



INDEPENDENT
BANK

Independent Bank Corporation

Earnings
**CONFERENCE
CALL**

2nd Quarter **2016**

(July 28, 2016)

Cautionary Note Regarding Forward-Looking Statements

This presentation contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements of goals, intentions, and expectations as to future trends, plans, events, or results of Independent Bank Corporation's operations and policies, including, but not limited to, Independent Bank Corporation's outlook on earnings and the sufficiency of the allowance for loan losses, and statements regarding asset quality, projections of future revenue, earnings or other measures of economic performance, Independent Bank Corporation's plans and expectations regarding non-performing assets, business opportunities, and general economic conditions. Forward-looking statements include expressions such as "will," "may," "should," "believe," "expect," "forecast," "anticipate," "estimate," "project," "intend," "likely," "optimistic" and "plan," and similar words or phrases, which are necessarily statements of belief as to expected outcomes of future events. These statements are based on current and anticipated economic conditions, nationally and in Independent Bank Corporation's markets, interest rates and interest rate policy, competitive factors, and other conditions which by their nature are not susceptible to accurate forecast and are subject to significant uncertainty. Because of these uncertainties and the assumptions on which this presentation and the forward-looking statements are based, actual future operations and results may differ materially from those indicated in this presentation. For a discussion of certain factors, risks and uncertainties which could cause actual future operations and results to differ from estimates and projections discussed in these forward-looking statements, please read the "Risk Factors" section in Independent Bank Corporation's 2015 Annual Report on Form 10-K. You should not place undue reliance on any such forward-looking statement. These forward-looking statements are not guarantees of future performance. Independent Bank Corporation does not undertake to publicly revise or update forward-looking statements in this presentation to reflect events or circumstances that arise after the date of this presentation.

- **Formal Remarks.**
 - William B. (Brad) Kessel, President and Chief Executive Officer
 - Robert N. Shuster, Executive Vice President and Chief Financial Officer
- **Question and Answer session.**
- **Closing Remarks.**

Note: This presentation is available at www.IndependentBank.com in the Investor Relations area under the “Presentations” tab.

Financial Summary

	2Q'16	1Q'16	4Q'15	3Q'15	2Q'15
Diluted EPS	\$ 0.30	\$ 0.19	\$ 0.25	\$ 0.22	\$ 0.24
Income before taxes	\$ 9,049	\$ 6,057	\$ 8,251	\$ 7,325	\$ 8,243
Net income	\$ 6,438	\$ 4,100	\$ 5,570	\$ 5,047	\$ 5,619
Return on average assets	1.06%	0.68%	0.93%	0.86%	0.98%
Return on average equity	10.66%	6.70%	8.80%	7.84%	8.86%
Total assets (a)	\$2,452,696	\$2,488,367	\$2,409,066	\$2,394,861	\$2,288,954
Total portfolio loans	\$1,582,122	\$1,538,982	\$1,515,050	\$1,467,999	\$1,450,007
Total deposits	\$2,128,292	\$2,154,706	\$2,085,963	\$2,060,962	\$1,961,417
Loans to deposits ratio	74.34%	71.42%	72.63%	71.23%	73.93%
Shareholders' equity (a)	\$ 246,923	\$ 240,792	\$ 251,092	\$ 252,980	\$ 254,375
Tangible BV per share (a)	\$ 11.49	\$ 11.22	\$ 11.18	\$ 11.11	\$ 11.06
TCE to tangible assets (a)	9.99%	9.60%	10.34%	10.48%	11.02%

Note: Dollars in thousands, except per share data.

(a) 1Q'16 restated for adoption of ASU 2016-09 in 2Q'16.

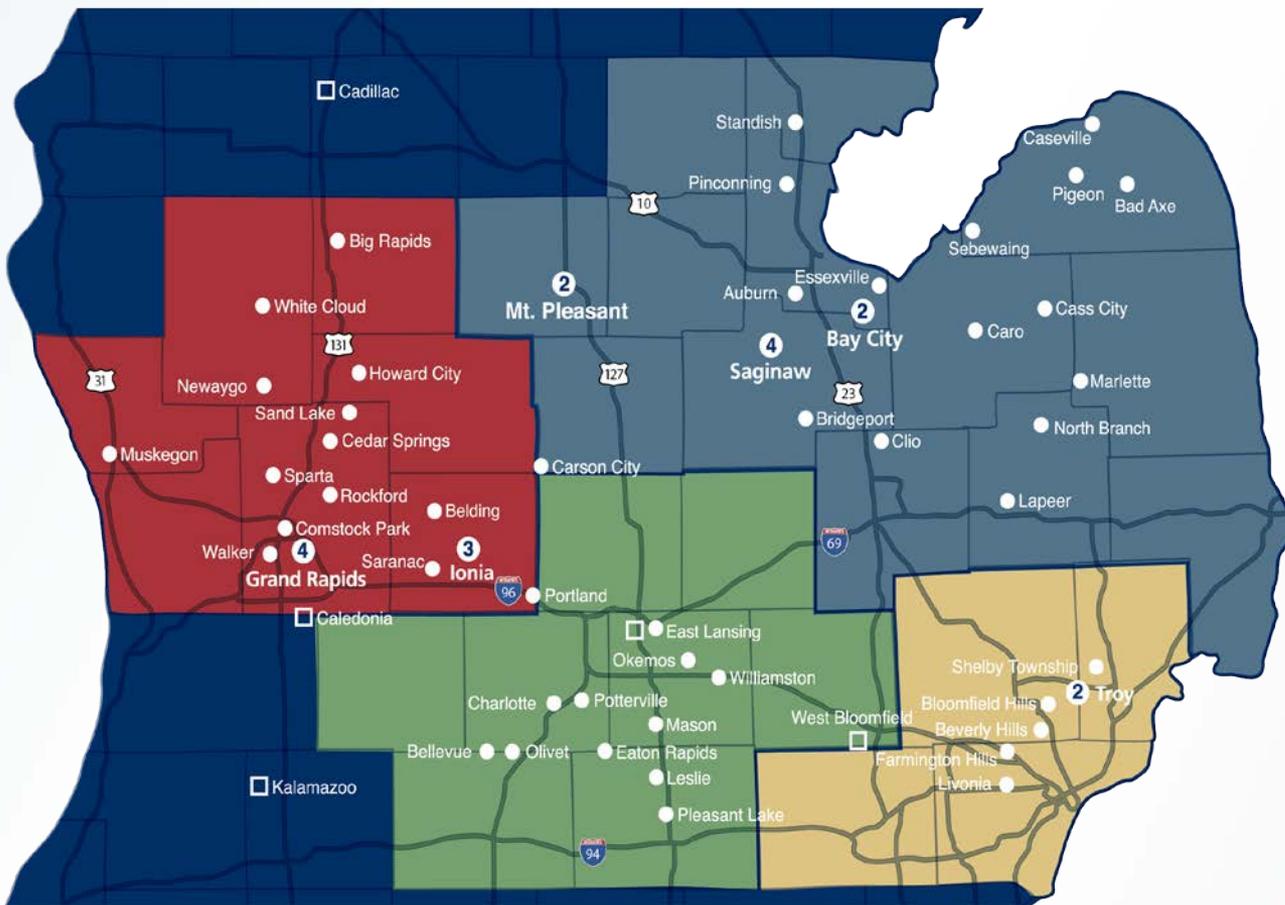
Income Statement

- Net income of \$6.4 million, or \$0.30 per diluted share, representing increases of 14.6% and 25.0%, respectively over 2Q'15.
- Net interest income of \$19.6 million, up \$0.9 million, or 5.0%, from the year ago quarter.
- \$0.7 million credit loan loss provision.
- Gains on mortgage loans of \$2.5 million, up \$0.7 million, or 41.8% from the year ago quarter.
- Impairment charge on MSR's of \$0.65 million (\$0.02 per diluted share after tax).
- Adopted ASU 2016-09 in 2Q'16 which reduced income tax expense by \$0.28 million (\$0.01 per diluted share).

Balance Sheet/Capital

- Total adjusted portfolio loans grew \$36.4 million, or 9.5% annualized.
- Deposits totaled \$2.13 billion at 6/30/16 compared to \$2.15 billion at 3/31/16 and \$2.09 billion at 12/31/15.
- No share repurchases settled in 2Q'16. Have repurchased 93,271 shares in July 2016.
- TBV per share increased to \$11.49 at 6/30/16 from \$11.22 at 03/31/16.
- Paid an eight cent per share cash dividend on common stock on 5/16/16.

Our Michigan Markets



- Since 2012, substantial changes have been implemented to streamline and optimize our branch delivery network.
- Significant market presence and opportunity to gain market share in attractive Michigan markets.
- Michigan's unemployment rate was 4.6% in June 2016 (0.7% lower than one year ago and 0.3% below the June 2016 U.S. unemployment rate of 4.9%).
- Michigan payroll jobs totaled 4.354 million in May 2016 (75K higher than one year ago).
- S&P/Case-Shiller MI Detroit Home Price Index up 5.75% year over year (April 2016 vs. April 2015).

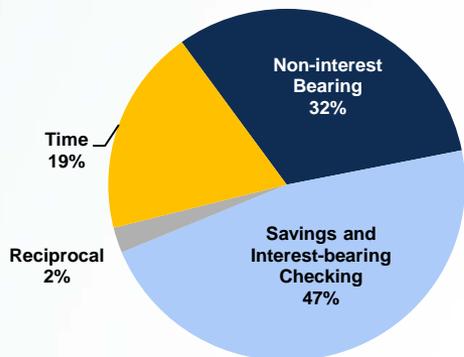
Our Markets – Regional

Region	Cities	Branches	6/30/16 Loans ⁽¹⁾	% of Loans ⁽¹⁾	6/30/16 Deposits ⁽³⁾	% of Deposits ⁽³⁾	6/30/15 Loans ⁽²⁾	6/30/15 Deposits ⁽³⁾
East / “Thumb”	Bay City / Saginaw	23	\$ 317	22%	\$ 714	35%	\$ 305	\$ 725
West	Grand Rapids / Ionia	22	543	38%	610	30%	479	604
Central	Lansing	11	205	15%	359	18%	186	284
Southeast	Troy	7	348	25%	338	17%	319	248
Total		63	\$1,413	100%	\$2,021	100%	\$1,289	\$1,861

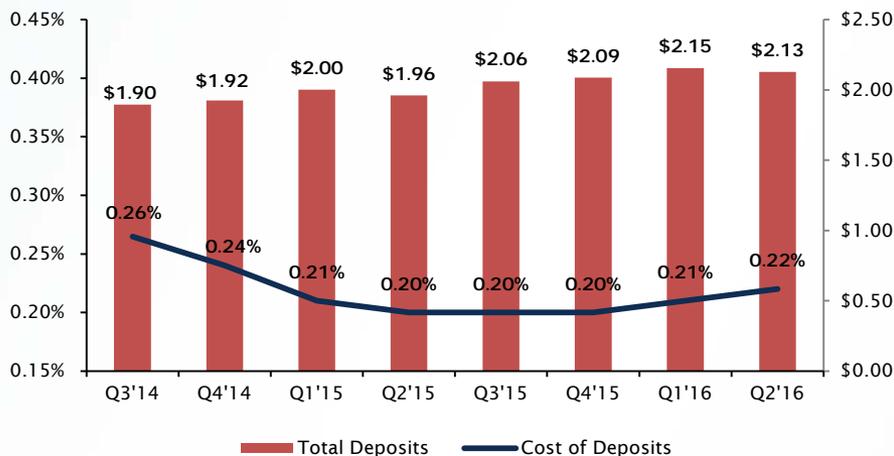
Note: Dollars are in millions.

- 1) Loans exclude those related to resort lending (\$109 million), payment plan receivables (\$31 million) and purchased mortgage loans (\$29 million).
- 2) Loans exclude those related to resort lending (\$120 million) and payment plan receivables (\$41 million).
- 3) Deposits exclude reciprocal deposits, brokered deposits and certain other “non-market” deposits.

Deposit Composition – 6/30/16



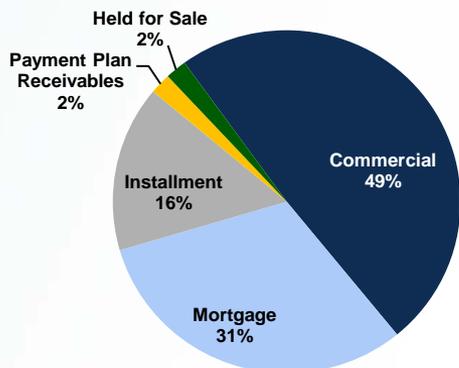
Cost of Deposits (%)/Total Deposits (billions)



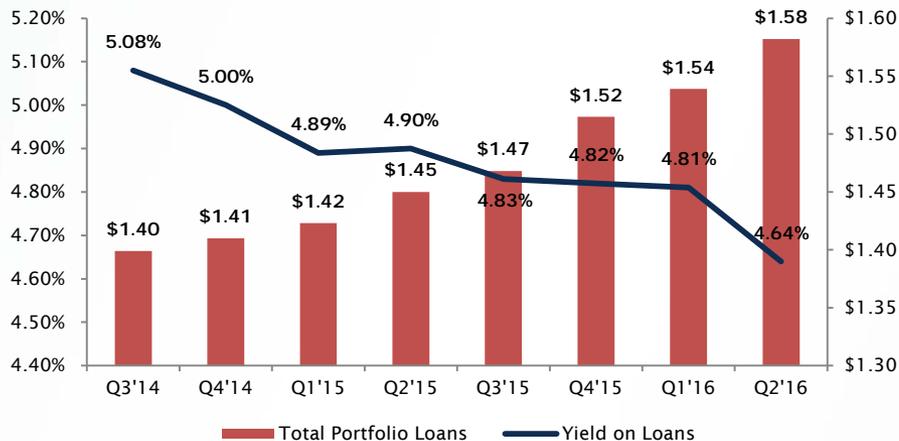
Deposit Highlights

- \$2.13 billion in total deposits at 6/30/16.
 - Substantially all core funding.
 - \$1.69 billion of transaction accounts (79.3% of total deposits).
- Total deposits increased \$166.9 million, or 8.5% since 6/30/15.
- Average deposits per branch of \$33.8 million at 6/30/16 vs. \$20.2 million at 12/31/11 (an increase of 67.3%).
- 2016 focus:
 - Commercial – small to middle market business and public funds.
 - Treasury management services.
 - Retail – checking accounts and debit card services. Introduced new retail checking line up and direct mail program in October 2015.
 - Converted debit card base to chip-enabled cards in 1Q'16.

Loan Composition – 6/30/16



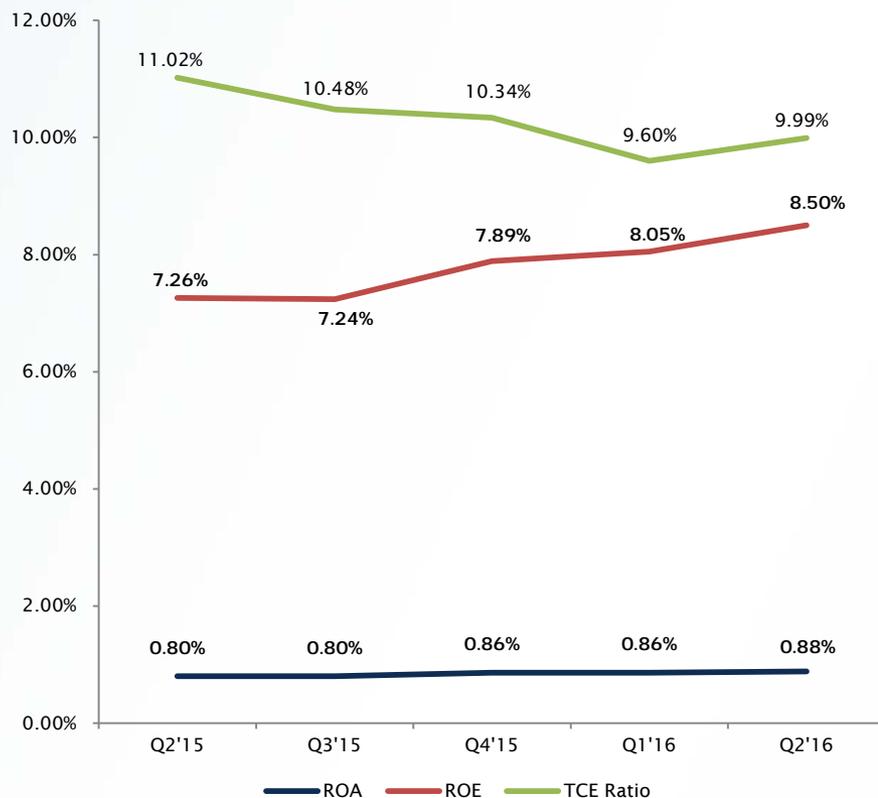
Yield on Loans (%) / Total Portfolio Loans (billions)



Lending Highlights

- Nine consecutive quarters of net loan growth.
- \$1.61 billion in total loans at 6/30/16 (including \$31.7 million of loans held for sale).
- 2Q 2016 lending results include:
 - Adjusted commercial loan growth of \$14.4 million, or 7.5% annualized.
 - Consumer installment loan growth of \$20.9 million, or 36.3% annualized.
 - Residential mortgage loan originations of \$92.0 million and loan sales of \$70.5 million (net gains of \$2.5 million).
- 2016 focus:
 - Commercial – businesses with \$1 million to \$50 million in annual sales.
 - Consumer – through branch network, internet and indirect channels.
 - Residential mortgage – purchase money (both salable and portfolio) and QRM and home equity lending opportunities. Also will consider select bulk loan purchases within Michigan.

ROA, ROE and TCE Ratio

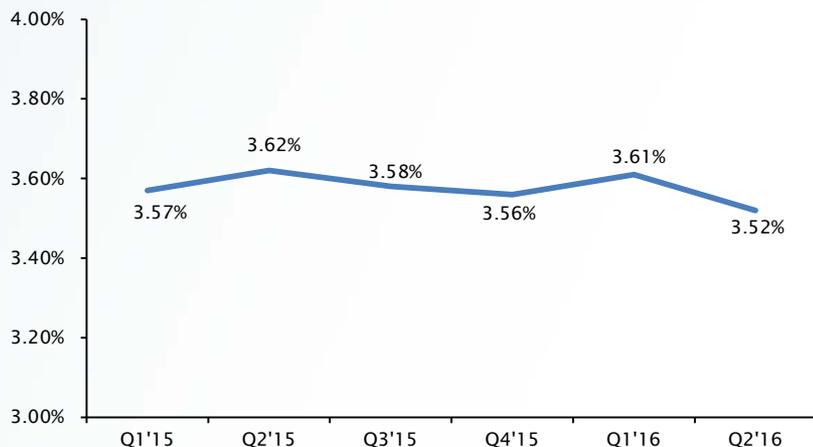


Note: ROA and ROE represent a four quarter rolling average.

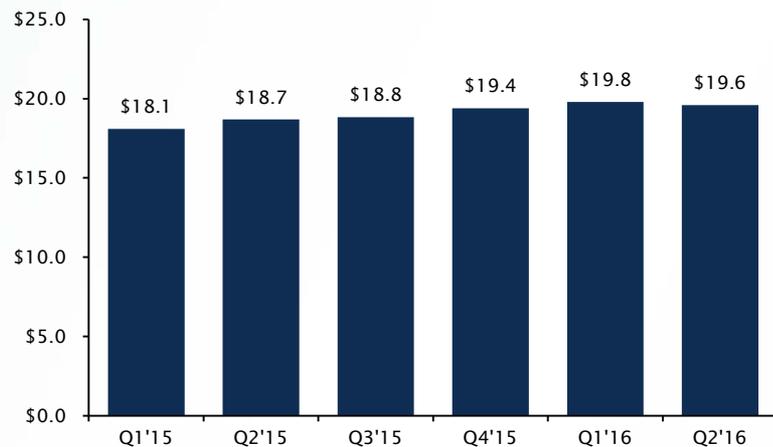
Highlights

- Prudent capital management. Target TCE ratio – 9.50% to 10.50% near-term and 8.50% to 9.50% longer-term. Priorities are: (A) capital retention to support (1) organic growth and (2) acquisitions; and (B) return of capital through (1) strong and consistent dividend and (2) share repurchases.
- 2016 share repurchase plan approved for up to 5% of outstanding common shares, plus an additional \$5.0 million. 1.15 million shares repurchased through 7/26/16. Approximately \$4.4 million remaining under the 2016 plan. **2.12 million shares have been repurchased since the start of 2015.**
- Bank retained earnings returned to a positive figure (\$2.1 million) at 6/30/16 permitting resumption of quarterly dividends to parent company in 3Q'16.
- Quarterly cash dividend rate currently at eight cents per share.
- Goals of 1% ROA or better and 10% ROE or better.

Net Interest Margin (TE)(%)



Net Interest Income (\$ in Millions)



Highlights

- Interest rate sensitivity profile of the loan and securities portfolios, in combination with a low cost core deposit base, positions us to benefit from a rising interest rate environment.
- Net interest income decreased in 2Q'16 vs. 1Q'16 due primarily to a decline in interest recoveries, net, on previously charged-off loans of \$0.41 million. This was partially offset by average interest-earning assets growth of \$48.0 million.
- Absolute low interest rate environment continues to place some pressure on the net interest margin. 2016 goal is to grow net interest income by 5% to 6% as NIM compression abates and average loans increase.

Analysis of Linked Quarter Decrease

■ Summary

- 2Q'16 net interest income of \$19.630 million, down \$133K from 1Q'16.
- The linked quarter decrease was due to a \$348K decrease in interest income and fees on loans and a \$46K increase in interest expense on deposits and borrowings that was partially offset by a \$261K increase in interest income on securities and investments. The decrease in interest income and fees on loans was due to a decline in interest recoveries (net) on previously charged-off or non-accrual loans of \$414K.
- The tax equivalent net interest margin (NIM) decreased 9 bps (3.61% vs. 3.52%) due to a 9 bps decrease in the average yield on interest-earning assets. Adjusting for the change in interest recoveries (net) the NIM only fell 2 bps (from 3.54% in 1Q'16 [as adjusted] to 3.52% in 2Q'16).
- Average yield on new commercial loans was 4.73% on fixed rate (36% of production) and 3.75% on variable rate (64% of production); average yield on new retail loans (mortgage and consumer installment) was 3.82%.

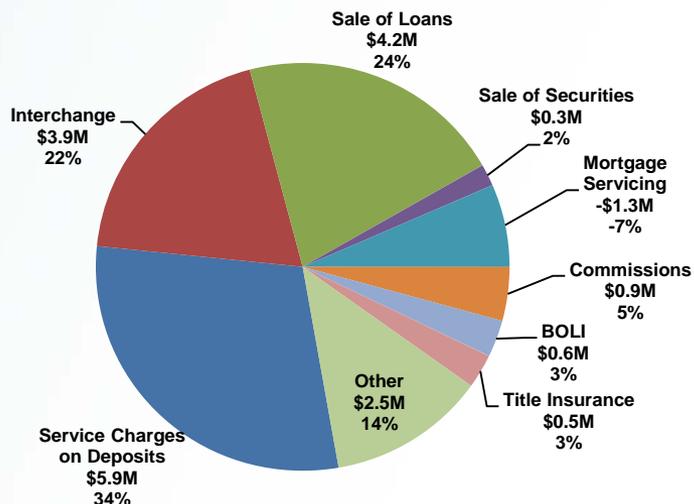
■ Loan Portfolio Details

- Commercial loans: Interest income decreased \$379K due to a 28 bps decrease in the average yield (4.54% vs. 4.82%) that was partially offset by a \$14.3 million increase in average balance . Interest recoveries (net) decreased by \$398K. Adjusting for the change in interest recoveries (net) the average yield only fell 7 bps (from 4.61% in 1Q'16 [as adjusted] to 4.54% in 2Q'16).
- Mortgage loans (includes loans held for sale): Interest income increased \$145K due to a \$4.9 million increase in average balance and a 7 bps increase in the average yield (4.20% vs. 4.13%) . Interest recoveries (net) increased by \$12K.
- Consumer installment loans: Interest income decreased \$40K due to a 27 bps decrease in the average yield (4.84% vs. 5.11%) that was partially offset by a \$9.3 million increase in the average balance . Interest recoveries (net) decreased by \$27K
- Payment plan receivables: Interest income decreased \$74K due to a \$1.2 million decrease in the average balance and a 43 bps decrease in the average yield (12.85% vs. 13.28%).

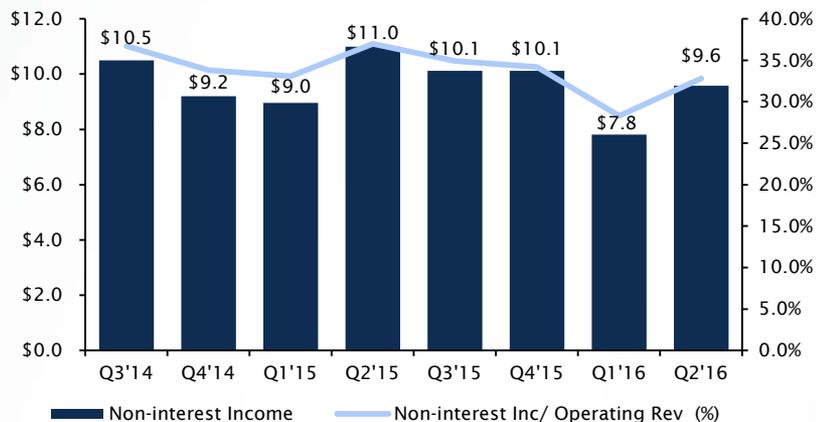
■ Other Factors

- Securities and investments: Interest income increased \$261K due to a 10 bps increase in the average TE yield (1.88% vs. 1.78%) and a \$20.7 million increase in average balance.
- Deposits and borrowings: Interest expense increased \$46K due to an \$8.8 million increase in the average balance of interest-bearing liabilities and a 1 bps increase in the average cost of interest-bearing liabilities (0.44% vs. 0.43%).

2016 YTD Non-interest Income Breakout



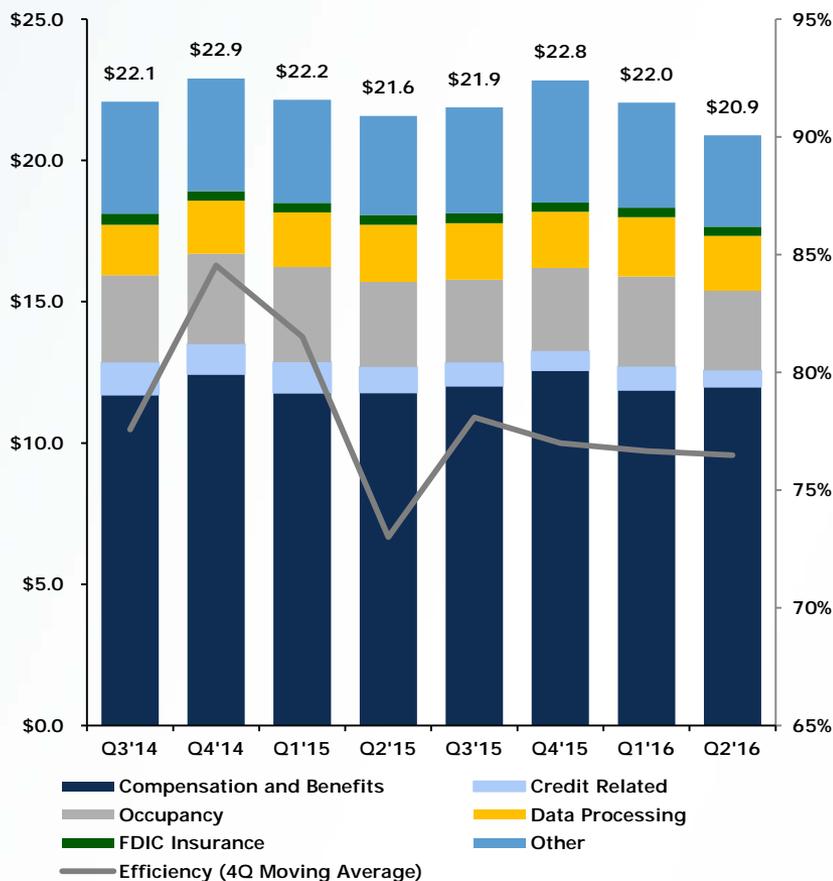
Non-interest Income Trends (\$ in Millions)



Highlights

- Diverse sources of non-interest income which totaled \$9.6 million in 2Q'16.
- 2Q'16 total non-interest income represents approximately 32.8% of total revenue (net interest income and non-interest income).
- 2Q'16 interchange revenue down \$0.3 million, or 11.8%, compared to 2Q'15. Although transaction volume increased 4.4% year-over-year, interchange revenue per transaction declined by 8.1%. Also, accruing no volume incentive under our debit card brand agreement in 2016 (\$0.2 million impact). Converted debit card base to chip enabled cards in 1Q'16.
- 2Q'16 gains on mortgage loans totaled \$2.5 million, up \$0.7 million, or 41.8%, from 2Q'15.
- 2Q'16 mortgage loan servicing includes a \$0.65 million impairment charge on MSR's (\$0.02 per diluted share after tax).

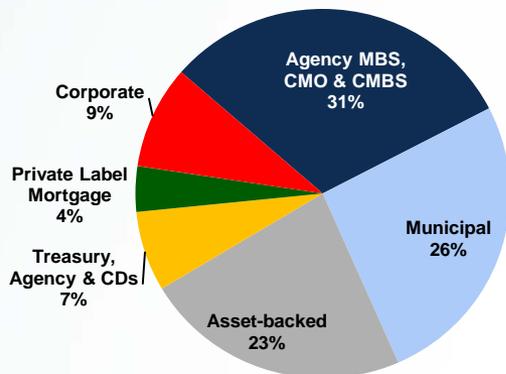
Non-interest Expense (\$ in Millions)



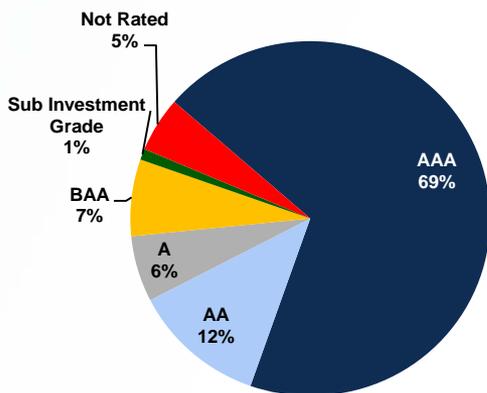
Highlights

- Q2'16 non-interest expenses totaled \$20.9 million (a decrease from 1Q'16 and from Q2'15).
- Q2'16 compensation and benefits increased slightly (by \$0.2 million) over Q2'15 due to higher medical insurance and employee education (primarily increased sales training) costs.
- Efficiency ratio: 2016 YTD 75.3%*; 2015 – 77.2%; 2014 – 80.3%; and 2013 – 82.6%). [*72.7% excluding impact of \$2.10 million MSR impairment charge in 1H'16).
- Target for 2016 is total non-interest expenses at \$21 million to \$22 million per quarter (with an average at \$21.6 million) – representing a 2.3% reduction over 2015 actual.
- As outlined in 1Q'16 earnings conference call, expected several expense reductions beginning in 2Q'16 totaling approximately \$750K per quarter (Mepco data processing \$250K; Mepco legal \$100K; seasonal occupancy decline \$250K; communications \$100K and other \$50K). These were generally achieved in 2Q'16 actual results.

Investment Portfolio by Type (6/30/16)



Investment Portfolio by Rating (6/30/16)

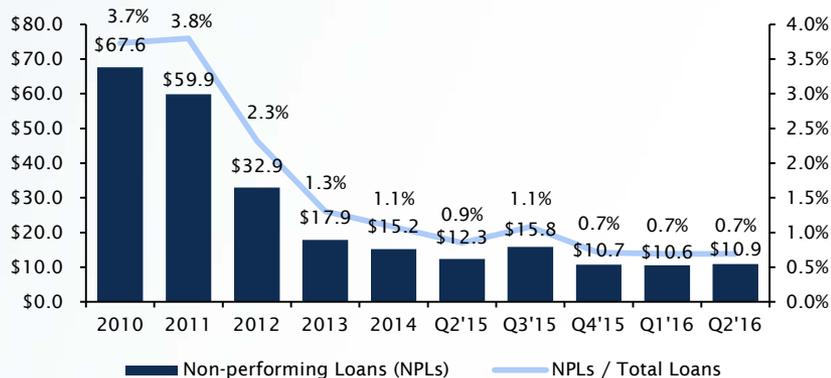


Highlights

- High quality, liquid, diverse portfolio with short duration.
 - 69% of the portfolio is AAA rated (or backed by the U.S. Government).
 - 2.0 year estimated average duration with a weighted average yield of 2.09% (with TE gross up).
 - Approximately 31% of the portfolio is variable rate.
 - Fair value of \$608.3 million⁽¹⁾ at 6/30/16.
 - Net unrealized gain of \$3.9 million at 6/30/16.
 - Executed agreement with PIMCO to manage \$150 million of the portfolio.

⁽¹⁾ Includes investments in bank CD's of \$8.6 million but excludes trading securities of \$0.2 million.

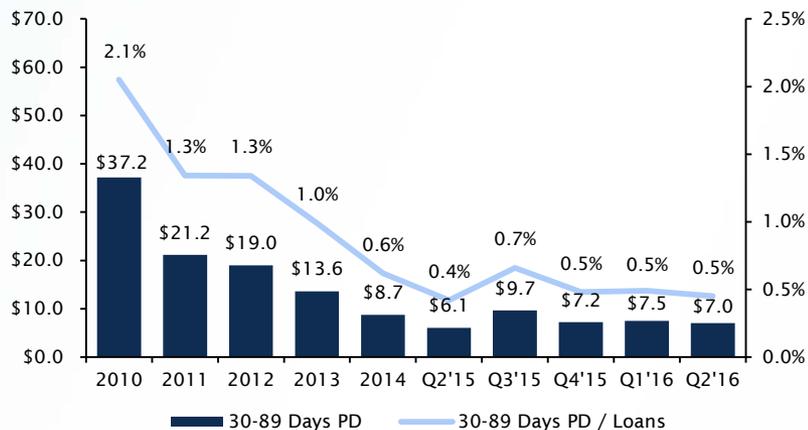
Non-performing Loans (\$ in Millions)



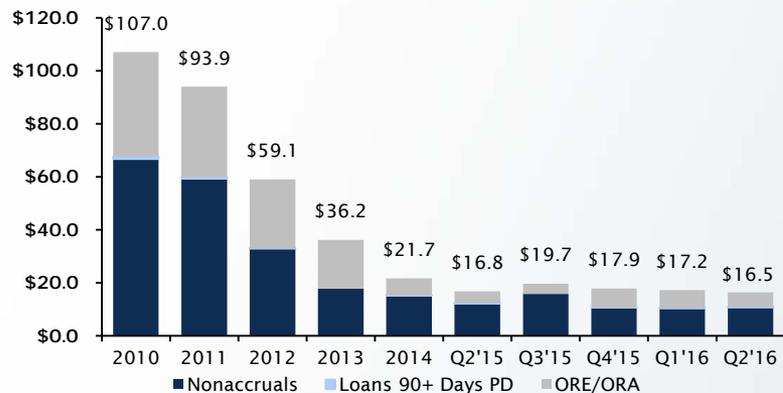
ORE/ORR (\$ in Millions)



30 to 89 Days Delinquent (\$ in Millions)

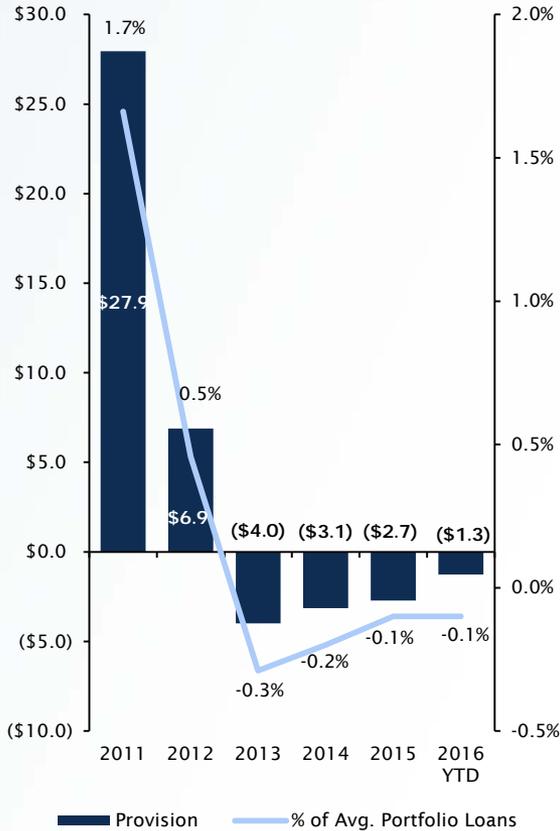


Non-performing Assets (\$ in Millions)

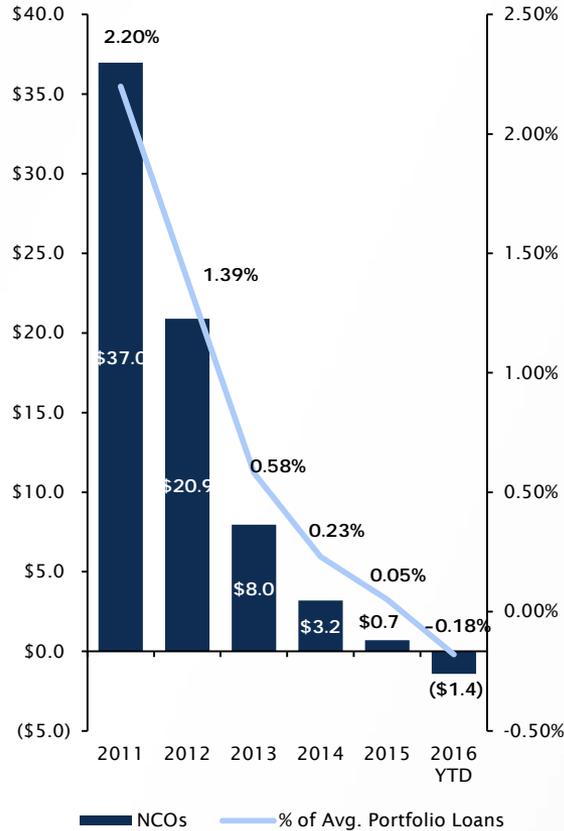


Note: Non-performing loans and non-performing assets exclude troubled debt restructurings that are performing.

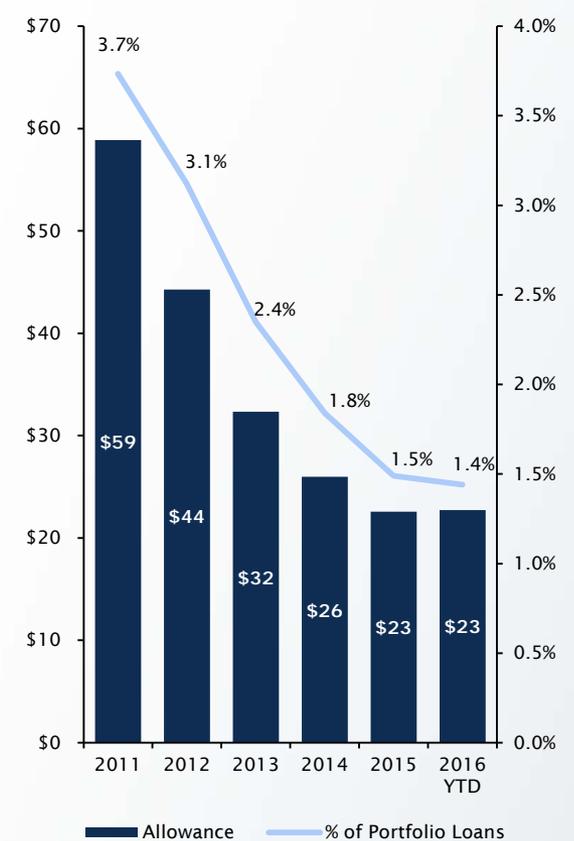
Provision for Loan Losses



Loan Net Charge-Offs

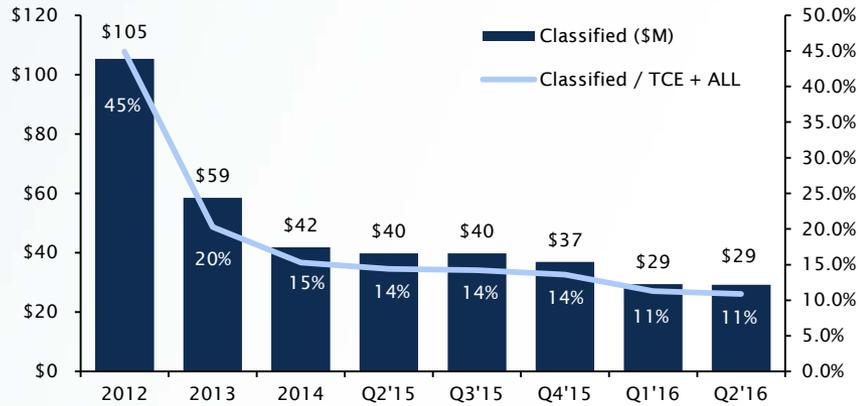


Allowance for Loan Losses



Note: Dollars all in millions.

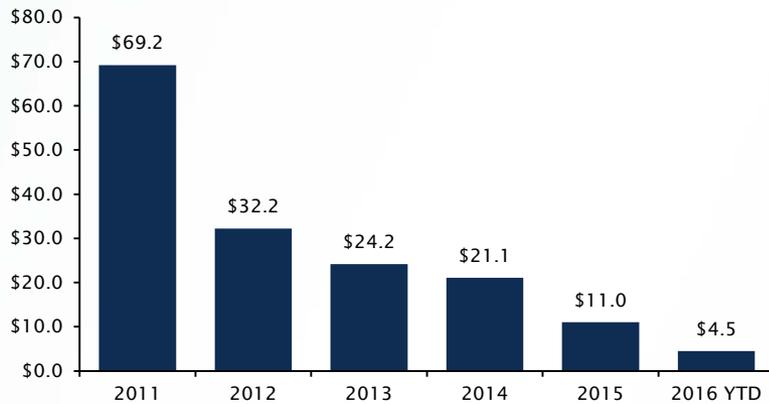
Total Classified Assets



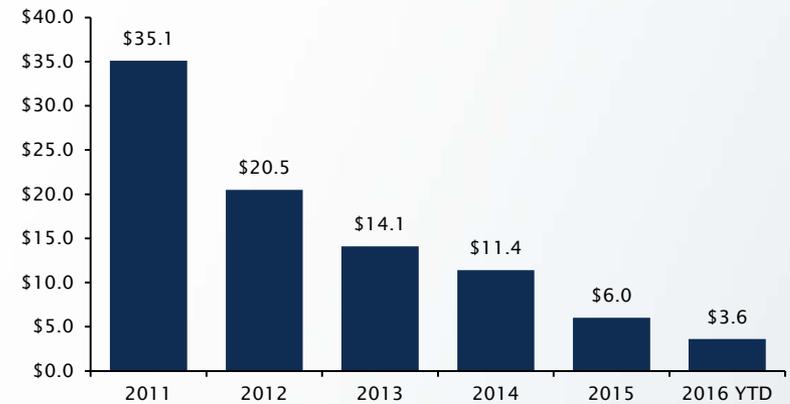
Commercial Loan New Defaults



Total Loan New Defaults



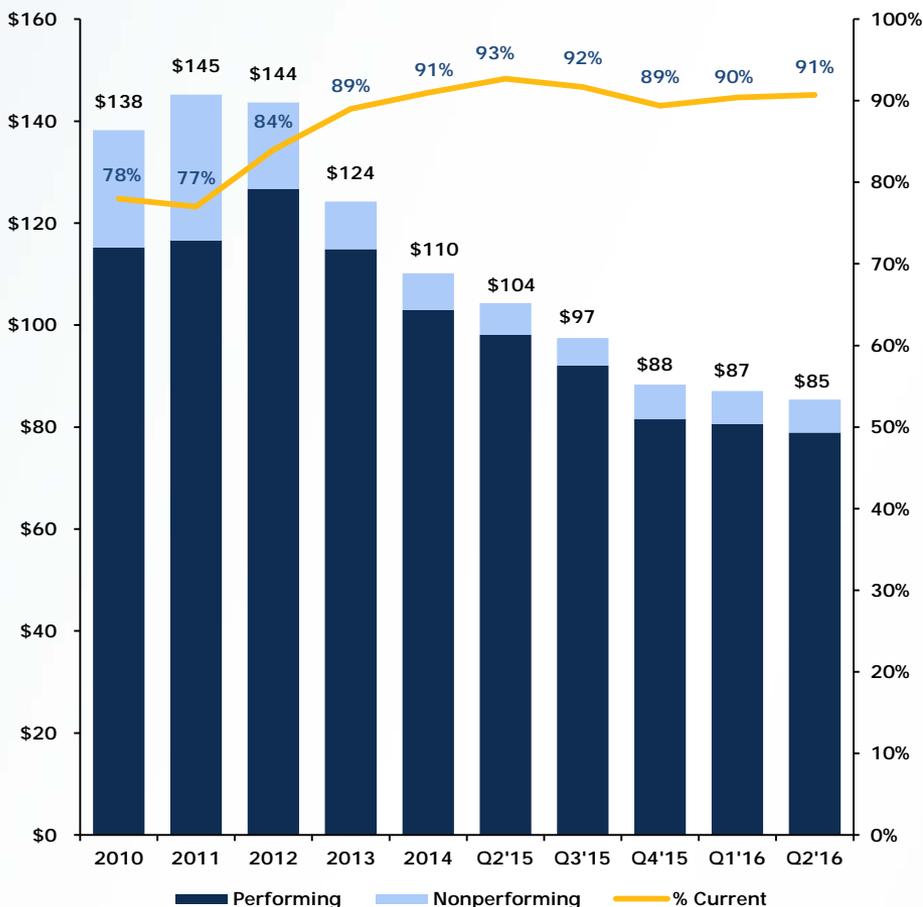
Retail Loan New Defaults



Note: Dollars all in millions.

91% of TDRs are Current

TDRs (\$ in Millions)



TDR Highlights

- Working with client base to maximize sustainable performance.
- The specific reserves allocated to TDRs totaled \$10.7 million at 6/30/16.
- A majority of our TDRs are performing under their modified terms but remain in TDR status for the life of the loan.
- 90.7% of TDRs are current as of 6/30/16.
- **Commercial TDR Statistics:**
 - 73 loans with \$16.8 million book balance.
 - 84.1% performing.
 - WAR of 4.41% (accruing loans).
 - Well seasoned portfolio; over 80% of accruing loans are not only performing but have been for over a year since modification.
- **Retail TDR Statistics:**
 - 731 loans with \$68.6 million book balance.
 - 94.5% performing.
 - WAR of 4.56% (accruing loans).
 - Well seasoned portfolio; over 99% of accruing loans are not only performing but have been for over a year since modification.

Category	Outlook
Lending	<p>Continued growth Goal of high single digit % overall loan growth in 2016, primarily supported by increases in commercial loans, consumer loans and mortgage loans with payment plan receivables relatively stable. Expect much of this growth to occur in the last three quarters of 2016. This growth forecast also assumes a stable Michigan economy. 1H'16: \$1.575 billion* of total portfolio loans at 6/30/16, annualized growth rate of 8.0%. On track. [*6/30/16 balance reduced for \$6.7 million in commercial deposit customer overdrafts that were returned on 7/1/16.]</p>
Net Interest Income	<p>Accelerating growth over 2015 Goal of mid-single digit % increase in net interest income over 2015. Pressure on the net interest margin has largely abated. Growth in net interest income in 2016 vs. 2015 due primarily to growth in loans as described above and somewhat higher short-term interest rates. Forecast assumes two 0.25% increases in the federal funds rate (one in mid 2Q'16 and one in early 4Q'16) and long-term rates up slightly over year end 2015 levels. 1H'16: Actual net interest income of \$39.4 million vs. \$36.8 million in 2015, growth of 7.1%. On track.</p>
Provision for Loan Losses	<p>Steady to slightly improving asset quality metrics Very difficult area to forecast. Future provision levels will be particularly sensitive to loan net charge-offs, watch credit levels, loan default volumes, and TDR portfolio performance. The allowance as a percentage of total loans was at 1.49% at 12/31/15. Any credit provision in 2016 would largely be a function of recoveries of previously charged-off loans, pay-downs in the TDR portfolio (permitting the release of specific reserves) and low levels of new loan defaults. 1H'16: Actual credit provision of \$1.3 million with net recoveries of \$1.4 million. Asset quality trends continue to be stable to slightly improving.</p>
Non-interest Income	<p>Forecasted quarterly range of \$9.5 million to \$10 million with total for the year similar to 2015 Expect mortgage-banking revenues and mortgage lending volumes in 2016 to be slightly lower than 2015. Expect higher service charges on deposits (new account acquisition program) and comparable interchange income in 2016 vs. 2015. 1H'16: Actual non-interest income of \$17.4 million (\$9.6 million in 2Q'16) vs. \$19.9 million in 2015 (\$11.0 million in 2Q'15). First half of 2016 includes \$2.10 million impairment charge on MSRs. Excluding MSR impairment charge and security gains, at low end of range (\$19.1 million vs. \$19.0 million). For balance of 2016, expect to achieve at least the low end of forecast range with strong mortgage-banking revenues.</p>
Non-interest Expense	<p>Forecasted quarterly range of \$21 to \$22 million with full-year low-single digit % decline vs. 2015 The expected decline in non-interest expenses compared to 2015 is primarily concentrated in occupancy and equipment, data processing and loan and collection costs. 1H'16: Actual non-interest expense of \$42.9 million (\$20.9 million in 2Q'16) vs. \$43.7 million in 2015 (\$21.6 million in 2Q'15). Expect to be at or below \$21.0 million for last two quarters of 2016.</p>
Income Taxes	<p>Approximately 32% in 2016. 1H'16: Actual effective income tax rate of 30.2%. This rate adjusts to 32.1% when eliminating impact of ASU 2016-09.</p>
Diluted share count	<p>For last two quarters of 2016: Approximately 21.5 million shares based on June 30, 2016 figures.</p>

■ Balance Sheet

- Generate quality loan growth with continued focus on commercial and consumer installment lending as well as salable mortgage loans. May consider augmenting loan growth with selective in-market whole loan purchases.
- Remain asset sensitive and positioned to benefit from higher interest rates (short duration investment portfolio, large variable rate loan portfolio and strong core deposit base with a significant amount of small to medium balance transaction accounts).

■ Income Statement

- Generate increased net interest income through change in earning asset mix (increased loans to deposits ratio and reduced level of investment securities).
- Increase non-interest income with focus on transaction related revenue (treasury management and debit card) and mortgage banking revenue.
- Continued reductions in non-interest expenses (credit related costs, branch optimization, process re-engineering and outsourcing).
- Improved efficiency ratio: Low 70% range near-term and mid 60% range longer-term. Achieve improvements through combination of revenue growth and expense reductions.

■ Enterprise Risk Management

- Continued asset quality improvements.
- Meet increased compliance and regulatory requirements.
- Focus on data security and loss prevention.

Question and Answer Session
Closing Remarks

Thank you for attending !

NASDAQ: IBCP