility in interest rates can also result in disintermediation, which is the flow of funds away from financial institutions into direct investments, such as federal government and corporate securities and other investment vehicles, which, because of the absence of federal insurance premiums and reserve requirements, generally pay higher rates of return than financial institutions. Our financial results could be materially adversely impacted by changes in financial market conditions.

Legal and regulatory proceedings and related matters with respect to the financial services industry, including those directly involving us, could adversely affect us or the financial services industry in general.

We have been, and may in the future be, subject to various legal and regulatory proceedings. It is inherently difficult to assess the outcome of these matters, and there can be no assurance that we will prevail in any proceeding or litigation. Any such matter could result in substantial cost and diversion of our efforts, which by itself could have a material adverse effect on our financial condition and operating results. Further, adverse determinations in such matters could result in actions by our regulators that could materially adversely affect our business, financial condition or results of operations.

Methods of reducing risk exposures might not be effective.

Instruments, systems and strategies used to hedge or otherwise manage exposure to various types of credit, market and liquidity, operational, compliance, business risks and enterprise-wide risk could be less effective than anticipated. As a result, we may not be able to effectively mitigate our risk exposures in particular market environments or against particular types of risk, which could have a material adverse impact on our business, financial condition or results of operations.

Risk Factors More Specific to Our Business

We have credit risk inherent in our loan portfolios, and our allowance for credit losses may not be sufficient to cover actual credit losses.

Our loan customers may not repay their loans according to their respective terms, and the collateral securing the payment of these loans may be insufficient to cover any losses we may incur. We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. Non-performing loans amounted to \$5.1 million and \$7.9 million at December 31, 2021 and December 31, 2020, respectively. Our allowance for credit losses coverage ratio of non-performing loans was 924.70% and 450.01% at December 31, 2021 and December 31, 2020, respectively. The increase in this coverage ratio in 2021 was primarily due to an increase in the allowance for credit losses resulting from the adoption of CECL on January 1, 2021. In determining the size of the allowance for credit losses, we rely on our experience and our evaluation of current economic conditions. If our assumptions or judgments prove to be incorrect, our current allowance for credit losses may not be sufficient to cover certain credit losses inherent in our loan portfolio, and adjustments may be necessary to account for different economic conditions or adverse developments in our loan portfolio. Material additions to our allowance for credit losses would adversely impact our operating results.

In addition, federal and state regulators periodically review our allowance for credit losses and may require us to increase our provision for credit losses or recognize additional loan charge-offs, notwithstanding any internal analysis that has been performed. Any increase in our allowance for credit losses or loan charge-offs required by these regulatory agencies could have a material adverse effect on our results of operations and financial condition.

We have credit risk in our securities portfolio.

We maintain diversified securities portfolios, which include obligations of the Treasury and government-sponsored agencies as well as securities issued by states and political subdivisions, mortgage-backed securities, corporate securities and asset-backed securities. We seek to limit credit losses in our securities portfolios by principally purchasing highly rated securities (generally rated "AA" or higher by a major debt rating agency) and by conducting due diligence on the issuer. However, gross unrealized losses on securities available for sale in our portfolio totaled approximately \$8.6 million as of December 31, 2021 (compared to approximately \$1.4 million as of December 31, 2020). We believe these unrealized losses are temporary in nature and are expected to be recovered within a reasonable time period as we believe we have the ability to hold the securities to maturity or until such time as the unrealized losses reverse. However, we evaluate securities available for sale for other impairment related to credit at least quarterly and more frequently when economic or market concerns warrant such evaluation. Those evaluations may result in a provision for credit losses recorded in our earnings. We may, in the future, experience losses in our securities portfolio which may result in credit losses that could materially adversely affect our results of operations.

Our mortgage-banking revenues are susceptible to substantial variations, due in part to factors we do not control, such as market interest rates.

A portion of our revenues are derived from net gains on mortgage loans. These net gains primarily depend on the volume of loans we sell, which in turn depends on our ability to originate real estate mortgage loans and the demand for fixed-rate obligations and other loans that are outside of our established interest-rate risk parameters. Net gains on mortgage loans are also dependent upon economic and competitive factors as well as our ability to effectively manage exposure to changes in interest rates. Consequently, they can often be a volatile part of our overall revenues. We realized net gains of \$35.9 million on mortgage loans during 2021 compared to \$62.6 million during 2020 and \$20.0 million during 2019.

Our parent company must rely on dividends or returns of capital from our bank for most of its cash flow.

Our parent company is a separate and distinct legal entity from our bank. Generally, our parent company receives substantially all of its cash flow from dividends or returns of capital from our subsidiary bank. These dividends or returns of capital are the principal source of funds to pay our parent company's operating expenses and for cash dividends on our common stock. Various federal and/or state laws and regulations limit the amount of dividends that the bank may pay to the parent company.

Any future strategic acquisitions or divestitures may present certain risks to our business and operations.

Difficulties in capitalizing on the opportunities presented by a future acquisition may prevent us from fully achieving the expected benefits from the acquisition or may cause the achievement of such expectations to take longer to realize than expected. Further, the assimilation of the acquired entity's customers and markets could result in higher than expected deposit attrition, loss of key employees, disruption of our businesses or the businesses of the acquired entity or otherwise adversely affect our ability to maintain relationships with customers and employees or achieve the anticipated benefits of the acquisition. These matters could have an adverse effect on us for an undetermined period. We will be subject to similar risks and difficulties in connection with any future decisions to downsize, sell or close units or otherwise change our business mix.

Compliance with capital requirements may adversely affect us.

The capital requirements applicable to us as a bank holding company as well as to our subsidiary bank have been substantially revised in connection with Basel III and the requirements of the Financial Reform Act. These more stringent capital requirements, and any other new regulations, could adversely affect our ability to pay dividends in the future, or could require us to reduce business levels or to raise capital, including in ways that may adversely affect our results of operations or financial condition and/or existing shareholders. Maintaining higher levels of capital may reduce our profitability and otherwise adversely affect our business, financial condition, or results of operations.

Declines in the businesses or industries of our customers could cause increased credit losses, which could adversely affect us.

Our business customer base consists, in part, of customers in businesses and industries that are sensitive to global economic conditions and supply chain factors as well as the impact of COVID-19. These industries include the automotive production industry, real estate businesses, retail C&I, hotels, entertainment and food service. Any decline in one of those customers' businesses or industries could cause increased credit losses, which in turn could adversely affect us.

The introduction, implementation, withdrawal, success and timing of business initiatives and strategies may be less successful or may be different than anticipated, which could adversely affect our business.

We make certain projections and develop plans and strategies for our banking and financial products. If we do not accurately determine demand for or changes in our banking and financial product needs, it could result in us incurring significant expenses without the anticipated increases in revenue, which could result in a material adverse effect on our business.

We may not be able to utilize technology to efficiently and effectively develop, market, and deliver new products and services to our customers.

The financial services industry experiences rapid technological change with regular introductions of new technology-driven products and services. The efficient and effective utilization of technology enables financial institutions to better serve customers and to reduce costs. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to market and deliver products and services that will satisfy customer demands, meet regulatory requirements, and create additional efficiencies in our operations. We may not be able to effectively develop new technology-driven products and services or be successful in marketing or supporting these products and services to our customers, which could have a material adverse impact on our financial condition and results of operations.

Competitive product and pricing pressures among financial institutions within our markets may change.

We operate in a very competitive environment, which is characterized by competition from a number of other financial institutions in each market in which we operate. We compete with large national and regional financial institutions and with smaller financial institutions in terms of products and pricing. If we are unable to compete effectively in products and pricing in our markets, business could decline, which could have a material adverse effect on our business, financial condition or results of operations.

Changes in customer behavior may adversely impact our business, financial condition and results of operations.

We use a variety of methods to anticipate customer behavior as a part of our strategic planning and to meet certain regulatory requirements. Individual, economic, political, industry-specific conditions and other factors outside of our control, such as fuel prices, energy costs, real estate values or other factors that affect customer income levels, could alter predicted customer borrowing, repayment, investment and deposit practices. Such a change in these practices could materially adversely affect our ability to anticipate business needs and meet regulatory requirements.

Further, difficult economic conditions may negatively affect consumer confidence levels. A decrease in consumer confidence levels would likely aggravate the adverse effects of these difficult market conditions on us, our customers and others in the financial institutions industry.

Our ability to maintain and expand customer relationships may differ from expectations.

The financial services industry is very competitive. We not only vie for business opportunities with new customers, but also compete to maintain and expand the relationships we have with our existing customers. While we believe that we can continue to grow many of these relationships, we will continue to experience pressures to maintain these relationships as our competitors attempt to capture our customers. Failure to create new customer relationships and to maintain and expand existing customer relationships to the extent anticipated may adversely impact our earnings.

Our ability to retain key officers and employees may change.

Our future operating results depend substantially upon the continued service of our executive officers and key personnel. Our future operating results also depend in significant part upon our ability to attract and retain qualified management, financial, technical, marketing, sales and support personnel. Competition for qualified personnel is intense, and we cannot ensure success in attracting or retaining qualified personnel. There may be only a limited number of persons with the requisite skills to serve in these positions, and it may be increasingly difficult for us to hire personnel over time.

Further, our ability to retain key officers and employees may be impacted by legislation and regulation affecting the financial services industry. Our business, financial condition or results of operations could be materially adversely affected by the loss of any key employees, or our inability to attract and retain skilled employees.

Catastrophic events, including, but not limited to, hurricanes, tornadoes, earthquakes, fires, floods and pandemic outbreaks may adversely affect the general economy, financial and capital markets, specific industries, and us.

We have significant operations and a significant customer base in Michigan where natural and other disasters may occur, such as tornadoes and floods. These types of natural catastrophic events at times have disrupted the local economy, our business, and our customers and have posed physical risks to our property. In addition, catastrophic events occurring in other regions of the world may have an impact on our customers and in turn, on us. A significant catastrophic event could materially adversely affect our operating results.

Our failure to appropriately apply certain critical accounting policies could result in our misstatement of our financial results and condition.

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 subject to internal controls 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. See note #1, "Accounting Policies" in the Notes to Consolidated Financial Statements in our annual report, to be delivered to shareholders in connection with the April 19, 2022 Annual Meeting of Shareholders (filed as exhibit 13 to this report on Form 10-K).

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We and our bank operate a total of 85 facilities in Michigan and 2 leased facilities in Ohio. We own 60 and lease 25 of the facilities in Michigan.

With the exception of the potential remodeling of certain facilities to provide for the efficient use of workspace or to maintain an appropriate appearance, each property is considered reasonably adequate for current and anticipated needs.

ITEM 3. LEGAL PROCEEDINGS

We are involved in various litigation matters in the ordinary course of business. At the present time, we do not believe any of these matters will have a significant impact on our consolidated financial position or results of operations. The aggregate amount we have accrued for losses we consider probable as a result of these litigation matters is immaterial. However, because of the inherent uncertainty of outcomes from any litigation matter, we believe it is reasonably possible we may incur losses in addition to the amounts we have accrued. At this time, we estimate the maximum amount of additional losses that are reasonably possible is insignificant. However, because of a number of factors, including the fact that certain of these litigation matters are still in their early stages, this maximum amount may change in the future.

The litigation matters described in the preceding paragraph primarily include claims that have been brought against us for damages, but do not include litigation matters where we seek to collect amounts owed to us by third parties (such as litigation initiated to collect delinquent loans). These excluded, collection-related matters may involve claims or counterclaims by the opposing party or parties, but we have excluded such matters from the disclosure contained in the preceding paragraph in all cases where we believe the possibility of us paying damages to any opposing party is remote.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ADDITIONAL ITEM - EXECUTIVE OFFICERS

Our executive officers are appointed annually by our Board of Directors at the meeting of directors preceding the Annual Meeting of Shareholders. There are no family relationships among these officers and/or our directors nor any arrangement or understanding between any officer and any other person pursuant to which the officer was elected.

The following sets forth certain information with respect to our executive officers at February 19, 2022.

<u>Name (Age)</u>	<u>Position</u>	<u>First elected as an executive officer</u>
William B. Kessel (57)	President, Chief Executive Officer and Director	2004
Gavin A. Mohr (38)	Executive Vice President and Chief Financial Officer(1)	2020
Stefanie M. Kimball (62)	Executive Vice President and Chief Risk Officer	2007
Joel Rahn (55)	Executive Vice President and Chief Lending Officer(2)	2021
Larry R. Daniel (58)	Executive Vice President, Operations and Digital Banking	2017
Patrick J. Ervin (56)	Executive Vice President, Mortgage Banking	2017
James J. Twarozynski (56)	Senior Vice President and Chief Accounting Officer	2002

- (1) Mr. Mohr joined Independent Bank in September 2020, as Executive Vice President and Chief Financial Officer. Prior to joining Independent Bank, Mr. Mohr served as the Chief Financial Officer of STAR Financial Bank, ("STAR"), a \$2.1 billion bank, located in Fort Wayne, Indiana. Prior to joining STAR, Mr. Mohr served as Treasurer of Yadkin Bank and Trust (Statesville, North Carolina) from 2013 to 2014.
- (2) Mr. Rahn joined Independent Bank in April of 2018 as Senior Vice President Commercial Lending. He was promoted to Executive Vice President and Chief Lending Officer in January, 2021. He has 33 years of commercial banking experience and has served in senior leadership positions for the past 16 years.

ITEM 5. MARKET FOR OUR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The information set forth under the caption "Quarterly Summary" in our annual report, to be delivered to shareholders in connection with the April 19, 2022 Annual Meeting of Shareholders (filed as exhibit 13 to this report on Form 10-K), is incorporated herein by reference.

We maintain a Deferred Compensation and Stock Purchase Plan for Non-Employee Directors (the "Plan") pursuant to which non-employee directors can elect to receive shares of our common stock in lieu of fees otherwise payable to the director for his or her service as a director. A director can elect to receive shares on a current basis or to defer receipt of the shares, in which case the shares are issued to a trust to be held for the account of the director and then generally distributed to the director after his or her retirement from the Board. Pursuant to this Plan, during the fourth quarter of 2021, we issued 384 shares of common stock to non-employee directors on a current basis and 4,034 shares of common stock to the trust for distribution to directors on a deferred basis. These shares were issued on October 1, 2021 representing aggregate fees of \$0.09 million. The shares issued on a current basis were issued at a price of \$21.48 per share and the shares to be issued on a deferred basis were issued at a price of \$19.33 per share, representing 90% of the fair value of the shares on the credit date. The per-share value used was the consolidated closing bid price per share of our common stock as of the date of issuance, as determined in accordance with NASDAQ Marketplace Rules. We issued the shares pursuant to an exemption from registration under Section 4(2) of the Securities Act of 1933 due to the fact that the issuance of the shares was made on a private basis pursuant to the Plan.

ISSUER PURCHASES OF EQUITY SECURITIES

The following table shows certain information relating to purchases of common stock for the three-months ended December 31, 2021:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan(1)	Remaining Number of Shares Authorized for Purchase Under the Plan
October 2021	44,977	\$ 21.75	44,977	395,673
November 2021	-	-	-	395,673
December 2021	110,583	\$ 22.77	110,583	-
Total	155,560	\$ 22.48	155,560	-

(1) These shares were repurchased pursuant to a share repurchase plan announced on December 15, 2020, which authorized the repurchase of up to 1,100,000 shares of our outstanding common stock during 2021.

The share repurchase plan we had in place for 2021 expired on December 31, 2021. On December 17, 2021, we announced the adoption by our Board of Directors of a 2022 share repurchase plan that authorizes the repurchase during 2022 of up to 1,100,000 shares of our outstanding common stock.

ITEM 6. SELECTED FINANCIAL DATA

The information set forth under the caption "Selected Consolidated Financial Data" in our annual report, to be delivered to shareholders in connection with the April 19, 2022 Annual Meeting of Shareholders (filed as exhibit 13 to this report on Form 10-K), is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information set forth under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our annual report, to be delivered to shareholders in connection with the April 19, 2022 Annual Meeting of Shareholders (filed as exhibit 13 to this report on Form 10-K), is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the caption "Asset/liability management" in our annual report, to be delivered to shareholders in connection with the April 19, 2022 Annual Meeting of Shareholders (filed as exhibit 13 to this report on Form 10-K), is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following consolidated financial statements and the independent auditor's report are set forth in our annual report, to be delivered to shareholders in connection with the April 19, 2022 Annual Meeting of Shareholders (filed as exhibit 13 to this report on Form 10-K), and are incorporated herein by reference.

Management's Annual Report on Internal Control Over Financial Reporting

Report of Independent Registered Public Accounting Firm

Consolidated Statements of Financial Condition at December 31, 2021 and 2020

Consolidated Statements of Operations for the years ended December 31, 2021, 2020 and 2019

Consolidated Statements of Comprehensive Income for the years ended December 31, 2021, 2020 and 2019

Consolidated Statements of Shareholders' Equity for the years ended December 31, 2021, 2020 and 2019

Consolidated Statements of Cash Flows for the years ended December 31, 2021, 2020 and 2019

Notes to Consolidated Financial Statements

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

The supplementary data required by this item set forth under the caption "Quarterly Financial Data (Unaudited)" in our annual report, to be delivered to shareholders in connection with the April 19, 2022 Annual Meeting of Shareholders (filed as exhibit 13 to this report on Form 10-K), is incorporated herein by reference.

The portions of our annual report, to be delivered to shareholders in connection with the April 19, 2022 Annual Meeting of Shareholders (filed as exhibit 13 to this report on Form 10-K), which are not specifically incorporated by reference as part of this Form 10-K are not deemed to be a part of this report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

1. Evaluation of Disclosure Controls and Procedures. With the participation of management, our chief executive officer and chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a – 15e and 15d – 15e) as of the year ended December 31, 2021 (the "Evaluation Date"), have concluded that, as of such date, our disclosure controls and procedures were effective.
2. Internal Control Over Financial Reporting. "Management's Annual Report on Internal Control Over Financial Reporting" and our independent registered public accounting firm's audit of internal control over financial reporting as of December 31, 2021 included within the "Report of Independent Registered Public Accounting Firm," each as set forth in our annual report, to be delivered to shareholders in connection with the April 19, 2022 Annual Meeting of Shareholders (filed as exhibit 13 to this report on Form 10-K) are incorporated herein by reference.

ITEM 9B. OTHER INFORMATION

None.

PART III.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

DIRECTORS - The information with respect to our directors set forth under the caption "Proposal I Submitted for Your Vote -- Election of Directors" in our definitive proxy statement, to be delivered to shareholders in connection with the April 19, 2022 Annual Meeting of Shareholders, is incorporated herein by reference.

BENEFICIAL OWNERSHIP REPORTING – The information set forth under the caption "Delinquent Section 16(a) Reports" in our definitive proxy statement, to be delivered to shareholders in connection with the April 19, 2022 Annual Meeting of Shareholders, is incorporated herein by reference.

EXECUTIVE OFFICERS - Reference is made to the additional item under Part I of this report on Form 10-K.

CODE OF ETHICS - We have adopted a "Code of Ethics for Chief Executive Officer and Senior Financial Officers" that applies to our Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer and Controller. A copy of our Code of Ethics is posted on our website at www.IndependentBank.com, under Investor Relations, and a printed copy is available upon request by writing to our Chief Financial Officer, Independent Bank Corporation, 4200 East Beltline, Grand Rapids, Michigan 49525.

CORPORATE GOVERNANCE – Information relating to our audit committee, set forth under the caption "Board Committees and Functions" in our definitive proxy statement, to be delivered to shareholders in connection with the April 19, 2022 Annual Meeting of Shareholders, is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information set forth under the captions "Executive Compensation," "Director Compensation," "Compensation Committee Interlocks and Insider Participation," and "Compensation Committee Report" in our definitive proxy statement, to be delivered to shareholders in connection with the April 19, 2022 Annual Meeting of Shareholders, is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information set forth under the captions "Voting Securities and Record Date", "Proposal I Submitted for Your Vote -- Election of Directors" and "Securities Ownership of Management" in our definitive proxy statement, to be delivered to shareholders in connection with the April 19, 2022 Annual Meeting of Shareholders, is incorporated herein by reference.

We maintain certain equity compensation plans under which our common stock is authorized for issuance to employees and directors, including our Deferred Compensation and Stock Purchase Plan for Non-employee Directors and our Long-Term Incentive Plan.

The following sets forth certain information regarding our equity compensation plans as of December 31, 2021.

Plan Category	(a)	(b)	(c)
	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	80,839	\$ 5.76	654,146
Equity compensation plan not approved by security holders	None	N/A	125,662

The equity compensation plan not approved by security holders referenced above is our Deferred Compensation and Stock Purchase Plan for Non-employee Directors. This plan allows our non-employee directors to defer payment of all or a part of their director fees and to receive shares of common stock in lieu of cash for these fees. Under the plan, each non-employee director may elect to participate in a Current Stock Purchase Account, a Deferred Cash Investment Account, or a Deferred Stock Account. A Current Stock Purchase Account is credited with shares of our common stock having a fair market value equal to the fees otherwise payable. A Deferred Cash Investment Account is credited with an amount equal to the fees deferred and on each quarterly credit date with an appreciation factor that may not exceed the prime rate of interest charged by our bank. A Deferred Stock Account is credited with the amount of fees deferred and converted into stock units based on 90% of the fair market value of our common stock at the time of the deferral. Amounts in the Deferred Stock Account are credited with cash dividends and other distributions on our common stock. Fees credited to a Deferred Cash Investment Account or a Deferred Stock Account are deferred for income tax purposes. This plan does not provide for distributions of amounts deferred prior to a participant's termination as a non-employee director. Participants may generally elect either a lump sum or installment distribution.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information set forth under the captions "Transactions Involving Management" and "Determination of Independence of Board Members" in our definitive proxy statement, to be delivered to shareholders in connection with the April 19, 2022 Annual Meeting of Shareholders, is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information set forth under the caption "Disclosure of Fees Paid to our Independent Auditors" in our definitive proxy statement, to be delivered to shareholders in connection with the April 19, 2022 Annual Meeting of Shareholders, is incorporated herein by reference.

PART IV.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

- (a) 1. **Financial Statements**
All of our financial statements are incorporated herein by reference as set forth in the annual report to be delivered to shareholders in connection with the April 19, 2022 Annual Meeting of Shareholders (filed as exhibit 13 to this report on Form 10-K.)
2. Exhibits (Numbered in accordance with Item 601 of Regulation S-K)
The Exhibit Index is located below.

EXHIBIT INDEX

Exhibit number and description

EXHIBITS FILED HEREWITH

13	Annual report, relating to the April 19, 2022 Annual Meeting of Shareholders. This annual report will be delivered to our shareholders in compliance with Rule 14(a)-3 of the Securities Exchange Act of 1934, as amended.
21	List of Subsidiaries.
23	Consent of Independent Registered Public Accounting Firm (Crowe LLP).
24	Power of Attorney (included on page 28).
31.1	Certificate of the Chief Executive Officer of Independent Bank Corporation pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certificate of the Chief Financial Officer of Independent Bank Corporation pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certificate of the Chief Executive Officer of Independent Bank Corporation pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certificate of the Chief Financial Officer of Independent Bank Corporation pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

- 101.INS Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)
- 101.SCH Inline XBRL Taxonomy Extension Schema Document
- 101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF Inline XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB Inline XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document
- 104 Cover page interactive data file (formatted as inline XBRL and contained in Exhibit 101)

EXHIBITS INCORPORATED BY REFERENCE

3.1	Restated Articles of Incorporation (incorporated herein by reference to Exhibit 3.1 to our quarterly report on Form 10-Q filed November 3, 2017).
3.2	Amended and Restated Bylaws (incorporated here by reference to Exhibit 3.2 to our annual report on Form 10-K filed March 7, 2017).
4.1	Description of Registrant's Common Stock (incorporated here by reference to Exhibit 4 to our annual report on Form 10-K filed March 6, 2020).
4.2	Form of 5.95% Fixed-to-Floating Rate Subordinated Note due 2030 (included as Exhibit A to the Form of Subordinated Note Purchase Agreement filed as Exhibit 10.8 to this Annual Report on Form 10-K).
10.1*	The form of Indemnity Agreement, as executed with all of the directors of the registrant (incorporated herein by reference to Exhibit 10.3 to the Form S-4 we filed on December 29, 2017).
10.2*	The form of Management Continuity Agreement as executed with executive officers and certain senior managers (incorporated herein by reference to Exhibit 10.4 to the Form S-4 we filed on December 29, 2017).
10.3*	2021 Independent Bank Corporation Long-Term Incentive Plan, effective April 20, 2021 (incorporated herein by reference to Appendix A to our proxy statement filed on Schedule 14A on March 5, 2021).

10.4*	Amended and Restated Deferred Compensation and Stock Purchase Plan for Nonemployee Directors, as amended through March 19, 2019 (incorporated herein by reference to Exhibit 10.1 to our quarterly report on Form 10-Q filed May 3, 2019).
10.5*	Form of Restricted Stock Unit Grant Agreement as executed with certain executive officers (incorporated herein by reference to Exhibit 10.2 to our quarterly report on Form 10-Q filed May 9, 2011).
10.6*	Form of TSR Performance Share Award Agreement as executed with certain executive officers (incorporated herein by reference to Exhibit 10.12 to our annual report on Form 10-K filed March 7, 2014).
10.7*	Summary of Independent Bank Corporation Management Incentive Compensation Plan (incorporated herein by reference to Exhibit 10.10 to our annual report on Form 10-K filed March 6, 2015).
10.8	Form of Subordinated Note Purchase Agreement dated May 27, 2020, by and among Independent Bank Corporation and the Purchasers (incorporated herein by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on May 27, 2020).

* Represents a compensation plan.

ITEM 16. FORM 10-K SUMMARY

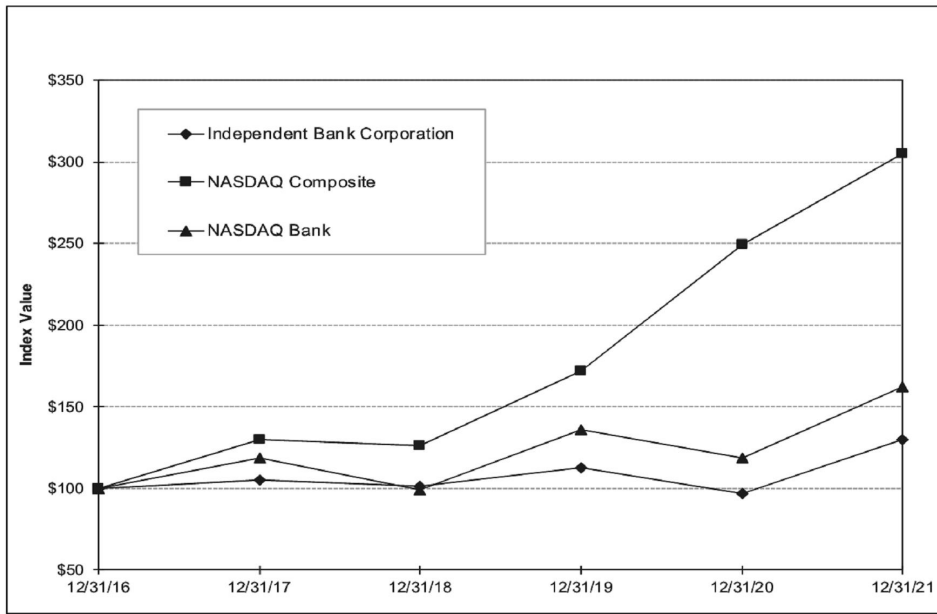
Not applicable.

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PERFORMANCE GRAPH

The graph below compares the total returns (assuming reinvestment of dividends) of Independent Bank Corporation common stock, the NASDAQ Composite Index and the NASDAQ Bank Stock Index. The graph assumes \$100 invested in Independent Bank Corporation common stock (returns based on stock prices per the NASDAQ) and each of the indices on December 31, 2016, and the reinvestment of all dividends during the periods presented. The performance shown on the graph is not necessarily indicative of future performance.

Independent Bank Corporation



Index	Period Ending					
	12/31/16	12/31/17	12/31/18	12/31/19	12/31/20	12/31/21
Independent Bank Corporation	\$ 100.00	\$ 105.03	\$ 101.29	\$ 112.84	\$ 96.72	\$ 129.79
NASDAQ Composite	100.00	129.64	125.96	172.17	249.51	304.85
NASDAQ Bank	100.00	118.39	98.98	135.78	118.40	162.58

SELECTED CONSOLIDATED FINANCIAL DATA

	Year Ended December 31,				
	2021	2020	2019	2018	2017
(Dollars in thousands, except per share amounts)					
SUMMARY OF OPERATIONS					
Interest income	\$ 138,080	\$ 139,829	\$ 148,928	\$ 130,773	\$ 98,309
Interest expense	8,315	16,217	26,347	17,491	9,123
Net interest income	129,765	123,612	122,581	113,282	89,186
Provision for credit losses ⁽¹⁾	(1,928)	12,463	824	1,503	1,199
Net gains on securities available for sale	1,411	267	307	138	260
Other non-interest income	75,232	80,478	47,429	44,677	42,273
Non-interest expense	131,023	122,413	111,733	107,461	92,082
Income before income tax	77,313	69,481	57,760	49,133	38,438
Income tax expense	14,418	13,329	11,325	9,294	17,963
Net income	\$ 62,895	\$ 56,152	\$ 46,435	\$ 39,839	\$ 20,475
PER COMMON SHARE DATA					
Net income per common share					
Basic	\$ 2.91	\$ 2.56	\$ 2.03	\$ 1.70	\$ 0.96
Diluted	2.88	2.53	2.00	1.68	0.95
Cash dividends declared and paid	0.84	0.80	0.72	0.60	0.42
Book value	18.82	17.82	15.58	14.38	12.42
SELECTED BALANCES					
Assets	\$ 4,704,740	\$ 4,204,013	\$ 3,564,694	\$ 3,353,281	\$ 2,789,355
Loans	2,905,045	2,733,678	2,725,023	2,582,520	2,018,817
Allowance for credit losses ⁽¹⁾	47,252	35,429	26,148	24,888	22,587
Deposits	4,117,090	3,637,355	3,036,727	2,913,428	2,400,534
Shareholders' equity	398,484	389,522	350,169	338,994	264,933
Other borrowings	30,009	30,012	88,646	25,700	54,600
Subordinated debt	39,357	39,281	—	—	—
Subordinated debentures	39,592	39,524	39,456	39,388	35,569
SELECTED RATIOS					
Net interest income to average interest earning assets	3.10%	3.34%	3.80%	3.88%	3.65%
Net income to					
Average shareholders' equity	16.13	15.68	13.63	12.38	7.82
Average assets	1.41	1.43	1.35	1.27	0.77
Average shareholders' equity to average assets	8.73	9.10	9.90	10.27	9.88
Tier 1 capital to average assets	8.79	9.15	10.11	10.47	10.57
Non-performing loans to Portfolio Loans	0.18	0.29	0.35	0.33	0.39

(1) Beginning January 1, 2021, calculation is based on CECL methodology. Prior to January 1, 2021, calculation was based on the probable incurred loss methodology.

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

Disclaimer Regarding Forward-Looking Statements. Statements in this report that are not statements of historical fact, including statements that include terms such as “will,” “may,” “should,” “believe,” “expect,” “forecast,” “anticipate,” “estimate,” “project,” “intend,” “likely,” “optimistic” and “plan” and statements about future or projected financial and operating results, plans, projections, objectives, expectations, and intentions, are forward-looking statements. Forward-looking statements include, but are not limited to, descriptions of plans and objectives for future operations, products or services; projections of our future revenue, earnings or other measures of economic performance; forecasts of credit losses and other asset quality trends; statements about our business and growth strategies; and expectations about economic and market conditions and trends. These forward-looking statements express our current expectations, forecasts of future events, or long-term goals. They are based on assumptions, estimates, and forecasts that, although believed to be reasonable, may turn out to be incorrect. Actual results could differ materially from those discussed in the forward-looking statements for a variety of reasons, including:

- economic, market, operational, liquidity, credit, and interest rate risks associated with our business including the impact of the ongoing COVID-19 pandemic on each of these items;
- economic conditions generally and in the financial services industry, particularly economic conditions within Michigan and the regional and local real estate markets in which our bank operates including the economic impact of the ongoing COVID-19 pandemic in each of these areas;
- the failure of assumptions underlying the establishment of, and provisions made to, our allowance for credit losses;
- increased competition in the financial services industry, either nationally or regionally;
- our ability to achieve loan and deposit growth;
- volatility and direction of market interest rates;
- the continued services of our management team; and
- implementation of new legislation, which may have significant effects on us and the financial services industry.

This list provides examples of factors that could affect the results described by forward-looking statements contained in this report, but the list is not intended to be all-inclusive. The risk factors disclosed in Part I – Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2021, as updated by any new or modified risk factors disclosed in Part II – Item 1A of any subsequently filed Quarterly Report on Form 10-Q, include the primary risks our management believes could materially affect the results described by forward-looking statements in this report. However, those risks are not the only risks we face. Our results of operations, cash flows, financial position, and prospects could also be materially and adversely affected by additional factors that are not presently known to us, that we currently consider to be immaterial, or that develop after the date of this report. We cannot assure you that our future results will meet expectations. While we believe the forward-looking statements in this report are reasonable, you should not place undue reliance on any forward-looking statement. In addition, these statements speak only as of the date made. We do not undertake, and expressly disclaim, any obligation to update or alter any statements, whether as a result of new information, future events, or otherwise, except as required by applicable law.

Introduction. The following section presents additional information to assess the financial condition and results of operations of Independent Bank Corporation (“IBCP”), its wholly-owned bank, Independent Bank (the “Bank”), and their subsidiaries. This section should be read in conjunction with the consolidated financial statements and the supplemental financial data contained elsewhere in this annual report. We also encourage you to read our Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission (“SEC”). That report includes a list of risk factors that you should consider in connection with any decision to buy or sell our securities.

Overview. We provide banking services to customers located primarily in Michigan’s Lower Peninsula and also have two loan production offices in Ohio (Columbus and Fairlawn). As a result, our success depends to a great extent upon the economic conditions in Michigan’s Lower Peninsula.

Significant Developments. The COVID-19 pandemic and the related government mandates, restrictions, and guidance have created and may continue to create and contribute to significant economic uncertainty and market disruptions. Throughout 2020 and 2021, the volatility created by the pandemic and responses to the pandemic impacted our performance, customers, and the markets we serve.

Federal and state government responses have also created uncertainty. On November 4, 2021, the U.S. Department of Labor implemented an emergency temporary standard (ETS) mandating that all employers with 100 workers or more must require their employees to be fully vaccinated or submit to weekly testing. The ETS has been met with many subsequent legal challenges. On January 13, 2022, the U.S. Supreme Court stayed the ETS, sending the case back to the U.S. Court of Appeals for the Sixth Circuit for a decision on the merits. The timeline for such a decision is undetermined, and the outcomes remain unpredictable. In Michigan, the Department of Health and Human Services announced its intent to update quarantine and isolation periods to align with the Centers for Disease Control and Prevention's newly shortened guidelines. These impending mandates and guidelines may have significant effects on the U.S. and Michigan economies, the banking sector generally, and our business specifically, the scope of which cannot be foreseen.

Based on this uncertainty, it is difficult to predict the extent to which the pandemic will continue to adversely impact our business, results of operations, financial condition, and customers. The potential impacts may include, but are not limited to:

- difficulties encountered by our business customers in addressing the effects of the pandemic may cause increases in loan delinquencies, foreclosures and defaults;
- increases in our allowance for credit losses may be necessary;
- declines in collateral values may occur;
- third party disruptions may occur, including outages at network providers, on-line banking vendors and other suppliers;
- there is increased cyber and payment fraud risk, as cybercriminals attempt to profit from the disruption, given increased online and remote activity;
- we may experience operational failures due to changes in our normal business practices necessitated by the pandemic and related governmental actions; and/or
- our production and efficiency may suffer due to employee illnesses and/or employees having to work remotely.

Given the ongoing uncertainty with respect to the pandemic and potential government responses, these risk factors may continue to some degree for a significant period of time.

The extent to which the COVID-19 pandemic may impact our business, results of operations, asset valuations, financial condition, and customers will depend on future developments, which continue to be highly uncertain and difficult to predict. Those developments and factors are expected to include the evolution of the virus and new and emerging virus variants, vaccination rates and subsequent vaccine-"boosters," actions taken by governmental authorities to address the foregoing, and the enforcement thereof, and how quickly and to what extent normal economic and operating conditions stabilize. Potential developments also include market factors such as interest rates, supply chain disruptions, inflation, consumer-welfare, and employment rates. We do not know the full extent of the potential impact. Material adverse impacts may include all or a combination of valuation impairments on our intangible assets, securities available for sale, loans, capitalized mortgage loan servicing rights or deferred tax assets.

It is against this backdrop that we discuss our results of operations and financial condition in 2021 as compared to earlier periods.

RESULTS OF OPERATIONS

Summary. We recorded net income of \$62.9 million, or \$2.88 per diluted share, in 2021, net income of \$56.2 million, or \$2.53 per diluted share, in 2020, and net income of \$46.4 million, or \$2.00 per diluted share, in 2019.

KEY PERFORMANCE RATIOS

	Year Ended December 31,		
	2021	2020	2019
Net income to			
Average shareholders' equity	16.13%	15.68%	13.63%
Average assets	1.41	1.43	1.35
Net income per common share			
Basic	\$ 2.91	\$ 2.56	\$ 2.03
Diluted	2.88	2.53	2.00

Net interest income. Net interest income is the most important source of our earnings and thus is critical in evaluating our results of operations. Changes in our net interest income are primarily influenced by our level of interest-earning assets and the income or yield that we earn on those assets and the manner and cost of funding our interest-earning assets. Certain macro-economic factors can also influence our net interest income such as the level and direction of interest rates, the difference between short-term and long-term interest rates (the steepness of the yield curve) and the general strength of the economies in which we are doing business. Finally, risk management plays an important role in our level of net interest income. The ineffective management of credit risk and interest-rate risk in particular can adversely impact our net interest income.

Net interest income totaled \$129.8 million during 2021, compared to \$123.6 million and \$122.6 million during 2020 and 2019, respectively. The increase in net interest income in 2021 compared to 2020 primarily reflects a \$529.9 million increase in average interest-earning assets that was partially offset by a 24 basis point decrease in our tax equivalent net interest income as a percent of average interest-earning assets (the "net interest margin").

The increase in net interest income in 2020 compared to 2019 primarily reflects a \$483.8 million increase in average interest-earning assets that was partially offset by a 46 basis point decrease in our net interest margin.

The increase in average interest-earning assets during 2021 primarily reflects an increase in securities available for sale and interest bearing cash deposits. The significant increases in these balances is primarily due to the deployment of funds from a substantial increase in deposits.

The decrease in the net interest margin during 2021 as compared to 2020 primarily reflects a change in the mix of earning assets as well as the origination of new loans and the purchase of securities available for sale at lower rates than those same instruments that have matured or paid off. These decreases were partially offset by the impact of Payroll Protection Program ("PPP") loans and accelerated amortization of certain deferred losses on derivative financial instruments that were de-designated.

Due to the economic impact of COVID-19, the Federal Reserve Bank has taken a variety of actions to stimulate the economy, including lowering short-term interest rates. These actions, along with lower long-term interest rates, have placed pressure on our net interest margin.

Interest and fees on loans in 2021 include \$8.9 million of accretion of net loan fees on PPP loans compared to \$5.6 million in 2020. No such accretion is included in 2019.

Interest expense in 2020 included \$1.6 million of accelerated amortization of deferred loss on certain derivative financial instruments that were de-designated. No such amortization is included in 2021 or 2019. See note #16 to the Consolidated Financial Statements for discussion regarding these derivative financial instruments.

The increase in average interest-earning assets during 2020 primarily reflects an increase in securities available for sale and interest bearing cash deposits. The significant increases in these balances is primarily due to the deployment of funds from a substantial increase in deposits. The decrease in the net interest margin during 2020 as compared to 2019 primarily reflects reductions in short-term interest rates during that year as well as a flattening of the yield curve.

2021, 2020 and 2019 interest income on loans includes \$0.8 million, \$1.1 million and \$1.5 million, respectively, of accretion of the discount recorded on loans acquired in connection with our acquisition of Traverse City State Bank ("TCSB") in 2018.

Our net interest income is also impacted by our level of non-accrual loans. Average non-accrual loans totaled \$6.2 million, \$11.2 million and \$8.1 million in 2021, 2020 and 2019, respectively.

AVERAGE BALANCES AND RATES

	2021			2020			2019		
	Average Balance	Interest	Rate	Average Balance	Interest	Rate	Average Balance	Interest	Rate
(Dollars in thousands)									
ASSETS									
Taxable loans	\$ 2,881,950	\$ 116,358	4.04%	\$ 2,863,846	\$ 122,875	4.29%	\$ 2,713,690	\$ 133,574	4.92%
Tax-exempt loans ⁽¹⁾	7,240	362	5.00	7,145	360	5.04	7,937	391	4.93
Taxable securities	915,701	14,488	1.58	635,914	12,655	1.99	397,598	11,842	2.98
Tax-exempt securities ⁽¹⁾	348,346	7,892	2.27	137,330	3,673	2.67	52,324	1,683	3.22
Interest bearing cash	79,915	112	0.14	59,056	184	0.31	48,023	818	1.70
Other investments	18,427	734	3.98	18,410	905	4.92	18,359	1,043	5.68
Interest earning assets	4,251,579	139,946	3.30	3,721,701	140,652	3.78	3,237,931	149,351	4.61
Cash and due from banks	56,474			49,886			37,575		
Other assets, net	157,524			162,068			164,726		
Total assets	\$ 4,465,577			\$ 3,933,655			\$ 3,440,232		
LIABILITIES									
Savings and interest-bearing checking	\$ 2,282,607	2,693	0.12	\$ 1,821,115	3,882	0.21	\$ 1,453,061	10,228	0.70
Time deposits	326,081	1,772	0.54	516,306	8,784	1.70	655,718	13,197	2.01
Other borrowings	108,884	3,850	3.54	117,904	3,551	3.01	77,254	2,922	3.78
Interest bearing liabilities	2,717,572	8,315	0.31	2,455,325	16,217	0.66	2,186,033	26,347	1.21
Non-interest bearing deposits	1,288,276			1,054,230			867,314		
Other liabilities	69,694			65,943			46,153		
Shareholders' equity	390,035			358,157			340,732		
Total liabilities and shareholders' equity	\$ 4,465,577			\$ 3,933,655			\$ 3,440,232		
Net interest income		\$ 131,631			\$ 124,435			\$ 123,004	
Net interest income as a percent of average interest earning assets			3.10%			3.34%			3.80%

(1) Interest on tax-exempt loans and securities is presented on a fully tax equivalent basis assuming a marginal tax rate of 21%.

RECONCILIATION OF NET INTEREST MARGIN, FULLY TAXABLE EQUIVALENT ("FTE")

	Year Ended December 31,		
	2021	2020	2019
	(Dollars in thousands)		
Net interest income	\$ 129,765	\$ 123,612	\$ 122,581
Add: taxable equivalent adjustment	1,866	823	423
Net interest income - taxable equivalent	\$ 131,631	\$ 124,435	\$ 123,004
Net interest margin (GAAP)	3.05%	3.32%	3.79%
Net interest margin (FTE)	3.10%	3.34%	3.80%

CHANGE IN NET INTEREST INCOME

	2021 compared to 2020			2020 compared to 2019		
	Volume	Rate	Net	Volume	Rate	Net
	(In thousands)					
Increase (decrease) in interest income ⁽¹⁾						
Taxable loans	\$ 772	\$ (7,289)	\$ (6,517)	\$ 7,105	\$ (17,804)	\$ (10,699)
Tax-exempt loans ⁽²⁾	5	(3)	2	(40)	9	(31)
Taxable securities	4,789	(2,956)	1,833	5,582	(4,769)	813
Tax-exempt securities ⁽²⁾	4,859	(640)	4,219	2,318	(328)	1,990
Interest bearing cash	51	(123)	(72)	154	(788)	(634)
Other investments	1	(172)	(171)	3	(141)	(138)
Total interest income	10,477	(11,183)	(706)	15,122	(23,821)	(8,699)
Increase (decrease) in interest expense ⁽¹⁾						
Savings and interest bearing checking	825	(2,014)	(1,189)	2,109	(8,455)	(6,346)
Time deposits	(2,463)	(4,549)	(7,012)	(2,555)	(1,858)	(4,413)
Other borrowings	(286)	585	299	1,311	(682)	629
Total interest expense	(1,924)	(5,978)	(7,902)	865	(10,995)	(10,130)
Net interest income	\$ 12,401	\$ (5,205)	\$ 7,196	\$ 14,257	\$ (12,826)	\$ 1,431

(1) The change in interest due to changes in both balance and rate has been allocated to change due to balance and change due to rate in proportion to the relationship of the absolute dollar amounts of change in each.

(2) Interest on tax-exempt loans and securities is presented on a fully tax equivalent basis assuming a marginal tax rate of 21%.

COMPOSITION OF AVERAGE INTEREST EARNING ASSETS AND INTEREST BEARING LIABILITIES

	Year Ended December 31,		
	2021	2020	2019
As a percent of average interest earning assets			
Loans	68.0%	77.1%	84.1%
Other interest earning assets	32.0	22.9	15.9
Average interest earning assets	100.0%	100.0%	100.0%
Savings and interest-bearing checking	53.7%	48.9%	44.9%
Time deposits	7.7	13.9	20.3
Other borrowings	2.6	3.2	2.3
Average interest bearing liabilities	64.0%	66.0%	67.5%
Earning asset ratio	95.2%	94.6%	94.1%
Free-funds ratio ⁽¹⁾	36.1	34.0	32.5

(1) Average interest earning assets less average interest bearing liabilities.

Provision for credit losses. We adopted Financial Accounting Standards Board Accounting Standards Update 2016-13, Financial Instruments — Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments (“CECL”) on January 1, 2021. See note #1 to the Consolidated Financial Statements included within this report for our discussion on CECL implementation.

The provision for credit losses was a credit of \$1.9 million in 2021 and an expense of \$12.5 million and \$0.8 million in 2020 and 2019, respectively. The provision reflects our assessment of the allowance for credit losses (the “ACL”) taking into consideration factors such as loan growth, loan mix, levels of non-performing and classified loans, economic conditions and loan net charge-offs. While we use relevant information to recognize losses on loans, additional provisions for related losses may be necessary based on changes in economic conditions, customer circumstances and other credit risk factors. The decrease in the provision for credit losses in 2021 compared to 2020 was primarily the result of a decline in the adjustment to allocations based on subjective factors and specific allocations as well as an increase in recoveries of loans previously charged off. In particular, the higher provision for credit losses in 2020 relative to 2021 and 2019 included an \$11.2 million (or 128.2%) increase in the qualitative/subjective portion of the allowance for credit losses. That increase principally reflected the unique challenges and economic uncertainty resulting from the COVID-19 pandemic during the first half of 2020 and the potential impact on the loan portfolio. See “Portfolio Loans and asset quality” for a discussion of the various components of the ACL and their impact on the provision for credit losses in 2021 and note #19 to the Consolidated Financial Statements included within this report for a discussion on industry concentrations.

Non-interest income. Non-interest income is a significant element in assessing our results of operations. Non-interest income totaled \$76.6 million during 2021 compared to \$80.7 million and \$47.7 million during 2020 and 2019, respectively.

NON-INTEREST INCOME

	Year Ended December 31,		
	2021	2020	2019
	(In thousands)		
Interchange income	\$ 14,045	\$ 11,230	\$ 10,297
Service charges on deposit accounts	10,170	8,517	11,208
Net gains on assets			
Mortgage loans	35,880	62,560	19,978
Securities available for sale	1,411	267	307
Mortgage loan servicing, net	5,745	(9,350)	(3,336)
Investment and insurance commissions	2,603	1,971	1,658
Bank owned life insurance	567	910	1,111
Other	6,222	4,640	6,513
Total non-interest income	<u>\$ 76,643</u>	<u>\$ 80,745</u>	<u>\$ 47,736</u>

Interchange income totaled \$14.0 million in 2021 compared to \$11.2 million in 2020 and \$10.3 million in 2019. The increase in interchange income in 2021 compared to 2020 is primarily due to growth in debit card transaction volume (2020 was adversely impacted by COVID-19 pandemic related shut-downs of businesses and stay at home mandates), a new switch contract that was initially effective in the fourth quarter of 2020 that increased revenues, and our joining a surcharge free ATM network in April 2020 that increased both interchange income and interchange expense. The increase in interchange income in 2020 compared to 2019 is primarily due to an increase in transaction volume.

Service charges on deposit accounts totaled \$10.2 million in 2021, as compared to \$8.5 million in 2020 and \$11.2 million during 2019. The increase in 2021 compared to 2020 was primarily due to an increase in non-sufficient funds occurrences (and related fees). The decrease in 2020 compared to 2019 primarily reflect declines in non-sufficient funds fees. During 2020, non-sufficient funds fees were impacted by contracted consumer spending and government stimulus payments related to COVID-19.

We realized net gains of \$35.9 million on mortgage loans during 2021, compared to \$62.6 million and \$20.0 million during 2020 and 2019 respectively. Mortgage loan activity is summarized as follows:

MORTGAGE LOAN ACTIVITY

	Year Ended December 31,		
	2021	2020	2019
	(Dollars in thousands)		
Mortgage loans originated	\$ 1,861,060	\$ 1,820,697	\$ 1,011,141
Mortgage loans sold ⁽¹⁾	1,254,638	1,447,031	738,910
Net gains on mortgage loans	35,880	62,560	19,978
Net gains as a percent of mortgage loans sold ("Loan Sales Margin")	2.86%	4.32%	2.70%
Fair value adjustments included in the Loan Sales Margin	(0.52)	0.47	0.22

(1) 2021 includes the sale of \$9.6 million of portfolio residential fixed rate mortgage loans. 2020 includes the securitization of \$26.3 million of portfolio residential fixed rate loans and the sale of \$2.4 million of portfolio residential fixed rate mortgage loans. 2019 includes the sale of \$50.5 million of portfolio residential fixed and adjustable rate mortgage loans to other institutions and securitization of \$65.1 million of portfolio residential fixed rate loans.

The increase in mortgage loan originations in 2021 as compared to 2020 is due primarily to an increase in purchase money mortgages reflecting strong home sales in many of our markets. Mortgage loans sold decreased in 2021 compared to 2020 due to a lower mix of salable loans in our origination volumes. Net gains on mortgage loans decreased in 2021 as compared to 2020 due to the decline in loan sale volume, a decrease in the Loan Sales Margin and fair value adjustments as discussed below.

The increase in mortgage loan originations, sales and net gains in 2020 as compared to 2019 is due primarily to lower interest rates in 2020 that spurred a significant increase in refinance volumes. Mortgage loans sold also increased in 2020 compared to 2019 due to a higher mix of salable loans in our origination volumes. Net gains on mortgage loans also increased in 2020 as compared to 2019 due to fair value adjustments as discussed below.

The volume of loans sold is dependent upon our ability to originate mortgage loans as well as the demand for fixed-rate obligations and other loans that we choose to not put into portfolio because of our established interest-rate risk parameters. (See "Portfolio Loans and asset quality.") Net gains on mortgage loans are also dependent upon economic and competitive factors as well as our ability to effectively manage exposure to changes in interest rates and thus can often be a volatile part of our overall revenues.

Our Loan Sales Margin is impacted by several factors including competition and the manner in which the loan is sold. Net gains on mortgage loans are also impacted by recording fair value accounting adjustments. Excluding these fair value accounting adjustments, the Loan Sales Margin would have been 3.38% in 2021, 3.85% in 2020 and 2.48% in 2019. The decrease in the Loan Sales Margin (excluding fair value adjustments) in 2021 was generally due to a tightening of primary-to-secondary market pricing spreads as market interest rates increased during 2021. The changes in the fair value accounting adjustments are primarily due to changes in the amount of commitments to originate mortgage loans for sale during each year as well as a lower Loan Sales Margin in 2021.

We generated net gains on securities of \$1.41 million, \$0.27 million and \$0.31 million in 2021, 2020 and 2019, respectively. These net gains were due to the sales of securities and changes in the fair value of equity/trading securities as outlined in the table below. We recorded no credit related charges in 2021, 2020 or 2019 for securities available for sale.

GAINS AND LOSSES ON SECURITIES

	Year Ended December 31,			
	Proceeds	Gains ⁽¹⁾	Losses	Net
	(In thousands)			
2021	\$ 85,371	\$ 1,475	\$ 64	\$ 1,411
2020	38,095	271	4	267
2019	68,716	415	108	307

(1) Gains in 2019 include \$0.166 million related to equity securities at fair value.

Mortgage loan servicing, net, generated a gain of \$5.7 million in 2021 compared to losses of \$9.4 million and \$3.3 million in 2020 and 2019 respectively. The significant variances in mortgage loan servicing, net are primarily due to changes in the fair value of capitalized mortgage loan servicing rights associated with changes in mortgage loan interest rates and expected future prepayment levels. Mortgage loan servicing, net activity is summarized in the following table:

MORTGAGE LOAN SERVICING ACTIVITY

	<u>2021</u>	<u>2020</u>	<u>2019</u>
	<u>(In thousands)</u>		
Mortgage loan servicing:			
Revenue, net	\$ 7,853	\$ 6,874	\$ 6,196
Fair value change due to price	3,380	(10,833)	(6,408)
Fair value change due to pay-downs	(5,488)	(5,391)	(3,124)
Total	<u>\$ 5,745</u>	<u>\$ (9,350)</u>	<u>\$ (3,336)</u>

Activity related to capitalized mortgage loan servicing rights is as follows:

CAPITALIZED MORTGAGE LOAN SERVICING RIGHTS

	<u>2021</u>	<u>2020</u>	<u>2019</u>
	<u>(In thousands)</u>		
Balance at January 1,	\$ 16,904	\$ 19,171	\$ 21,400
Originated servicing rights capitalized	11,436	13,957	7,303
Change in fair value	(2,108)	(16,224)	(9,532)
Balance at December 31,	<u>\$ 26,232</u>	<u>\$ 16,904</u>	<u>\$ 19,171</u>

At December 31, 2021, we were servicing approximately \$3.3 billion in mortgage loans for others on which servicing rights have been capitalized. This servicing portfolio had a weighted average coupon rate of 3.46% and a weighted average service fee of approximately 25.6 basis points. Remaining capitalized mortgage loan servicing rights at December 31, 2021 totaled \$26.2 million, representing approximately 78.9 basis points on the related amount of mortgage loans serviced for others.

Investment and insurance commissions totaled \$2.6 million in 2021 as compared to \$2.0 million and \$1.7 million in 2020 and 2019. The increase in revenue in 2021 as compared to 2020 and 2019 was primarily due to higher sales volume and an increase in fee based revenue.

We earned \$0.6 million, \$0.9 million and \$1.1 million in 2021, 2020 and 2019, respectively, on our separate account bank owned life insurance principally as a result of increases in the cash surrender value. Our separate account is primarily invested in agency mortgage-backed securities and managed by a fixed income investment manager. The crediting rate (on which the earnings are based) reflects the performance of the separate account. The total cash surrender value of our bank owned life insurance was \$55.3 million and \$55.2 million at December 31, 2021 and 2020, respectively. The decrease in earnings in each year is due to a decrease in the crediting rate.

Other non-interest income totaled \$6.2 million, \$4.6 million and \$6.5 million in 2021, 2020 and 2019, respectively. Other non-interest income increased in 2021 as compared to 2020 due primarily to increases in credit card and merchant processing revenue, higher commercial loan swap fee income and a one-time fee reimbursement from our core data processing vendor for conversion related loss of revenues. The decrease in 2020 as compared to 2019 is due to the impact of the COVID-19 pandemic on transaction volumes, including ATM fees. In addition, we elected to suspend certain electronic banking fees because of the COVID-19 pandemic and the increased need for our customers to access these channels. Fees related to interest rate swaps for commercial loan customers were also lower in 2020 as customers did not feel the need to execute such transactions given the low interest rate environment.

Non-interest expense. Non-interest expense is an important component of our results of operations. We strive to efficiently manage our cost structure.

Non-interest expense totaled \$131.0 million in 2021, \$122.4 million in 2020, and \$111.7 million in 2019. Increases in compensation and employee benefits, data processing, interchange expense, costs related to unfunded lending commitments and other expenses are primarily responsible for the increase in 2021 compared to 2020. Performance based compensation and expense related to the core data processing conversion are primarily responsible for the increase in 2020 compared to 2019. The components of non-interest expense are as follows:

NON-INTEREST EXPENSE

	Year ended December 31,		
	2021	2020	2019
		(In thousands)	
Compensation	\$ 44,226	\$ 41,517	\$ 41,719
Performance-based compensation	19,800	19,725	12,066
Payroll taxes and employee benefits	15,943	13,539	13,716
Compensation and employee benefits	79,969	74,781	67,501
Data processing	10,823	8,534	8,905
Occupancy, net	8,794	8,938	9,013
Interchange expense	4,434	3,342	3,215
Furniture, fixtures and equipment	4,172	4,089	4,113
Loan and collection	3,172	3,037	2,685
Communications	3,080	3,194	2,947
Legal and professional	2,068	2,027	1,814
Advertising	1,918	2,230	2,450
Conversion related expenses	1,827	2,586	—
FDIC deposit insurance	1,396	1,596	685
Costs related to unfunded lending commitments	1,207	263	246
Amortization of intangible assets	970	1,020	1,089
Supplies	611	680	638
Correspondent bank service fees	382	395	411
Provision for loss reimbursement on sold loans	133	200	229
Branch closure costs	—	417	—
Net (gains) losses on other real estate and repossessed assets	(230)	64	(90)
Other	6,297	5,020	5,882
Total non-interest expense	<u>\$ 131,023</u>	<u>\$ 122,413</u>	<u>\$ 111,733</u>

Compensation expense, which is primarily salaries, totaled \$44.2 million, \$41.5 million and \$41.7 million in 2021, 2020 and 2019, respectively. The comparative increase in 2021 to 2020 is primarily due to an increase in lending personnel, higher overtime levels and salary increases that were predominantly effective on January 1, 2021. The comparative decrease in 2020 to 2019 is primarily due to an increased level of compensation that was deferred as direct loan origination costs (due to higher loan origination volumes) that was partially offset by salary increases that were predominantly effective on January 1, 2020.

Performance-based compensation expense totaled \$19.8 million, \$19.7 million and \$12.1 million in 2021, 2020 and 2019, respectively. The increase in 2020 as compared to 2019 was due to actual performance relative to the established incentive plan targets as well as \$0.4 million in bonuses paid during the second quarter of 2020 to front-line personnel due to their extraordinary efforts during the COVID-19 pandemic.

We maintain performance-based compensation plans. In addition to commissions and cash incentive awards, such plans include an ESOP and a long-term equity based incentive plan. The amount of expense recognized in 2021, 2020 and 2019 for share-based awards under our long-term equity based incentive plan was \$1.6 million in each respective year. In each of those three years, we granted both restricted stock and performance share awards under the plan.

Payroll taxes and employee benefits expense totaled \$15.9 million, \$13.5 million and \$13.7 million in 2021, 2020 and 2019, respectively. The increase in 2021 compared to 2020 is primarily due to increases in payroll taxes (reflecting higher compensation costs), our 401(k) plan match and health care costs (due to increased claims in 2021).

The decrease in 2020 compared to 2019 is due primarily to a decline in health care costs (due to decreased claims in 2020) as well as a \$0.3 million prescription drug rebate received and recorded in the second quarter of 2020 that related to our 2019 plan year. The decrease in 2020 health care claims is due in part to the COVID-19 pandemic that resulted in the closing of many medical and dental facilities except for emergency care during Michigan's "stay home, stay safe" period.

Data processing expenses totaled \$10.8 million, \$8.5 million, and \$8.9 million in 2021, 2020 and 2019, respectively. The increase in 2021 compared to 2020 is primarily due to the 2020 cost savings agreement discussed below that expired during the first quarter of 2021. The remainder of the increased costs in 2021 principally relate to new software and technology product and service additions. The decrease in 2020 compared to 2019 is primarily due to a cost savings agreement related to core data processing services that was executed in the second quarter of 2020. This expense reduction was partially offset by new software product additions and increased mobile banking costs.

Interchange expense, which totaled \$4.4 million, \$3.3 million, and \$3.2 million in 2021, 2020 and 2019, respectively, primarily represents fees paid to our core information systems processor and debit card licensor related to debit card and ATM transactions. The increase in 2021 compared to 2020 was primarily due to increased debit card transaction volume and transaction channel mix. Increased debit card transaction volumes in 2020 compared to 2019 contributed to the rise in this expense from 2019 to 2020.

Loan and collection expenses reflect costs related to new lending activity as well as the management and collection of non-performing loans and other problem credits. These expenses totaled \$3.2 million, \$3.0 million and \$2.7 million in 2021, 2020 and 2019, respectively. These costs increased in 2021 and 2020 due primarily to higher loan origination activity.

Communications expense totaled \$3.1 million, \$3.2 million and \$2.9 million in 2021, 2020 and 2019, respectively. These costs were relatively unchanged in 2021 while the increase in 2020 relative to 2019 was primarily due to mailing costs related to the issuance of new contactless debit cards.

Legal and professional fees totaled \$2.1 million, \$2.0 million, and \$1.8 million in 2021, 2020 and 2019, respectively. These costs were relatively unchanged in 2021 while the increase in 2020 was due primarily to an increase in title search fees and bank examination fees (due to an increase in our asset size).

Advertising expense totaled \$1.9 million, \$2.2 million, and \$2.5 million in 2021, 2020 and 2019, respectively. The decrease in 2021 compared to 2020 is due primarily due to the receipt of a \$0.3 million reimbursement from our debit card provider for certain eligible marketing costs that we incurred as well as reduced levels of advertising in certain channels. The decrease in 2020 compared to 2019 was due primarily to the receipt of a \$0.2 million reimbursement from our debit card provider for certain eligible marketing costs that we incurred.

Conversion related expenses totaled \$1.8 million and \$2.6 million in 2021 and 2020, respectively. We began a process to convert our core data processing system to a new system hosted by a different vendor in early 2020 and completed this conversion in May 2021. These expenses represent costs incurred for assistance from our existing vendor and fees from consultants who assisted us in this conversion.

FDIC deposit insurance expense totaled \$1.4 million, \$1.6 million, and \$0.7 million in 2021, 2020 and 2019, respectively. FDIC deposit insurance expense decreased in 2021 compared to 2020 due primarily to a lower assessment rate. FDIC deposit insurance expense increased in 2020 compared to 2019 due primarily to the use of our FDIC Small Bank Assessment Credit in 2019 as well as an increase in our assessment rate and growth in our total assets.

The changes in costs related to unfunded lending commitments are primarily impacted by changes in the amounts of such commitments to originate Portfolio Loans as well as (for commercial loan commitments) the grade (pursuant to our loan rating system) of such commitments. Costs related to unfunded lending commitments totaled \$1.2 million, \$0.3 million, and \$0.2 million in 2021, 2020 and 2019, respectively. The increase in 2021 compared to 2020 and 2019 is due primarily to an increase in the amount of unfunded lending commitments.

The amortization of intangible assets primarily relates to our acquisition of TSCB and certain branch acquisitions and the related amortization of the deposit customer relationship value, including core deposit value,

which was acquired in connection with those transactions. We had remaining unamortized intangible assets of \$3.3 million and \$4.3 million at December 31, 2021 and 2020 respectively. See note #7 to the Consolidated Financial Statements for a schedule of future amortization of intangible assets.

Branch closure costs totaled \$0.4 million for 2020. We closed eight Bank branches in 2020 (two on June 26, 2020 and six on July 31, 2020). These costs primarily represent write-downs of fixed assets (buildings, furniture and equipment) and lease assets.

Net (gains) losses on other real estate and repossessed assets represent the gain or loss on the sale or additional write downs on these assets subsequent to the transfer of the asset from our loan portfolio. This transfer occurs at the time we acquire the collateral that secured the loan. At the time of acquisition, the other real estate or repossessed asset is valued at fair value, less estimated costs to sell, which becomes the new basis for the asset. Any write-downs at the time of acquisition are charged to the allowance for credit losses. Net gain was \$0.2 million in 2021 compared to net loss of \$0.1 million and a net gain of \$0.1 million in 2020 and 2019 respectively.

Other non-interest expenses totaled \$6.3 million, \$5.0 million, and \$5.9 million in 2021, 2020 and 2019, respectively. The increase in other expense in 2021 compared to 2020 primarily represents increases in travel and entertainment related expenses due to the lifting of COVID-19 travel restrictions, an increase in deposit customer account fraud related costs, an increase in Michigan Corporate Income Tax expense as the result of a change in how the tax base is calculated, a branch write-down and certain one-time contract termination costs. The decrease in 2020 was primarily due to a decline in travel and entertainment costs due to COVID-19 pandemic related travel restrictions as well as a reduction in deposit customer account and customer debit card related fraud costs.

Income tax expense. We recorded an income tax expense of \$14.4 million, \$13.3 million and \$11.3 million in 2021, 2020 and 2019, respectively. The 2021 increase in tax expense compared to 2020 and 2019 is due to higher taxable income.

Our actual federal income tax expense is different than the amount computed by applying our statutory federal income tax rate to our pre-tax income primarily due to tax-exempt interest income, share based compensation and tax-exempt income from the increase in the cash surrender value on life insurance.

We assess whether a valuation allowance should be established against our deferred tax asset, net ("DTA") based on the consideration of all available evidence using a "more likely than not" standard. The ultimate realization of this asset is primarily based on generating future income. We concluded at December 31, 2021 and 2020 that the realization of substantially all of our DTA continues to be more likely than not. See note #13 to the Consolidated Financial Statements included within this report for more information.

FINANCIAL CONDITION

Summary. Our total assets increased to \$4.70 billion at December 31, 2021, compared to \$4.20 billion at December 31, 2020, primarily due to growth in securities available for sale as well as mortgage and installment loans. Loans, excluding loans held for sale ("Portfolio Loans"), totaled \$2.91 billion and \$2.73 billion at December 31, 2021 and December 31, 2020. Growth in mortgage loans of \$123.7 million and installment loans of \$86.5 million were partially offset by a decline in commercial loans of \$38.8 million.

Deposits totaled \$4.12 billion at December 31, 2021, compared to \$3.64 billion at December 31, 2020. The \$479.7 million increase in deposits is primarily due to growth in non-interest bearing deposits, savings and interest bearing checking deposits, reciprocal deposits and time deposits that were partially offset by a decline in brokered time deposits.

The decrease in commercial loans in 2021 is due primarily to forgiveness of loans extended under the PPP administered by the U.S. Small Business Administration ("SBA"). The increase in deposits is due in part to the significant liquidity that has been injected into the economy through government programs, such as the PPP, as well as by monetary actions by the Federal Reserve Bank, all in response to the COVID-19 pandemic.

It is unclear how the termination of these various government stimulus programs will impact the levels of portfolio loans and deposits. However, our liquidity and funding contingency plans take into account the possibility of significant reductions in commercial loans and deposits during 2022.

Securities. We maintain diversified securities portfolios, which include obligations of U.S. government-sponsored agencies, securities issued by states and political subdivisions, residential and commercial mortgage-backed securities, asset-backed securities, corporate securities, trust preferred securities and foreign government securities (that are denominated in U.S. dollars). We regularly evaluate asset/liability management needs and attempt to maintain a portfolio structure that provides sufficient liquidity and cash flow. Except as discussed below, we believe that the unrealized losses on securities available for sale are temporary in nature and are expected to be recovered within a reasonable time period. We believe that we have the ability to hold securities with unrealized losses to maturity or until such time as the unrealized losses reverse. (See "Asset/liability management.") Securities available for sale increased by \$340.7 million during 2021, reflecting the deployment of a portion of the funds generated from the growth in deposits.

Securities available for sale in unrealized loss positions are evaluated quarterly for impairment related to credit losses. For securities available for sale in an unrealized loss position, we first assess whether we intend to sell, or it is more likely than not that we will be required to sell, the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For securities available for sale that do not meet this criteria, we evaluate whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, we consider the extent to which fair value is less than amortized cost, adverse conditions specifically related to the security and the issuer and the impact of changes in market interest rates on the market value of the security, among other factors. If this assessment indicates that a credit loss exists, we compare the present value of cash flows expected to be collected from the security with the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis for the security, a credit loss exists and an ACL is recorded, limited to the amount that the fair value of the security is less than its amortized cost basis. Any impairment that has not been recorded through an ACL is recognized in other comprehensive income (loss), net of applicable taxes. No ACL for securities available for sale was needed at December 31, 2021.

SECURITIES

	Amortized Cost	Unrealized		Fair Value
		Gains	Losses	
	(In thousands)			
Securities available for sale				
December 31, 2021	\$ 1,404,858	\$ 16,594	\$ 8,622	\$ 1,412,830
December 31, 2020	1,052,147	21,416	1,404	1,072,159

Portfolio Loans and asset quality. In addition to the communities served by our Bank branch and loan production office network, our principal lending markets also include nearby communities and metropolitan areas.

Subject to established underwriting criteria, we also may participate in commercial lending transactions with certain non-affiliated banks and make whole loan purchases from other financial institutions.

The senior management and board of directors of our Bank retain authority and responsibility for credit decisions and we have adopted uniform underwriting standards. Our loan committee structure and the loan review process attempt to provide requisite controls and promote compliance with such established underwriting standards. However, there can be no assurance that our lending procedures and the use of uniform underwriting standards will prevent us from incurring significant credit losses in our lending activities.

We generally retain loans that may be profitably funded within established risk parameters. (See "Asset/liability management.") As a result, we may hold adjustable-rate conventional and fixed rate jumbo mortgage loans as Portfolio Loans, while 15- and 30-year fixed-rate non-jumbo mortgage loans are generally sold to mitigate exposure to changes in interest rates. (See "Non-interest income.") Due primarily to the expansion of our mortgage-banking activities and a change in mix in our mortgage loan originations, we are now originating and putting into Portfolio Loans more fixed rate mortgage loans compared to past periods. These fixed rate mortgage loans generally have terms from 15 to 30 years, do not have prepayment penalties and expose us to more interest rate risk. (See "Asset/liability management").

LOAN PORTFOLIO SEGMENTS

The following table summarizes each loan portfolio segment by (1) scheduled repayments and (2) predetermined (fixed) interest rate and/or adjustable (variable) interest rate at December 31, 2021:

	Commercial	Mortgage	Installment	Total
	(In thousands)			
Due in one year or less	\$ 117,497	\$ 840	\$ 2,033	\$ 120,370
Due after one but within five years	293,483	2,610	49,500	345,593
Due after five but within 15 years	774,772	114,703	454,134	1,343,609
Due after 15 years	17,829	1,021,506	56,138	1,095,473
	<u>\$ 1,203,581</u>	<u>\$ 1,139,659</u>	<u>\$ 561,805</u>	<u>\$ 2,905,045</u>
Fixed rate	\$ 626,148	\$ 736,515	\$ 558,069	\$ 1,920,732
Variable rate	577,433	403,144	3,736	984,313
	<u>\$ 1,203,581</u>	<u>\$ 1,139,659</u>	<u>\$ 561,805</u>	<u>\$ 2,905,045</u>

In the fourth quarter of 2021 we reclassified \$34.8 million (fair value of \$34.8 million) of portfolio mortgage loans to held for sale. These loans were sold to other financial institutions on a servicing retained basis during the first quarter of 2022. In 2020 we sold or securitized \$28.7 million of fixed and adjustable rate portfolio mortgage loans. In 2019, we sold or securitized \$75.0 million of fixed and adjustable rate portfolio mortgage loans. All of these loan sales/securitizations were non-recourse (other than standard representations and warranties) and were executed primarily for asset/liability management purposes.

The PPP is a short-term, forgivable loan program primarily intended to help businesses impacted by COVID-19 to continue paying their employees. A short summary of the PPP is as follows:

- Terms of two years (five years for loans originated after June 5, 2020) with payments automatically deferred to the date the SBA remits the borrower's loan forgiveness amount to the lender (or, if the borrower does not apply for loan forgiveness, 10 months after the end of the borrower's loan forgiveness covered period);
- One percent interest rate;
- No collateral or personal guarantees required;
- No fees paid by the borrower, rather lenders are paid a fee through the SBA according to a set schedule based on loan size;
- Loans are forgivable if at least 60% of the loan proceeds are used for payroll with the remainder being used for rent, mortgage interest and/or utilities; and
- Streamlined forgiveness application process for PPP loans of \$50,000 or less.

PAYCHECK PROTECTION PROGRAM

A summary of our participation in the PPP follows:

	December 31,			
	2021		2020	
	Amount (#)	Amount (\$)	Amount (#)	Amount (\$)
	(Dollars in thousands)			
Closed and outstanding - Round 1 loans	6	\$ 197	1,483	\$ 169,782
Closed and outstanding - Round 2 loans	180	26,167	—	—
Total closed and outstanding	186	\$ 26,364	1,483	\$ 169,782
Unaccrued net fees remaining at period end		<u>806</u>		<u>3,216</u>

Congress and the major bank regulatory agencies encouraged banks to work with their borrowers to provide short-term loan payment relief during the COVID-19 national emergency. On March 22, 2020, an interagency statement was released by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the Consumer Financial Protection Bureau, the Conference of State Bank Supervisors, and the National Credit Union Administration that contained guidance regarding loan modifications made in response to the pandemic. In general, in order for a loan modification made in response to the pandemic to avoid being classified as a troubled debt restructuring ("TDR"):

- The modified loan must be current when the modification is made;
- The modification must be short term in nature (up to six months); and
- Modifications may include payment deferrals, fee waivers, extensions of repayment terms or other delays in payment that are insignificant.

In addition, Section 4013 of the federal CARES Act provides temporary relief from the accounting and reporting requirements for TDRs regarding certain loan modifications for our customers. Section 4013 specified that COVID-19 related modifications on loans that were current as of December 31, 2019 are not TDRs. The provisions of Section 4013 were extended to the earlier of 60 days after the termination of the national emergency that was previously declared on March 13, 2020 or January 1, 2022 by the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act which was signed into law on December 27, 2020.

In response to our customers' needs during this time of economic uncertainty, we have initiated forbearance programs for our retail (mortgage and installment loans) and our commercial customers. We also have similar programs for mortgage loans that we service for others. Commercial loan accommodations have typically been a three month interest-only period while retail loan (mortgage and installment) forbearances have primarily been payment suspensions for three months. To date, there have not been a significant number of requests for additional modifications. See note #4 to the Consolidated Financial Statements included within this report.

COMMERCIAL AND RETAIL LOAN COVID-19 ACCOMMODATIONS

A summary of accommodations as of December 31, 2021 follows:

Loan Category	Covid-19 Accommodations		Total Loans	% of Total Loans
	Amount (#)	Amount (\$)		
	(Dollars in thousands)			
Commercial	—	\$ —	1,203,581	0.0%
Mortgage	22	2,278	1,139,659	0.2%
Installment	1	55	561,805	0.0%
Total	23	\$ 2,333	\$ 2,905,045	0.1%
Mortgage loans serviced for others ⁽¹⁾	46	\$ 5,163	\$ 3,323,521	0.2%

(1) We have delegated authority from all investors to grant these deferrals on their behalf.

Certain industries (such as hotels and restaurants) have been more adversely impacted by the COVID-19 pandemic and related periodic shut downs of our economy. We believe that the following concentrations within our commercial loan portfolio represent greater potential risk in the current economic environment. The balances below are as of December 31, 2021.

COMMERCIAL LOAN SEGMENT

	<u>Amount</u>	<u>% of Total Loans</u>
	(Dollars in millions)	
Commercial and industrial:		
Retail	\$ 70	2.4%
Food service	49	1.7
Hotel	40	1.4
	<u>159</u>	5.5
Commercial real estate:		
Retail	109	3.8
Office	72	2.5
Multifamily	55	1.9
	<u>236</u>	8.1
Total	<u>\$ 395</u>	13.6%

We are closely monitoring these industry concentrations and at present do not foresee any significant losses relative to this portion of our loan portfolio given the current economic conditions in Michigan and the fact that businesses have reopened. However, a high degree of uncertainty still exists with respect to the impact of the COVID-19 pandemic and the related economic disruptions on the future performance of our loan portfolio, including these concentrations.

LOAN PORTFOLIO COMPOSITION

	<u>December 31,</u>	
	<u>2021</u>	<u>2020</u>
	(In thousands)	
Real estate ⁽¹⁾		
Residential first mortgages	\$ 870,169	\$ 792,762
Residential home equity and other junior mortgages	128,801	138,128
Construction and land development	278,992	232,693
Other ⁽²⁾	726,224	669,150
Consumer	339,785	468,090
Commercial	555,696	429,011
Agricultural	5,378	3,844
Total loans	<u>\$ 2,905,045</u>	<u>\$ 2,733,678</u>

(1) Includes both residential and non-residential commercial loans secured by real estate.

(2) Includes loans secured by multi-family residential and non-farm, non-residential property.

NON-PERFORMING ASSETS⁽¹⁾

	December 31,		
	2021	2020	2019
	(Dollars in thousands)		
Non-accrual loans	\$ 5,545	\$ 8,312	\$ 10,178
Loans 90 days or more past due and still accruing interest	—	—	—
Sub total	5,545	8,312	10,178
Less: Government guaranteed loans	435	439	646
Total non-performing loans	5,110	7,873	9,532
Other real estate and repossessed assets	245	766	1,865
Total non-performing assets	\$ 5,355	\$ 8,639	\$ 11,397
As a percent of Portfolio Loans			
Non-accrual loans	0.19%	0.30%	0.37%
Non-performing loans	0.18	0.29	0.35
ACL ⁽²⁾	1.63	1.30	0.96
Non-performing assets to total assets	0.11	0.21	0.32
ACL as a percent of non-accrual loans ⁽²⁾	852.16	426.24	256.91
ACL as a percent of non-performing loans ⁽²⁾	924.70	450.01	274.32

(1) Excludes loans classified as “troubled debt restructured” that are performing.

(2) Beginning January 1, 2021, calculation is based on CECL methodology. Prior to January 1, 2021, calculation was based on the probable incurred loss methodology.

TROUBLED DEBT RESTRUCTURINGS

	December 31, 2021		
	Commercial	Retail ⁽¹⁾	Total
	(In thousands)		
Performing TDRs	\$ 4,481	\$ 31,589	\$ 36,070
Non-performing TDRs ⁽²⁾	—	1,016 ⁽³⁾	1,016
Total	\$ 4,481	\$ 32,605	\$ 37,086
December 31, 2020			
	(In thousands)		
Performing TDRs	\$ 7,956	\$ 36,385	\$ 44,341
Non-performing TDRs ⁽²⁾	1,148	1,584 ⁽³⁾	2,732
Total	\$ 9,104	\$ 37,969	\$ 47,073

(1) Retail loans include mortgage and installment loan portfolio segments.

(2) Included in non-performing loans table above.

(3) Also includes loans on non-accrual at the time of modification until six payments are received on a timely basis.

Non-performing loans totaled \$5.1 million, \$7.9 million and \$9.5 million at December 31, 2021, 2020 and 2019, respectively. The decrease in 2021 compared to 2020 was primarily due to a \$1.4 million decrease in the residential mortgage loan portfolio segment and a \$1.4 million decrease in the commercial loan segment which were primarily attributed to loan payoffs and pay downs. Our collection and resolution efforts have generally resulted in a stable trend in non-performing loans. The decrease in non-performing loans in 2020 as compared to 2019 was primarily due to a \$1.5 million decrease in the residential mortgage loan portfolio segment.

Non-performing loans exclude performing loans that are classified as troubled debt restructurings (“TDRs”). Performing TDRs totaled \$36.1 million, or 1.2% of total Portfolio Loans, and \$44.3 million, or 1.6% of total Portfolio

Loans, at December 31, 2021 and 2020, respectively. The decrease in the amount of performing TDRs during 2021 reflects declines in both commercial and mortgage loan TDRs due primarily to payoffs and paydowns.

Other real estate ("ORE") and repossessed assets totaled \$0.2 million at December 31, 2021, compared to \$0.8 million at December 31, 2020. The decrease in ORE during 2021 reflects the sale of retail properties.

The ACL as a percent of non-accrual and non-performing loans increased during 2021 due primarily to an increase in the ACL resulting from the adoption of CECL on January 1, 2021 while the increase in 2020 was due primarily to an increase in the balance of the subjective factor component of our ACL (see further discussion below).

We will place a loan that is 90 days or more past due on non-accrual, unless we believe the loan is both well secured and in the process of collection. Accordingly, we have determined that the collection of the accrued and unpaid interest on any loans that are 90 days or more past due and still accruing interest is probable.

ALLOCATION OF THE ALLOWANCE FOR CREDIT LOSSES⁽¹⁾

	December 31, 2021	January 1, 2021
	(In thousands)	
Specific allocations	\$ 1,130	\$ 2,452
Pooled analysis allocations	33,359	30,796
Additional allocations based on subjective factors	12,763	13,889
Total	<u>\$ 47,252</u>	<u>\$ 47,137</u>

(1) January 1, 2021 includes impact of the adoption of CECL.

Beginning January 1, 2021, we calculated the ACL using the current expected credit losses methodology. As of January 1, 2021, we increased the ACL for loans by \$11.7 million and increased the ACL for unfunded loan commitments by \$1.5 million.

Some loans will not be repaid in full. Therefore, an ACL is maintained at a level which represents our best estimate of expected credit losses. Our ACL is comprised of three principal elements: (i) specific analysis of individual loans identified during the review of the loan portfolio, (ii) pooled analysis of loans with similar risk characteristics based on historical experience, adjusted for current conditions, reasonable and supportable forecasts, and expected prepayments, and (iii) additional allowances based on subjective factors, including local and general economic business factors and trends, portfolio concentrations and changes in the size and/or the general terms of the loan portfolios. See notes #1 and #4 to the Consolidated Financial Statements included within this report for further discussion on the ACL.

While we use relevant information to recognize losses on loans, additional provisions for related losses may be necessary based on changes in economic conditions, customer circumstances and other credit risk factors.

The ACL increased \$0.1 million to \$47.3 million at December 31, 2021 from \$47.1 million at January 1, 2021 (CECL adoption date) and was equal to 1.63% of total Portfolio Loans at December 31, 2021.

Two of the three components of the ACL outlined above decreased since our CECL adoption date. The ACL related to specific loans decreased \$1.3 million due primarily to a \$6.7 million decrease in the amount of such loans. The ACL related to subjective factors decreased \$1.1 million due primarily to slightly lower reserve allocations reflecting an improvement in economic forecasts (particularly for lower unemployment levels) that was partially offset by loan growth in 2021. The ACL related to pooled analysis of loans increased \$2.6 million due primarily loan growth in 2021.

During 2020 the ACL related to specific loans decreased \$0.6 million as compared to 2019 due primarily to a \$5.3 million decline in the amount such loans. The ACL related to other adversely rated commercial loans (used prior to the adoption of CECL) decreased \$0.8 million in 2020 as compared to 2019, primarily due to a decrease in the balance of such loans included in this component to \$37.6 million from \$54.4 million at December 31, 2019. The ACL related to historical losses (used prior to the adoption of CECL) decreased \$0.6 million in 2020 as compared to 2019 primarily due to a decrease in the balance of such loans included in this component. The ACL related to subjective factors increased \$11.2 million in 2020 as compared to 2019. The significant increase in the ACL related to subjective factors is due principally to the economic shock of COVID-19 and various executive orders suspending

or restricting certain businesses and operations, the significant increase in unemployment claims, especially in the State of Michigan, and elevated requests for payment relief from our borrowers.

ALLOWANCE FOR CREDIT LOSSES ON LOANS AND UNFUNDED COMMITMENTS

	2021		2020		2019	
	ACL	Unfunded Commitments	ACL	Unfunded Commitments	ACL	Unfunded Commitments
	(In thousands)					
Balance at beginning of year	\$ 35,429	\$ 1,805	\$ 26,148	\$ 1,542	\$ 24,888	\$ 1,296
Additions (deductions)						
Impact of adoption of CECL	11,574	1,469	—	—	—	—
Provision for credit losses ⁽¹⁾	(1,928)	—	12,463	—	824	—
Initial allowance on loans purchased with credit deterioration	134	—	—	—	—	—
Recoveries credited to the ACL	4,477	—	3,069	—	3,961	—
Loans charged against the ACL	(2,434)	—	(6,251)	—	(3,525)	—
Additions included in non-interest expense	—	1,207	—	263	—	246
Balance at end of year	\$ 47,252	\$ 4,481	\$ 35,429	\$ 1,805	\$ 26,148	\$ 1,542

(1) Beginning January 1, 2021, calculation is based on CECL methodology. Prior to January 1, 2021, calculation was based on the probable incurred loss methodology.

RATIO OF NET CHARGE-OFFS TO AVERAGE LOANS OUTSTANDING

	Commercial		Mortgage		Installment		Total	
	(Dollars in thousands)							
2021								
Loans charged against (recoveries credited to) the ACL	\$	(2,607)	\$	(471)	\$	1,035	\$	(2,043)
Average Portfolio Loans		1,241,961		1,056,245		521,089		2,819,295
Net loans charged off against (credited to) the ACL to average Portfolio Loans		(0.21)%		(0.04)%		0.20%		(0.07)%
2020								
Loans charged against (recoveries credited to) the ACL	\$	2,272	\$	303	\$	607	\$	3,182
Average Portfolio Loans		1,294,217		1,020,507		472,210		2,786,934
Net loans charged off against (credited to) the ACL to average Portfolio Loans		0.18%		0.03%		0.13%		0.11%
2019								
Loans charged against (recoveries credited to) the ACL	\$	(1,483)	\$	288	\$	759	\$	(436)
Average Portfolio Loans		1,167,518		1,060,643		426,730		2,654,891
Net loans charged off against (credited to) the ACL to average Portfolio Loans		(0.13)%		0.03%		0.18%		(0.02)%

In 2021, we recorded loan net recoveries of \$2.0 million compared to loan net charge offs of \$3.2 million in 2020 and loan net recoveries of \$0.4 million in 2019. The net recoveries in 2021 primarily reflect reduced levels of non-performing loans, improvement in collateral liquidation values and ongoing collection efforts on previously charged-off loans. The increase in net charge-offs in 2020 was attributed to a \$4.0 million charge down of one specific commercial loan relationship whose balance was zero at December 31, 2020. The net recoveries in 2019 primarily reflect reduced levels of non-performing loans, improvement in collateral liquidation values and ongoing collection efforts on previously charged-off loans.

Deposits and borrowings. Historically, the loyalty of our customer base has allowed us to price deposits competitively, contributing to a net interest margin that compares favorably to our peers. However, we still face a

significant amount of competition for deposits within many of the markets served by our branch network, which limits our ability to materially increase deposits without adversely impacting the weighted-average cost of core deposits.

To attract new core deposits, we have implemented various account acquisition strategies as well as branch staff sales training. Account acquisition initiatives have historically generated increases in customer relationships. Over the past several years, we have also expanded our treasury management products and services for commercial businesses and municipalities or other governmental units and have also increased our sales calling efforts in order to attract additional deposit relationships from these sectors. We view long-term core deposit growth as an important objective. Core deposits generally provide a more stable and lower cost source of funds than alternative sources such as short-term borrowings. (See "Liquidity and capital resources.")

Deposits totaled \$4.12 billion and \$3.64 billion at December 31, 2021 and 2020, respectively. The \$479.7 million increase in deposits during 2021 is due to growth in non-interest bearing deposits, savings and interest bearing checking deposits, time deposits and reciprocal deposits. Reciprocal deposits totaled \$586.6 million and \$556.2 million at December 31, 2021 and 2020, respectively. These deposits represent demand, money market and time deposits from our customers that have been placed through the IntraFi Network (formerly Promontory Interfinancial Network's Insured Cash Sweep® service and Certificate of Deposit Account Registry Service®). This service allows our customers to access multi-million dollar FDIC deposit insurance on deposit balances greater than the standard FDIC insurance maximum. The increase in reciprocal deposits is due in part to sales efforts of our treasury management team.

We cannot be sure that we will be able to maintain our current level of core deposits. In particular, those deposits that are uninsured may be susceptible to outflow. At December 31, 2021, we had an estimated \$1.03 billion of uninsured deposits. A reduction in core deposits would likely increase our need to rely on wholesale funding sources.

We have also implemented strategies that incorporate using federal funds purchased, other borrowings and Brokered CDs to fund a portion of our interest-earning assets. The use of such alternate sources of funds supplements our core deposits and is also a part of our asset/liability management efforts. Other borrowings, comprised primarily of federal funds purchased and advances from the Federal Home Loan Bank (the "FHLB"), totaled \$30.0 million at December 31, 2021 and 2020.

As described above, we utilize wholesale funding, including federal funds purchased, FHLB borrowings and Brokered CDs to augment our core deposits and fund a portion of our assets. At December 31, 2021, our use of such wholesale funding sources (including reciprocal deposits) amounted to approximately \$619.6 million, or 14.9% of total funding (deposits and total borrowings, excluding subordinated debt and debentures). Because wholesale funding sources are affected by general market conditions, the availability of such funding may be dependent on the confidence these sources have in our financial condition and operations. The continued availability to us of these funding sources is not certain, and Brokered CDs may be difficult for us to retain or replace at attractive rates as they mature. Our liquidity may be constrained if we are unable to renew our wholesale funding sources or if adequate financing is not available in the future at acceptable rates of interest or at all. Our financial performance could also be affected if we are unable to maintain our access to funding sources or if we are required to rely more heavily on more expensive funding sources. In such case, our net interest income and results of operations could be adversely affected.

We have historically employed derivative financial instruments to manage our exposure to changes in interest rates. During 2021, 2020 and 2019, we entered into \$79.0 million, \$16.7 million and \$74.5 million (original aggregate notional amounts), respectively, of interest rate swaps with commercial loan customers, which were offset with interest rate swaps that the Bank entered into with a broker-dealer. We recorded \$0.81 million, \$0.26 million and \$0.94 million of fee income related to these transactions during 2021, 2020 and 2019, respectively. In 2021 we entered into \$106.9 million (notional amount) of pay fixed interest rate swaps to hedge the fair value of municipal bond securities. In 2020 we entered into \$42.0 million (notional amount) of pay fixed interest rate swaps to hedge the fair value of municipal bond securities. In 2019 we entered into a \$7.1 million (notional amount) pay fixed interest rate swap to hedge the fair value of a fixed rate commercial loan.

Liquidity and capital resources. Liquidity risk is the risk of being unable to timely meet obligations as they come due at a reasonable funding cost or without incurring unacceptable losses. Our liquidity management involves the measurement and monitoring of a variety of sources and uses of funds. Our Consolidated Statements of Cash Flows categorize these sources and uses into operating, investing and financing activities. We primarily focus our liquidity

management on maintaining adequate levels of liquid assets (primarily funds on deposit with the FRB and certain securities available for sale) as well as developing access to a variety of borrowing sources to supplement our deposit gathering activities and provide funds for purchasing securities available for sale or originating Portfolio Loans as well as to be able to respond to unforeseen liquidity needs.

Our primary sources of funds include our deposit base, secured advances from the FHLB, federal funds purchased borrowing facilities with other commercial banks, and access to the capital markets (for Brokered CDs).

TIME DEPOSITS⁽¹⁾

The following table summarizes time deposits in amounts less than \$250,000 and in amounts of \$250,000 or more, by time remaining until maturity at December 31, 2021:

	<u>Less than \$250,000</u>	<u>Greater than \$250,000 (In thousands)</u>	<u>Total</u>
Three months or less	\$ 74,671	\$ 18,870	\$ 93,541
Over three through six months	53,328	13,582	66,910
Over six months through one year	57,565	51,051	108,616
Over one year	57,155	9,570	66,725
Total	\$ 242,719	\$ 93,073	\$ 335,792

(1) Includes time deposits, brokered time deposits and reciprocal time deposits

At December 31, 2021, we had \$269.1 million of time deposits (see note #8 to the Consolidated Financial Statements) that mature in the next 12 months. Historically, a majority of these maturing time deposits are renewed by our customers. Additionally, \$3.81 billion of our deposits at December 31, 2021, were in account types from which the customer could withdraw the funds on demand. Changes in the balances of deposits that can be withdrawn upon demand are usually predictable and the total balances of these accounts have generally grown or have been stable over time as a result of our marketing and promotional activities. However, there can be no assurance that historical patterns of renewing time deposits or overall growth or stability in deposits will continue in the future.

We have developed contingency funding plans that stress test our liquidity needs that may arise from certain events such as an adverse change in our financial metrics (for example, credit quality or regulatory capital ratios). Our liquidity management also includes periodic monitoring that measures quick assets (defined generally as highly liquid or short-term assets) to total assets, short-term liability dependence and basic surplus (defined as quick assets less volatile liabilities to total assets). Policy limits have been established for our various liquidity measurements and are monitored on a quarterly basis. In addition, we also prepare cash flow forecasts that include a variety of different scenarios.

We believe that we currently have adequate liquidity at our Bank because of our cash and cash equivalents, our portfolio of securities available for sale, our access to secured advances from the FHLB, and our ability to issue Brokered CDs.

We also believe that the available cash on hand at the parent company (including time deposits) of approximately \$46.1 million as of December 31, 2021, provides sufficient liquidity resources at the parent company to meet operating expenses, to make interest payments on our subordinated debt and debentures and to pay a cash dividend on our common stock for the foreseeable future.

In the normal course of business we enter into certain contractual obligations. Such obligations include requirements to make future payments on debt and lease arrangements, contractual commitments for capital expenditures, and service contracts.

Effective management of capital resources is critical to our mission to create value for our shareholders. In addition to common stock, our capital structure also currently includes subordinated debt and cumulative trust preferred securities.

CAPITALIZATION

	December 31,	
	2021	2020
	(In thousands)	
Subordinated debt	\$ 39,357	\$ 39,281
Subordinated debentures	39,592	39,524
Amount not qualifying as regulatory capital	(581)	(505)
Amount qualifying as regulatory capital	78,368	78,300
Shareholders' equity		
Common stock	323,401	339,353
Retained earnings	74,582	40,145
Accumulated other comprehensive income	501	10,024
Total shareholders' equity	398,484	389,522
Total capitalization	\$ 476,852	\$ 467,822

In May 2020, we issued \$40.0 million of fixed to floating subordinated notes with a ten year maturity and a five year call option. The initial coupon rate is 5.95% fixed for five years and then floats at the Secured Overnight Financing Rate ("SOFR") plus 5.825%. These notes are presented in the Consolidated Statement of Financial Condition under the caption "Subordinated debt" and the December 31, 2021 and 2020 balances of \$39.4 million and \$39.3 million, respectively, is net of remaining unamortized deferred issuance costs that are being amortized through the maturity date into interest expense on other borrowings and subordinated debt and debentures in our Consolidated Statement of Operations.

We currently have four special purpose entities with \$39.5 million of outstanding cumulative trust preferred securities. These special purpose entities issued common securities and provided cash to our parent company that in turn issued subordinated debentures to these special purpose entities equal to the trust preferred securities and common securities. The subordinated debentures represent the sole asset of the special purpose entities. The common securities and subordinated debentures are included in our Consolidated Statements of Financial Condition.

The FRB has issued rules regarding trust preferred securities as a component of the Tier 1 capital of bank holding companies. The aggregate amount of trust preferred securities (and certain other capital elements) is limited to 25% of Tier 1 capital elements, net of goodwill (net of any associated deferred tax liability). The amount of trust preferred securities and certain other elements in excess of the limit can be included in Tier 2 capital, subject to restrictions. Although the Dodd-Frank Act further limited Tier 1 treatment for trust preferred securities, those new limits did not apply to our outstanding trust preferred securities. Further, the capital rules allow for the treatment of our trust preferred securities as qualifying regulatory capital.

Common shareholders' equity increased to \$398.5 million at December 31, 2021 from \$389.5 million at December 31, 2020, due primarily to our net income which was partially offset by the change in our accumulated other comprehensive income, share repurchases and dividends that we paid. Our tangible common equity ("TCE") totaled \$366.8 million and \$356.9 million, respectively, at those same dates. Our ratio of TCE to tangible assets was 7.85% and 8.56% at December 31, 2021 and 2020, respectively. TCE and the ratio of TCE to tangible assets are non-GAAP measures. TCE represents total common equity less intangible assets.

In December 2021, our Board of Directors authorized the 2022 share repurchase plan. Under the terms of the 2022 share repurchase plan, we are authorized to buy back up to 1,100,000 shares, or approximately 5%, of our outstanding common stock. This repurchase plan commenced on January 1, 2022, and is expected to last through December 31, 2022.

In December 2020, our Board of Directors authorized the 2021 share repurchase plan. Under the original terms of the share repurchase plan, we were authorized to buy back 1,100,000 shares, or approximately 5% of our outstanding common stock. The share repurchase plan expired on December 31, 2021. We repurchased 814,910 shares during 2021 at an average cost of \$21.19 per share.

In December 2019, our Board of Directors authorized a 2020 share repurchase plan. Under the terms of the 2020 share repurchase plan, we were authorized to buy back 1,120,000 shares, or approximately 5%, of our outstanding

common stock. During the first three months of 2020, we repurchased 678,929 shares at a weighted average purchase price of \$20.30 per share. Due primarily to the economic uncertainty brought on by the COVID-19 pandemic, we suspended share repurchase activity on March 16, 2020. However, primarily as a result of our strong financial performance and improved economic conditions, we reactivated the share repurchase plan in the fourth quarter of 2020 and acquired 30,027 shares at a weighted average price of \$14.90. We repurchased a total of 708,956 shares at a weighted average price of \$20.07 in 2020.

We currently pay a quarterly cash dividend on our common stock. The annual total dividends paid were \$0.84, \$0.80 and \$0.72 per share for 2021, 2020 and 2019, respectively. We currently favor a dividend payout ratio between 30% and 50% of net income.

As of December 31, 2021 and 2020, our Bank (and holding company) continued to meet the requirements to be considered "well-capitalized" under federal regulatory standards (also see note #20 to the Consolidated Financial Statements).

Asset/liability management. Interest-rate risk is created by differences in the cash flow characteristics of our assets and liabilities. Options embedded in certain financial instruments, including caps on adjustable-rate loans as well as borrowers' rights to prepay fixed-rate loans, also create interest-rate risk.

Our asset/liability management efforts identify and evaluate opportunities to structure our statement of financial condition in a manner that is consistent with our mission to maintain profitable financial leverage within established risk parameters. We evaluate various opportunities and alternate asset/liability management strategies carefully and consider the likely impact on our risk profile as well as the anticipated contribution to earnings. The marginal cost of funds is a principal consideration in the implementation of our asset/liability management strategies, but such evaluations further consider interest-rate and liquidity risk as well as other pertinent factors. We have established parameters for interest-rate risk. We regularly monitor our interest-rate risk and report at least quarterly to our board of directors.

We employ simulation analyses to monitor our interest-rate risk profile and evaluate potential changes in our net interest income and market value of portfolio equity that result from changes in interest rates. The purpose of these simulations is to identify sources of interest-rate risk inherent in our Consolidated Statements of Financial Condition. The simulations do not anticipate any actions that we might initiate in response to changes in interest rates and, accordingly, the simulations do not provide a reliable forecast of anticipated results. The simulations are predicated on immediate, permanent and parallel shifts in interest rates and generally assume that current loan and deposit pricing relationships remain constant. The simulations further incorporate assumptions relating to changes in customer behavior, including changes in prepayment rates on certain assets and liabilities. During 2021, our interest rate risk profile as measured by our short term earnings simulation has not changed significantly while our longer term interest rate risk measure based on changes in economic value now indicates modest exposure to rising rates. The shift is primarily due to an increase in asset duration. The increase in asset duration is attributed to growth and mix changes in the investment portfolio and portfolio mortgage loans. However, we are carefully monitoring this change in the composition of our earning assets and the impact of potential future changes in interest rates on our changes in market value of portfolio equity and changes in net interest income. As a result, we may add some longer-term borrowings, may utilize derivatives (interest rate swaps and interest rate caps) to manage interest rate risk and may continue to sell some fixed rate jumbo and other portfolio mortgage loans in the future.

CHANGES IN MARKET VALUE OF PORTFOLIO EQUITY AND NET INTEREST INCOME

Change in Interest Rates	Market Value of Portfolio Equity ⁽¹⁾	Percent Change	Net Interest Income ⁽²⁾		Percent Change
			(Dollars in thousands)		
December 31, 2021					
200 basis point rise	\$ 514,200	(5.86)%	\$ 137,800		3.30%
100 basis point rise	550,900	0.86	136,800		2.55
Base-rate scenario	546,200	—	133,400		—
100 basis point decline	473,000	(13.40)	126,700		(5.02)

Change in Interest Rates	Market Value of Portfolio Equity ⁽¹⁾	Percent Change	Net Interest Income ⁽²⁾	Percent Change
	(Dollars in thousands)			
December 31, 2020				
200 basis point rise	\$ 494,600	15.02%	\$ 125,200	4.16%
100 basis point rise	483,200	12.37	123,700	2.91
Base-rate scenario	430,000	—	120,200	—
100 basis point decline	395,500	(8.02)	114,900	(4.41)

- (1) Simulation analyses calculate the change in the net present value of our assets and liabilities, including debt and related financial derivative instruments, under parallel shifts in interest rates by discounting the estimated future cash flows using a market-based discount rate. Cash flow estimates incorporate anticipated changes in prepayment speeds and other embedded options.
- (2) Simulation analyses calculate the change in net interest income under immediate parallel shifts in interest rates over the next twelve months, based upon a static Consolidated Statement of Financial Condition, which includes debt and related financial derivative instruments, and do not consider loan fees.

Accounting Standards Update. See note #1 to the Consolidated Financial Statements included elsewhere in this report for details on recently issued accounting pronouncements and their impact on our consolidated financial statements.

FAIR VALUATION OF FINANCIAL INSTRUMENTS

Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) topic 820 - “Fair Value Measurements and Disclosures” (“FASB ASC topic 820”) defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

We utilize fair value measurements to record fair value adjustments to certain financial instruments and to determine fair value disclosures. FASB ASC topic 820 differentiates between those assets and liabilities required to be carried at fair value at every reporting period (“recurring”) and those assets and liabilities that are only required to be adjusted to fair value under certain circumstances (“nonrecurring”). Securities available for sale, loans held for sale, derivatives and capitalized mortgage loan servicing rights are financial instruments recorded at fair value on a recurring basis. Additionally, from time to time, we may be required to record at fair value other financial assets on a nonrecurring basis, such as loans held for investment and certain other assets. These nonrecurring fair value adjustments typically involve application of lower of cost or fair value accounting or write-downs of individual assets. See note #21 to the Consolidated Financial Statements for a complete discussion on our use of fair valuation of financial instruments and the related measurement techniques.

LITIGATION MATTERS

We are involved in various litigation matters in the ordinary course of business. At the present time, we do not believe any of these matters will have a significant impact on our consolidated financial position or results of operations. The aggregate amount we have accrued for losses we consider probable as a result of these litigation matters is immaterial. However, because of the inherent uncertainty of outcomes from any litigation matter, we believe it is reasonably possible we may incur losses in addition to the amounts we have accrued. At this time, we estimate the maximum amount of additional losses that are reasonably possible is insignificant. However, because of a number of factors, including the fact that certain of these litigation matters are still in their early stages, this maximum amount may change in the future.

The litigation matters described in the preceding paragraph primarily include claims that have been brought against us for damages, but do not include litigation matters where we seek to collect amounts owed to us by third parties (such as litigation initiated to collect delinquent loans). These excluded, collection-related matters may involve claims or counterclaims by the opposing party or parties, however we have excluded such matters from the disclosure contained in the preceding paragraph in all cases where we believe the possibility of us paying damages to any opposing party is remote.

CRITICAL ACCOUNTING POLICIES

Our accounting and reporting policies are in accordance with accounting principles generally accepted in the United States of America and conform to general practices within the banking industry. Accounting and reporting policies for the ACL and capitalized mortgage loan servicing rights are deemed critical since they involve the use of estimates and require significant management judgments. Application of assumptions different than those that we have used could result in material changes in our financial position or results of operations.

Our methodology for determining the ACL and related provision for credit losses is described above in "Portfolio Loans and asset quality." In particular, this area of accounting requires a significant amount of judgment because a multitude of factors can influence the ultimate collection of a loan or other type of credit. It is extremely difficult to precisely measure the amount of expected credit losses in our loan portfolio. We use a rigorous process to attempt to accurately quantify the necessary ACL and related provision for credit losses, but there can be no assurance that our modeling process will successfully identify all of the expected credit losses in our loan portfolio. As a result, we could record future provisions for credit losses that may be significantly different than the levels that we recorded in prior periods. We adopted CECL on January 1, 2021 which changed the way we calculate our ACL. See also notes #1 and #4 to the Consolidated Financial Statements included within this report for further discussion on CECL.

At December 31, 2021 and 2020, we had approximately \$26.2 million and \$16.9 million, respectively, of mortgage loan servicing rights capitalized on our Consolidated Statements of Financial Condition. There are several critical assumptions involved in establishing the value of this asset including estimated future prepayment speeds on the underlying mortgage loans, the interest rate used to discount the net cash flows from the mortgage loan servicing, the estimated amount of ancillary income that will be received in the future (such as late fees) and the estimated cost to service the mortgage loans. We believe the assumptions that we utilize in our valuation are reasonable based upon accepted industry practices for valuing mortgage loan servicing rights and represent neither the most conservative or aggressive assumptions.

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING

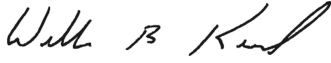
The management of Independent Bank Corporation is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system was designed to provide reasonable assurance to us and the board of directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

We assessed the effectiveness of our internal control over financial reporting as of December 31, 2021. In making this assessment, we used the criteria established in the 2013 Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our assessment, management has concluded that as of December 31, 2021, the Company's internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2021, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Our independent registered public accounting firm has issued an audit report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2021. Their report immediately follows our report.



William B. Kessel
President and
Chief Executive Officer



Gavin A. Mohr
Executive Vice President
and Chief Financial Officer

Independent Bank Corporation
March 4, 2022

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and the Board of Directors of Independent Bank Corporation
Grand Rapids, Michigan

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated statements of financial condition of Independent Bank Corporation (the "Corporation") as of December 31, 2021 and 2020, the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2021, and the related notes (collectively referred to as the "financial statements"). We also have audited the Corporation's internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control – Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2021 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control – Integrated Framework: (2013) issued by COSO.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Corporation has changed its method of accounting for credit losses effective January 1, 2021 due to the adoption of Financial Accounting Standards Board ("FASB") Accounting Standards Codification No. 326, Financial Instruments - Credit Losses ("ASC 326"). The Corporation adopted the new credit loss standard using the modified retrospective method such that prior period amounts are not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles. Certain aspects of the application of the new credit loss standard are communicated as a critical audit matter below.

Basis for Opinions

The Corporation's management is responsible for these financial statements, 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 Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Corporation's financial statements and an opinion on the Corporation's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Corporation in accordance with the 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 financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the 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 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 financial statements. 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 audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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 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 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 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.

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) relates 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 (ACL) for loans – Subjective Factors

Refer to Notes 1 and 4 to the Consolidated Financial Statements.

On January 1, 2021 (“adoption date”), the Corporation adopted ASU 2016-13, Financial Instruments – Credit Losses (Topic 326) under a modified retrospective approach, which required the Corporation to estimate expected credit losses for its financial assets carried at amortized cost utilizing the current expected credit loss (“CECL”) methodology. As of the adoption date, the Corporation reported a \$47.1 million allowance for credit losses (“ACL”) under the CECL methodology on its \$2.7 billion of loans carried at amortized cost. Upon adoption of the new standard, the Corporation recorded an \$11.7 million increase to the ACL for loans. After considering other impacts of adoption, a \$10.3 million decrease was recorded in retained earnings through a cumulative-effect adjustment. See change in accounting principle explanatory paragraph above.

The ACL under the CECL methodology is a significant estimate recorded within the Corporation’s financial statements with a reported balance for loans of \$47.1 million and \$47.3 million as of the adoption date and December 31, 2021, respectively. The ACL model for loans consists of three components: 1) the specific analysis of individually evaluated loans; 2) pooled analysis of loans with similar risk characteristics based on historical experience using a discounted cash flow model, adjusted for current conditions, reasonable and supportable forecasts and expected prepayments; and 3) additional allowances based on subjective factors.

The subjective factors include consideration of the following: local and general economic business factors and trends, portfolio concentrations and changes in the size, and/or the general terms of the overall loan portfolio. Due to the significant judgment applied by management to determine the effect of the subjective factors, we identified the effect of the subjective factors on the ACL for loans as a critical audit matter as it involved a high degree of auditor judgment and required significant audit effort, including the need to involve more experienced audit personnel.

The primary procedures we performed to address this critical audit matter included:

- Testing the effectiveness of controls over the subjective factors used in the ACL calculation including controls addressing:
 - Management’s review of the reasonableness of the significant assumptions applied in the development of the subjective factors and the relevance to the loan segment to which they are applied.
 - Mathematical accuracy of the subjective factors applied to the loan segments in the ACL calculation.
- Substantively testing management’s determination of the subjective factors used in the ACL estimate, including:
 - Testing management’s process for developing the subjective factors, which included assessing the relevance and reliability of data used to develop the subjective factors, including evaluating their judgments and assumptions for reasonableness. Among other procedures, our evaluation considered evidence from internal and external sources.
 - Analytically evaluating the subjective factors for directional consistency, testing for reasonableness, and obtaining evidence for significant changes.
 - Testing the mathematical accuracy of the subjective factors applied to the loan segments in the ACL calculation.



Crowe LLP

We have served as the Corporation’s auditor since 2005.

South Bend, Indiana
March 4, 2022

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	December 31,	
	2021	2020
	(In thousands, except share amounts)	
Assets		
Cash and due from banks	\$ 51,069	\$ 56,006
Interest bearing deposits	58,404	62,699
Cash and Cash Equivalents	<u>109,473</u>	<u>118,705</u>
Securities available for sale	1,412,830	1,072,159
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	18,427	18,427
Loans held for sale, carried at fair value	55,470	92,434
Loans held for sale, carried at lower of cost or fair value	34,811	-
Loans		
Commercial	1,203,581	1,242,415
Mortgage	1,139,659	1,015,926
Installment	561,805	475,337
Total Loans	<u>2,905,045</u>	<u>2,733,678</u>
Allowance for credit losses (1)	(47,252)	(35,429)
Net Loans	<u>2,857,793</u>	<u>2,698,249</u>
Other real estate and repossessed assets, net	245	766
Property and equipment, net	36,404	36,127
Bank-owned life insurance	55,279	55,180
Capitalized mortgage loan servicing rights, carried at fair value	26,232	16,904
Other intangibles	3,336	4,306
Goodwill	28,300	28,300
Accrued income and other assets	66,140	62,456
Total Assets	<u>\$ 4,704,740</u>	<u>\$ 4,204,013</u>
Liabilities and Shareholders' Equity		
Deposits		
Non-interest bearing	\$ 1,321,601	\$ 1,153,473
Savings and interest-bearing checking	1,897,487	1,526,465
Reciprocal	586,626	556,185
Time	308,438	287,402
Brokered time	2,938	113,830
Total Deposits	<u>4,117,090</u>	<u>3,637,355</u>
Other borrowings	30,009	30,012
Subordinated debt	39,357	39,281
Subordinated debentures	39,592	39,524
Accrued expenses and other liabilities	80,208	68,319
Total Liabilities	<u>4,306,256</u>	<u>3,814,491</u>
Commitments and contingent liabilities		
Shareholders' Equity		
Preferred stock, no par value, 200,000 shares authorized; none issued or outstanding	-	-
Common stock, no par value, 500,000,000 shares authorized; issued and outstanding: 21,171,036 shares at December 31, 2021 and 21,853,800 shares at December 31, 2020	323,401	339,353
Retained earnings	74,582	40,145
Accumulated other comprehensive income	501	10,024
Total Shareholders' Equity	<u>398,484</u>	<u>389,522</u>
Total Liabilities and Shareholders' Equity	<u>\$ 4,704,740</u>	<u>\$ 4,204,013</u>

(1) Beginning January 1, 2021, calculation is based on CECL methodology. Prior to January 1, 2021, calculation was based on the probable incurred loss methodology.

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2021	2020	2019
	(In thousands, except per share amounts)		
INTEREST INCOME			
Interest and fees on loans	\$ 116,644	\$ 123,159	\$ 133,883
Interest on securities available for sale			
Taxable	14,488	12,655	11,842
Tax-exempt	6,102	2,926	1,342
Other investments	846	1,089	1,861
Total Interest Income	138,080	139,829	148,928
INTEREST EXPENSE			
Deposits	4,465	12,666	23,425
Other borrowings and subordinated debt and debentures	3,850	3,551	2,922
Total Interest Expense	8,315	16,217	26,347
Net Interest Income	129,765	123,612	122,581
Provision for credit losses (1)	(1,928)	12,463	824
Net Interest Income After Provision for Credit Losses	131,693	111,149	121,757
NON-INTEREST INCOME			
Interchange income	14,045	11,230	10,297
Service charges on deposit accounts	10,170	8,517	11,208
Net gains on assets			
Mortgage loans	35,880	62,560	19,978
Securities available for sale	1,411	267	307
Mortgage loan servicing, net	5,745	(9,350)	(3,336)
Other	9,392	7,521	9,282
Total Non-interest Income	76,643	80,745	47,736
NON-INTEREST EXPENSE			
Compensation and employee benefits	79,969	74,781	67,501
Data processing	10,823	8,534	8,905
Occupancy, net	8,794	8,938	9,013
Interchange expense	4,434	3,342	3,215
Furniture, fixtures and equipment	4,172	4,089	4,113
Loan and collection	3,172	3,037	2,685
Communications	3,080	3,194	2,947
Legal and professional	2,068	2,027	1,814
Advertising	1,918	2,230	2,450
Conversion related expense	1,827	2,586	-
FDIC deposit insurance	1,396	1,596	685
Costs related to unfunded lending commitments	1,207	263	246
Other	8,163	7,796	8,159
Total Non-interest Expense	131,023	122,413	111,733
Income Before Income Tax	77,313	69,481	57,760
Income tax expense	14,418	13,329	11,325
Net Income	\$ 62,895	\$ 56,152	\$ 46,435
Net income per common share			
Basic	\$ 2.91	\$ 2.56	\$ 2.03
Diluted	\$ 2.88	\$ 2.53	\$ 2.00

(1) Beginning January 1, 2021, calculation is based on CECL methodology. Prior to January 1, 2021, calculation was based on the probable incurred loss methodology.

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2021	2020	2019
	(In thousands)		
Net income	\$ 62,895	\$ 56,152	\$ 46,435
Other comprehensive income (loss)			
Securities available for sale			
Unrealized gain (loss) arising during period	(10,644)	15,611	10,235
Change in unrealized gains and losses for which a portion of other than temporary impairment has been recognized in earnings	-	(49)	(65)
Reclassification adjustments for gains included in earnings	(1,411)	(267)	(140)
Unrealized gains (losses) recognized in other comprehensive income (loss) on securities available for sale	(12,055)	15,295	10,030
Income tax expense (benefit)	(2,532)	3,212	2,106
Unrealized gains (losses) recognized in other comprehensive income (loss) on securities available for sale, net of tax	(9,523)	12,083	7,924
Derivative instruments			
Unrealized losses arising during period	-	(354)	(1,603)
Reclassification adjustment for (income) expense recognized in earnings	-	2,539	(425)
Unrealized gains (losses) recognized in other comprehensive income (loss) on derivative instruments	-	2,185	(2,028)
Income tax expense (benefit)	-	458	(426)
Unrealized gains (losses) recognized in other comprehensive income (loss) on derivative instruments, net of tax	-	1,727	(1,602)
Other comprehensive income (loss)	(9,523)	13,810	6,322
Comprehensive income	\$ 53,372	\$ 69,962	\$ 52,757

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	(Dollars in thousands, except per share amounts)			
Balances at January 1, 2019	\$ 377,372	\$ (28,270)	\$ (10,108)	\$ 338,994
Net income for 2019	-	46,435	-	46,435
Cash dividends declared, \$0.72 per share	-	(16,554)	-	(16,554)
Repurchase of 1,204,688 shares of common stock	(26,284)	-	-	(26,284)
Issuance of 71,799 shares of common stock	284	-	-	284
Share based compensation (issuance of 92,275 shares of common stock)	1,854	-	-	1,854
Share based compensation withholding obligation (withholding of 57,468 shares of common stock)	(882)	-	-	(882)
Other comprehensive income	-	-	6,322	6,322
Balances at December 31, 2019	352,344	1,611	(3,786)	350,169
Net income for 2020	-	56,152	-	56,152
Cash dividends declared, \$0.80 per share	-	(17,618)	-	(17,618)
Repurchase of 708,956 shares of common stock	(14,231)	-	-	(14,231)
Issuance of 17,317 shares of common stock	15	-	-	15
Share based compensation (issuance of 103,429 shares of common stock)	1,980	-	-	1,980
Share based compensation withholding obligation (withholding of 39,633 shares of common stock)	(755)	-	-	(755)
Other comprehensive income	-	-	13,810	13,810
Balances at December 31, 2020	339,353	40,145	10,024	389,522
Adoption of ASU 2016-13	-	(10,303)	-	(10,303)
Balances at December 31, 2020, as adjusted	339,353	29,842	10,024	379,219
Net income for 2021	-	62,895	-	62,895
Cash dividends declared, \$0.84 per share	-	(18,155)	-	(18,155)
Repurchase of 814,910 shares of common stock	(17,269)	-	-	(17,269)
Issuance of 40,350 shares of common stock	61	-	-	61
Share based compensation (issuance of 128,018 shares of common stock)	1,947	-	-	1,947
Share based compensation withholding obligation (withholding of 36,222 shares of common stock)	(691)	-	-	(691)
Other comprehensive loss	-	-	(9,523)	(9,523)
Balances at December 31, 2021	\$ 323,401	\$ 74,582	\$ 501	\$ 398,484

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2021	2020	2019
	(In thousands)		
Net Income	\$ 62,895	\$ 56,152	\$ 46,435
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH FROM OPERATING ACTIVITIES			
Proceeds from the sale of equity securities at fair value	-	-	560
Proceeds from sales of loans held for sale	1,283,741	1,478,908	642,537
Disbursements for loans held for sale	(1,210,897)	(1,438,982)	(647,606)
Provision for credit losses (1)	(1,928)	12,463	824
Deferred income tax (benefit) expense	1,912	(2,130)	1,088
Net deferred loan fees (costs)	(7,857)	1,686	(2,936)
Net depreciation, amortization of intangible assets and premiums and accretion of discounts on securities, loans and interest bearing deposits - time	12,130	9,161	6,059
Net gains on mortgage loans	(35,880)	(62,560)	(19,978)
Net gains on securities available for sale	(1,411)	(267)	(307)
Share based compensation	1,947	1,980	1,854
Increase in accrued income and other assets	(11,669)	(7,966)	(6,061)
Increase in accrued expenses and other liabilities	17,171	10,239	12,023
Total Adjustments	47,259	2,532	(11,943)
Net Cash From Operating Activities	110,154	58,684	34,492
CASH FLOW USED IN INVESTING ACTIVITIES			
Proceeds from the sale of securities available for sale	85,371	38,095	68,716
Proceeds from maturities, prepayments and calls of securities available for sale	375,723	306,691	153,938
Purchases of securities available for sale	(824,348)	(859,068)	(237,672)
Proceeds from the maturity of interest bearing deposits - time	-	350	250
Purchase of Federal Home Loan Bank stock	-	(68)	-
Net increase in portfolio loans (loans originated, net of principal payments)	(205,539)	(41,861)	(215,276)
Proceeds from the sale of portfolio loans	10,032	2,395	50,516
Proceeds from the sale of other real estate and repossessed assets	1,004	1,367	1,766
Proceeds from bank-owned life insurance	467	1,441	470
Proceeds from the sale of property and equipment	63	1,133	74
Capital expenditures	(5,837)	(4,383)	(4,936)
Net Cash Used in Investing Activities	(563,064)	(553,908)	(182,154)
CASH FLOW FROM FINANCING ACTIVITIES			
Net increase in total deposits	479,735	600,628	123,299
Net increase (decrease) in other borrowings	(3)	(24,994)	25,002
Proceeds from Federal Home Loan Bank advances	100,000	239,254	111,000
Payments of Federal Home Loan Bank advances	(100,000)	(272,910)	(73,143)
Proceeds from issuance of subordinated debt, net of issuance costs	-	39,236	-
Dividends paid	(18,155)	(17,618)	(16,554)
Proceeds from issuance of common stock	61	15	284
Repurchase of common stock	(17,269)	(14,231)	(26,284)
Share based compensation withholding obligation	(691)	(755)	(882)
Net Cash From Financing Activities	443,678	548,625	142,722
Net Increase (Decrease) in Cash and Cash Equivalents	(9,232)	53,401	(4,940)
Cash and Cash Equivalents at Beginning of Year	118,705	65,304	70,244
Cash and Cash Equivalents at End of Year	\$ 109,473	\$ 118,705	\$ 65,304
Cash paid during the year for			
Interest	\$ 8,419	\$ 16,912	\$ 26,697
Income taxes	14,059	15,500	9,534
Transfers to other real estate and repossessed assets	253	332	2,242
Transfer of mortgage loans to held for sale	34,811	-	36,622
Securitization of portfolio loans	-	26,324	65,070
Right of use assets obtained in exchange for lease obligations	283	1,587	9,906
Purchase of securities available for sale not yet settled	-	1,000	-

(1) Beginning January 1, 2021, calculation is based on CECL methodology. Prior to January 1, 2021, calculation was based on the probable incurred loss methodology.

See accompanying notes to consolidated financial statements

NOTE 1 – ACCOUNTING POLICIES

The accounting and reporting policies and practices of Independent Bank Corporation and subsidiaries (“IBCP”) conform to accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. Our critical accounting policies include the determination of the allowance for credit losses and the valuation of capitalized mortgage loan servicing rights. We are required to make material estimates and assumptions that are particularly susceptible to changes in the near term as we prepare the consolidated financial statements and report amounts for each of these items. Actual results may vary from these estimates.

Our subsidiary, Independent Bank (“Bank”), transacts business in the single industry of commercial banking. Our Bank’s activities cover traditional phases of commercial banking, including checking and savings accounts, commercial lending, direct and indirect consumer financing and mortgage lending. Our principal markets are the rural and suburban communities across Lower Michigan that are served by our Bank’s branches and loan production offices as well as two loan production offices we have in Ohio. At December 31, 2021, 69.0% of our Bank’s loan portfolio was secured by real estate.

PRINCIPLES OF CONSOLIDATION — The consolidated financial statements include the accounts of Independent Bank Corporation and its subsidiaries. The income, expenses, assets and liabilities of the subsidiaries are included in the respective accounts of the consolidated financial statements, after elimination of all intercompany accounts and transactions.

STATEMENTS OF CASH FLOWS — For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, interest bearing deposits and federal funds sold. Generally, federal funds are sold for one-day periods. We report net cash flows for customer loan and deposit transactions and for short-term borrowings.

INTEREST BEARING DEPOSITS — Interest bearing deposits consist of overnight deposits with the Federal Reserve Bank.

LOANS HELD FOR SALE — Mortgage loans originated and intended for sale in the secondary market are carried at fair value. Fair value adjustments, as well as realized gains and losses, are recorded in current earnings. Certain portfolio loans were reclassified to held for sale as of December 31, 2021, were carried at the lower of cost or fair value on an aggregate loan basis and were sold during the first quarter of 2022.

OPERATING SEGMENTS — While chief decision-makers monitor the revenue streams of our various products and services, operations are managed and financial performance is evaluated as one single unit. Discrete financial information is not available other than on a consolidated basis for material lines of business.

CAPITALIZED MORTGAGE LOAN SERVICING RIGHTS — We account for our capitalized mortgage loan servicing rights under the fair value method of accounting. We recognize as separate assets the rights to service mortgage loans for others. The fair value of capitalized mortgage loan servicing rights has been determined based upon fair value indications for similar servicing. Under the fair value method we measure capitalized mortgage loan servicing rights at fair value at each reporting date and report changes in fair value of capitalized mortgage loan servicing rights in earnings in the period in which the changes occur and are included in mortgage loan servicing, net in the Consolidated Statements of Operations. The fair value of capitalized mortgage loan servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

Mortgage loan servicing income is recorded for fees earned for servicing loans previously sold. The fees are generally based on a contractual percentage of the outstanding principal and are recorded as income when earned. Mortgage loan servicing fees, excluding fair value changes of capitalized mortgage loan servicing rights, totaled \$7.9 million, \$6.9 million and \$6.2 million for the years ended December 31, 2021, 2020 and 2019, respectively. Late fees and ancillary fees related to loan servicing are not material.

TRANSFERS OF FINANCIAL ASSETS — Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from us, 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 we do not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

SECURITIES — We classify our securities as equity, trading, held to maturity or available for sale. Equity securities are investments in certain equity stocks and are reported at fair value with realized and unrealized gains and losses included in earnings. Trading securities are bought and held principally for the purpose of selling them in the near term and are reported at fair value with realized and unrealized gains and losses included in earnings. Securities held to maturity represent those securities for which we have the positive intent and ability to hold until maturity and are reported at cost, adjusted for amortization of premiums and accretion of discounts computed on the level-yield method. We did not have any equity securities, trading securities or securities held to maturity at December 31, 2021 and 2020. Securities available for sale represent those securities not classified as equity, trading or held to maturity and are reported at fair value with unrealized gains and losses, net of applicable income taxes reported in other comprehensive income (loss).

Securities available for sale in unrealized loss positions are evaluated quarterly for impairment related to credit losses. For securities available for sale in an unrealized loss position, we first assess whether we intend to sell, or it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For securities available for sale that do not meet this criteria, we evaluate whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, we consider the extent to which fair value is less than amortized cost, adverse conditions specifically related to the security and the issuer and the impact of changes in market interest rates on the market value of the security, among other factors. If this assessment indicates that a credit loss exists, we compare the present value of cash flows expected to be collected from the security with the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis for the security, a credit loss exists and an ACL is recorded, limited to the amount that the fair value of the security is less than its amortized cost basis. Any impairment that has not been recorded through an ACL is recognized in other comprehensive income (loss), net of applicable taxes.

Gains and losses realized on the sale of securities available for sale are determined using the specific identification method and are recognized on a trade-date basis.

FEDERAL HOME LOAN BANK ("FHLB") STOCK — Our Bank subsidiary is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income in interest income-other investments on the Consolidated Statements of Operations.

FEDERAL RESERVE BANK ("FRB") STOCK — Our Bank subsidiary is a member of its regional Federal Reserve Bank. FRB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income in interest income-other investments on the Consolidated Statements of Operations.

LOAN REVENUE RECOGNITION — Interest on loans is accrued based on the principal amounts outstanding. In general, the accrual of interest income is discontinued when a loan becomes 90 days past due for commercial loans and installment loans and when a loan misses four consecutive payments for mortgage loans and the borrower's capacity to repay the loan and collateral values appear insufficient for each loan class. However, loans may be placed on non-accrual status regardless of whether or not such loans are considered past due if, in management's opinion, the borrower is unable to meet payment obligations as they become due or as required by regulatory provisions. All interest accrued but not received for all loans placed on non-accrual is reversed from interest income. Payments on such loans are generally applied to the principal balance until qualifying to be returned to accrual status. A non-accrual loan may be restored to accrual status when interest and principal payments are current and the loan appears otherwise collectible. Delinquency status for all classes in the commercial and installment loan portfolio segments is based on the actual number of days past due as required by the contractual terms of the loan agreement while delinquency status for mortgage loan portfolio segment classes is based on the number of payments past due.

Certain loan fees and direct loan origination costs are deferred and recognized as an adjustment of yield generally over the contractual life of the related loan. Fees received in connection with loan commitments are deferred until the loan is advanced and are then recognized generally over the contractual life of the loan as an adjustment of yield. Fees on commitments that expire unused are recognized at expiration. Fees received for letters of credit are recognized as revenue over the life of the commitment.

ALLOWANCE FOR CREDIT LOSSES (“ACL”) — Our loan portfolio is disaggregated into segments for purposes of determining the ACL which include commercial, mortgage and installment loans. These segments are further disaggregated into classes for purposes of monitoring and assessing credit quality based on certain risk characteristics. Classes within the commercial loan segment include (i) commercial and industrial and (ii) commercial real estate. Classes within the mortgage loan segment include (i) 1-4 family owner occupied - jumbo, (ii) 1-4 family owner occupied - non-jumbo, (iii) 1-4 family non-owner occupied (iv) 1-4 family - 2nd lien and (v) resort lending. Classes within the installment loan segment include (i) boat lending, (ii) recreational vehicle lending, and (iii) other. Commercial loans are subject to adverse market conditions which may impact the borrower’s ability to make repayment on the loan or could cause a decline in the value of the collateral that secures the loan. Mortgage and installment loans are subject to adverse employment conditions in the local economy which could increase default rates. In addition, mortgage loans and real estate based installment loans are subject to adverse market conditions which could cause a decline in the value of collateral that secures the loan. For an analysis of the ACL by portfolio segment and credit quality information by class, see note #4.

We estimate the ACL based on relevant available information from both internal and external sources, including historical loss trends, current conditions and forecasts, specific analysis of individual loans, and other relevant and appropriate factors. The allowance process is designed to provide for expected future losses based on our reasonable and supportable (“R&S”) forecast as of the reporting date. Our ACL process is administered by our Risk Management group utilizing a third party software solution, with significant input and ultimate approval from our Executive Enterprise Risk Committee. Further, we have established a current expected credit loss (“CECL”) Forecast Committee, which includes a cross discipline structure with membership from Executive Management, Risk Management, and Accounting, which approves ACL model assumptions each quarter. Our ACL is comprised of three principal elements: (i) specific analysis of individual loans identified during the review of the loan portfolio, (ii) pooled analysis of loans with similar risk characteristics based on historical experience, adjusted for current conditions, R&S forecasts, and expected prepayments, and (iii) additional allowances based on subjective factors, including local and general economic business factors and trends, portfolio concentrations and changes in the size and/or the general terms of the loan portfolio.

The first ACL element (specific allocations) includes loans that do not share similar risk characteristics and are evaluated on an individual basis. We will typically evaluate on an individual basis loans that are on nonaccrual; commercial loans that have been modified resulting in a concession, for which the borrower is experiencing financial difficulties, and which are considered troubled debt restructurings (“TDR”); and severely delinquent mortgage and installment loans. A loan can be removed from TDR status if it is subsequently restructured, the borrower is no longer experiencing financial difficulties, and the newly restructured agreement does not contain any concessions to the borrower. The new agreement must specify market terms, including a contractual interest rate not less than a market interest rate for a new loan with similar credit risk characteristics, and other terms no less favorable to us than those we would offer for a similar new loan.

For loans that we evaluate on an individual basis and we determine that foreclosure is probable or when repayment is expected to be provided substantially through the operation or sale of underlying collateral, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for estimated selling costs. For loans evaluated on an individual basis that are not determined to be collateral dependent, a discounted cash flow analysis is performed to determine expected credit losses.

The second ACL element (pooled analysis) includes loans with similar risk characteristics, which are broken down by segment, class, and risk metric. The Bank’s primary segments of commercial, mortgage, and installment loans are further classified by other relevant attributes, such as collateral type, lien position, occupancy status, amortization method, and balance size. Commercial classes are additionally segmented by risk rating, and mortgage and installment loan classes by credit score tier, which are updated at least semi-annually.

We utilize a discounted cash flow (“DCF”) model to estimate expected future losses for pooled loans. Expected future cash flows are developed from payment schedules over the contractual term, adjusted for forecasted default (probability of default), loss, and prepayment assumptions. We are not required to develop forecasts over the full contractual term of the financial asset or group of financial assets. Rather, for periods beyond which we are able to make or obtain R&S forecasts of expected credit losses, we revert to the long term average on a straight line or immediate basis, as determined by our CECL Forecast Committee, and which may vary depending on the economic outlook and uncertainty.

The DCF model for the mortgage and installment pooled loan segments includes using probability of default (“PD”) assumptions that are derived through regression analysis with forecasted US unemployment levels by credit score tier. We review a composite forecast of approximately 50 analysts as well as the Federal Open Market Committee (“FOMC”) projections in setting the unemployment forecast for the R&S period. The current ACL utilizes a one year R&S forecast followed by immediate reversion to the 30 year average unemployment rate. PD assumptions for the remaining segments are based primarily on historical rates by risk metric as defaults were not strongly correlated with any economic indicator. Loss given default (“LGD”) assumptions for the mortgage loan segment are based on a two year forecast followed by a two year straight line reversion period to the longer term average, while LGD rates for the remaining segments are the historical average for the entire period. Prepayment assumptions represent average rates per segment for a period determined by the CECL Forecast Committee and as calculated through the Bank’s Asset and Liability Management program.

Pooled reserves for the commercial loan segment are calculated using the DCF model with assumptions generally based on historical averages by class and risk rating. Effective risk rating practices allow for strong predictability of defaults and losses over the portfolio’s expected shorter duration, relative to mortgage and installment loans. Our rating system is similar to those employed by state and federal banking regulators.

The third ACL element (additional allocations based on subjective factors) is based on factors that cannot be associated with a specific credit or loan category and reflects our attempt to ensure that the overall ACL appropriately reflects a margin for the imprecision necessarily inherent in the estimates of expected credit losses. We adjust our quantitative model for certain qualitative factors to reflect the extent to which management expects current conditions and R&S forecasts to differ from the conditions that existed for the period over which historical information was evaluated. The qualitative framework reflects changes related to relevant data, such as changes in asset quality trends, portfolio growth and composition, national and local economic factors, credit policy and administration and other factors not considered in the base quantitative model. We utilize a survey completed by business unit management throughout the Bank, as well as discussion with the CECL Forecast Committee to establish reserves under the qualitative framework. The current period’s ACL further recognizes inherent risk related to the ongoing COVID-19 pandemic; specifically to commercial loans in high risk industries and mortgage and installment borrowers with occupations in those high risk industries. Identified high risk industries include: food service, hospitality, entertainment, retail, investment real estate, assisted living, and non-owner occupied office.

Prior to January 1, 2021, the calculation of the allowance was based on the probable incurred loss methodology.

Increases in the ACL are recorded by a provision for credit losses charged to expense. Although we periodically allocate portions of the ACL to specific loans and loan portfolios, the entire ACL is available for losses.

We generally charge-off commercial, homogenous residential mortgage and installment loans when they are deemed uncollectible or reach a predetermined number of days past due based on loan product, industry practice and other factors. Collection efforts may continue and recoveries may occur after a loan is charged against the ACL.

While we use relevant information to recognize losses on loans, additional provisions for related losses may be necessary based on changes in economic conditions, customer circumstances and other credit risk factors.

Section 4013 of the Coronavirus Aid, Relief, and Economic Security (“CARES Act”) provides temporary relief from the accounting and reporting requirements for troubled debt restructurings (“TDR”) regarding certain loan modifications for our customers. Section 4013 specified that COVID-19 related modifications on loans that were current as of December 31, 2019 are not TDRs. The provisions of Section 4013 were extended to the earlier of 60 days after the termination of the national emergency that was previously declared on March 13, 2020 or January 1, 2022 by the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act which was signed into law on December 27, 2020. Loans not covered under these provisions, which have been modified resulting in a concession, and which the borrower is experiencing financial difficulties, are considered to be TDRs. We measure our investment in a TDR loan using one of three methods: the loan’s observable market price, the fair value of the collateral or the present value of expected future cash flows discounted at the loan’s effective interest rate. Large groups of smaller balance homogeneous loans, such as those loans included in each installment and mortgage loan class, are collectively evaluated and accordingly, they are not separately identified for disclosure. TDR loans are measured at the present value of estimated future cash flows using the loan’s effective interest rate at inception of the loan. If a TDR is considered to be a collateral dependent loan, the loan is reported net, at the fair value of collateral. A loan can be removed from TDR status if it is subsequently restructured and the borrower is no longer experiencing financial difficulties and the newly restructured agreement does not contain any concessions to the borrower. The new agreement must specify market terms, including a contractual interest rate not less than a market interest rate for a new loan with similar credit risk characteristics, and other terms no less favorable to us than those we would offer for a similar new loan.

PROPERTY AND EQUIPMENT — Property and equipment is stated at cost less accumulated depreciation and amortization. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the related assets. Buildings are generally depreciated over a period not exceeding 39 years and equipment is generally depreciated over periods not exceeding 7 years. Leasehold improvements are depreciated over the shorter of their estimated useful life or lease period.

BANK OWNED LIFE INSURANCE — We have purchased a group flexible premium non-participating variable life insurance contract on approximately 260 lives (who were salaried employees at the time we purchased the contract) in order to recover the cost of providing certain employee benefits. Bank owned life insurance is recorded at its cash surrender value or the amount that can be currently realized.

OTHER REAL ESTATE AND REPOSSESSED ASSETS — Other real estate at the time of acquisition is recorded at fair value, less estimated costs to sell, which becomes the property’s new basis. Fair value is typically determined by a third party appraisal of the property. Any write-downs at date of acquisition are charged to the ACL. Expense incurred in maintaining other real estate and subsequent write-downs to reflect declines in value and gains or losses on the sale of other real estate are recorded in non-interest expense in the Consolidated Statements of Operations. Non-real estate repossessed assets are treated in a similar manner.

OTHER INTANGIBLES — Other intangible assets consist of core deposits. They are initially measured at fair value and then are amortized on both straight-line and accelerated methods over their estimated useful lives, which range from 10 to 15 years.

GOODWILL — Goodwill arises from business combinations and is generally determined as the excess of the fair value of the consideration transferred over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill acquired in a purchase business combination and determined to have an indefinite useful life is not amortized, but tested for impairment at least annually or more frequently if events and circumstances exists that indicate that a goodwill impairment test should be performed. We have selected December 31 as the date to perform the annual impairment test. Goodwill is the only intangible asset with an indefinite life on our Consolidated Statements of Financial Condition.

INCOME TAXES — We employ the asset and liability method of accounting for income taxes. This method establishes deferred tax assets and liabilities for the temporary differences between the financial reporting basis and the tax basis of our assets and liabilities at tax rates expected to be in effect when such amounts are realized or settled. Under this method, the effect of a change in tax rates is recognized in the period that includes the enactment date. The deferred tax asset is subject to a valuation allowance for that portion of the asset for which it is more likely than not that it will not be realized.

A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination.

We recognize interest and/or penalties related to income tax matters in income tax expense in the Consolidated Statements of Operations.

We file a consolidated federal income tax return. Intercompany tax liabilities are settled as if each subsidiary filed a separate return.

COMMITMENTS TO EXTEND CREDIT AND RELATED FINANCIAL INSTRUMENTS — Financial instruments may include commitments to extend credit and standby letters of credit. Financial instruments involve varying degrees of credit and interest-rate risk in excess of amounts reflected in the Consolidated Statements of Financial Condition. Exposure to credit risk in the event of non-performance by the counterparties to the financial instruments for loan commitments to extend credit and letters of credit is represented by the contractual amounts of those instruments. In general, we use a similar methodology to estimate our liability for these off-balance sheet credit exposures as we do for our ACL. For commercial related commitments, we estimate liability using our loan rating system and for mortgage and installment commitments we estimate liability principally upon historical loss experience. Our estimated liability for off balance sheet commitments is included in accrued expenses and other liabilities in our Consolidated Statements of Financial Condition and any charge or recovery is recorded in non-interest expense – costs related to unfunded lending commitments in our Consolidated Statements of Operations.

DERIVATIVE FINANCIAL INSTRUMENTS — We record derivatives on our Consolidated Statements of Financial Condition as assets and liabilities measured at their fair value. The accounting for increases and decreases in the value of derivatives depends upon the use of derivatives and whether the derivatives qualify for hedge accounting.

At the inception of the derivative we designate the derivative as one of three types based on our intention and belief as to likely effectiveness as a hedge. These three types are (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (“Fair Value Hedge”), (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (“Cash Flow Hedge”), or (3) an instrument with no hedging designation. For a Fair Value Hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item, are recognized in interest income in our Consolidated Statements of Operations. For a Cash Flow Hedge, the gain or loss on the derivative is reported in other comprehensive income (loss) and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. For instruments with no hedging designation, the gain or loss on the derivative is reported in earnings. These free standing instruments currently consist of (i) mortgage banking related derivatives and include rate-lock loan commitments to fund mortgage loans (interest rate locks) to be sold into the secondary market and mandatory forward commitments for the future delivery of these mortgage loans, (ii) certain pay-fixed and pay-variable interest rate swap agreements related to commercial loan customers, (iii) certain purchased and written options related to a time deposit product and (iv) swaption agreement related to certain construction loans held for sale. The fair value of rate-lock mortgage loan commitments is based on agency cash window loan pricing for comparable assets and the fair value of mandatory commitments to sell mortgage loans is based on mortgage backed security pricing for comparable assets. We enter into mandatory forward commitments for the future delivery of mortgage loans generally when interest rate locks are entered into in order to hedge the change in interest rates resulting from our commitments to fund the loans. Changes in the fair values of these derivatives are included in net gains on mortgage loans in the Consolidated Statements of Operations. Fair values of the pay-fixed and pay-variable interest rate swap agreements are derived from proprietary models which utilize current market data and are included in net interest income in the Consolidated Statements of Operations. Fair values of the purchased and written options are based on prices of financial instruments with similar characteristics and are included in net interest income in the Consolidated Statements of Operations. Fair values of swaption agreements are derived from proprietary models which utilize current market data and are included in net gains on mortgage loans in the Consolidated Statements of Operations.

Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest expense in the Consolidated Statements of Operations. Net cash settlements on derivatives that do not qualify for hedge accounting are reported in non-interest income (mortgage banking related derivatives) or net interest income (interest rate swap agreements and options) in the Consolidated Statements of Operations. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged.

We formally document the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions, at the inception of the hedging relationship. This documentation includes linking Fair Value or Cash Flow Hedges to specific assets and liabilities on the Consolidated Statements of Financial Condition or to specific firm commitments or forecasted transactions. We discontinue hedge accounting when it is determined that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative is settled or terminates, a hedged forecasted transaction is no longer probable, a hedged firm commitment is no longer firm, or treatment of the derivative as a hedge is no longer appropriate or intended.

When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded in earnings. When a Fair Value Hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis adjustment is amortized or accreted over the remaining life of the asset or liability. When a Cash Flow Hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, gains or losses that were accumulated in other comprehensive income (loss) are amortized into earnings over the same periods which the hedged transactions will affect earnings.

COMPREHENSIVE INCOME — Comprehensive income consists of net income and unrealized gains and losses, net of tax, on securities available for sale and derivative instruments classified as cash flow hedges.

NET INCOME PER COMMON SHARE — Basic net income per common share is computed by dividing net income by the weighted average number of common shares outstanding during the period and participating share awards. All outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends are considered participating securities for this calculation. For diluted net income per common share, net income is divided by the weighted average number of common shares outstanding during the period plus the assumed exercise of stock options, restricted stock units, performance share units and stock units for a deferred compensation plan for non-employee directors.

SHARE BASED COMPENSATION — Cost is recognized for non-vested share awards issued to employees based on the fair value of these awards at the date of grant. A simulation analysis which considers potential outcomes for a large number of independent scenarios is utilized to estimate the fair value of performance share units and the market price of our common stock at the date of grant is used for other non-vested share awards. Cost is recognized over the required service period, generally defined as the vesting period. Forfeitures are recognized as they occur. Cost is also recognized for stock issued to non-employee directors. These shares vest immediately and cost is recognized during the period they are issued.

COMMON STOCK — At December 31, 2021, 0.1 million shares of common stock were reserved for issuance under the dividend reinvestment plan and 0.8 million shares of common stock were reserved for issuance under our long-term incentive plans.

RECLASSIFICATION — Certain amounts in the 2020 and 2019 consolidated financial statements have been reclassified to conform to the 2021 presentation.

ADOPTION OF NEW ACCOUNTING STANDARDS — In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-13, “Financial Instruments — Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments”. This ASU significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. This ASU:

- Replaces the existing incurred loss impairment guidance and establishes a single allowance framework for financial assets carried at amortized cost, which will reflect our estimate of credit losses over the full remaining expected life of the financial assets and will consider expected future changes in macroeconomic conditions.
- Eliminates existing guidance for purchase credit impaired (“PCI”) loans, and requires recognition of the nonaccretable difference as an increase to the allowance for expected credit losses on financial assets purchased with more than insignificant credit deterioration since origination, which will be offset by an increase in the recorded investment of the related loans.
- Requires inclusion of expected recoveries, limited to the cumulative amount of prior write-offs, when estimating the ACL for in scope financial assets (including collateral dependent assets).
- Amends existing impairment guidance for securities available for sale to incorporate an allowance, which will allow for reversals of credit impairments in the event that the credit of an issuer improves. Credit losses on securities available for sale are limited to the amount of the decline in fair value regardless of what the credit loss model would show for impairment.
- Generally requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption.

We were originally required to adopt this ASU on January 1, 2020 but section 4014 of the CARES Act allowed for temporary relief from applying this ASU. Under the amended CARES Act we were allowed to delay the adoption of this ASU until the earlier of the termination of the national emergency that was declared on March 13, 2020, or January 1, 2022. Early adoption was also allowed on either January 1, 2020 or January 1, 2021. As such, we chose to delay the adoption of this ASU during 2020 and adopted this ASU on January 1, 2021. Results for the reporting periods after January 1, 2021 are presented under this new ASU while prior period amounts continue to be reported in accordance with previously applicable accounting guidance.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

We adopted this ASU using the modified retrospective method for all financial assets measured at amortized cost and unfunded lending commitments. As of January 1, 2021 we increased the ACL by \$11.7 million which was primarily driven by the longer contractual maturities of our mortgage and installment loan portfolio segments. In addition, we increased the allowance for losses related to unfunded loan commitments by \$1.5 million. As of January 1, 2021, we recorded a cumulative-effect adjustment, net of tax, of \$10.3 million to decrease retained earnings.

Based on our evaluation of securities available for sale, we did not record an ACL on these securities under this ASU.

We adopted this ASU using the prospective transition approach for financial assets purchased with credit deterioration (“PCD”) that were previously classified as PCI and accounted for under accounting standards codification (“ASC”) 310-30. In accordance with this ASU, we did not reassess whether PCI assets met the definition of PCD assets as of the date of adoption. On January 1, 2021, the amortized cost basis of the PCD assets were adjusted to reflect the addition of \$0.13 million to the ACL for loans. The remaining noncredit discount in the amount of \$0.34 million (based on the adjusted amortized cost basis) will be accreted into interest income at the effective interest rate as of January 1, 2021.

The impact of the adoption of this ASU follows:

	As Reported Under ASU 2016-13	Pre-ASU 2016-13 Adoption (In thousands)	Impact of ASU 2016-13
Assets			
Loans			
Commercial	\$ 1,242,510	\$ 1,242,415	\$ 95
Mortgage	1,015,944	1,015,926	18
Installment	475,358	475,337	21
Total loans	2,733,812	2,733,678	134
Allowance for credit losses	(47,137)	(35,439)	(11,708)
Net loans	\$ 2,686,675	\$ 2,698,249	\$ (11,574)
Deferred tax assets (1)	\$ 3,015	\$ 275	\$ 2,740
Total Assets	\$ 4,195,179	\$ 4,204,013	\$ (8,834)
Liabilities and shareholders' equity			
Allowance for credit losses on unfunded lending commitments (2)	\$ 3,274	\$ 1,805	\$ 1,469
Total liabilities	\$ 3,815,960	\$ 3,814,491	\$ 1,469
Retained earnings	\$ 29,842	\$ 40,145	\$ (10,303)
Total shareholders' equity	\$ 379,219	\$ 389,522	\$ (10,303)
Total liabilities and shareholders' equity	\$ 4,195,179	\$ 4,204,013	\$ (8,834)

(1) Included in Accrued income and other assets in our Consolidated Statements of Financial Condition.

(2) Included in Accrued expenses and other liabilities in our Consolidated Statements of Financial Condition.

In March 2020, the FASB issued ASU 2020-04, “Reference Rate Reform (Topic 848), Facilitation of the Effects of Reference Rate Reform on Financial Reporting”. This new ASU provides temporary optional expedients and exceptions to GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burdens of the expected market transition from LIBOR and other interbank offered rates to alternative reference rates. Entities can elect not to apply certain modification accounting requirements to contracts affected by reference rate reform, if certain criteria are met. Entities that make such elections would not have to remeasure contracts at the modification date or reassess a previous accounting determination. Entities can elect various optional expedients that would allow them to continue applying hedge accounting for hedging relationships affected by reference rate reform, if certain criteria are met.

We have formed a cross-functional project team to lead this transition from LIBOR to a planned adoption of reference rates which could include Secured Overnight Financing Rate (“SOFR”), amongst others. We are utilizing the timeline guidance published by the Alternative Reference Rates Committee to develop and achieve internal milestones during this transitional period. We have discontinued the use of new LIBOR-based loans and interest rate derivatives as of December 31, 2021, according to regulatory guidelines. The amended guidance under Topic 848 and our ability to elect its temporary optional expedients and exceptions are effective for us through December 31, 2022. We expect to adopt the LIBOR transition relief allowed under this standard.

NOTE 2 – RESTRICTIONS ON CASH AND DUE FROM BANKS

During March 2020 the FRB, in response to the COVID-19 pandemic, reduced our Bank’s reserve balance requirements to zero. Prior to that time our Bank was required to maintain reserve balances in the form of vault cash and balances with the FRB. The average reserve balances to be maintained during 2021 and 2020 were zero and \$9.2 million, respectively. We do not maintain compensating balances with correspondent banks. We may also be required to maintain reserve balances related to certain mortgage banking related derivatives not classified as hedges. These balances are held at unrelated financial institutions and totaled zero and \$0.74 million at December 31, 2021 and 2020, respectively.

NOTE 3 – SECURITIES

Securities available for sale consist of the following at December 31:

	Amortized Cost	Unrealized		Fair Value
		Gains	Losses	
(In thousands)				
2021				
U.S. agency	\$ 34,634	\$ 152	\$ 112	\$ 34,674
U.S. agency residential mortgage-backed	309,907	1,952	3,874	307,985
U.S. agency commercial mortgage-backed	23,066	84	224	22,926
Private label mortgage-backed	102,480	807	672	102,615
Other asset backed	215,235	1,204	269	216,170
Obligations of states and political subdivisions	568,355	9,942	2,221	576,076
Corporate	148,707	2,446	1,194	149,959
Trust preferred	1,975	-	56	1,919
Foreign government	499	7	-	506
Total	<u>\$ 1,404,858</u>	<u>\$ 16,594</u>	<u>\$ 8,622</u>	<u>\$ 1,412,830</u>
2020				
U.S. agency	\$ 10,456	\$ 305	\$ 13	\$ 10,748
U.S. agency residential mortgage-backed	340,224	4,951	593	344,582
U.S. agency commercial mortgage-backed	6,869	326	-	7,195
Private label mortgage-backed	41,429	1,539	139	42,829
Other asset backed	252,596	1,796	211	254,181
Obligations of states and political subdivisions	315,780	8,691	178	324,293
Corporate	82,307	3,807	97	86,017
Trust preferred	1,971	-	173	1,798
Foreign government	500	16	-	516
Total	<u>\$ 1,052,132</u>	<u>\$ 21,431</u>	<u>\$ 1,404</u>	<u>\$ 1,072,159</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Our investments' gross unrealized losses and fair values aggregated by investment type and length of time that individual securities have been at a continuous unrealized loss position, at December 31 follows:

	Less Than Twelve Months		Twelve Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(In thousands)						
2021						
U.S. agency	\$ 11,986	\$ 109	\$ 1,286	\$ 3	\$ 13,272	\$ 112
U.S. agency residential mortgage-backed	171,398	3,555	19,024	319	190,422	3,874
U.S. agency commercial mortgage-backed	19,900	224	-	-	19,900	224
Private label mortgage-backed	64,408	640	2,180	32	66,588	672
Other asset backed	86,581	248	978	21	87,559	269
Obligations of states and political subdivisions	178,484	2,151	7,093	70	185,577	2,221
Corporate	75,166	1,150	1,050	44	76,216	1,194
Trust preferred	-	-	1,919	56	1,919	56
Total	<u>\$ 607,923</u>	<u>\$ 8,077</u>	<u>\$ 33,530</u>	<u>\$ 545</u>	<u>\$ 641,453</u>	<u>\$ 8,622</u>
2020						
U.S. agency	\$ 1,469	\$ 3	\$ 2,329	\$ 10	\$ 3,798	\$ 13
U.S. agency residential mortgage-backed	96,839	592	83	1	96,922	593
Private label mortgage-backed	11,838	95	2,050	44	13,888	139
Other asset backed	7,142	25	21,197	186	28,339	211
Obligations of states and political subdivisions	28,957	177	800	1	29,757	178
Corporate	1,924	97	-	-	1,924	97
Trust preferred	-	-	1,798	173	1,798	173
Total	<u>\$ 148,169</u>	<u>\$ 989</u>	<u>\$ 28,257</u>	<u>\$ 415</u>	<u>\$ 176,426</u>	<u>\$ 1,404</u>

Securities available for sale in unrealized loss positions are evaluated quarterly for impairment related to credit losses. For securities available for sale in an unrealized loss position, we first assess whether we intend to sell, or it is more likely than not that we will be required to sell, the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For securities available for sale that do not meet this criteria, we evaluate whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, we consider the extent to which fair value is less than amortized cost, adverse conditions specifically related to the security and the issuer and the impact of changes in market interest rates on the market value of the security, among other factors. If this assessment indicates that a credit loss exists, we compare the present value of cash flows expected to be collected from the security with the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis for the security, a credit loss exists and an ACL is recorded, limited to the amount that the fair value of the security is less than its amortized cost basis. Any impairment that has not been recorded through an ACL is recognized in other comprehensive income (loss), net of applicable taxes. No ACL for securities available for sale was needed at December 31, 2021. Accrued interest receivable on securities available for sale totaled \$6.0 million at December 31, 2021, is excluded from the estimate of credit losses and is included in accrued income and other assets in the Consolidated Statements of Financial Condition.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

U.S. agency, U.S. agency residential mortgage-backed and U.S. agency commercial mortgage backed securities — at December 31, 2021, we had 19 U.S. agency, 67 U.S. agency residential mortgage-backed and 23 U.S. agency commercial mortgage-backed securities whose fair value is less than amortized cost. These securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major credit rating agencies, and have a long history of no credit losses. The unrealized losses are largely attributed to widening spreads to Treasury bonds and/or an increase in interest rates since acquisition.

Private label mortgage backed, other asset backed and corporate securities — at December 31, 2021, we had 49 private label mortgage backed, 51 other asset backed and 57 corporate securities whose fair value is less than amortized cost. The unrealized losses are primarily due to credit spread widening and/or an increase in interest rates since acquisition.

Obligations of states and political subdivisions — at December 31, 2021, we had 281 municipal securities whose fair value is less than amortized cost. The unrealized losses are primarily due to an increase in interest rates since acquisition.

Trust preferred securities — at December 31, 2021, we had two trust preferred securities whose fair value is less than amortized cost. Both of our trust preferred securities are single issue securities issued by a trust subsidiary of a bank holding company. The pricing of trust preferred securities has suffered from credit spread widening. One of the securities is rated by a major rating agency as investment grade while the other one is non-rated. The non-rated issue is a relatively small bank and was never rated. The issuer of this non-rated trust preferred security, which had a total amortized cost of \$1.0 million and total fair value of \$0.96 million as of December 31, 2021, continues to have satisfactory credit metrics and make interest payments.

At December 31, 2021 management does not intend to liquidate any of the securities discussed above and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses.

We recorded no credit related charges in our Consolidated Statements of Operations related to securities available for sale during 2021, 2020, and 2019.

The amortized cost and fair value of securities available for sale at December 31, 2021, by contractual maturity, follow:

	Amortized Cost	Fair Value
	(In thousands)	
Maturing within one year	\$ 13,874	\$ 13,991
Maturing after one year but within five years	133,681	134,901
Maturing after five years but within ten years	266,057	266,282
Maturing after ten years	340,558	347,960
	<u>754,170</u>	<u>763,134</u>
U.S. agency residential mortgage-backed	309,907	307,985
U.S. agency commercial mortgage-backed	23,066	22,926
Private label mortgage-backed	102,480	102,615
Other asset backed	215,235	216,170
Total	<u>\$ 1,404,858</u>	<u>\$ 1,412,830</u>

The actual maturity may differ from the contractual maturity because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

A summary of proceeds from the sale of securities available for sale and gains and losses for the years ended December 31 follow:

	Proceeds	Realized	
		Gains	Losses
		(In thousands)	
2021	\$ 85,371	\$ 1,475	\$ 64
2020	38,095	271	4
2019	68,716	248	108

Certain preferred stocks which were sold during 2019 had been classified as equity securities at fair value in our Consolidated Statement of Financial Condition. During 2019 we recognized gains on these preferred stocks of \$0.17 million that are included in net gains on securities in the Consolidated Statements of Operations.

Securities available for sale with a book value of \$10.5 million and \$14.0 million at December 31, 2021 and 2020, respectively, were pledged to secure borrowings, derivatives, public deposits and for other purposes as required by law. There were no investment obligations of state and political subdivisions that were payable from or secured by the same source of revenue or taxing authority that exceeded 10% of consolidated total shareholders' equity at December 31, 2021 or 2020.

NOTE 4 – LOANS

Our loan portfolios at December 31 follow:

	<u>2021</u>	<u>2020</u>
	(In thousands)	
Real estate (1)		
Residential first mortgages	\$ 870,169	\$ 792,762
Residential home equity and other junior mortgages	128,801	138,128
Construction and land development	278,992	232,693
Other (2)	726,224	669,150
Consumer	339,785	468,090
Commercial	555,696	429,011
Agricultural	5,378	3,844
Total loans	<u>\$ 2,905,045</u>	<u>\$ 2,733,678</u>

(1) Includes both residential and non-residential commercial loans secured by real estate.

(2) Includes loans secured by multi-family residential and non-farm, non-residential property.

Loans include net deferred loan costs of \$22.4 million and \$14.6 million at December 31, 2021 and 2020, respectively.

During 2021, we sold \$9.6 million of portfolio residential fixed rate mortgage loans servicing retained into the secondary market and recognized a gain on sale of \$0.45 million. During 2020, we securitized \$26.3 million of portfolio residential fixed rate mortgage loans servicing retained with Freddie Mac and recognized a gain on sale of \$0.72 million. We also sold \$2.4 million of portfolio residential fixed rate mortgage loans servicing retained into the secondary market and recognized a gain on sale of \$0.07 million. During 2019, we sold \$40.6 million of residential adjustable rate mortgage loans servicing released to another financial institution and recognized a gain on sale of \$0.01 million. We also securitized \$65.1 million of portfolio residential fixed rate mortgage loans servicing retained with Freddie Mac and recognized a gain on sale of \$1.7 million. In addition, we sold \$9.9 million of residential fixed and adjustable rate portfolio mortgage loans servicing retained to another financial institution and recognized a gain on sale of \$0.07 million. These loan sale transactions were done primarily for asset/liability management purposes.

An analysis of the ACL by portfolio segment for the years ended December 31 follows:

	Commercial	Mortgage	Installment (In thousands)	Subjective Allocation	Total
2021					
Balance at beginning of period	\$ 7,401	\$ 6,998	\$ 1,112	\$ 19,918	\$ 35,429
Additions (deductions)					
Impact of adoption of CECL	2,551	12,000	3,052	(6,029)	11,574
Provision for credit losses	(1,135)	(266)	599	(1,126)	(1,928)
Initial allowance on loans purchased with credit deterioration	95	18	21	-	134
Recoveries credited to allowance	2,607	846	1,024	-	4,477
Loans charged against the allowance	-	(375)	(2,059)	-	(2,434)
Balance at end of period	<u>\$ 11,519</u>	<u>\$ 19,221</u>	<u>\$ 3,749</u>	<u>\$ 12,763</u>	<u>\$ 47,252</u>
2020					
Balance at beginning of period	\$ 7,922	\$ 8,216	\$ 1,283	\$ 8,727	\$ 26,148
Additions (deductions)					
Provision for credit losses (1)	1,751	(915)	436	11,191	12,463
Recoveries credited to allowance	1,804	513	752	-	3,069
Loans charged against the allowance	(4,076)	(816)	(1,359)	-	(6,251)
Balance at end of period	<u>\$ 7,401</u>	<u>\$ 6,998</u>	<u>\$ 1,112</u>	<u>\$ 19,918</u>	<u>\$ 35,429</u>
2019					
Balance at beginning of period	\$ 7,090	\$ 7,978	\$ 895	\$ 8,925	\$ 24,888
Additions (deductions)					
Provision for credit losses (1)	(651)	526	1,147	(198)	824
Recoveries credited to allowance	2,165	933	863	-	3,961
Loans charged against the allowance	(682)	(1,221)	(1,622)	-	(3,525)
Balance at end of period	<u>\$ 7,922</u>	<u>\$ 8,216</u>	<u>\$ 1,283</u>	<u>\$ 8,727</u>	<u>\$ 26,148</u>

(1) Beginning January 1, 2021, calculation is based on CECL methodology. Prior to January 1, 2021, calculation was based on the probable incurred loss methodology.

The allocation of the ACL by portfolio segment at December 31 follows:

	2021		2020	
	Allowance for Credit Losses Amount	Percent of Loans to Total Portfolio Loans	Allowance for Credit Losses Amount (1)	Percent of Loans to Total Portfolio Loans
	(Dollars in thousands)			
Commercial	\$ 11,519	41.5%	\$ 7,401	45.4%
Mortgage	19,221	39.2	6,998	37.2
Installment	3,749	19.3	1,112	17.4
Subjective allocation	12,763	-	19,918	-
Total	<u>\$ 47,252</u>	<u>100.0%</u>	<u>\$ 35,429</u>	<u>100.0%</u>

(1) Beginning January 1, 2021, calculation is based on CECL methodology. Prior to January 1, 2021, calculation was based on the probable incurred loss methodology.

ACL and recorded investment in loans by portfolio segment at December 31, 2020 follows (1):

	<u>Commercial</u>	<u>Mortgage</u>	<u>Installment</u> (In thousands)	<u>Subjective</u> <u>Allocation</u>	<u>Total</u>
December 31, 2020					
ACL:					
Individually evaluated for impairment	\$ 1,266	\$ 4,124	\$ 191	\$ -	\$ 5,581
Collectively evaluated for impairment	6,135	2,874	921	19,918	29,848
Loans acquired with deteriorated credit quality	-	-	-	-	-
Total ending ACL	<u>\$ 7,401</u>	<u>\$ 6,998</u>	<u>\$ 1,112</u>	<u>\$ 19,918</u>	<u>\$ 35,429</u>
Loans					
Individually evaluated for impairment	\$ 9,431	\$ 39,245	\$ 1,996		\$ 50,672
Collectively evaluated for impairment	1,236,052	980,449	474,379		2,690,880
Loans acquired with deteriorated credit quality	468	410	147		1,025
Total loans recorded investment	<u>1,245,951</u>	<u>1,020,104</u>	<u>476,522</u>		<u>2,742,577</u>
Accrued interest included in recorded investment	3,536	4,178	1,185		8,899
Total loans	<u>\$ 1,242,415</u>	<u>\$ 1,015,926</u>	<u>\$ 475,337</u>		<u>\$ 2,733,678</u>

(1) Beginning January 1, 2021, calculation is based on CECL methodology. Prior to January 1, 2021, calculation was based on the probable incurred loss methodology.

Loans on non-accrual status and past due more than 90 days (“Non-performing Loans”) at December 31 follow:

	December 31, 2021					December 31, 2020 Total Non- Performing Loans (1)
	Non- Accrual with no Allowance for Credit Loss	Non- Accrual with an Allowance for Credit Loss	Total Non- Accrual (In thousands)	90+ and Still Accruing	Total Non- Performing Loans	
Commercial						
Commercial and industrial (2)	\$ -	\$ 15	\$ 15	\$ -	\$ 15	\$ 1,387
Commercial real estate	-	-	-	-	-	-
Mortgage						
1-4 family owner occupied - jumbo	607	-	607	-	607	623
1-4 family owner occupied - non-jumbo (3)	137	1,815	1,952	-	1,952	2,281
1-4 family non-owner occupied	275	592	867	-	867	1,112
1-4 family - 2nd lien	182	681	863	-	863	1,344
Resort lending	118	119	237	-	237	607
Installment						
Boat lending	-	210	210	-	210	52
Recreational vehicle lending	-	177	177	-	177	74
Other	-	182	182	-	182	393
Total	\$ 1,319	\$ 3,791	\$ 5,110	\$ -	\$ 5,110	\$ 7,873
Accrued interest excluded from total	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

(1) Non-performing loans exclude purchase credit impaired loans.

(2) Non-performing commercial and industrial loans exclude \$0.047 million and \$0.053 million of government guaranteed loans at December 31, 2021 and 2020, respectively.

(3) Non-performing 1-4 family owner occupied – non jumbo loans exclude \$0.388 million and \$0.386 million of government guaranteed loans at December 31, 2021 and 2020, respectively.

If non-performing loans had continued to accrue interest in accordance with their original terms, approximately \$0.2 million, \$0.5 million and \$0.4 million of interest income would have been recognized in each of the years ended 2021, 2020 and 2019, respectively. Interest income recorded on these loans was approximately zero during each of the years ended 2021, 2020 and 2019.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table provides collateral information by class of loan for collateral-dependent loans with a specific reserve. A loan is considered to be collateral dependent when the borrower is experiencing financial difficulty and the repayment is expected to be provided substantially through the operation or sale of collateral.

The amortized cost of collateral-dependent loans by class follows:

	Collateral Type		Allowance for Credit Losses
	Real Estate	Other (In thousands)	
December 31, 2021			
Commercial			
Commercial and industrial	\$ 80	\$ 245	\$ 51
Commercial real estate	84	-	19
Mortgage			
1-4 family owner occupied - jumbo	607	-	-
1-4 family owner occupied - non-jumbo	940	-	286
1-4 family non-owner occupied	477	-	72
1-4 family - 2nd lien	370	-	67
Resort lending	237	-	42
Installment			
Boat lending	-	80	29
Recreational vehicle lending	-	121	44
Other	-	70	25
Total	<u>\$ 2,795</u>	<u>\$ 516</u>	<u>\$ 635</u>
Accrued interest excluded from total	<u>\$ -</u>	<u>\$ 1</u>	

An aging analysis of loans by class at December 31 follows:

	Loans Past Due				Loans not Past Due	Total Loans
	30-59 days	60-89 days	90+ days	Total		
	(In thousands)					
2021						
Commercial						
Commercial and industrial	\$ -	\$ 2	\$ 62	\$ 64	\$ 593,048	\$ 593,112
Commercial real estate	-	-	-	-	610,469	610,469
Mortgage						
1-4 family owner occupied - jumbo	-	-	607	607	540,416	541,023
1-4 family owner occupied - non-jumbo	774	408	657	1,839	264,571	266,410
1-4 family non-owner occupied	87	26	462	575	194,277	194,852
1-4 family - 2nd lien	422	60	289	771	87,958	88,729
Resort lending	-	-	237	237	48,408	48,645
Installment						
Boat lending	438	28	52	518	227,622	228,140
Recreational vehicle lending	377	65	120	562	234,183	234,745
Other	252	57	49	358	98,562	98,920
Total	\$ 2,350	\$ 646	\$ 2,535	\$ 5,531	\$ 2,899,514	\$ 2,905,045
Accrued interest excluded from total	\$ 25	\$ 9	\$ -	\$ 34	\$ 6,802	\$ 6,836
2020						
Commercial						
Commercial and industrial	\$ 5,003	\$ 131	\$ 70	\$ 5,204	\$ 671,115	\$ 676,319
Commercial real estate	2,600	-	-	2,600	567,032	569,632
Mortgage						
1-4 family owner occupied - jumbo	761	-	623	1,384	438,794	440,178
1-4 family owner occupied - non-jumbo	1,888	453	502	2,843	264,730	267,573
1-4 family non-owner occupied	1,184	139	476	1,799	157,977	159,776
1-4 family - 2nd lien	710	228	732	1,670	92,860	94,530
Resort lending	32	195	358	585	57,462	58,047
Installment						
Boat lending	95	101	-	196	207,317	207,513
Recreational vehicle lending	207	37	48	292	169,282	169,574
Other	337	162	199	698	98,737	99,435
Total recorded investment	\$ 12,817	\$ 1,446	\$ 3,008	\$ 17,271	\$ 2,725,306	\$ 2,742,577
Accrued interest included in recorded investment	\$ 147	\$ 22	\$ -	\$ 169	\$ 8,730	\$ 8,899

Impaired loans at December 31, 2020 are as follows (1):

	<u>2020</u>
	<u>(In thousands)</u>
Impaired loans with no allocated ACL	
TDR	\$ 93
Non - TDR	1,367
Impaired loans with an allocated ACL	
TDR - allowance based on collateral	9,027
TDR - allowance based on present value cash flow	37,953
Non - TDR - allowance based on collateral	1,873
Total impaired loans	<u>\$ 50,313</u>
Amount of ACL allocated (1)	
TDR - allowance based on collateral	\$ 1,058
TDR - allowance based on present value cash flow	3,755
Non - TDR - allowance based on collateral	768
Total amount of ACL allocated	<u>\$ 5,581</u>

(1) Beginning January 1, 2021, calculation is based on CECL methodology. Prior to January 1, 2021, calculation was based on the probable incurred loss methodology.

Impaired loans by class as of December 31, 2020 are as follows (1):

	2020		
	Recorded Investment	Unpaid Principal Balance (In thousands)	Related ACL (1)
With no related ACL recorded:			
Commercial			
Commercial and industrial	\$ 77	\$ 80	\$ -
Commercial real estate	-	-	-
Mortgage			
1-4 family owner occupied - jumbo	623	629	-
1-4 family owner occupied - non-jumbo	-	-	-
1-4 family non-owner occupied	305	473	-
1-4 family - 2nd lien	301	304	-
Resort lending	154	379	-
Installment			
Boat lending	-	-	-
Recreational vehicle lending	-	-	-
Other	-	-	-
	<u>1,460</u>	<u>1,865</u>	<u>-</u>
With an ACL recorded:			
Commercial			
Commercial and industrial	2,227	2,370	756
Commercial real estate	7,127	7,096	510
Mortgage			
1-4 family owner occupied - jumbo	506	880	50
1-4 family owner occupied - non-jumbo	21,655	22,311	2,300
1-4 family non-owner occupied	4,335	4,704	495
1-4 family - 2nd lien	811	829	200
Resort lending	10,555	10,764	1,079
Installment			
Boat lending	7	11	2
Recreational vehicle lending	87	100	19
Other	1,902	2,040	170
	<u>49,212</u>	<u>51,105</u>	<u>5,581</u>
Total			
Commercial			
Commercial and industrial	2,304	2,450	756
Commercial real estate	7,127	7,096	510
Mortgage			
1-4 family owner occupied - jumbo	1,129	1,509	50
1-4 family owner occupied - non-jumbo	21,655	22,311	2,300
1-4 family non-owner occupied	4,640	5,177	495
1-4 family - 2nd lien	1,112	1,133	200
Resort lending	10,709	11,143	1,079
Installment			
Boat lending	7	11	2
Recreational vehicle lending	87	100	19
Other	1,902	2,040	170
Total	<u>\$ 50,672</u>	<u>\$ 52,970</u>	<u>\$ 5,581</u>
Accrued interest included in recorded investment	<u>\$ 359</u>		

(1) Beginning January 1, 2021, calculation is based on CECL methodology. Prior to January 1, 2021, calculation was based on the probable incurred loss methodology.

Average recorded investment in and interest income earned (of which the majority of these amounts were received in cash and related primarily to performing TDR's) on impaired loans by class for the years ended December 31, 2020 and 2019 follows (1):

	2020		2019	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
(In thousands)				
With no related ACL recorded:				
Commercial				
Commercial and industrial	\$ 125	\$ 9	\$ 51	\$ -
Commercial real estate	159	-	278	5
Mortgage				
1-4 family owner occupied - jumbo	408	-	-	-
1-4 family owner occupied - non-jumbo	252	4	201	-
1-4 family non-owner occupied	308	10	123	-
1-4 family - 2nd lien	380	-	136	7
Resort lending	92	-	-	-
Installment				
Boat lending	-	-	-	-
Recreational vehicle lending	-	-	-	-
Other	-	-	-	1
	<u>1,724</u>	<u>23</u>	<u>789</u>	<u>13</u>
With an a ACL recorded:				
Commercial				
Commercial and industrial	2,230	242	2,256	72
Commercial real estate	10,751	1,043	5,778	315
Mortgage				
1-4 family owner occupied - jumbo	1,083	84	995	39
1-4 family owner occupied - non-jumbo	19,624	2,033	15,183	594
1-4 family non-owner occupied	4,664	375	2,874	291
1-4 family - 2nd lien	3,376	22	13,383	809
Resort lending	11,316	799	11,697	669
Installment				
Boat lending	59	1	54	-
Recreational vehicle lending	81	4	22	-
Other	2,416	225	3,186	189
	<u>55,600</u>	<u>4,828</u>	<u>55,428</u>	<u>2,978</u>
Total				
Commercial				
Commercial and industrial	2,355	251	2,307	72
Commercial real estate	10,910	1,043	6,056	320
Mortgage				
1-4 family owner occupied - jumbo	1,491	84	995	39
1-4 family owner occupied - non-jumbo	19,876	2,037	15,384	594
1-4 family non-owner occupied	4,972	385	2,997	291
1-4 family - 2nd lien	3,756	22	13,519	816
Resort lending	11,408	799	11,697	669
Installment				
Boat lending	59	1	54	-
Recreational vehicle lending	81	4	22	-
Other	2,416	225	3,186	190
Total	<u>\$ 57,324</u>	<u>\$ 4,851</u>	<u>\$ 56,217</u>	<u>\$ 2,991</u>

(1) Beginning January 1, 2021, calculation is based on CECL methodology. Prior to January 1, 2021, calculation was based on the probable incurred loss methodology.

Troubled debt restructurings at December 31 follow:

	2021		
	Commercial	Retail (1)	Total
	(In thousands)		
Performing TDR's	\$ 4,481	\$ 31,589	\$ 36,070
Non-performing TDR's (2)	-	1,016 ⁽³⁾	1,016
Total	\$ 4,481	\$ 32,605	\$ 37,086

	2020		
	Commercial	Retail (1)	Total
	(In thousands)		
Performing TDR's	\$ 7,956	\$ 36,385	\$ 44,341
Non-performing TDR's (2)	1,148	1,584 ⁽³⁾	2,732
Total	\$ 9,104	\$ 37,969	\$ 47,073

(1) Retail loans include mortgage and installment loan portfolio segments.

(2) Included in non-performing loans table above.

(3) Also includes loans on non-accrual at the time of modification until six payments are received on a timely basis.

We have allocated \$3.6 million and \$4.8 million of reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2021 and 2020, respectively. We have committed to lend additional amounts totaling up to \$0.04 million and \$0.07 million at December 31, 2021 and 2020, respectively, to customers with outstanding loans that are classified as troubled debt restructurings.

The terms of certain loans have been modified as troubled debt restructurings and generally included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for a new loan with similar risk; or a permanent reduction of the recorded investment in the loan.

Modifications involving a reduction of the stated interest rate of the loan have generally been for periods ranging from 9 months to 36 months but have extended to as much as 480 months in certain circumstances. Modifications involving an extension of the maturity date have generally been for periods ranging from 1 month to 60 months but have extended to as much as 230 months in certain circumstances.

Loans that have been classified as troubled debt restructurings during the years ended December 31 follow (1):

	Number of Contracts	Pre-modification Recorded Balance	Post-modification Recorded Balance
2020			
Commercial			
Commercial and industrial	7	\$ 1,207	\$ 1,207
Commercial real estate	4	7,012	7,012
Mortgage			
1-4 family owner occupied - jumbo	-	-	-
1-4 family owner occupied - non-jumbo	5	357	374
1-4 family non-owner occupied	2	111	116
1-4 family - 2nd lien	2	44	46
Resort lending	-	-	-
Installment			
Boat lending	-	-	-
Recreational vehicle lending	-	-	-
Other	4	91	93
Total	24	\$ 8,822	\$ 8,848

Number of Contracts	Pre-modification Recorded Balance	Post-modification Recorded Balance
	(Dollars in thousands)	

2019			
Commercial			
Commercial and industrial	8	\$ 1,609	\$ 1,609
Commercial real estate	3	1,479	1,479
Mortgage			
1-4 family owner occupied - jumbo	-	-	-
1-4 family owner occupied - non-jumbo	2	478	483
1-4 family non-owner occupied	1	507	505
1-4 family - 2nd lien	3	75	75
Resort lending	-	-	-
Installment			
Boat lending	-	-	-
Recreational vehicle lending	-	-	-
Other	7	188	191
Total	24	\$ 4,336	\$ 4,342

(1) There were no TDR modifications during the year ended December 31, 2021. The loan modifications during 2020 in the table above did not qualify for relief from TDR accounting under the CARES Act.

The troubled debt restructurings described above increased the ACL by \$0.04 million and \$0.50 million during the years ended December 31, 2020 and 2019, respectively and resulted in charge offs of zero during each of the years ended December 31, 2020 and 2019, respectively.

A loan is generally considered to be in payment default once it is 90 days contractually past due under the modified terms for commercial loans and installment loans and when four consecutive payments are missed for mortgage loans.

There were no troubled debt restructurings that subsequently defaulted within twelve months following modification during 2021 and 2020. During 2019 we had one commercial and industrial loan with a recorded balance of \$0.019 million and one 1-4 family owner occupied – non-jumbo loan with a recorded balance of \$0.012 million that subsequently defaulted within twelve months following modification. These loans did not impact the ACL during 2019 and resulted in zero charge offs during 2019.

The terms of certain other loans were modified during the years ending December 31, 2021, 2020 and 2019 that did not meet the definition of a troubled debt restructuring. The modification of these loans could have included modification of the terms of a loan to borrowers who were not experiencing financial difficulties or a delay in a payment that was considered to be insignificant.

In order to determine whether a borrower is experiencing financial difficulty, we perform an evaluation of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under our internal underwriting policy.

Non-TDR Loan Modifications and Paycheck Protection Program (“PPP”) due to COVID-19 - On March 22, 2020, the federal banking agencies issued an “Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus”. This guidance encourages financial institutions to work prudently with borrowers that may be unable to meet their contractual obligations because of the effects of COVID-19. The guidance goes on to explain that in consultation with the Financial Accounting Standards Board staff that the federal banking agencies conclude that short-term modifications (e.g. six months or less) made on a good faith basis to borrowers who were current (less than 30 days past due) as of the implementation date of a relief program are not TDRs. In addition, on March 27, 2020, the CARES Act was signed into law. Section 4013 of the CARES Act also addressed COVID-19 related modifications and specified that COVID-19 related modifications on loans that were current (less than 30 days past due) as of December 31, 2019 are not TDRs. We are assisting both commercial and retail (mortgage and installment) borrowers with reduced or suspended payments. Commercial loan accommodations are typically a three month interest-only period while retail loan (mortgage and installment) forbearances have primarily been payment suspensions for three months. For loans subject to these forbearance agreements each borrower is required to resume making regularly scheduled loan payments at the end of the forbearance period. The deferred principal and interest will be repaid based upon individualized agreements. Options for repayment include separate repayment plans, extending the term of the loan or re-amortizing the loan based upon the affordability of the payment in relationship to a reduced income. While some borrowers may elect to make a lump sum payment, we anticipate the majority will require some type of repayment plan. During the forbearance period, the loan will not be reported as past due in keeping with the guidance discussed previously.

A summary of COVID-19 accommodations that had been entered into under this guidance as of December 31, 2021 follows:

Loan Category	COVID-19 Accommodations		Total Loans	% of Total Loans
	Amounts (#)	Amounts (\$)		
	(Dollars in thousands)			
Commercial	-	\$ -	\$ 1,203,581	0.0%
Mortgage	22	2,278	1,139,659	0.2%
Installment	1	55	561,805	0.0%
Total	<u>23</u>	<u>\$ 2,333</u>	<u>\$ 2,905,045</u>	<u>0.1%</u>
Mortgage loans serviced for others(1)	<u>46</u>	<u>\$ 5,163</u>	<u>\$ 3,323,521</u>	<u>0.2%</u>

1) We have delegated authority from all investors to grant these deferrals on their behalf.

Information on subsequent COVID-19 accommodation extensions for portfolio loans follows (1):

Loan Category	Amount (#)	Amount (\$)
	(Dollars in thousands)	
Commercial	-	\$ -
Mortgage	19	2,194
Installment	-	-
Total	<u>19</u>	<u>\$ 2,194</u>

(1) Subsequent accommodations are extensions of the original accommodations that were given as summarized in the paragraph above.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Rating 12: These loans are generally referred to as our “loss” commercial credits. This rating includes loans to borrowers that are deemed incapable of repayment and are charged-off.

The following table summarizes loan ratings by loan class for our commercial loan portfolio segment at December 31, 2021:

	Commercial						Revolving Loans Amortized Cost Basis
	Term Loans Amortized Cost Basis by Origination Year						
	2021	2020	2019	2018	2017	Prior	
December 31, 2021	(In thousands)						
Commercial and industrial							
Non-watch (1-6)	\$ 121,917	\$ 69,856	\$ 56,984	\$ 44,827	\$ 38,307	\$ 96,261	\$ 144,579
Watch (7-8)	81	-	532	1,294	362	6,274	476
Substandard Accrual (9)	1,569	2	1,159	247	-	1,530	6,793
Non-Accrual (10-11)	-	-	-	-	-	62	-
Total	\$ 123,567	\$ 69,858	\$ 58,675	\$ 46,368	\$ 38,669	\$ 104,127	\$ 151,848
Accrued interest excluded from total	\$ 314	\$ 153	\$ 105	\$ 229	\$ 90	\$ 240	\$ 242
Commercial real estate							
Non-watch (1-6)	\$ 123,330	\$ 55,479	\$ 108,056	\$ 75,828	\$ 39,123	\$ 160,199	\$ 31,551
Watch (7-8)	-	324	3,028	7,678	1,708	1,423	-
Substandard Accrual (9)	441	-	-	1,193	1,108	-	-
Non-Accrual (10-11)	-	-	-	-	-	-	-
Total	\$ 123,771	\$ 55,803	\$ 111,084	\$ 84,699	\$ 41,939	\$ 161,622	\$ 31,551
Accrued interest excluded from total	\$ 182	\$ 81	\$ 233	\$ 203	\$ 94	\$ 325	\$ 47
Total Commercial							
Non-watch (1-6)	\$ 245,247	\$ 125,335	\$ 165,040	\$ 120,655	\$ 77,430	\$ 256,460	\$ 176,130
Watch (7-8)	81	324	3,560	8,972	2,070	7,697	476
Substandard Accrual (9)	2,010	2	1,159	1,440	1,108	1,530	6,793
Non-Accrual (10-11)	-	-	-	-	-	62	-
Total	\$ 247,338	\$ 125,661	\$ 169,759	\$ 131,067	\$ 80,608	\$ 265,749	\$ 183,399
Accrued interest excluded from total	\$ 496	\$ 234	\$ 338	\$ 432	\$ 184	\$ 565	\$ 289

The following table summarizes loan ratings by loan class for our commercial portfolio loan segment at December 31, 2020:

	Commercial				Total
	Non-watch 1-6	Watch 7-8	Substandard Accrual 9	Non-Accrual 10-11	
	(In thousands)				
December 31, 2020					
Commercial and industrial	\$ 637,826	\$ 32,765	\$ 4,341	\$ 1,387	\$ 676,319
Commercial real estate	561,382	5,978	2,272	-	569,632
Total	\$ 1,199,208	\$ 38,743	\$ 6,613	\$ 1,387	\$ 1,245,951
Accrued interest included in total	\$ 3,408	\$ 105	\$ 23	\$ -	\$ 3,536

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

For each of our mortgage and installment portfolio segment classes we generally monitor credit quality based on the credit scores of the borrowers. These credit scores are generally updated semi-annually. The following tables summarize credit scores by loan class for our mortgage and installment loan portfolio segments at December 31, 2021:

	Mortgage (1)						Rev Lo Amo Cost
	Term Loans Amortized Cost Basis by Origination Year						
	2021	2020	2019	2018	2017	Prior	
December 31, 2021	(In thousands)						
1-4 family owner occupied - jumbo							
800 and above	\$ 31,137	\$ 17,652	\$ 8,491	\$ 2,565	\$ 7,516	\$ 527	\$
750-799	135,292	92,590	30,072	7,118	9,469	5,043	
700-749	67,255	34,665	13,765	4,421	7,748	4,856	
650-699	19,367	10,313	5,447	5,285	6,080	690	
600-649	2,050	2,638	506	1,013	837	976	
550-599	-	469	-	-	781	-	
500-549	-	1,411	-	-	-	-	
Under 500	-	-	-	-	607	-	
Unknown	-	-	-	-	-	-	
Total	\$ 255,101	\$ 159,738	\$ 58,281	\$ 20,402	\$ 33,038	\$ 12,092	\$
Accrued interest excluded from total	\$ 557	\$ 370	\$ 163	\$ 77	\$ 87	\$ 33	\$
1-4 family owner occupied - non-jumbo							
800 and above	\$ 6,185	\$ 5,534	\$ 3,756	\$ 2,514	\$ 3,566	\$ 4,569	\$
750-799	33,227	20,300	9,688	5,664	8,887	12,498	
700-749	19,317	10,572	4,813	4,035	5,008	21,806	
650-699	6,593	4,233	3,217	2,010	3,135	12,423	
600-649	2,119	1,082	1,051	1,549	1,660	8,663	
550-599	-	295	1,076	758	1,023	5,802	
500-549	-	57	421	327	510	3,169	
Under 500	-	616	284	394	250	684	
Unknown	-	-	-	-	-	-	
Total	\$ 67,441	\$ 42,689	\$ 24,306	\$ 17,251	\$ 24,039	\$ 69,614	\$
Accrued interest excluded from total	\$ 208	\$ 97	\$ 84	\$ 58	\$ 68	\$ 226	\$
1-4 family non-owner occupied							
800 and above	\$ 15,406	\$ 1,786	\$ 2,857	\$ 1,459	\$ 2,627	\$ 5,058	\$
750-799	44,201	21,885	10,517	3,667	6,956	10,004	
700-749	16,486	7,807	2,764	1,878	966	6,095	
650-699	6,617	3,095	257	299	248	6,019	
600-649	125	57	108	282	174	2,051	
550-599	-	25	-	192	-	1,121	
500-549	-	-	-	55	-	638	
Under 500	-	-	-	-	-	172	
Unknown	-	-	-	-	-	-	
Total	\$ 82,835	\$ 34,655	\$ 16,503	\$ 7,832	\$ 10,971	\$ 31,158	\$
Accrued interest excluded from total	\$ 171	\$ 95	\$ 46	\$ 23	\$ 33	\$ 107	\$
1-4 family - 2nd lien							
800 and above	\$ 415	\$ 964	\$ 426	\$ 95	\$ 266	\$ 353	\$
750-799	2,161	2,413	714	1,332	1,859	2,415	
700-749	1,307	1,049	771	561	1,374	2,365	
650-699	122	309	460	405	140	1,639	
600-649	-	177	72	106	92	1,143	
550-599	-	-	61	-	-	476	
500-549	-	-	99	-	89	190	
Under 500	-	-	54	3	60	16	
Unknown	-	-	-	-	-	-	
Total	\$ 4,005	\$ 4,912	\$ 2,657	\$ 2,502	\$ 3,880	\$ 8,597	\$
Accrued interest excluded from total	\$ 7	\$ 9	\$ 9	\$ 5	\$ 8	\$ 34	\$

Mortgage - continued (1)

	Term Loans Amortized Cost Basis by Origination Year						Revol Loa Amor Cost
	2021	2020	2019	2018	2017	Prior	
	(In thousands)						
December 31, 2021							
Resort lending							
800 and above	\$ -	\$ -	\$ -	\$ 274	\$ -	\$ 7,347	\$ -
750-799	600	1,246	250	511	63	19,630	
700-749	-	174	-	301	67	9,052	
650-699	951	-	-	-	-	6,057	
600-649	-	-	-	-	-	1,841	
550-599	-	-	-	-	-	80	
500-549	-	-	-	-	-	201	
Under 500	-	-	-	-	-	-	
Unknown	-	-	-	-	-	-	
Total	\$ 1,551	\$ 1,420	\$ 250	\$ 1,086	\$ 130	\$ 44,208	\$ -
Accrued interest excluded from total	\$ 2	\$ 3	\$ -	\$ 3	\$ -	\$ 106	\$ -
Total Mortgage							
800 and above	\$ 53,143	\$ 25,936	\$ 15,530	\$ 6,907	\$ 13,975	\$ 17,854	\$ 1
750-799	215,481	138,434	51,241	18,292	27,234	49,590	4
700-749	104,365	54,267	22,113	11,196	15,163	44,174	2
650-699	33,650	17,950	9,381	7,999	9,603	26,828	
600-649	4,294	3,954	1,737	2,950	2,763	14,674	
550-599	-	789	1,137	950	1,804	7,479	
500-549	-	1,468	520	382	599	4,198	
Under 500	-	616	338	397	917	872	
Unknown	-	-	-	-	-	-	
Total	\$ 410,933	\$ 243,414	\$ 101,997	\$ 49,073	\$ 72,058	\$ 165,669	\$ 9
Accrued interest excluded from total	\$ 945	\$ 574	\$ 302	\$ 166	\$ 196	\$ 506	\$ -

(1) Credit scores have been updated within the last twelve months.

	Installment (1)						Total
	Term Loans Amortized Cost Basis by Origination Year						
	2021	2020	2019	2018	2017	Prior	
December 31, 2021	(In thousands)						
Boat lending							
800 and above	\$ 7,513	\$ 5,786	\$ 6,015	\$ 4,906	\$ 2,968	\$ 4,433	\$ 31
750-799	47,434	24,968	21,052	15,681	9,797	10,971	125
700-749	19,180	9,724	8,263	6,467	3,109	4,953	51
650-699	3,845	1,679	2,301	1,223	1,166	1,378	11
600-649	373	419	209	327	185	604	2
550-599	237	81	91	113	115	191	
500-549	-	49	-	85	-	67	
Under 500	-	-	-	10	168	4	
Unknown	-	-	-	-	-	-	
Total	\$ 78,582	\$ 42,706	\$ 37,931	\$ 28,812	\$ 17,508	\$ 22,601	\$ 228
Accrued interest excluded from total	\$ 169	\$ 102	\$ 106	\$ 69	\$ 44	\$ 47	\$
Recreational vehicle lending							
800 and above	\$ 8,475	\$ 5,121	\$ 5,837	\$ 4,627	\$ 2,456	\$ 3,594	\$ 30
750-799	66,834	22,707	17,173	11,973	5,281	6,794	130
700-749	32,702	9,500	6,169	3,768	1,657	2,343	56
650-699	7,390	2,423	1,842	948	649	905	14
600-649	990	408	291	333	152	111	2
550-599	271	100	163	318	6	72	
500-549	39	21	105	62	26	91	
Under 500	-	-	11	-	-	7	
Unknown	-	-	-	-	-	-	
Total	\$ 116,701	\$ 40,280	\$ 31,591	\$ 22,029	\$ 10,227	\$ 13,917	\$ 234
Accrued interest excluded from total	\$ 265	\$ 93	\$ 78	\$ 56	\$ 26	\$ 28	\$
Other							
800 and above	\$ 2,328	\$ 1,424	\$ 1,493	\$ 882	\$ 357	\$ 695	\$ 7
750-799	13,923	9,093	6,074	3,175	2,183	2,731	37
700-749	10,791	5,426	3,301	1,899	906	2,194	24
650-699	20,167	1,715	1,249	657	561	1,332	25
600-649	761	368	272	190	284	357	2
550-599	159	42	127	167	46	154	
500-549	8	53	56	55	38	98	
Under 500	6	62	42	14	12	18	
Unknown	975	-	-	-	-	-	
Total	\$ 49,118	\$ 18,183	\$ 12,614	\$ 7,039	\$ 4,387	\$ 7,579	\$ 98
Accrued interest excluded from total	\$ 73	\$ 40	\$ 36	\$ 19	\$ 11	\$ 38	\$
Total installment							
800 and above	\$ 18,316	\$ 12,331	\$ 13,345	\$ 10,415	\$ 5,781	\$ 8,722	\$ 68
750-799	128,191	56,768	44,299	30,829	17,261	20,496	297
700-749	62,673	24,650	17,733	12,134	5,672	9,490	132
650-699	31,402	5,817	5,392	2,828	2,376	3,615	51
600-649	2,124	1,195	772	850	621	1,072	6
550-599	667	223	381	598	167	417	2
500-549	47	123	161	202	64	256	
Under 500	6	62	53	24	180	29	
Unknown	975	-	-	-	-	-	
Total	\$ 244,401	\$ 101,169	\$ 82,136	\$ 57,880	\$ 32,122	\$ 44,097	\$ 561
Accrued interest excluded from total	\$ 507	\$ 235	\$ 220	\$ 144	\$ 81	\$ 113	\$ 1

(1) Credit scores have been updated within the last twelve months.

The following tables summarize credit scores by loan class for our mortgage and installment loan portfolio segments at December 31, 2020:

	Mortgage					Total
	1-4 Family Owner Occupied - Jumbo	1-4 Family Owner Occupied - Non-jumbo	1-4 Family Non-owner Occupied	1-4 Family 2nd Lien	Resort Lending	
	(In thousands)					
December 31, 2020						
800 and above	\$ 61,077	\$ 40,187	\$ 25,468	\$ 12,490	\$ 9,546	\$ 148,768
750-799	223,177	70,642	82,124	42,138	27,530	445,611
700-749	101,086	75,489	30,326	22,962	11,726	241,589
650-699	40,296	44,344	13,182	11,269	6,393	115,484
600-649	11,146	18,519	4,303	2,703	1,670	38,341
550-599	-	11,021	2,388	1,608	917	15,934
500-549	3,396	5,129	1,580	1,012	192	11,309
Under 500	-	2,242	405	348	73	3,068
Total	\$ 440,178	\$ 267,573	\$ 159,776	\$ 94,530	\$ 58,047	\$ 1,020,104
Accrued interest included in total	\$ 1,301	\$ 1,641	\$ 587	\$ 373	\$ 276	\$ 4,178

	Installment				Total
	Boat Lending	Recreational Vehicle Lending	Other		
	(In thousands)				
December 31, 2020					
800 and above		\$ 32,231	\$ 29,223	\$ 9,154	\$ 70,608
750-799		123,689	95,890	37,512	257,091
700-749		38,223	33,476	25,262	96,961
650-699		10,189	8,794	21,138	40,121
600-649		2,083	1,305	3,730	7,118
550-599		661	551	1,299	2,511
500-549		342	283	767	1,392
Under 500		95	52	63	210
Unknown		-	-	510	510
Total		\$ 207,513	\$ 169,574	\$ 99,435	\$ 476,522
Accrued interest included in total		\$ 572	\$ 457	\$ 156	\$ 1,185

Mortgage loans serviced for others are not reported as assets on the Consolidated Statements of Financial Condition. The principal balances of these loans at December 31 follow:

	2021	2020
	(In thousands)	
Mortgage loans serviced for :		
Fannie Mae	\$ 1,753,255	\$ 1,656,060
Freddie Mac	1,344,675	1,095,877
Ginnie Mae	170,983	181,615
FHLB	49,581	39,294
Other	5,027	11,242
Total	<u>\$ 3,323,521</u>	<u>\$ 2,984,088</u>

Custodial deposit accounts maintained in connection with mortgage loans serviced for others totaled \$39.4 million and \$40.5 million, at December 31, 2021 and 2020, respectively.

If we do not remain well capitalized for regulatory purposes (see note #20), meet certain minimum capital levels or certain profitability requirements or if we incur a rapid decline in net worth, we could lose our ability to sell and/or service loans to these investors. This could impact our ability to generate net gains on mortgage loans and generate servicing income. A forced liquidation of our servicing portfolio could also impact the value that could be recovered on this asset. Fannie Mae has the most stringent eligibility requirements covering capital levels, profitability and decline in net worth. Fannie Mae requires seller/servicers to be well capitalized for regulatory purposes. For the profitability requirement, we cannot record four or more consecutive quarterly losses and experience a 30% decline in net worth over the same period. Our net worth cannot decline by more than 25% in one quarter or more than 40% over two consecutive quarters. The highest level of capital we are required to maintain is at least \$2.5 million plus 0.25% of all loans serviced for others.

An analysis of capitalized mortgage loan servicing rights for the years ended December 31 follows:

	2021	2020	2019
	(In thousands)		
Balance at beginning of period	\$ 16,904	\$ 19,171	\$ 21,400
Originated servicing rights capitalized	11,436	13,957	7,303
Change in fair value due to price	3,380	(10,833)	(6,408)
Change in fair value due to pay downs	(5,488)	(5,391)	(3,124)
Balance at end of year	<u>\$ 26,232</u>	<u>\$ 16,904</u>	<u>\$ 19,171</u>
Loans sold and serviced that have had servicing rights capitalized	<u>\$ 3,323,521</u>	<u>\$ 2,982,833</u>	<u>\$ 2,580,705</u>

Fair value of capitalized mortgage loan servicing rights was determined using an average coupon rate of 3.46%, average servicing fee of 0.256%, average discount rate of 10.07% and an average Public Securities Association (“PSA”) prepayment rate of 232 for December 31, 2021; and average coupon rate of 3.77%, average servicing fee of 0.257%, average discount rate of 10.09% and an average PSA prepayment rate of 348 for December 31, 2020.

NOTE 5 – OTHER REAL ESTATE

A summary of other real estate activity for the years ended December 31 follows ⁽¹⁾:

	2021	2020	2019
	(In thousands)		
Balance at beginning of year, net of valuation allowance	\$ 738	\$ 1,715	\$ 1,178
Loans transferred to other real estate	253	332	2,242
Sales of other real estate	(745)	(1,161)	(1,438)
Additions to valuation allowance charged to expense	(11)	(148)	(267)
Balance at end of year, net of valuation allowance	<u>\$ 235</u>	<u>\$ 738</u>	<u>\$ 1,715</u>

(1) Table excludes other repossessed assets totaling \$0.01 million and \$0.03 million at December 31, 2021 and 2020, respectively.

We periodically review our real estate properties and establish valuation allowances on these properties if values have declined since the date of acquisition. An analysis of our valuation allowance for other real estate follows:

	2021	2020	2019
	(In thousands)		
Balance at beginning of year	\$ 90	\$ 92	\$ 144
Additions charged to expense	11	148	267
Direct write-downs upon sale	(70)	(150)	(319)
Balance at end of year	<u>\$ 31</u>	<u>\$ 90</u>	<u>\$ 92</u>

At December 31, 2021 and 2020, the balance of other real estate includes \$0.2 million and \$0.7 million, respectively of foreclosed residential real estate properties. Retail mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process according to local requirements totaled \$0.6 million and \$0.3 million at December 31, 2021 and 2020, respectively.

Other real estate and repossessed assets totaling \$0.2 million and \$0.8 million at December 31, 2021 and 2020, respectively, are presented net of the valuation allowance on the Consolidated Statements of Financial Condition.

NOTE 6 – PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31 follows:

	2021	2020
	(In thousands)	
Land and land improvements	\$ 17,296	\$ 17,083
Buildings	58,870	57,208
Equipment	74,844	72,542
	151,010	146,833
Accumulated depreciation and amortization	(114,606)	(110,706)
Property and equipment, net	<u>\$ 36,404</u>	<u>\$ 36,127</u>

Depreciation expense was \$5.4 million, \$5.3 million and \$5.2 million in 2021, 2020 and 2019, respectively.

NOTE 7 – GOODWILL AND OTHER INTANGIBLES

Intangible assets, net of amortization, at December 31 follows:

	2021		2020	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(In thousands)			
Amortized intangible assets - core deposits	\$ 11,916	\$ 8,580	\$ 11,916	\$ 7,610
Unamortized intangible assets - goodwill	\$ 28,300		\$ 28,300	

At December 31, 2021, the Bank (our reporting unit) had positive equity and elected to perform a qualitative assessment to determine if it was more likely than not that the fair value of the Bank exceeds its carrying value, including goodwill. The qualitative assessment indicated that it was more likely than not that the fair value of the Bank exceeded its carrying value, resulting in no impairment.

Intangible amortization expense was \$1.0 million, \$1.0 million and \$1.1 million during the years ended 2021, 2020 and 2019, respectively.

A summary of estimated core deposit intangible amortization at December 31, 2021, follows:

	(In thousands)
2022	\$ 785
2023	547
2024	516
2025	487
2026	460
2027 and thereafter	541
Total	\$ 3,336

NOTE 8 – DEPOSITS

A summary of interest expense on deposits for the years ended December 31 follows:

	2021	2020	2019
	(In thousands)		
Savings and interest-bearing checking	\$ 2,101	\$ 2,264	\$ 5,371
Reciprocal	764	2,158	6,024
Time	1,507	7,073	7,148
Brokered time	93	1,171	4,882
Total	\$ 4,465	\$ 12,666	\$ 23,425

Aggregate time deposits in denominations of \$0.25 million or more amounted to \$93.1 million and \$50.0 million at December 31, 2021 and 2020, respectively.

A summary of the maturity of time deposits at December 31, 2021, follows (1):

	(In thousands)
2022	\$ 269,067
2023	43,692
2024	10,067
2025	5,834
2026	6,794
2027 and thereafter	338
Total	\$ 335,792

(1) Includes time deposits, brokered time deposits and reciprocal time deposits

Reciprocal deposits represent demand, money market and time deposits from our customers that have been placed through IntraFi Network. This service allows our customers to access multi-million dollar FDIC deposit insurance on deposit balances greater than the standard FDIC insurance maximum.

A summary of reciprocal deposits at December 31 follows:

	2021	2020
	(In thousands)	
Demand	\$ 559,664	\$ 515,092
Money market	2,546	3,308
Time	24,416	37,785
Total	\$ 586,626	\$ 556,185

NOTE 9 – OTHER BORROWINGS

A summary of other borrowings at December 31 follows:

	2021	2020
	(In thousands)	
Advances from the FHLB	\$ 30,000	\$ 30,000
Other	9	12
Total	\$ 30,009	\$ 30,012

Advances from the FHLB are secured by unencumbered qualifying mortgage and home equity loans with a market value equal to at least 132% to 165%, respectively, of outstanding advances. Advances are also secured by FHLB stock that we own, which totaled \$8.6 million at December 31, 2021. Unused borrowing capacity with the FHLB (subject to the FHLB's credit requirements and policies) was \$798.4 million at December 31, 2021. Interest expense on advances amounted to \$0.2 million, \$0.5 million and \$0.7 million for the years ended December 31, 2021, 2020 and 2019, respectively. No FHLB advances were prepaid during 2021, 2020 or 2019.

As a member of the FHLB, we must own FHLB stock equal to the greater of 0.10% of the unpaid principal balance of residential mortgage assets or 4.5% of our outstanding advances. At December 31, 2021, we were in compliance with the FHLB stock ownership requirements.

The maturity dates, weighted average interest rates and contractually required repayments of FHLB advances at December 31 follow:

	2021		2020	
	Amount	Rate	Amount	Rate
	(Dollars in thousands)			
Fixed-rate advances - 2027 and thereafter	\$ 30,000	0.74%	\$ 30,000	0.74%

Borrowings with the FRB at December 31, 2021 and 2020 were zero. Average borrowings with the FRB during the years ended December 31, 2021, 2020 and 2019 totaled zero, \$1.546 million and \$0.305 million, respectively. We had unused borrowing capacity with the FRB (subject to the FRB’s credit requirements and policies) of \$383.4 million at December 31, 2021. Collateral for FRB borrowings are certain commercial and installment loans.

Interest expense on federal funds purchased totaled zero, \$0.01 million and \$0.08 million for the years ended December 31, 2021, 2020 and 2019, respectively.

Assets, consisting of FHLB stock and loans, pledged to secure other borrowings and unused borrowing capacity totaled \$1.9 billion at December 31, 2021.

NOTE 10 – SUBORDINATED DEBT AND DEBENTURES

Subordinated Debt

In May 2020, we issued \$40.0 million of fixed to floating subordinated notes with a ten year maturity (May 31, 2030 maturity date) and a five year call option. The initial coupon rate is 5.95% fixed for five years and then floats at the Secured Overnight Financing Rate (“SOFR”) plus 5.825%. These notes are presented in the Consolidated Statement of Financial Condition under the caption “Subordinated debt” and the balances of \$39.4 million and \$39.3 million at December 31, 2021 and 2020, respectively are net of remaining unamortized deferred issuance costs of approximately \$0.6 million and \$0.7 million, respectively that are being amortized through the maturity date into interest expense on other borrowings and subordinated debt and debentures in our Consolidated Statement of Operations. We may redeem the notes, in whole or in part, on or after May 31, 2025, and redeem the notes at any time in whole upon certain other events. Any redemption of the notes will be subject to prior regulatory approval to the extent required.

Subordinated Debentures

We have formed various special purpose entities (the “trusts”) for the purpose of issuing trust preferred securities in either public or pooled offerings or in private placements. Independent Bank Corporation owns all of the common stock of each trust and has issued subordinated debentures to each trust in exchange for all of the proceeds from the issuance of the common stock and the trust preferred securities. Trust preferred securities totaling \$38.4 million and \$38.3 million at December 31, 2021 and 2020, respectively qualified as Tier 1 regulatory capital.

These trusts are not consolidated with Independent Bank Corporation and accordingly, we report the common securities of the trusts held by us in accrued income and other assets and the subordinated debentures that we have issued to the trusts in the liability section of our Consolidated Statements of Financial Condition.

As the result of a previous acquisition we acquired TCSB Statutory Trust I as summarized in the tables below at a discount. The discount at acquisition totaled \$1.4 million and is being amortized through its maturity date and is included in interest expense – other borrowings and subordinated debt and debentures in the Consolidated Statements of Operations.

Summary information regarding subordinated debentures as of December 31 follows:

Entity Name	Issue Date	2021		
		Subordinated Debentures	Trust Preferred Securities Issued	Common Stock Issued
		(In thousands)		
IBC Capital Finance III	May 2007	\$ 12,372	\$ 12,000	\$ 372
IBC Capital Finance IV	September 2007	15,465	15,000	465
Midwest Guaranty Trust I	November 2002	7,732	7,500	232
TCSB Statutory Trust I	March 2005	5,155	5,000	155
Discount on TCSB Statutory Trust I		(1,132)	(1,132)	-
		<u>\$ 39,592</u>	<u>\$ 38,368</u>	<u>\$ 1,224</u>

Entity Name	Issue Date	2020		
		Subordinated Debentures	Trust Preferred Securities Issued	Common Stock Issued
		(In thousands)		
IBC Capital Finance III	May 2007	\$ 12,372	\$ 12,000	\$ 372
IBC Capital Finance IV	September 2007	15,465	15,000	465
Midwest Guaranty Trust I	November 2002	7,732	7,500	232
TCSB Statutory Trust I	March 2005	5,155	5,000	155
Discount on TCSB Statutory Trust I		(1,200)	(1,200)	-
		<u>\$ 39,524</u>	<u>\$ 38,300</u>	<u>\$ 1,224</u>

Other key terms for the subordinated debentures and trust preferred securities that were outstanding at December 31, 2021 and 2020 follow:

Entity Name	Maturity Date	Interest Rate	First Permitted Redemption Date
IBC Capital Finance III	July 30, 2037	3 month LIBOR plus 1.60%	July 30, 2012
IBC Capital Finance IV	September 15, 2037	3 month LIBOR plus 2.85%	September 15, 2012
Midwest Guaranty Trust I	November 7, 2032	3 month LIBOR plus 3.45%	November 7, 2007
TCSB Statutory Trust I	March 17, 2035	3 month LIBOR plus 2.20%	March 17, 2010

The subordinated debentures and trust preferred securities are cumulative and have a feature that permits us to defer distributions (payment of interest) from time to time for a period not to exceed 20 consecutive quarters. Interest is payable quarterly on each of the subordinated debentures and trust preferred securities and no distributions were deferred at December 31, 2021 and 2020.

We have the right to redeem the subordinated debentures and trust preferred securities (at par) in whole or in part from time to time on or after the first permitted redemption date specified above or upon the occurrence of specific events defined within the trust indenture agreements.

Distributions (payment of interest) on the trust preferred securities are included in interest expense – other borrowings and subordinated debt and debentures in the Consolidated Statements of Operations.

NOTE 11 – COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of business, we enter into financial instruments with off-balance sheet risk to meet the financing needs of customers or to reduce exposure to fluctuations in interest rates. These financial instruments may include commitments to extend credit and standby letters of credit. Financial instruments involve varying degrees of credit and interest-rate risk in excess of amounts reflected in the Consolidated Statements of Financial Condition. Exposure to credit risk in the event of non-performance by the counterparties to the financial instruments for loan commitments to extend credit and standby letters of credit is represented by the contractual amounts of those instruments.

A summary of financial instruments with off-balance sheet risk at December 31 follows:

	2021		2020
	(In thousands)		
Financial instruments whose risk is represented by contract amounts			
Commitments to extend credit	\$ 672,693	\$	644,815
Standby letters of credit	9,208		9,361

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. Commitments generally have fixed expiration dates or other termination clauses and generally require payment of a fee. Since commitments may expire without being drawn upon, the commitment amounts do not represent future cash requirements. Commitments are issued subject to similar underwriting standards, including collateral requirements, as are generally involved in the extension of credit facilities.

Standby letters of credit are written conditional commitments issued to guarantee the performance of a customer to a third party. The credit risk involved in such transactions is essentially the same as that involved in extending loan facilities and, accordingly, standby letters of credit are issued subject to similar underwriting standards, including collateral requirements, as are generally involved in the extension of credit facilities. The majority of the standby letters of credit are on-demand with no stated maturity date and have variable rates that range from 2.50% to 12.00%.

COVID-19 Pandemic

The COVID-19 pandemic and the related government mandates, restrictions, and guidance have created and may continue to create and contribute to significant economic uncertainty and market disruptions. Throughout 2020 and 2021, the volatility created by the pandemic and responses to the pandemic impacted our performance, customers, and the markets we serve.

Federal and state government responses have also created uncertainty. On November 4, 2021, the U.S. Department of Labor implemented an emergency temporary standard (ETS) mandating that all employers with 100 workers or more must require their employees to be fully vaccinated or submit to weekly testing. The ETS has been met with many subsequent legal challenges. On January 13, 2022, the U.S. Supreme Court stayed the ETS, sending the case back to the U.S. Court of Appeals for the Sixth Circuit for a decision on the merits. The timeline for such a decision is undetermined, and the outcomes remain unpredictable. In Michigan, the Department of Health and Human Services announced its intent to update quarantine and isolation periods to align with the Centers for Disease Control and Prevention’s newly shortened guidelines. These impending mandates and guidelines may have significant effects on the U.S. and Michigan economies, the banking sector generally, and our business specifically, the scope of which cannot be foreseen.

Based on this uncertainty, it is difficult to predict the extent to which the pandemic will continue to adversely impact our business, results of operations, financial condition, and customers. The potential impacts may include, but are not limited to:

- difficulties encountered by our business customers in addressing the effects of the pandemic may cause increases in loan delinquencies, foreclosures and defaults;
- increases in our allowance for credit losses may be necessary;
- declines in collateral values may occur;
- third party disruptions may occur, including outages at network providers, on-line banking vendors and other suppliers;
- there is increased cyber and payment fraud risk, as cybercriminals attempt to profit from the disruption, given increased online and remote activity;
- we may experience operational failures due to changes in our normal business practices necessitated by the pandemic and related governmental actions; and/or
- our production and efficiency may suffer due to employee illnesses and/or employees having to work remotely.

Given the ongoing uncertainty with respect to the pandemic and potential government responses, these risk factors may continue to some degree for a significant period of time.

The extent to which the COVID-19 pandemic may impact our business, results of operations, asset valuations, financial condition, and customers will depend on future developments, which continue to be highly uncertain and difficult to predict. Those developments and factors are expected to include the evolution of the virus and new and emerging virus variants, vaccination rates and subsequent vaccine-“boosters,” actions taken by governmental authorities to address the foregoing, and the enforcement thereof, and how quickly and to what extent normal economic and operating conditions stabilize. Potential developments also include market factors, such as interest rates, supply chain disruptions, inflation, consumer-welfare, and employment rates. We do not know the full extent of the potential impact. Material adverse impacts may include all or a combination of valuation impairments on our intangible assets, securities available for sale, loans, capitalized mortgage loan servicing rights or deferred tax assets.

Certain consumer-driven industries (including restaurants, hotels, retail, fitness, and other industries) have experienced increased stress and have been more adversely impacted by the COVID-19 pandemic and related consumer trends, labor shortages and supply chain disruptions. We believe that the following concentrations within our commercial loan portfolio represent greater potential risk in the current economic environment. The balances below are as of December 31, 2021.

	Amount	% of Total Loans
	(Dollars in millions)	
Commercial and industrial:		
Retail	\$ 70	2.4 %
Food service	49	1.7
Hotel	40	1.4
	<u>159</u>	5.5
Commercial real estate:		
Retail	109	3.8
Office	72	2.5
Multifamily	55	1.9
	<u>236</u>	8.1
Total	<u>\$ 395</u>	13.6 %

At December 31, 2021, we had no commercial loans in forbearance. However, we continue to closely monitor these industry concentrations and at present do not foresee any significant losses relative to this portion of our loan portfolio given the current economic conditions in Michigan and the fact that many businesses are reporting increased spending. However, a high degree of uncertainty still exists with respect to the impact of the COVID-19 pandemic and the related economic disruptions on the future performance of our loan portfolio, including these concentrations.

Litigation

We are involved in various litigation matters in the ordinary course of business. At the present time, we do not believe any of these matters will have a significant impact on our consolidated financial position or results of operations. The aggregate amount we have accrued for losses we consider probable as a result of these litigation matters is immaterial. However, because of the inherent uncertainty of outcomes from any litigation matter, we believe it is reasonably possible we may incur losses in addition to the amounts we have accrued. At this time, we estimate the maximum amount of additional losses that are reasonably possible is insignificant. However, because of a number of factors, including the fact that certain of these litigation matters are still in their early stages, this maximum amount may change in the future.

The litigation matters described in the preceding paragraph primarily include claims that have been brought against us for damages, but do not include litigation matters where we seek to collect amounts owed to us by third parties (such as litigation initiated to collect delinquent loans). These excluded, collection-related matters may involve claims or counterclaims by the opposing party or parties, but we have excluded such matters from the disclosure contained in the preceding paragraph in all cases where we believe the possibility of us paying damages to any opposing party is remote.

Visa Stock

We own 12,566 shares of VISA Class B common stock. At the present time, these shares can only be sold to other Class B shareholders. As a result, there has generally been limited transfer activity in private transactions between buyers and sellers. Given the limited activity that we have become aware of and the continuing uncertainty regarding the likelihood, ultimate timing and eventual exchange rate for Class B shares into Class A shares, we continue to carry these shares at zero, representing cost basis less impairment. However, given the current conversion ratio of 1.6181 Class A shares for every 1 Class B share and the closing price of VISA Class A shares on February 25, 2022 of \$219.27 per share, our 12,566 Class B shares would have a current “value” of approximately \$4.5 million. We continue to monitor Class B trading activity and the status of the resolution of certain litigation matters at VISA that would trigger the conversion of Class B common shares into Class A common shares, which would not have any trading restrictions.

NOTE 12 – SHAREHOLDERS’ EQUITY AND NET INCOME PER COMMON SHARE

Our Board of Directors authorized share repurchase plans to buy back up to 5% of our outstanding common stock during 2021, 2020 and 2019. In addition, in June, 2019 our Board of Directors authorized a 300,000 share expansion of the 2019 repurchase plan. During 2021, 2020 and 2019 repurchases were made through open market and negotiated transactions and totaled 814,910, 708,956 and 1,204,688 shares of common stock, respectively for an aggregate purchase price of \$17.3 million, \$14.2 million and \$26.3 million, respectively.

A reconciliation of basic and diluted net income per common share for the years ended December 31 follows:

	2021	2020	2019
	(In thousands, except per share amounts)		
Net income	\$ 62,895	\$ 56,152	\$ 46,435
Weighted average shares outstanding (1)	21,585	21,977	22,894
Stock units for deferred compensation plan for non-employee directors	121	121	132
Effect of stock options	69	90	115
Performance share units	32	33	42
Weighted average shares outstanding for calculation of diluted earnings per share	21,807	22,221	23,183
Net income per common share			
Basic (1)	\$ 2.91	\$ 2.56	\$ 2.03
Diluted	\$ 2.88	\$ 2.53	\$ 2.00

(1) Basic net income per common share includes weighted average common shares outstanding during the period and participating share awards.

Weighted average stock options outstanding that were not considered in computing diluted net income per common share because they were anti-dilutive were zero for each year ended 2021, 2020 and 2019, respectively.

NOTE 13 – INCOME TAX

The composition of income tax expense for the years ended December 31 follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
	(In thousands)		
Current expense	\$ 12,506	\$ 15,459	\$ 10,237
Deferred expense (benefit)	1,912	(2,130)	1,088
Income tax expense	<u>\$ 14,418</u>	<u>\$ 13,329</u>	<u>\$ 11,325</u>

The deferred income tax expense of \$1.9 million in 2021 can be primarily attributed to the increase in capitalized mortgage servicing rights while the deferred income tax benefit of \$2.1 million during 2020 can be primarily attributed to the increase in our allowance for credit losses while the deferred income tax expense of \$1.1 million during 2019 can be primarily attributed to the utilization of our net operating loss (“NOL”) carryforward and alternative minimum tax credit carryforward.

A reconciliation of income tax expense to the amount computed by applying the statutory federal income tax rate of 21% for 2021, 2020 and 2019 to the income before income tax for the years ended December 31 follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
	(In thousands)		
Statutory rate applied to income before income tax	\$ 16,236	\$ 14,591	\$ 12,130
Tax-exempt income	(1,487)	(690)	(375)
Share-based compensation	(184)	(204)	(204)
Bank owned life insurance	(119)	(196)	(233)
Unrecognized tax benefit	(11)	(206)	(134)
Non-deductible meals, entertainment and memberships	32	57	86
Other, net	(49)	(23)	55
Income tax expense	<u>\$ 14,418</u>	<u>\$ 13,329</u>	<u>\$ 11,325</u>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31 follow:

	2021	2020
	(In thousands)	
Deferred tax assets		
Allowance for credit losses (1)	\$ 9,923	\$ 7,363
Property and equipment	1,405	1,047
Lease liabilities	1,386	1,652
Reserve for unfunded lending commitments	941	379
Share-based compensation	734	742
Deferred compensation	390	321
Loss reimbursement on sold loans reserve	242	214
Non accrual loan interest income	194	203
Other than temporary impairment charge on securities available for sale	144	144
Other	276	-
Gross deferred tax assets	15,635	12,065
Deferred tax liabilities		
Capitalized mortgage loan servicing rights	5,509	3,550
Deferred loan fees	2,011	1,901
Unrealized gain on securities available for sale	1,674	4,206
Lease right of use asset	1,361	1,606
Purchase premiums, net	735	509
Other	-	18
Gross deferred tax liabilities	11,290	11,790
Deferred tax assets, net (2)	\$ 4,345	\$ 275

(1) Beginning January 1, 2021, calculation is based on CECL methodology. Prior to January 1, 2021, calculation was based on the probable incurred loss methodology.

(2) Included in accrued income and other assets on the Consolidated Statements of Financial Position.

We assess whether a valuation allowance should be established against our deferred tax assets based on the consideration of all available evidence using a “more likely than not” standard. The ultimate realization of this asset is primarily based on generating future income. We concluded at both December 31, 2021 and 2020, that the realization of substantially all of our deferred tax assets continues to be more likely than not.

Changes in unrecognized tax benefits for the years ended December 31 follow:

	2021	2020	2019
	(In thousands)		
Balance at beginning of year	\$ 180	\$ 438	\$ 588
Additions based on tax positions related to the current year	11	15	20
Reductions due to the statute of limitations	(11)	(273)	(170)
Reductions due to settlements	-	-	-
Balance at end of year	\$ 180	\$ 180	\$ 438

If recognized, the entire amount of unrecognized tax benefits, net of \$0.04 million of federal tax on state benefits, would affect our effective tax rate. We do not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next twelve months. No amounts were expensed for interest and penalties for the years ended December 31, 2021, 2020 and 2019. No amounts were accrued for interest and penalties at December 31, 2021, 2020 and 2019. At December 31, 2021, U.S. Federal tax years 2018 through the present remain open to examination.

NOTE 14 – SHARE BASED COMPENSATION AND BENEFIT PLANS

We maintain share based payment plans that include a non-employee director stock purchase plan and a long-term incentive plan that permits the issuance of share based compensation, including stock options and non-vested share awards. The long-term incentive plan, which is shareholder approved, permits the grant of additional share based awards for up to 0.7 million shares of common stock as of December 31, 2021. The non-employee director stock purchase plan permits the grant of additional share based payments for up to 0.1 million shares of common stock as of December 31, 2021. Share based awards and payments are measured at fair value at the date of grant and are expensed over the requisite service period. Common shares issued upon exercise of stock options come from currently authorized but unissued shares.

During 2021, 2020 and 2019 pursuant to our long-term incentive plan, we granted 0.09 million, 0.06 million and 0.06 million shares, respectively of restricted stock and 0.02 million during each year of performance stock units (“PSUs”), to certain officers. Except for 0.010 million shares of restricted stock issued in 2019 that vest ratably over three years, all shares of restricted stock and PSUs cliff vest after a period of three years. The performance feature of the PSUs is based on a comparison of our total shareholder return over the vesting period starting on the grant date to the total shareholder return over that period for a banking index of our peers. We have not issued stock options in the previous three years.

Our directors may elect to receive all or a portion of their cash retainer fees in the form of common stock (either on a current basis or on a deferred basis) pursuant to the non-employee director stock purchase plan referenced above. Shares equal in value to that portion of each director’s fees that he or she has elected to receive in stock on a current basis are issued each quarter and vest immediately. Shares issued on a deferred basis are credited at the rate of 90% of the current fair value of our common stock and vest immediately. We issued 0.02 million, 0.02 million and 0.01 million shares to directors pursuant to this plan during the years ending 2021, 2020 and 2019, respectively and expensed their value during those same periods.

Total compensation expense recognized for grants pursuant to our long-term incentive plan was \$1.6 million in 2021, 2020 and 2019. The corresponding tax benefit relating to this expense was \$0.3 million during each year. Total expense recognized for non-employee director share based payments was \$0.4 million, \$0.4 million and \$0.3 million in 2021, 2020 and 2019, respectively. The corresponding tax benefit relating to this expense was \$0.08 million, \$0.07 million and \$0.05 million in 2021, 2020 and 2019, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

At December 31, 2021, the total expected compensation cost related to non-vested restricted stock and PSUs not yet recognized was \$2.1 million. The weighted-average period over which this amount will be recognized is 1.8 years.

A summary of outstanding stock option grants and related transactions follows:

	<u>Number of Shares</u>	<u>Average Exercise Price</u>	<u>Weighted- Average Remaining Contractual Term (Years)</u>	<u>Aggregated Intrinsic Value (In thousands)</u>
Outstanding at January 1, 2021	121,189	\$ 4.81		
Granted	-			
Exercised	(40,350)	2.90		
Forfeited	-			
Expired	-			
Outstanding at December 31, 2021	<u>80,839</u>	<u>\$ 5.76</u>	<u>1.6</u>	<u>\$ 1,464</u>
Vested and expected to vest at December 31, 2021	<u>80,839</u>	<u>\$ 5.76</u>	<u>1.6</u>	<u>\$ 1,464</u>
Exercisable at December 31, 2021	<u>80,839</u>	<u>\$ 5.76</u>	<u>1.6</u>	<u>\$ 1,464</u>

A summary of outstanding non-vested stock and related transactions follows:

	<u>Number of Shares</u>	<u>Weighted- Average Grant Date Fair Value</u>
Outstanding at January 1, 2021	207,117	\$ 22.70
Granted	114,565	20.45
Vested	(73,081)	22.82
Forfeited	(14,375)	21.89
Outstanding at December 31, 2021	<u>234,226</u>	<u>\$ 21.64</u>

Certain information regarding options exercised during the periods ending December 31 follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
	<u>(In thousands)</u>		
Intrinsic value	<u>\$ 752</u>	<u>\$ 293</u>	<u>\$ 897</u>
Cash proceeds received	<u>\$ 117</u>	<u>\$ 57</u>	<u>\$ 706</u>
Tax benefit realized	<u>\$ 158</u>	<u>\$ 61</u>	<u>\$ 188</u>

We maintain 401(k) and employee stock ownership plans covering substantially all of our full-time employees. We matched 50% of employee contributions to the 401(k) plan up to a maximum of 8% of participating employees' eligible wages for 2021, 2020 and 2019. Contributions to the employee stock ownership plan are determined annually and require approval of our Board of Directors. The maximum contribution is 6% of employees' eligible wages. Contributions to the employee stock ownership plan were 2% for 2021, 2020 and 2019. Amounts expensed for these retirement plans were \$3.3 million, \$3.2 million and \$2.6 million in 2021, 2020 and 2019, respectively.

Our employees participate in various performance-based compensation plans. Amounts expensed for all incentive plans totaled \$15.6 million, \$15.7 million and \$9.5 million in 2021, 2020 and 2019, respectively.

We also provide certain health care and life insurance programs to substantially all full-time employees. Amounts expensed for these programs totaled \$6.1 million, \$4.8 million and \$5.7 million in 2021, 2020 and 2019 respectively.

These insurance programs are also available to retired employees at their own expense.

NOTE 15 – OTHER NON-INTEREST INCOME

Other non-interest income for the years ended December 31 follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
		(In thousands)	
Investment and insurance commissions	\$ 2,603	\$ 1,971	\$ 1,658
ATM fees	1,133	1,197	1,403
Bank owned life insurance	567	910	1,111
Other	5,089	3,443	5,110
Total other non-interest income	<u>\$ 9,392</u>	<u>\$ 7,521</u>	<u>\$ 9,282</u>

NOTE 16 – DERIVATIVE FINANCIAL INSTRUMENTS

We are required to record derivatives on our Consolidated Statements of Financial Condition as assets and liabilities measured at their fair value. The accounting for increases and decreases in the value of derivatives depends upon the use of derivatives and whether the derivatives qualify for hedge accounting.

Our derivative financial instruments according to the type of hedge in which they are designated at December 31 follow:

	2021		
	Notional Amount	Average Maturity (years)	Fair Value
	(Dollars in thousands)		
Fair value hedge designation			
Pay-fixed interest rate swap agreements - commercial	\$ 6,753	7.4	\$ (384)
Pay-fixed interest rate swap agreements - securities available for sale	148,895	5.8	4,413
Total	<u>\$ 155,648</u>	<u>5.9</u>	<u>\$ 4,029</u>
No hedge designation			
Rate-lock mortgage loan commitments	\$ 129,846	0.1	\$ 2,140
Mandatory commitments to sell mortgage loans	97,737	0.1	(68)
Interest rate swaption agreement	10,000	0.2	186
Pay-fixed interest rate swap agreements - commercial	207,080	5.7	(5,179)
Pay-variable interest rate swap agreements - commercial	207,080	5.7	5,179
Interest rate cap agreements	90,000	1.3	35
Total	<u>\$ 741,743</u>	<u>3.4</u>	<u>\$ 2,293</u>
	2020		
	Notional Amount	Average Maturity (years)	Fair Value
	(Dollars in thousands)		
Fair value hedge designation			
Pay-fixed interest rate swap agreements - commercial	\$ 7,088	8.4	\$ (776)
Pay-fixed interest rate swap agreements - securities available for sale	41,950	7.1	15
Total	<u>\$ 49,038</u>	<u>7.3</u>	<u>\$ (761)</u>
No hedge designation			
Rate-lock mortgage loan commitments	\$ 168,816	0.1	\$ 7,020
Mandatory commitments to sell mortgage loans	186,092	0.1	(941)
Pay-fixed interest rate swap agreements - commercial	147,456	4.5	(9,700)
Pay-variable interest rate swap agreements - commercial	147,456	4.5	9,700
Pay-fixed interest rate swap agreements	25,000	0.6	(295)
Interest rate cap agreements	135,000	1.8	5
Purchased options	2,908	0.5	42
Written options	2,848	0.5	(42)
Total	<u>\$ 815,576</u>	<u>2.0</u>	<u>\$ 5,789</u>

We have established management objectives and strategies that include interest-rate risk parameters for maximum fluctuations in net interest income and market value of portfolio equity. We monitor our interest rate risk position via simulation modeling reports. The goal of our asset/liability management efforts is to maintain profitable financial leverage within established risk parameters.

To meet our asset/liability management objectives, we may periodically enter into derivative financial instruments to mitigate exposure to fluctuations in cash flows resulting from changes in interest rates (“Cash Flow Hedges”). Cash Flow Hedges had included certain pay-fixed interest rate swap and interest rate cap agreements. Pay-fixed interest rate swap agreements convert the variable-rate cash flows on debt obligations to fixed-rates. Under interest-rate cap agreements, we will receive cash if interest rates rise above a predetermined level. As a result, we effectively have variable-rate debt with an established maximum rate. We paid an upfront premium on interest rate caps which was recognized in earnings in the same period in which the hedged item affected earnings. During the first and third quarters of 2020 we transferred all of our Cash Flow Hedge interest rate cap and pay-fixed interest rate swap agreements, respectively to a no hedge designation. The \$2.0 million and \$0.5 million unrealized loss on our Cash Flow Hedge interest rate cap and pay-fixed interest rate swap agreements, respectively, which were included as a component of accumulated other comprehensive income at the time of the transfers, were being reclassified into earnings over the remaining life of the interest rate cap agreements and pay-fixed interest rate swap agreements. In the fourth quarter of 2020 it became probable that the forecasted transactions being hedged by these interest rate cap and pay-fixed interest rate swap agreements would not occur by the end of the originally specified time period. As a result, all remaining unrealized losses included as a component of accumulated other comprehensive income were reclassified into earnings at that time. The no hedge designation pay-fixed interest rate swap agreements, which all matured in 2021, as well as the no hedge designation interest rate cap agreements in the tables above were classified as a no hedge designation during 2020 and any changes in fair value since the transfers to the no hedge designation are recorded in earnings.

We have entered into a pay-fixed interest rate swap to protect a portion of the fair value of a certain fixed rate commercial loan (“Fair Value Hedge – Commercial Loan”). As a result, changes in the fair value of the pay-fixed interest rate swap is expected to offset changes in the fair value of the fixed rate commercial loan due to fluctuations in interest rates. We record the fair value of Fair Value Hedge – Commercial Loan in accrued income and other assets and accrued expenses and other liabilities on our Consolidated Statements of Financial Condition. The hedged item (fixed rate commercial loan) is also recorded at fair value which offsets the adjustment to the Fair Value Hedge – Commercial Loan. On an ongoing basis, we adjust our Consolidated Statements of Financial Condition to reflect the then current fair value of both the Fair Value Hedge – Commercial Loan and the hedged item. The related gains or losses are reported in interest income – interest and fees on loans in our Consolidated Statements of Operations.

We have entered into pay-fixed interest rate swaps to protect a portion of the fair value of certain securities available for sale (“Fair Value Hedge – AFS Securities”). As a result, the change in the fair value of the pay-fixed interest rate swaps is expected to offset a portion of the change in the fair value of the fixed rate securities available for sale due to fluctuations in interest rates. We record the fair value of Fair Value Hedge – AFS Securities in accrued income and other assets and accrued expenses and other liabilities on our Consolidated Statements of Financial Condition. The hedged items (fixed rate securities available for sale) are also recorded at fair value which offsets the adjustment to the Fair Value Hedge – AFS Securities. On an ongoing basis, we adjust our Consolidated Statements of Financial Condition to reflect the then current fair value of both the Fair Value Hedge – AFS Securities and the hedged item. The related gains or losses are reported in interest income – interest on securities available for sale – tax-exempt in our Consolidated Statements of Operations.

Certain derivative financial instruments have not been designated as hedges. The fair value of these derivative financial instruments has been recorded on our Consolidated Statements of Financial Condition and is adjusted on an ongoing basis to reflect their then current fair value. The changes in fair value of derivative financial instruments not designated as hedges are recognized in earnings.

In the ordinary course of business, we enter into rate-lock mortgage loan commitments with customers (“Rate-Lock Commitments”). These commitments expose us to interest rate risk. We also enter into mandatory commitments to sell mortgage loans (“Mandatory Commitments”) to reduce the impact of price fluctuations of mortgage loans held for sale and Rate-Lock Commitments. Mandatory Commitments help protect our loan sale profit margin from fluctuations in interest rates. The changes in the fair value of Rate Lock Commitments and Mandatory Commitments are recognized currently as part of net gains on mortgage loans in the Consolidated Statements of Operations. We obtain market prices on Mandatory Commitments and Rate-Lock Commitments. Net gains on mortgage loans, as well as net income, may be more volatile as a result of these derivative instruments, which are not designated as hedges.

We have purchased a swaption agreement, whereby we have the right but not the obligation to pay fixed on an interest rate swap at a future date, in an attempt to reduce the impact of price fluctuations of certain mortgage construction loans held for sale. The changes in the fair value of the swaption agreement is recognized currently as part of net gains on mortgage loans in our Consolidated Statements of Operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

In prior periods we offered to our deposit customers an equity linked time deposit product (“Altitude CD”). The Altitude CD was a time deposit that provided the customer a guaranteed return of principal at maturity plus a potential equity return (a written option), while we receive a like stream of funds based on the equity return (a purchased option). The written and purchased options will generally move in opposite directions resulting in little or no net impact on our Consolidated Statements of Operations. The written and purchased options in the table above relate to this Altitude CD product and matured during the fourth quarter of 2021.

We have a program that allows commercial loan customers to lock in a fixed rate for a longer period of time than we would normally offer for interest rate risk reasons. We will enter into a variable rate commercial loan and an interest rate swap agreement with a customer and then enter into an offsetting interest rate swap agreement with an unrelated party. The interest rate swap agreement fair values will generally move in opposite directions resulting in little or no net impact on our Consolidated Statements of Operations. All of the interest rate swap agreements-commercial with no hedge designation in the table above relate to this program.

The following table illustrate the impact that the derivative financial instruments discussed above have on individual line items in the Consolidated Statements of Financial Condition for the periods presented:

Fair Values of Derivative Instruments

	Asset Derivatives				Liability Derivatives			
	December 31, 2021		December 31, 2020		December 31, 2021		December 31, 2020	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
	(In thousands)							
Derivatives designated as hedging instruments								
Pay-fixed interest rate swap agreements	Other assets	\$ 4,413	Other assets	\$ 15	Other liabilities	\$ 384	Other liabilities	\$ 776
Derivatives not designated as hedging instruments								
Rate-lock mortgage loan commitments	Other assets	\$ 2,140	Other assets	\$ 7,020	Other liabilities	\$ -	Other liabilities	\$ -
Mandatory commitments to sell mortgage loans	Other assets	-	Other assets	-	Other liabilities	68	Other liabilities	941
Interest rate swaption agreement	Other assets	186	Other assets	-	Other liabilities	-	Other liabilities	-
Pay-fixed interest rate swap agreements - commercial	Other assets	165	Other assets	-	Other liabilities	5,344	Other liabilities	9,700
Pay-variable interest rate swap agreements - commercial	Other assets	5,344	Other assets	9,700	Other liabilities	165	Other liabilities	-
Pay-fixed interest rate swap agreements	Other assets	-	Other assets	-	Other liabilities	-	Other liabilities	295
Interest rate cap agreements	Other assets	35	Other assets	5	Other liabilities	-	Other liabilities	-
Purchased options	Other assets	-	Other assets	42	Other liabilities	-	Other liabilities	-
Written options	Other assets	-	Other assets	-	Other liabilities	-	Other liabilities	42
		7,870		16,767		5,577		10,978
Total derivatives		\$ 12,283		\$ 16,782		\$ 5,961		\$ 11,754

The effect of derivative financial instruments on the Consolidated Statements of Operations follows:

Year Ended December 31,

	Gain (loss) Recognized in Other Comprehensive Income (Loss) (Effective Portion)			Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Income (Effective Portion)	Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Income (Effective Portion)			Location of Gain (Loss) Recognized in Income	Gain (Loss) Recognized in Income				
	2021	2020	2019		2021	2020	2019		2021	2020	2019		
	(In thousands)												
Fair Value													
Hedges													
Pay-fixed interest rate swap agreement - commercial				Interest and fees on loans	\$	392	\$	(534)	\$	(242)			
Pay-fixed interest rate swap agreement - securities available for sale				Interest on securities available for sale - tax-exempt									
Total					\$	4,398	\$	15	\$	-			
Cash Flow													
Hedges													
Interest rate cap agreements	\$	-	\$	125	\$	(1,211)	Interest expense	\$	-	\$	(1,885)	\$	363
Pay-fixed interest rate swap agreements				Interest expense									
Total	\$	-	\$	(354)	\$	(1,603)	Interest expense	\$	-	\$	(654)	\$	62
	\$	-	\$	(354)	\$	(1,603)		\$	-	\$	(2,539)	\$	425
No hedge designation													
Rate-lock mortgage loan commitments							Net gains on mortgage loans	\$	(4,880)	\$	5,608	\$	725
Mandatory commitments to sell mortgage loans							Net gains on mortgage loans		873		(791)		233
Interest rate swaption agreement							Net gains on mortgage loans		(2)		-		-
Pay-fixed interest rate swap agreements - commercial							Interest income		4,521		(6,059)		(4,046)
Pay-variable interest rate swap agreements - commercial							Interest income		(4,521)		6,059		4,046
Pay-fixed interest rate swap agreements							Interest expense		295		231		-
Interest rate cap agreements							Interest expense		30		(57)		-
Purchased options							Interest expense		(42)		(99)		25
Written options							Interest expense		42		97		(23)
Total								\$	(3,684)	\$	4,989	\$	960

NOTE 17 – RELATED PARTY TRANSACTIONS

Certain directors and executive officers, including companies in which they are officers or have significant ownership, were loan and deposit customers during 2021 and 2020.

A summary of loans to our directors and executive officers (which includes loans to entities in which the individual owns a 10% or more voting interest) for the years ended December 31 follows:

	<u>2021</u>	<u>2020</u>
	(In thousands)	
Balance at beginning of year	\$ 2,416	\$ 13,077
New loans and advances	5,722	417
Repayments	(1,259)	(11,078)
Balance at end of year	<u>\$ 6,879</u>	<u>\$ 2,416</u>

We had \$1.9 million and \$1.74 million in loan commitments to directors and executive officers at December 31, 2021 and 2020, respectively. Of these, commitments of \$0.02 million and \$0.04 million were outstanding at December 31, 2021 and 2020, respectively, and included in the table above.

Deposits held by us for directors and executive officers totaled \$3.4 million and \$2.0 million at December 31, 2021 and 2020, respectively.

NOTE 18 – LEASES

We have entered into leases in the normal course of business primarily for office facilities, some of which include renewal options and escalation clauses. Certain leases also include both lease components (fixed payments including rent, taxes and insurance costs) and non-lease components (common area or other maintenance costs) which are accounted for as a single lease component as we have elected the practical expedient to group lease and non-lease components together for all leases. We have also elected not to recognize leases with original lease terms of 12 months or less (short-term leases) on our Consolidated Statements of Financial Condition. Most of our leases include one or more options to renew. The exercise of lease renewal options is typically at our sole discretion and are included in our right of use (“ROU”) assets and lease liabilities if they are reasonably certain of exercise.

Leases are classified as operating or finance leases at the lease commencement date (we did not have any finance leases as of December 31, 2021). Lease expense for operating leases and short-term leases is recognized on a straight-line basis over the lease term. The ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of the lease payment over the lease term.

As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at the lease commencement date in determining the present value of the lease payments.

The cost components of our operating leases follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
	(In thousands)		
Operating lease cost	\$ 1,672	\$ 1,780	\$ 2,217
Variable lease cost	63	69	142
Short-term lease cost	64	36	19
Total	<u>\$ 1,799</u>	<u>\$ 1,885</u>	<u>\$ 2,378</u>

Variable lease costs consist primarily of taxes, insurance, and common area or other maintenance costs for our leased facilities.

Supplemental balance sheet information related to our operating leases follows:

	2021	2020
	(In thousands)	
Lease right of use asset (1)	\$ 6,481	\$ 7,646
Lease liabilities (2)	\$ 6,602	\$ 7,868
Weighted average remaining lease term (years)	6.50	7.12
Weighted average discount rate	2.3%	2.4%

(1) Included in Accrued income and other assets in our Consolidated Statements of Financial Condition.

(2) Included in Accrued expenses and other liabilities in our Consolidated Statements of Financial Condition.

Maturity analysis of our lease liabilities at December 31, 2021 based on required contractual payments follows:

	(In thousands)
2022	\$ 1,619
2023	1,311
2024	816
2025	809
2026	744
2027 and thereafter	1,795
Total lease payments	7,094
Less imputed interest	(492)
Total	\$ 6,602

NOTE 19 – CONCENTRATIONS OF CREDIT RISK

Credit risk is the risk to earnings and capital arising from an obligor's failure to meet the terms of any contract with our organization or otherwise failing to perform as agreed. Credit risk can occur outside of our traditional lending activities and can exist in any activity where success depends on counterparty, issuer or borrower performance. Concentrations of credit risk (whether on- or off-balance sheet) arising from financial instruments can exist in relation to individual borrowers or groups of borrowers, certain types of collateral, certain types of industries or certain geographic regions. Credit risk associated with these concentrations could arise when a significant amount of loans or other financial instruments, related by similar characteristics, are simultaneously impacted by changes in economic or other conditions that cause their probability of repayment or other type of settlement to be adversely affected. Our major concentrations of credit risk arise by collateral type and by industry. The significant concentrations by collateral type at December 31, 2021, include \$999.0 million of loans secured by residential real estate and \$279.0 million of construction and land development loans.

Additionally, within our commercial real estate and commercial loan portfolio, we had significant standard industry classification concentrations in the following categories as of December 31, 2021: Lessors of Nonresidential Real Estate (\$358.6 million); Construction (\$126.8 million); Lessors of Residential Real Estate (\$100.2 million); Health Care and Social Assistance (\$92.0 million); Accommodation and Food Services (\$90.1 million) and Manufacturing (\$73.4 million). A geographic concentration arises because we primarily conduct our lending activities in the State of Michigan.

NOTE 20 – REGULATORY MATTERS

Capital guidelines adopted by federal and state regulatory agencies and restrictions imposed by law limit the amount of cash dividends our Bank can pay to us. Under these guidelines, the amount of dividends that may be paid in any calendar year is limited to the Bank's current year net profits, combined with the retained net profits of the preceding two years. Further, the Bank cannot pay a dividend at any time that it has negative undivided profits. As of December 31, 2021, the Bank had positive undivided profits of \$100.1 million. It is not our intent to have dividends paid in amounts that would reduce the capital of our Bank to levels below those which we consider prudent or that would not be in accordance with guidelines of regulatory authorities.

We are also subject to various regulatory capital requirements. The prompt corrective action regulations establish quantitative measures to ensure capital adequacy and require minimum amounts and ratios of total, Tier 1, and common equity Tier 1 capital to risk-weighted assets and Tier 1 capital to average assets. Failure to meet minimum capital requirements can result in certain mandatory, and possibly discretionary, actions by regulators that could have a material effect on our consolidated financial statements. In addition, capital adequacy rules include a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets that applies to all supervised financial institutions. To avoid limits on capital distributions and certain discretionary bonus payments we must meet the minimum ratio for adequately capitalized institutions plus the buffer. Under capital adequacy guidelines, we must meet specific capital requirements that involve quantitative measures as well as qualitative judgments by the regulators. The most recent regulatory filings as of December 31, 2021 and 2020, categorized our Bank as well capitalized. Management is not aware of any conditions or events that would have changed the most recent Federal Deposit Insurance Corporation ("FDIC") categorization.

Our actual capital amounts and ratios at December 31 follow⁽¹⁾:

	Actual		Minimum for Adequately Capitalized Institutions		Minimum for Well-Capitalized Institutions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
2021						
Total capital to risk-weighted assets						
Consolidated	\$ 488,495	14.53%	\$ 268,991	8.00%	NA	NA
Independent Bank	438,352	13.05	268,808	8.00	\$ 336,011	10.00%
Tier 1 capital to risk-weighted assets						
Consolidated	\$ 406,645	12.09%	\$ 201,743	6.00%	NA	NA
Independent Bank	396,351	11.80	201,606	6.00	\$ 268,808	8.00%
Common equity tier 1 capital to risk-weighted assets						
Consolidated	\$ 368,277	10.95%	\$ 151,307	4.50%	NA	NA
Independent Bank	396,351	11.80	151,205	4.50	\$ 218,407	6.50%
Tier 1 capital to average assets						
Consolidated	\$ 406,645	8.79%	\$ 185,034	4.00%	NA	NA
Independent Bank	396,351	8.57	185,077	4.00	\$ 231,347	5.00%
2020						
Total capital to risk-weighted assets						
Consolidated	\$ 455,072	15.95%	\$ 228,214	8.00%	NA	NA
Independent Bank	401,005	14.06	228,111	8.00	\$ 285,139	10.00%
Tier 1 capital to risk-weighted assets						
Consolidated	\$ 379,395	13.30%	\$ 171,161	6.00%	NA	NA
Independent Bank	365,343	12.81	171,083	6.00	\$ 228,111	8.00%
Common equity tier 1 capital to risk-weighted assets						
Consolidated	\$ 341,095	11.96%	\$ 128,370	4.50%	NA	NA
Independent Bank	365,343	12.81	128,312	4.50	\$ 185,340	6.50%
Tier 1 capital to average assets						
Consolidated	\$ 379,395	9.15%	\$ 165,825	4.00%	NA	NA
Independent Bank	365,343	8.81	165,828	4.00	\$ 207,285	5.00%

(1) These ratios do not reflect a capital conservation buffer of 2.50% at December 31, 2021 and 2020.
NA - Not applicable

The components of our regulatory capital are as follows:

	Consolidated		Independent Bank	
	December 31,		December 31,	
	2021	2020	2021	2020
	(In thousands)			
Total shareholders' equity	\$ 398,484	\$ 389,522	\$ 426,558	\$ 413,770
Add (deduct)				
Accumulated other comprehensive loss for regulatory purposes	(6,298)	(15,821)	(6,298)	(15,821)
Goodwill and other intangibles	(31,636)	(32,606)	(31,636)	(32,606)
CECL (1)	7,727	-	7,727	-
Common equity tier 1 capital	368,277	341,095	396,351	365,343
Qualifying trust preferred securities	38,368	38,300	-	-
Tier 1 capital	406,645	379,395	396,351	365,343
Subordinated debt	40,000	40,000	-	-
Allowance for credit losses and allowance for unfunded lending commitments limited to 1.25% of total risk-weighted assets (2)	41,850	35,677	42,001	35,662
Total risk-based capital	\$ 488,495	\$ 455,072	\$ 438,352	\$ 401,005

(1) We elected the three year CECL transition method for regulatory purposes.

(2) Beginning January 1, 2021, calculation of allowances are based on CECL methodology. Prior to January 1, 2021, calculation was based on the probable incurred loss methodology.

NOTE 21 – FAIR VALUE DISCLOSURES

FASB ASC topic 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets. Level 1 instruments include securities traded on active exchange markets, such as the New York Stock Exchange, as well as U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market. Level 2 instruments include securities traded in less active dealer or broker markets.

Level 3: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

We used the following methods and significant assumptions to estimate fair value:

Securities: Where quoted market prices are available in an active market, securities available for sale are classified as Level 1 of the valuation hierarchy. We currently do not have any Level 1 securities. If quoted market prices are not available for the specific security, then fair values are estimated by (1) using quoted market prices of securities with similar characteristics, (2) matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for specific securities but rather by relying on the securities' relationship to other benchmark quoted prices, or (3) a discounted cash flow analysis whose significant fair value inputs can generally be verified and do not typically involve judgment by management. These securities are classified as Level 2 of the valuation hierarchy and primarily include agency securities, private label mortgage-backed securities, other asset backed securities, obligations of states and political subdivisions, trust preferred securities, corporate securities and foreign government securities.

Loans held for sale: The fair value of mortgage loans held for sale, carried at fair value is based on agency cash window loan pricing for comparable assets (recurring Level 2).

Collateral dependent loans with specific loss allocations based on collateral value: From time to time, certain collateral dependent loans will have an ACL established. When the fair value of the collateral is based on an appraised value or when an appraised value is not available we record the collateral dependent loan as nonrecurring Level 3. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments can be significant and thus will typically result in a Level 3 classification of the inputs for determining fair value.

Other real estate: At the time of acquisition, other real estate is recorded at fair value, less estimated costs to sell, which becomes the property's new basis. Subsequent write-downs to reflect declines in value since the time of acquisition may occur from time to time and are recorded in net (gains) losses on other real estate and repossessed assets which is included other non-interest expense in the Consolidated Statements of Operations. The fair value of the property used at and subsequent to the time of acquisition is typically determined by a third party appraisal of the property. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments can be significant and typically result in a Level 3 classification of the inputs for determining fair value.

Appraisals for both collateral-dependent loans and other real estate are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by us. Once received, an independent third party, or a member of our Collateral Evaluation Department (for commercial properties), or a member of our Special Assets/ORE Group (for residential properties) reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. We compare the actual selling price of collateral that has been sold to the most recent appraised value of our properties to determine what additional adjustment, if any, should be made to the appraisal value to arrive at fair value. For commercial and residential properties we typically discount an appraisal to account for various factors that the appraisal excludes in its assumptions. These additional discounts generally do not result in material adjustments to the appraised value.

Capitalized mortgage loan servicing rights: The fair value of capitalized mortgage loan servicing rights is based on a valuation model used by an independent third party that calculates the present value of estimated net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income. Certain model assumptions are generally unobservable and are based upon the best information available including data relating to our own servicing portfolio, reviews of mortgage servicing assumption and valuation surveys and input from various mortgage servicers and, therefore, are recorded as Level 3. Management evaluates the third party valuation for reasonableness each quarter as part of our financial reporting control processes.

Derivatives: The fair value of rate-lock mortgage loan commitments is based on agency cash window loan pricing for comparable assets and the fair value of mandatory commitments to sell mortgage loans is based on mortgage backed security pricing for comparable assets (recurring Level 2). The fair value of interest rate swap, interest rate cap and swaption agreements are derived from proprietary models which utilize current market data. The significant fair value inputs can generally be observed in the market place and do not typically involve judgment by management (recurring Level 2). The fair value of purchased and written options is based on prices of financial instruments with similar characteristics and do not typically involve judgment by management (recurring Level 2).

Assets and liabilities measured at fair value, including financial assets for which we have elected the fair value option, were as follows:

	Fair Value Measurements	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Un-observable Inputs (Level 3)
(In thousands)				
December 31, 2021:				
Measured at Fair Value on a Recurring Basis				
Assets				
Securities available for sale				
U.S. agency	\$ 34,674	\$ -	\$ 34,674	\$ -
U.S. agency residential mortgage-backed	307,985	-	307,985	-
U.S. agency commercial mortgage-backed	22,926	-	22,926	-
Private label mortgage-backed	102,615	-	102,615	-
Other asset backed	216,170	-	216,170	-
Obligations of states and political subdivisions	576,076	-	576,076	-
Corporate	149,959	-	149,959	-
Trust preferred	1,919	-	1,919	-
Foreign government	506	-	506	-
Loans held for sale, carried at fair value	55,470	-	55,470	-
Capitalized mortgage loan servicing rights	26,232	-	-	26,232
Derivatives (1)	12,283	-	12,283	-
Liabilities				
Derivatives (2)	5,961	-	5,961	-
Measured at Fair Value on a Non-recurring Basis:				
Assets				
Collateral dependent loans (3)				
Commercial				
Commercial and industrial	274	-	-	274
Commercial real estate	65	-	-	65
Mortgage				
1-4 family owner occupied - non-jumbo	516	-	-	516
1-4 family non-owner occupied	130	-	-	130
1-4 family - 2nd lien	121	-	-	121
Resort lending	77	-	-	77
Installment				
Boat lending	51	-	-	51
Recreational vehicle lending	77	-	-	77
Other	45	-	-	45

- (1) Included in accrued income and other assets in the Consolidated Statements of Financial Condition.
(2) Included in accrued expenses and other liabilities in the Consolidated Statements of Financial Condition.
(3) Only includes individually evaluated loans with specific loss allocations based on collateral value.

	Fair Value Measurements Using			
	Fair Value Measurements	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Un-observable Inputs (Level 3)
(In thousands)				
December 31, 2020:				
Measured at Fair Value on a Recurring Basis				
Assets				
Securities available for sale				
U.S. agency	\$ 10,748	\$ -	\$ 10,748	\$ -
U.S. agency residential mortgage-backed	344,582	-	344,582	-
U.S. agency commercial mortgage-backed	7,195	-	7,195	-
Private label mortgage-backed	42,829	-	42,829	-
Other asset backed	254,181	-	254,181	-
Obligations of states and political subdivisions	324,293	-	324,293	-
Corporate	86,017	-	86,017	-
Trust preferred	1,798	-	1,798	-
Foreign government	516	-	516	-
Loans held for sale, carried at fair value	92,434	-	92,434	-
Capitalized mortgage loan servicing rights	16,904	-	-	16,904
Derivatives (1)	16,782	-	16,782	-
Liabilities				
Derivatives (2)	11,754	-	11,754	-
Measured at Fair Value on a Non-recurring Basis:				
Assets				
Impaired loans (3)				
Commercial				
Commercial and industrial	1,468	-	-	1,468
Commercial real estate	6,586	-	-	6,586
Mortgage				
1-4 family owner occupied - jumbo	-	-	-	-
1-4 family owner occupied - non-jumbo	321	-	-	321
1-4 family non-owner occupied	155	-	-	155
1-4 family - 2nd lien	324	-	-	324
Resort lending	61	-	-	61
Installment				
Boat lending	4	-	-	4
Recreational vehicle lending	31	-	-	31
Other	124	-	-	124
Other real estate (4)				
1-4 family owner occupied - non-jumbo	102	-	-	102

- (1) Included in accrued income and other assets in the Consolidated Statements of Financial Condition.
- (2) Included in accrued expenses and other liabilities in the Consolidated Statements of Financial Condition.
- (3) Only includes impaired loans with specific loss allocations based on collateral value.
- (4) Only includes other real estate with subsequent write downs to fair value.

Changes in fair values of financial assets for which we have elected the fair value option for the years ended December 31 were as follows:

	Net Gains (Losses) on Assets			Total Change in Fair Values Included in Current Period Earnings
	Securities Available For Sale	Mortgage Loans	Mortgage Loan Servicing, net	
(In thousands)				
2021				
Loans held for sale	\$ -	\$ (2,805)	\$ -	\$ (2,805)
Capitalized mortgage loan servicing rights	-	-	(2,108)	(2,108)
2020				
Loans held for sale	-	1,962	-	1,962
Capitalized mortgage loan servicing rights	-	-	(16,224)	(16,224)
2019				
Equity securities at fair value	167	-	-	167
Loans held for sale	-	637	-	637
Capitalized mortgage loan servicing rights	-	-	(9,532)	(9,532)

For those items measured at fair value pursuant to our election of the fair value option, interest income is recorded within the Consolidated Statements of Operations based on the contractual amount of interest income earned on these financial assets and dividend income is recorded based on cash dividends received.

The following represent impairment charges recognized during the years ended December 31, 2021, 2020 and 2019 relating to assets measured at fair value on a non-recurring basis:

- Loans that are individually evaluated using the fair value of collateral for collateral dependent loans had a carrying amount of \$1.4 million, which is net of a valuation allowance of \$0.6 million at December 31, 2021, and had a carrying amount of \$9.1 million, which is net of a valuation allowance of \$1.8 million at December 31, 2020. An additional provision for credit losses relating to these collateral dependent loans of \$0.3 million, \$0.7 million and \$1.3 million was included in our results of operations for the years ending December 31, 2021, 2020 and 2019, respectively.
- Other real estate, which is measured using the fair value of the property, had a carrying amount of zero which is net of a valuation allowance of \$0.03 million at December 31, 2021, and a carrying amount of \$0.10 million which is net of a valuation allowance of \$0.09 million, at December 31, 2020. An additional charge relating to other real estate measured at fair value of zero, \$0.03 million and \$0.03 million was included in our results of operations during the years ended December 31, 2021, 2020 and 2019, respectively.

A reconciliation for all assets and (liabilities) measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31 follows:

	Capitalized Mortgage Loan Servicing Rights		
	2021	2020	2019
	(In thousands)		
Beginning balance	\$ 16,904	\$ 19,171	\$ 21,400
Total losses realized and unrealized:			
Included in results of operations	(2,108)	(16,224)	(9,532)
Included in other comprehensive income (loss)	-	-	-
Purchases, issuances, settlements, maturities and calls	11,436	13,957	7,303
Transfers in and/or out of Level 3	-	-	-
Ending balance	<u>\$ 26,232</u>	<u>\$ 16,904</u>	<u>\$ 19,171</u>
Amount of total losses for the period included in earnings attributable to the change in unrealized losses relating to assets and liabilities still held at December 31	<u>\$ (2,108)</u>	<u>\$ (16,224)</u>	<u>\$ (9,532)</u>

The fair value of our capitalized mortgage loan servicing rights has been determined based on a valuation model used by an independent third party as discussed above. The significant unobservable inputs used in the fair value measurement of the capitalized mortgage loan servicing rights are discount rate, cost to service, ancillary income, float rate and prepayment rate. Significant changes in all five of these assumptions in isolation would result in significant changes to the value of our capitalized mortgage loan servicing rights. Quantitative information about our Level 3 fair value measurements measured on a recurring basis follows:

	Asset Fair Value (In thousands)	Valuation Technique	Unobservable Inputs	Range	Weighted Average
2021					
Capitalized mortgage loan servicing rights	\$ 26,232	Present value of net servicing revenue	Discount rate	10.00% to 13.00%	10.07%
			Cost to service	\$ 67 to \$281	78
			Ancillary income	20 to 30	21
			Float rate	1.36%	1.36%
			Prepayment rate	7.02% to 44.21%	13.92%
2020					
Capitalized mortgage loan servicing rights	\$ 16,904	Present value of net servicing revenue	Discount rate	10.00% to 13.00%	10.09%
			Cost to service	\$ 69 to \$289	79
			Ancillary income	20 to 37	22
			Float rate	0.43%	0.43%
			Prepayment rate	7.92% to 64.70%	20.85%

Quantitative information about Level 3 fair value measurements measured on a non-recurring basis follows:

	Asset Fair Value <u>(In thousands)</u>	Valuation Technique	Unobservable Inputs	Range	Weighted Average
2021					
Collateral dependent loans					
Commercial	\$ 339	Sales comparison approach	Adjustment for differences between comparable sales	(12.5)% to 12.0%	1.5%
Mortgage and Installment (1)	1,017	Sales comparison approach	Adjustment for differences between comparable sales	(30.1) to 29.3	0.2
Other real estate					
2020					
Impaired loans					
Commercial	\$ 8,054	Sales comparison approach	Adjustment for differences between comparable sales	(40.0)% to 75.0%	3.8%
Mortgage and Installment (1)	1,020	Sales comparison approach	Adjustment for differences between comparable sales	(73.3) to 104.6	(1.5)
Other real estate					
Mortgage	102	Sales comparison approach	Adjustment for differences between comparable sales	(13.1) to 2.4	(3.6)

(1) In addition to the valuation techniques and unobservable inputs discussed above, at December 31, 2021 and 2020 certain collateral dependent installment loans totaling approximately \$0.17 million and \$0.16 million are secured by collateral other than real estate. For the majority of these loans, we apply internal discount rates to industry valuation guides.

The following table reflects the difference between the aggregate fair value and the aggregate remaining contractual principal balance outstanding for loans held for sale for which the fair value option has been elected at December 31:

	Aggregate Fair Value	Difference <u>(In thousands)</u>	Contractual Principal
Loans held for sale			
2021	\$ 55,470	\$ 1,051	\$ 54,419
2020	92,434	3,856	88,578
2019	69,800	1,894	67,906

NOTE 22 – FAIR VALUES OF FINANCIAL INSTRUMENTS

Most of our assets and liabilities are considered financial instruments. Many of these financial instruments lack an available trading market and it is our general practice and intent to hold the majority of our financial instruments to maturity. Significant estimates and assumptions were used to determine the fair value of financial instruments. These estimates are subjective in nature, involving uncertainties and matters of judgment, and therefore, fair values may not be a precise estimate. Changes in assumptions could significantly affect the estimates.

Estimated fair values have been determined using available data and methodologies that are considered suitable for each category of financial instrument. For instruments with adjustable interest rates which reprice frequently and without significant credit risk, it is presumed that estimated fair values approximate the recorded book balances.

The estimated recorded book balances and fair values at December 31 follow:

	Recorded Book Balance	Fair Value	Fair Value Using		
			Quoted Prices in Active Markets for Identical Assets (Level 1) (In thousands)	Significant Other Observable Inputs (Level 2)	Significant Un- observable Inputs (Level 3)
2021					
Assets					
Cash and due from banks	\$ 51,069	\$ 51,069	\$ 51,069	\$ -	\$ -
Interest bearing deposits	58,404	58,404	58,404	-	-
Securities available for sale	1,412,830	1,412,830	-	1,412,830	-
Federal Home Loan Bank and Federal Reserve Bank Stock	18,427	NA	NA	NA	NA
Net loans and loans held for sale	2,948,074	2,931,079	35,233	55,470	2,840,376
Accrued interest receivable	12,865	12,865	1	6,028	6,836
Derivative financial instruments	12,283	12,283	-	12,283	-
Liabilities					
Deposits with no stated maturity (1)	\$ 3,781,298	\$ 3,781,298	\$ 3,781,298	\$ -	\$ -
Deposits with stated maturity (1)	335,792	336,006	-	336,006	-
Other borrowings	30,009	30,155	-	30,155	-
Subordinated debt	39,357	44,999	-	44,999	-
Subordinated debentures	39,592	33,866	-	33,866	-
Accrued interest payable	497	497	67	430	-
Derivative financial instruments	5,961	5,961	-	5,961	-
2020					
Assets					
Cash and due from banks	\$ 56,006	\$ 56,006	\$ 56,006	\$ -	\$ -
Interest bearing deposits	62,699	62,699	62,699	-	-
Securities available for sale	1,072,159	1,072,159	-	1,072,159	-
Federal Home Loan Bank and Federal Reserve Bank Stock	18,427	NA	NA	NA	NA
Net loans and loans held for sale	2,790,683	2,794,058	-	92,434	2,701,624
Accrued interest receivable	12,315	12,315	3	3,414	8,898
Derivative financial instruments	16,782	16,782	-	16,782	-
Liabilities					
Deposits with no stated maturity (1)	\$ 3,198,338	\$ 3,198,338	\$ 3,198,338	\$ -	\$ -
Deposits with stated maturity (1)	439,017	441,457	-	441,457	-
Other borrowings	30,012	30,844	-	30,844	-
Subordinated debt	39,281	41,417	-	41,417	-
Subordinated debentures	39,524	30,265	-	30,265	-
Accrued interest payable	601	601	59	542	-
Derivative financial instruments	11,754	11,754	-	11,754	-

NA – Not applicable

(1) Deposits with no stated maturity include reciprocal deposits with a recorded book balance of \$562.210 million and \$518.400 million at December 31, 2021 and 2020, respectively. Deposits with a stated maturity include reciprocal deposits with a recorded book balance of \$24.416 million and \$37.785 million at December 31, 2021 and 2020, respectively.

The fair values for commitments to extend credit and standby letters of credit are estimated to approximate their aggregate book balance, which is nominal, and therefore are not disclosed.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale the entire holdings of a particular financial instrument.

Fair value estimates are based on existing on- and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business, the value of future earnings attributable to off-balance sheet activities and the value of assets and liabilities that are not considered financial instruments.

Fair value estimates for deposit accounts do not include the value of the core deposit intangible asset resulting from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market.

NOTE 23 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

A summary of changes in accumulated other comprehensive income (loss) (“AOCIL”), net of tax during the years ended December 31 follows:

	Unrealized Gains (Losses) on Securities Available for Sale	Dispropor- tionate Tax Effects from Securities Available for Sale	Unrealized Losses on Cash Flow Hedges	Total
	(In thousands)			
2021				
Balances at beginning of period	\$ 15,822	\$ (5,798)	\$ -	\$ 10,024
Other comprehensive loss before reclassifications	(8,408)	-	-	(8,408)
Amounts reclassified from AOCIL	(1,115)	-	-	(1,115)
Net current period other comprehensive loss	(9,523)	-	-	(9,523)
Balances at end of period	<u>\$ 6,299</u>	<u>\$ (5,798)</u>	<u>\$ -</u>	<u>\$ 501</u>
2020				
Balances at beginning of period	\$ 3,739	\$ (5,798)	\$ (1,727)	\$ (3,786)
Other comprehensive income (loss) before reclassifications	12,294	-	(279)	12,015
Amounts reclassified from AOCIL	(211)	-	2,006	1,795
Net current period other comprehensive income	12,083	-	1,727	13,810
Balances at end of period	<u>\$ 15,822</u>	<u>\$ (5,798)</u>	<u>\$ -</u>	<u>\$ 10,024</u>
2019				
Balances at beginning of period	\$ (4,185)	\$ (5,798)	\$ (125)	\$ (10,108)
Other comprehensive income (loss) before reclassifications	8,035	-	(1,266)	6,769
Amounts reclassified from AOCIL	(111)	-	(336)	(447)
Net current period other comprehensive income (loss)	7,924	-	(1,602)	6,322
Balances at end of period	<u>\$ 3,739</u>	<u>\$ (5,798)</u>	<u>\$ (1,727)</u>	<u>\$ (3,786)</u>

The disproportionate tax effects from securities available for sale arose primarily due to tax effects of other comprehensive income (“OCI”) in the presence of a valuation allowance against our deferred tax assets and a pretax loss from operations. Generally, the amount of income tax expense or benefit allocated to operations is determined without regard to the tax effects of other categories of income or loss, such as OCI. However, an exception to the general rule is provided when, in the presence of a valuation allowance against deferred tax assets, there is a pretax loss from operations and pretax income from other categories in the current period. In such instances, income from other categories must offset the current loss from operations, the tax benefit of such offset being reflected in operations. Release of material disproportionate tax effects from other comprehensive income to earnings is done by the portfolio method whereby the effects will remain in AOCIL as long as we carry a more than inconsequential portfolio of securities available for sale.

A summary of reclassifications out of each component of AOCIL for the years ended December 31 follows:

AOCIL Component	Reclassified From AOCIL (In thousands)	Affected Line Item in Consolidated Statements of Operations
2021		
Unrealized gains (losses) on securities available for sale	\$ 1,411	Net gains on securities available for sale
	-	Net impairment loss recognized in earnings
	1,411	Total reclassifications before tax
	296	Income tax expense
	<u>\$ 1,115</u>	Reclassifications, net of tax
2020		
Unrealized gains (losses) on securities available for sale	\$ 267	Net gains on securities available for sale
	-	Net impairment loss recognized in earnings
	267	Total reclassifications before tax
	56	Income tax expense
	<u>\$ 211</u>	Reclassifications, net of tax
Unrealized gains (losses) on cash flow hedges	\$ 2,539	Interest expense
	533	Income tax expense
	<u>\$ 2,006</u>	Reclassification, net of tax
	<u>\$ (1,795)</u>	Total reclassifications for the period, net of tax
2019		
Unrealized gains (losses) on securities available for sale	\$ 140	Net gains on securities available for sale
	-	Net impairment loss recognized in earnings
	140	Total reclassifications before tax
	29	Income tax expense
	<u>\$ 111</u>	Reclassifications, net of tax
Unrealized gains (losses) on cash flow hedges	\$ (425)	Interest expense
	(89)	Income tax expense
	<u>\$ (336)</u>	Reclassification, net of tax
	<u>\$ 447</u>	Total reclassifications for the period, net of tax

NOTE 24 – INDEPENDENT BANK CORPORATION (PARENT COMPANY ONLY) FINANCIAL INFORMATION

Presented below are condensed financial statements for our parent company.

CONDENSED STATEMENTS OF FINANCIAL CONDITION

	December 31,	
	2021	2020
	(In thousands)	
ASSETS		
Cash and due from banks	\$ 6,093	\$ 10,466
Interest bearing deposits - time	40,000	40,000
Investment in subsidiaries	432,949	418,465
Accrued income and other assets	96	805
Total Assets	\$ 479,138	\$ 469,736
LIABILITIES AND SHAREHOLDERS' EQUITY		
Subordinated debt	\$ 39,357	\$ 39,281
Subordinated debentures	39,592	39,524
Accrued expenses and other liabilities	844	684
Shareholders' equity	399,345	390,247
Total Liabilities and Shareholders' Equity	\$ 479,138	\$ 469,736

CONDENSED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2021	2020	2019
	(In thousands)		
OPERATING INCOME			
Dividends from subsidiary	\$ 32,000	\$ 24,000	\$ 29,000
Interest income	55	99	230
Other income	33	42	61
Total Operating Income	32,088	24,141	29,291
OPERATING EXPENSES			
Interest expense	3,625	2,893	2,104
Administrative and other expenses	787	733	655
Total Operating Expenses	4,412	3,626	2,759
Income Before Income Tax and Equity in Undistributed Net Income of Subsidiaries	27,676	20,515	26,532
Income tax benefit	(1,048)	(937)	(423)
Income Before Equity in Undistributed Net Income of Subsidiaries	28,724	21,452	26,955
Equity in undistributed net income of subsidiaries	34,171	34,700	19,480
Net Income	\$ 62,895	\$ 56,152	\$ 46,435

CONDENSED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2021	2020	2019
Net Income	\$ 62,895	\$ 56,152	\$ 46,435
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH FROM OPERATING ACTIVITIES		(In thousands)	
Deferred income tax (benefit) expense	(81)	(34)	1,503
Share based compensation	95	89	65
Accretion of discount on subordinated debt and debentures	144	113	68
(Increase) decrease in accrued income and other assets	788	(307)	891
Increase in accrued expenses and other liabilities	159	109	45
Equity in undistributed net income of subsidiaries	(34,171)	(34,700)	(19,480)
Total Adjustments	(33,066)	(34,730)	(16,908)
Net Cash From Operating Activities	29,829	21,422	29,527
CASH FLOW FROM (USED IN) INVESTING ACTIVITIES			
Purchases of interest bearing deposits - time	(160,000)	(85,000)	(20,000)
Maturity of interest bearing deposits - time	160,000	55,000	35,000
Net Cash From (Used In) Investing Activities	-	(30,000)	15,000
CASH FLOW FROM (USED IN) FINANCING ACTIVITIES			
Proceeds from issuance of subordinated debt, net of issuance costs	-	39,236	-
Dividends paid	(18,155)	(17,618)	(16,554)
Proceeds from issuance of common stock	1,913	1,907	2,074
Share based compensation withholding obligation	(691)	(755)	(882)
Repurchase of common stock	(17,269)	(14,231)	(26,284)
Net Cash From (Used In) Financing Activities	(34,202)	8,539	(41,646)
Net Increase (Decrease) in Cash and Cash Equivalents	(4,373)	(39)	2,881
Cash and Cash Equivalents at Beginning of Year	10,466	10,505	7,624
Cash and Cash Equivalents at End of Year	\$ 6,093	\$ 10,466	\$ 10,505

NOTE 25 – REVENUE FROM CONTRACTS WITH CUSTOMERS

We account for revenue in accordance with ASC Topic 606, Revenue from Contracts with Customers. We derive the majority of our revenue from financial instruments and their related contractual rights and obligations which for the most part are excluded from the scope of this topic. These sources of revenue that are excluded from the scope of this topic include interest income, net gains on mortgage loans, net gains on securities available for sale, mortgage loan servicing, net and bank owned life insurance and were approximately 84.6%, 88.1% and 84.9% of total revenues at December 31, 2021, 2020 and 2019, respectively.

Material sources of revenue that are included in the scope of ASC Topic 606 include service charges on deposits, other deposit related income, interchange income and investment and insurance commissions and are discussed in the following paragraphs. Generally these sources of revenue are earned at the time the service is delivered or over the course of a monthly period and do not result in any contract asset or liability balance at any given period end. As a result, there were no contract assets or liabilities recorded as of December 31, 2021.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Service charges on deposit accounts and other deposit related income: Revenues are earned on depository accounts for commercial and retail customers and include fees for transaction-based, account maintenance and overdraft services. Transaction-based fees, which includes services such as ATM use fees, stop payment charges and ACH fees are recognized at the time the transaction is executed as that is the time we fulfill our customer's request. Account maintenance fees, which includes monthly maintenance services are earned over the course of a month representing the period over which the performance obligation is satisfied. Our obligation for overdraft services is satisfied at the time of the overdraft.

Interchange income: Interchange income primarily includes debit card interchange and network revenues. Debit card interchange and network revenues are earned on debit card transactions conducted through payment networks such as MasterCard and NYCE. Interchange income is recognized concurrently with the delivery of services on a daily basis. Interchange and network revenues are presented gross of interchange expenses, which are presented separately as a component of non-interest expense.

Investment and insurance commissions: Investment and insurance commissions include fees and commissions from asset management, custody, recordkeeping, investment advisory and other services provided to our customers. Revenue is recognized on an accrual basis at the time the services are performed and are generally based on either the market value of the assets managed or the services provided. We have an agent relationship with a third party provider of these services and net certain direct costs charged by the third party provider associated with providing these services to our customers.

Net gains on other real estate and repossessed assets: We record a gain or loss from the sale of other real estate when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. If we were to finance the sale of other real estate to the buyer, we would assess whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction is probable. Once these criteria are met, the other real estate asset would be derecognized and the gain or loss on sale would be recorded upon the transfer of control of the property to the buyer. There were no other real estate properties sold during 2021 that were financed by us.

Disaggregation of our revenue sources by attribute for the years ended December 31 follow:

2021

	<u>Service Charges on Deposit Accounts</u>	<u>Other Deposit Related Income</u>	<u>Interchange Income</u> (In thousands)	<u>Investment and Insurance Commissions</u>	<u>Total</u>
Retail					
Overdraft fees	\$ 8,431	\$ -	\$ -	\$ -	\$ 8,431
Account service charges	1,130	-	-	-	1,130
ATM fees	-	1,109	-	-	1,109
Other	-	819	-	-	819
Business					
Overdraft fees	609	-	-	-	609
ATM fees	-	24	-	-	24
Other	-	328	-	-	328
Interchange income	-	-	14,045	-	14,045
Asset management revenue	-	-	-	1,689	1,689
Transaction based revenue	-	-	-	914	914
Total	<u>\$ 10,170</u>	<u>\$ 2,280</u>	<u>\$ 14,045</u>	<u>\$ 2,603</u>	<u>\$ 29,098</u>

Reconciliation to Consolidated Statement of Operations:

Non-interest income - other:		
Other deposit related income	\$	2,280
Investment and insurance commissions		2,603
Bank owned life insurance		567
Other		3,942
Total	<u>\$</u>	<u>9,392</u>

2020

	Service Charges on Deposit Accounts	Other Deposit Related Income	Interchange Income (In thousands)	Investment and Insurance Commissions	Total
Retail					
Overdraft fees	\$ 5,627	\$ -	\$ -	\$ -	\$ 5,627
Account service charges	2,017	-	-	-	2,017
ATM fees	-	1,173	-	-	1,173
Other	-	769	-	-	769
Business					
Overdraft fees	873	-	-	-	873
ATM fees	-	24	-	-	24
Other	-	342	-	-	342
Interchange income	-	-	11,230	-	11,230
Asset management revenue	-	-	-	1,283	1,283
Transaction based revenue	-	-	-	688	688
Total	\$ 8,517	\$ 2,308	\$ 11,230	\$ 1,971	\$ 24,026
Reconciliation to Consolidated Statement of Operations:					
Non-interest income - other:					
Other deposit related income				\$	2,308
Investment and insurance commissions					1,971
Bank owned life insurance					910
Other					2,332
Total				\$	7,521

2019

	Service Charges on Deposit Accounts	Other Deposit Related Income	Interchange Income (In thousands)	Investment and Insurance Commissions	Total
Retail					
Overdraft fees	\$ 7,590	\$ -	\$ -	\$ -	\$ 7,590
Account service charges	2,103	-	-	-	2,103
ATM fees	-	1,368	-	-	1,368
Other	-	965	-	-	965
Business					
Overdraft fees	1,515	-	-	-	1,515
ATM fees	-	35	-	-	35
Other	-	422	-	-	422
Interchange income	-	-	10,297	-	10,297
Asset management revenue	-	-	-	1,123	1,123
Transaction based revenue	-	-	-	535	535
Total	\$ 11,208	\$ 2,790	\$ 10,297	\$ 1,658	\$ 25,953
Reconciliation to Consolidated Statement of Operations:					
Non-interest income - other:					
Other deposit related income				\$	2,790
Investment and insurance commissions					1,658
Bank owned life insurance					1,111
Other					3,723
Total				\$	9,282

QUARTERLY FINANCIAL DATA (UNAUDITED)

A summary of selected quarterly results of operations for the years ended December 31 follows:

	Three Months Ended				
	March 31,	June 30,		September 30,	December 31,
	(In thousands, except per share amounts)				
2021					
Interest income	\$ 32,502	\$ 33,499	\$ 35,855	\$ 36,224	
Net interest income	30,284	31,393	33,803	34,285	
Provision for credit losses	(474)	(1,425)	(659)	630	
Income before income tax	27,143	15,053	19,645	15,472	
Net income	22,037	12,388	15,962	12,508	
Net income per common share					
Basic	1.01	0.57	0.74	0.59	
Diluted	1.00	0.56	0.73	0.58	
2020					
Interest income	\$ 35,579	\$ 33,754	\$ 35,034	\$ 35,462	
Net interest income	30,191	30,462	31,966	30,993	
Provision for credit losses ⁽¹⁾	6,721	5,188	975	(421)	
Income before income tax	5,755	18,295	24,361	21,070	
Net income	4,810	14,772	19,584	16,986	
Net income per common share					
Basic	0.22	0.67	0.90	0.78	
Diluted	0.21	0.67	0.89	0.77	

(1) Beginning January 1, 2021, calculation is based on CECL methodology. Prior to January 1, 2021, calculation was based on the probable incurred loss methodology.

During the fourth quarter of 2021, we recognized a negative fair value adjustment on certain mortgage banking related loans held for sale and derivatives not designated as hedging instruments (see note #16). During the fourth quarter of 2020, we recognized \$1.6 million of losses in interest expense relating to cash flow hedges that had been transferred to a no hedge designation (see note #16), \$1.5 million of core data processing conversion related expenses and a negative fair value adjustment due to price on our capitalized mortgage loan servicing rights of \$0.9 million (see note #4).

QUARTERLY SUMMARY (UNAUDITED)

	Reported Sales Prices of Common Shares						Cash Dividends Declared	
	2021			2020			2021	2020
	High	Low	Close	High	Low	Close		
First quarter	\$ 24.73	\$ 18.18	\$ 23.64	\$ 22.98	\$ 9.19	\$ 12.87	\$ 0.21	\$ 0.20
Second quarter	24.50	21.10	21.71	16.92	10.91	14.85	0.21	0.20
Third quarter	22.22	19.60	21.48	16.20	12.14	12.57	0.21	0.20
Fourth quarter	24.48	21.44	23.87	19.28	12.42	18.47	0.21	0.20

We have approximately 1,300 holders of record of our common stock. Our common stock trades on the NASDAQ Global Select Market System under the symbol "IBCP." The prices shown above are supplied by NASDAQ and reflect the inter-dealer prices and may not include retail markups, markdowns or commissions. There may have been transactions or quotations at higher or lower prices of which we are not aware.

In addition to limitations imposed by the provisions of the Michigan Business Corporation Act (which, among other things, limits us from paying dividends to the extent we are insolvent), our ability to pay dividends is limited by our ability to obtain funds from our Bank and by regulatory capital guidelines applicable to us (see note #20).

INDEPENDENT BANK CORPORATION
Subsidiaries of the Registrant

	<u>State of Incorporation</u>
IBC Capital Finance III Grand Rapids, Michigan	Delaware
IBC Capital Finance IV Grand Rapids, Michigan	Delaware
Midwest Guaranty Trust I Grand Rapids, Michigan	Delaware
TCSB Statutory Trust I Grand Rapids, Michigan	Delaware
Independent Bank Grand Rapids, Michigan	Michigan
IB Advisory Services, Inc., Grand Rapids, Michigan (a subsidiary of Independent Bank)	Michigan
IB Insurance Services, Inc., Grand Rapids, Michigan (a subsidiary of Independent Bank)	Michigan
Independent Title Services, Inc., Grand Rapids, Michigan (a subsidiary of Independent Bank Corporation)	Michigan
Independent Life Insurance Trust, Grand Rapids, Michigan (a subsidiary of Independent Bank)	Michigan

Note: Table excludes insignificant subsidiaries, such as single-member limited liability companies formed solely to hold other real estate.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements (Nos. 333-89072, 333-125484, 333-189437, 333-221177, 333-222358 and 333-255976) on Forms S-8 of Independent Bank Corporation of our report dated March 4, 2022 with respect to the consolidated financial statements and effectiveness of internal control over financial reporting, appearing in this Annual Report on Form 10-K for the year ended December 31, 2021.

/s/ Crowe LLP

South Bend, Indiana
March 4, 2022

CERTIFICATION

I, William B. Kessel, certify that:

1. I have reviewed this annual report on Form 10-K of Independent Bank Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15.15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: March 4, 2022

/s/ William B. Kessel
William B. Kessel
President and Chief Executive Officer

CERTIFICATION

I, Gavin A. Mohr, certify that:

1. I have reviewed this annual report on Form 10-K of Independent Bank Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15.15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: March 4, 2022

/s/ Gavin A. Mohr
Gavin A. Mohr
Chief Financial Officer

CERTIFICATE OF THE
CHIEF EXECUTIVE OFFICER OF
INDEPENDENT BANK CORPORATION

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002:

I, William B. Kessel, President and Chief Executive Officer of Independent Bank Corporation, certify pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

- (1) The annual report on Form 10-K for the annual period ended December 31, 2021, which this statement accompanies, fully complies with requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and;
- (2) The information contained in this annual report on Form 10-K for the annual period ended December 31, 2021, fairly presents, in all material respects, the financial condition and results of operations of Independent Bank Corporation.

Date: March 4, 2022

/s/ William B. Kessel
William B. Kessel
President and Chief Executive Officer

The signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Independent Bank Corporation and will be retained by Independent Bank Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE OF THE
CHIEF FINANCIAL OFFICER OF
INDEPENDENT BANK CORPORATION

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002:

I, Gavin A. Mohr, Chief Financial Officer of Independent Bank Corporation, certify pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

- (1) The annual report on Form 10-K for the annual period ended December 31, 2021, which this statement accompanies, fully complies with requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and;
- (2) The information contained in this annual report on Form 10-K for the annual period ended December 31, 2021, fairly presents, in all material respects, the financial condition and results of operations of Independent Bank Corporation.

Date: March 4, 2022

/s/ Gavin A. Mohr
Gavin A. Mohr
Chief Financial Officer

The signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Independent Bank Corporation and will be retained by Independent Bank Corporation and furnished to the Securities and Exchange Commission or its staff upon request.
