

Q3 EARNINGS

Independent Bank Corporation (IBCP)

Conference Call – October 27, 2020

Be Independent 

Cautionary note regarding forward-looking statements

This presentation contains forward-looking statements about Independent Bank Corporation. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements and are based on the information available to, and assumptions and estimates made by, management as of the date hereof. These forward-looking statements cover, among other things, anticipated future revenue and expenses and the future plans and prospects of Independent Bank Corporation. Forward-looking statements involve inherent risks and uncertainties, and important factors could cause actual results to differ materially from those anticipated. The COVID-19 pandemic is adversely affecting Independent Bank Corporation, its customers, counterparties, employees, and third-party service providers, and the ultimate extent of the impacts on its business, financial position, results of operations, liquidity, and prospects is uncertain. Continued deterioration in general business and economic conditions or turbulence in domestic or global financial markets could adversely affect Independent Bank Corporation's revenues and the values of its assets and liabilities, reduce the availability of funding from certain financial institutions, lead to a tightening of credit, and increase stock price volatility. In addition, changes to statutes, regulations, or regulatory policies or practices could affect Independent Bank Corporation in substantial and unpredictable ways. Independent Bank Corporation's results could also be adversely affected by changes in interest rates; further increases in unemployment rates; deterioration in the credit quality of its loan portfolios or in the value of the collateral securing those loans; deterioration in the value of its investment securities; legal and regulatory developments; litigation; increased competition from both banks and non-banks; changes in the level of tariffs and other trade policies of the United States and its global trading partners; changes in customer behavior and preferences; breaches in data security; failures to safeguard personal information; effects of mergers and acquisitions and related integration; effects of critical accounting policies and judgments; and management's ability to effectively manage credit risk, market risk, operational risk, compliance risk, strategic risk, interest rate risk, liquidity risk and reputation risk.

Certain risks and important factors that could affect Independent Bank Corporation's future results are identified in its Annual Report on Form 10-K for the year ended December 31, 2019 and other reports filed with the SEC, including among other things under the heading "Risk Factors" in such Annual Report on Form 10-K. Any forward-looking statement speaks only as of the date on which it is made, and Independent Bank Corporation undertakes no obligation to update any forward-looking statement, whether to reflect events or circumstances after the date on which the statement is made, to reflect new information or the occurrence of unanticipated events, or otherwise.

- **Formal Remarks.**
 - William B. (Brad) Kessel, President and Chief Executive Officer
 - Gavin A. Mohr, 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.

COVID-19 Response

Supporting Employees, Clients & Communities

When it became apparent that the Coronavirus (COVID-19) pandemic could pose a threat to our people and business, we activated our Business Continuity and Crisis Communication Core Teams to take early and decisive action

Employees



- ✓ Work from home. Providing the technology, culture, and operational infrastructure for the workforce to work remotely as needed.
- ✓ Granting additional sick and vacation time.
- ✓ Our bank branch lobbies opened back up in mid-June 2020 (they had been closed since mid-March 2020).
- ✓ Complying with applicable Michigan requirements (MI Safe Start Plan, etc.).
- ✓ Performing additional routine and on-demand sanitization of facilities using enhanced methods.

Clients & Communities



- ✓ Pro-actively reaching out to our business customers to understand needs.
- ✓ Supporting local businesses.
- ✓ Closed over \$250 million in SBA Payroll Protection Program (PPP) loans in 2020.
- ✓ Working with business and consumer customers on temporary payment relief.

Historical Financial Data

(\$M except per share data)	2016	2017	2018	2019	9/30/19	12/31/19	3/31/20	6/30/20	9/30/20
Balance Sheet:									
Total Assets	\$2,549	\$2,789	\$3,353	\$3,565	\$3,551	\$3,565	\$3,632	\$4,043	\$4,169
Portfolio Loans	\$1,608	\$2,019	\$2,583	\$2,725	\$2,722	\$2,725	\$2,718	\$2,867	\$2,855
Deposits	\$2,226	\$2,401	\$2,913	\$3,037	\$3,052	\$3,037	\$3,084	\$3,485	\$3,598
Tangible Common Equity	\$247	\$263	\$304	\$317	\$306	\$317	\$302	\$322	\$340
Profitability:									
Pre-Tax, Pre-Provision Income	\$31.6	\$39.6	\$50.6	\$58.6	\$15.3	\$17.0	\$12.5	\$23.5	\$25.3
Pre-Tax, Pre-Prov / Avg. Assets	1.28%	1.50%	1.62%	1.70%	1.74%	1.91%	1.41%	2.44%	2.46%
Net Income ⁽¹⁾	\$22.8	\$20.5	\$39.8	\$46.4	\$12.4	\$13.9	\$4.8	\$14.8	\$19.6
Return on Average Assets ⁽¹⁾	0.92%	0.77%	1.27%	1.35%	1.42%	1.56%	0.54%	1.54%	1.90%
Return on Average Equity ⁽¹⁾	9.2%	7.8%	12.4%	13.6%	14.6%	15.9%	5.5%	17.4%	21.4%
Net Interest Margin (FTE)	3.52%	3.65%	3.88%	3.80%	3.76%	3.70%	3.63%	3.36%	3.31%
Efficiency Ratio	73.7%	69.2%	67.2%	64.9%	63.8%	62.6%	69.3%	53.1%	56.4%
Asset Quality:									
NPAs / Assets	0.72%	0.35%	0.29%	0.32%	0.24%	0.32%	0.50%	0.34%	0.28%
NPAs / Loans + OREO	1.14%	0.49%	0.38%	0.42%	0.31%	0.42%	0.67%	0.48%	0.41%
Reserves / Total Portfolio Loans	1.26%	1.12%	0.96%	0.96%	0.96%	0.96%	1.20%	1.20%	1.25%
NCOs / Avg. Loans	0.06%	(0.06%)	(0.03%)	(0.02%)	(0.02%)	(0.01%)	0.06%	0.45%	(0.04%)
Capital Ratios:									
TCE Ratio	9.7%	9.4%	9.2%	9.0%	8.7%	9.0%	8.4%	8.0%	8.2%
Leverage Ratio	10.5%	10.6%	10.5%	10.1%	9.9%	10.1%	9.6%	9.1%	9.0%
Tier 1 Capital Ratio	14.7%	14.0%	13.3%	12.7%	12.4%	12.7%	12.2%	12.6%	13.0%
Total Capital Ratio	15.9%	15.2%	14.3%	13.7%	13.4%	13.7%	13.4%	15.3%	15.6%

(1) Excluding the impact of the \$5.96 million remeasurement of net deferred tax assets in 2017, net income is \$26.440 million, ROA is 1.00%; and ROE is 10.10%.

Income Statement

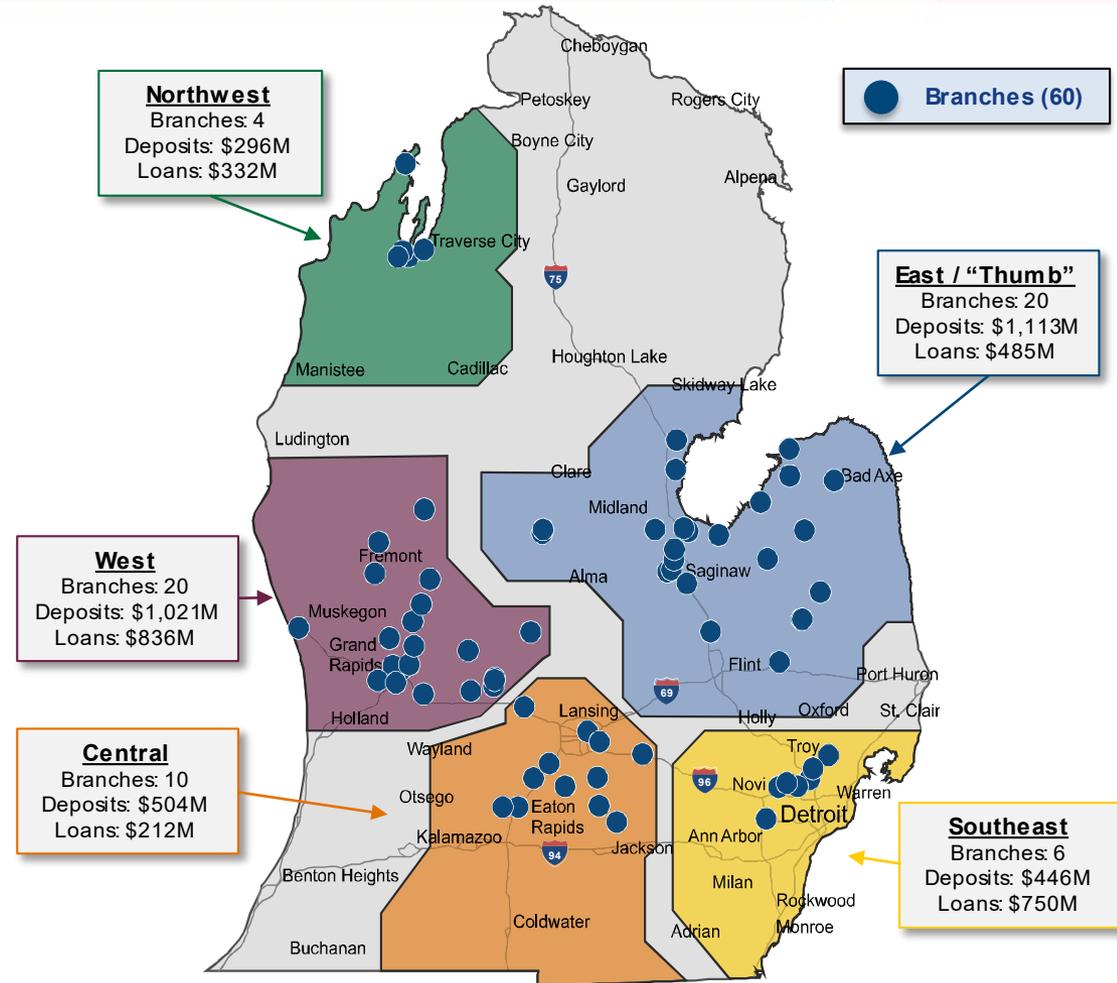
- Pre-tax, pre-provision income was \$25.3 million in the third quarter of 2020 compared to \$15.3 million in the third quarter of 2019.
- Net income of \$19.6 million, or \$0.89 per diluted share compared to \$12.4 million, or \$0.55 per diluted share for the year ago quarter.
- Net interest income of \$32.0 million, an increase of \$1.1 million, or 3.5% from the year ago quarter.
- Mortgage loan originations of \$536.5 million, also, \$417.1 million in mortgage loans sold with \$20.2 million in net gains on mortgage loans compared to \$5.7 million in net gains from the year ago quarter.
- Mortgage servicing rights change (the “MSR Change”) due to price of negative \$1.1 million (\$0.04 per diluted share, after taxes) compared to negative \$2.2 million (\$0.08 per diluted share, after taxes) in the third quarter of 2019.
- Provision for loan losses of \$1.0 million compared to a credit of \$0.3 million in the third quarter of 2019. Included within the third quarter 2020 provision for loan losses is a \$2.1 million increase in the subjective/qualitative reserve.

Balance Sheet/Capital

- Securities available for sale increased by \$128.8 million.
- Total portfolio loans declined by \$11.2 million.
- Total deposits grew by \$112.6 million.
- Total stockholder’s equity increased by \$18.0 million and tangible book value per share increased by 5.6% to \$15.55 per share at September 30, 2020.
- Paid a 20 cent per share cash dividend on common stock on August 14, 2020.

Our Michigan Markets

- **Michigan’s community bank.** #1 deposit market share amongst Michigan banks < \$10B in assets and #10 deposit market share overall.
- **Top 10 market share in 20 of 23** counties of operation – with opportunity to gain market share in attractive Michigan markets.
- **Low cost and stable deposit base** in East/”Thumb” and Central regions utilized to fund loan growth in the West and Southeast regions (higher growth & more metropolitan).
- **Eight bank branches** were closed (two on June 26, 2020 and six on July 31, 2020). The closures by region were: 3 in the East/”Thumb”, 2 in the Central and 1 each in the West, Northwest and Southeast. These closures reduce the total bank branch footprint to 60.
- **New full service bank branch** to open in Brighton, Michigan in 4Q’20.
- 11 Loan Production Offices (LPOs), including 9 throughout Michigan and 2 in Ohio (residential mortgage lending only).

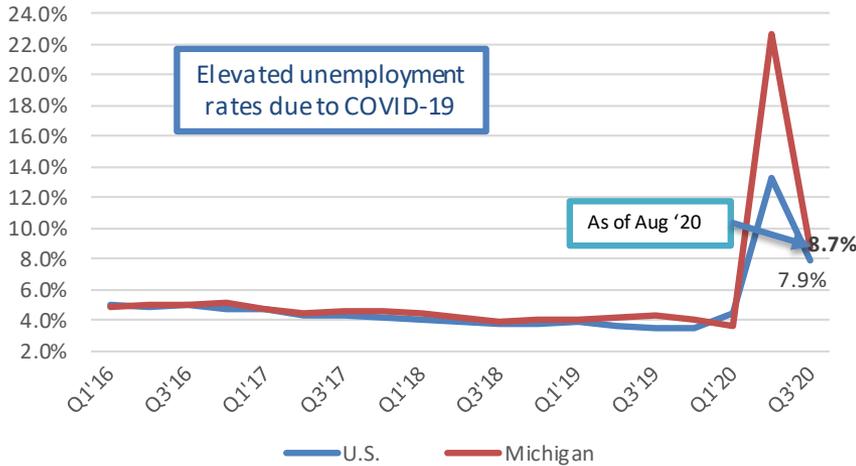


Source: S&P Global Market Intelligence and Company documents. Map does not include loan production offices. Deposit market share data based on FDIC Summary of Deposits Annual Survey as of June 30, 2020.

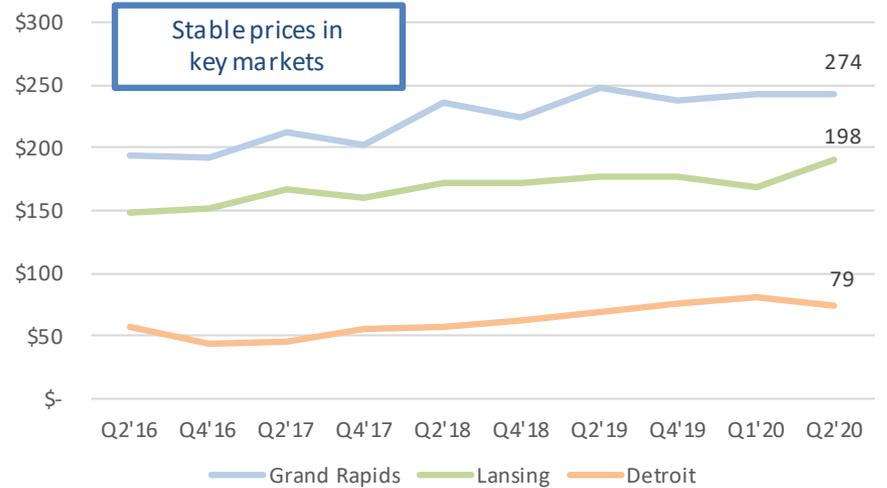
Note: Loan and deposit balances exclude the loans and deposits (such as brokered deposits) that are not clearly allocable to a certain market region. Loans specifically exclude: \$166 million of Ohio mortgage loans, \$55 million of resort loans and \$19 million of purchased mortgage loans.

Select Economic Statistics

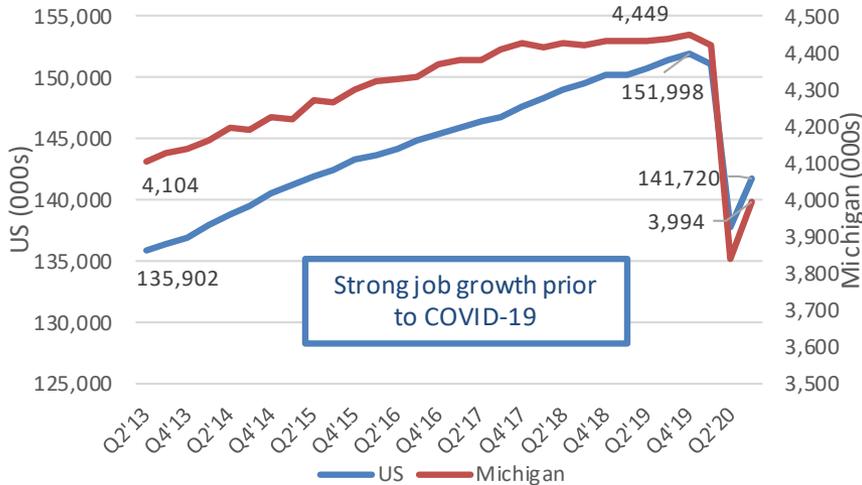
Unemployment Trends (%)



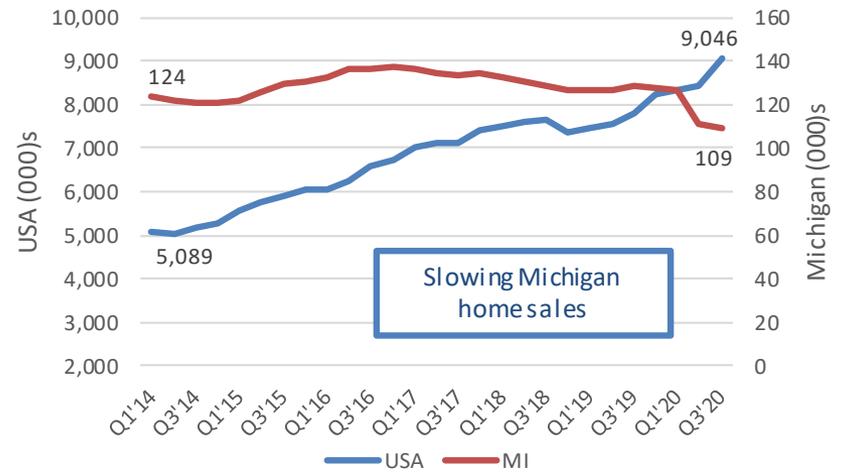
Regional Average Home Sales Price (Thousands)



Total Employees (Thousands)



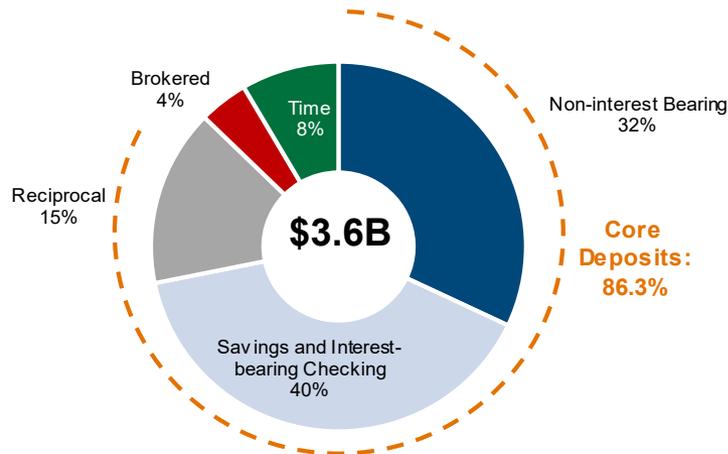
Annualized Home Sales (Thousands)



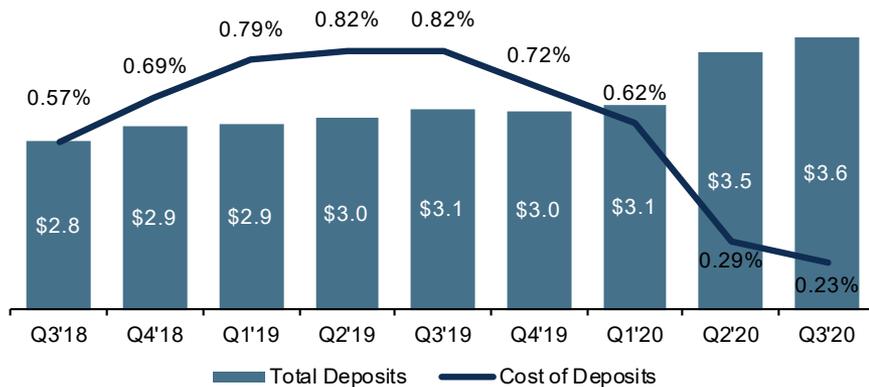
Low Cost Deposit Franchise

Focused on Core Deposit Growth

Deposit Composition – 9/30/20



Cost of Deposits (%)/Total Deposits (\$B)



Deposit Highlights

- Substantially core funding – \$3.1 billion of non-maturity deposit accounts (86.3% of total deposits).
- Total deposits increased \$598.1 million (21.0%) since 12/31/19 (excluding brokered) with non-interest bearing up \$300.0 million, savings and interest-bearing checking up \$245.1 million, reciprocal up \$126.5 million and time down \$73.5 million.
- Deposits by Customer Type:
 - Retail – 50.8%
 - Commercial – 34.9%
 - Municipal – 14.3%

Michigan Deposit Market Share

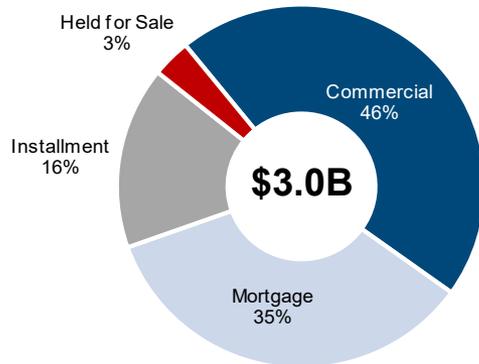
Rank	Institution	Deposits in Market (\$M)	Mkt. Share (%)
1	JPMorgan Chase & Co.	\$63,501	22.3%
2	Comerica Inc.	\$35,492	12.5%
3	Bank of America Corporation	\$29,285	10.3%
4	Fifth Third Bancorp	\$21,632	7.6%
5	PNC Financial Services Group	\$21,220	7.5%
6	TCF Financial Corp.	\$20,073	7.1%
7	Huntington Bancshares Inc.	\$19,670	6.9%
8	Flagstar Bancorp Inc.	\$17,184	6.0%
9	Citizens Financial Group Inc.	\$6,372	2.2%
10	Independent Bank Corp.	\$3,561	1.3%
Total for Institutions in Market		\$284,300	

Note: Core deposits defined as total deposits less maturity deposits. Market share data as of 6/30/20.

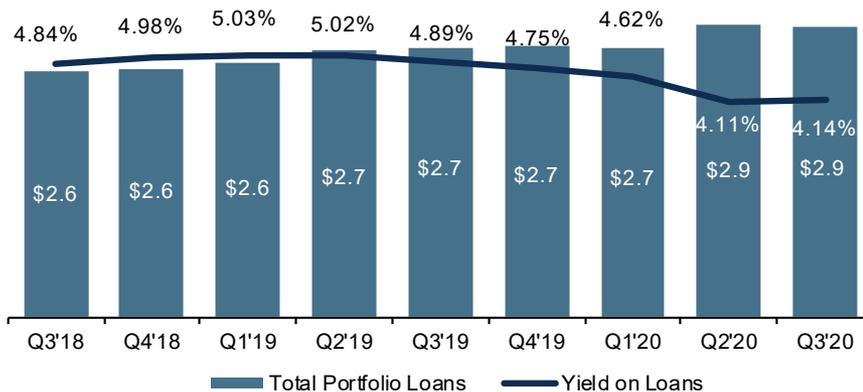
Diversified Loan Portfolio

Focused on High Quality Growth

Loan Composition – 9/30/20



Yield on Loans (%)/Total Portfolio Loans (\$B)



Note: Portfolio loans exclude loans HFS.

Lending Highlights

- Portfolio loan changes in 3Q'20:
 - Commercial – decreased \$11.2 million. PPP loan balances totaled \$261.2 million at September 30, 2020.
 - Mortgage – decreased \$17.6 million due to portfolio pay-downs and higher salable mix in new loan origination volume.
 - Installment – increased \$17.6 million.
- Mortgage loan portfolio weighted average FICO and LTV of 747 and 71%, respectively and average balance of \$189,935.
- Installment weighted average FICO of 757 and average balance of \$21,264.
- Commercial loan rate mix:
 - 62% fixed / 38% variable.
 - Indices – 60% tied to Prime, 37% tied to LIBOR and 3% tied to a US Treasury rate.
- Mortgage loan (including HECL) rate mix:
 - 46% fixed / 54% adjustable or variable.
 - Indices – 18% tied to Prime, 64% tied to LIBOR and 18% tied to a US Treasury rate

Loan Forbearances

Loan Type	9/30/20			6/30/20			% change vs. prior quarter	
	#	\$ (000's)	% of portfolio	#	\$ (000's)	% of portfolio	#	\$
Commercial	17	\$25,105	1.9%	386	\$210,486	15.4%	(95.6)%	(88.1)%
Mortgage	197	32,091	3.1%	388	81,212	7.8%	(49.2)%	(60.5)%
Installment	97	2,631	0.5%	280	7,459	1.6%	(65.4)%	(64.7)%
Total	311	\$59,827	2.1%	1,054	\$299,157	10.4%	(70.5)%	(80.0)%
Loans serviced for others	416	\$66,279	2.3%	773	\$114,839	4.2%	(46.2)%	(42.3)%

Highlights

- The table above reflects the status of loan forbearances as of September 30, and June 30, 2020. The percent of the loan portfolio is based on loan dollars.
- **Loan Forbearances:**
 - Forbearance period is generally three months for mortgage and installment loans and three or six months for commercial loans.
 - Retail (mortgage and installment) loan forbearances are primarily principal & interest deferrals.
 - Commercial loan forbearances are primarily principal deferrals only.
 - Overall forbearance requests peaked in early June 2020 and have since significantly abated.

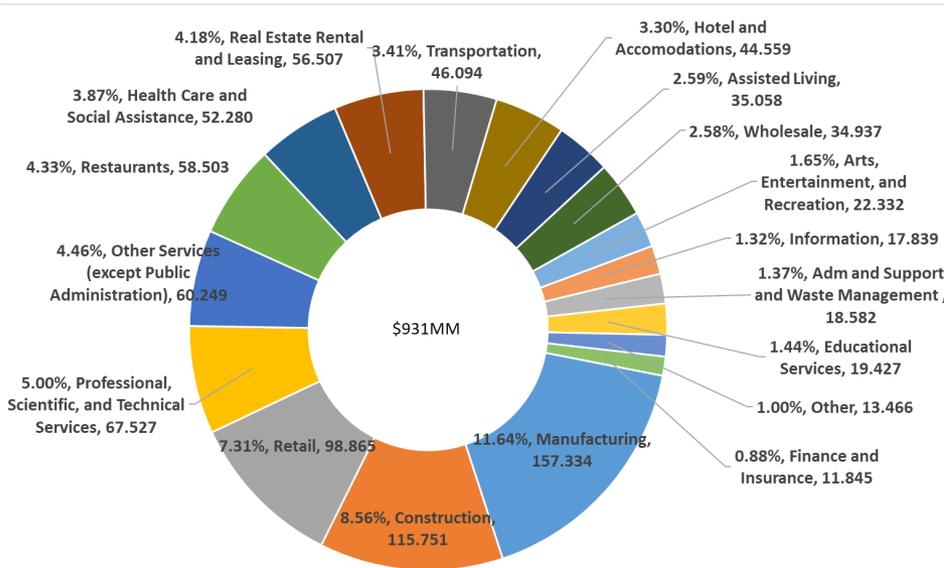
PPP Loan Portfolio

Description	9/30/20		6/30/20	
	#	(\$ in 000's)	#	(\$ in 000's)
Loans outstanding at quarter-end	2,117	\$ 261,182	2,012	\$ 259,351
Average loans outstanding for the quarter	n/a	261,543	n/a	191,061
Forgiveness applications submitted to the SBA	197	37,223	n/a	n/a
Forgiveness applications processed and approved by the SBA	0	0	n/a	n/a
Fees accreted into interest income during the quarter	n/a	1,321	n/a	977
Unaccreted fees remaining at quarter-end	n/a	6,494	n/a	7,731
Average loan yield for the quarter	n/a	3.04%	n/a	3.05%

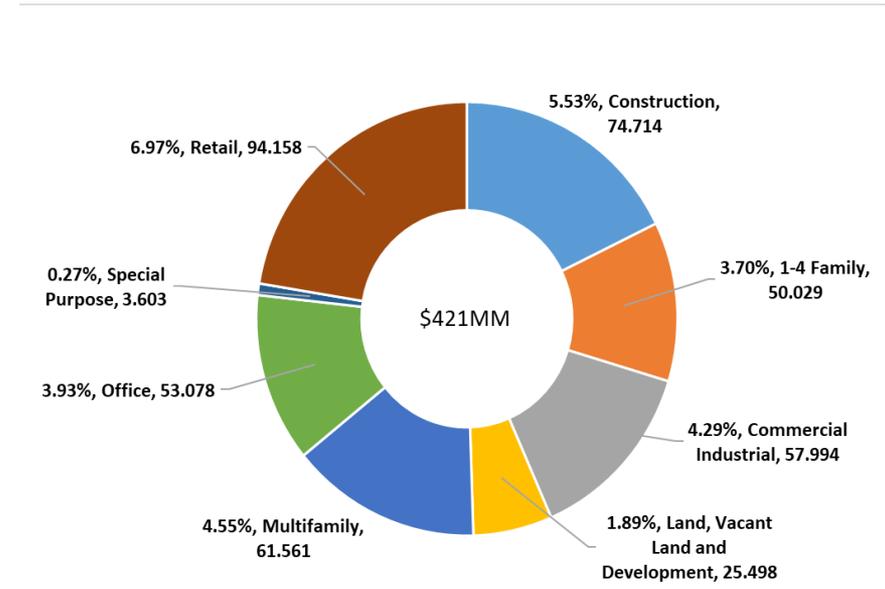
Highlights

- The table above reflects the status of PPP loans as of September 30, and June 30, 2020.
- **Paycheck Protection Program:**
 - Forgiveness applications began to be submitted to the SBA in August 2020.
 - SBA generally has 90 days to process forgiveness applications.
 - SBA recently announced a streamlined forgiveness application for PPP loans \$50,000 or less. At September 30, 2020 such loans represent \$25.1 million (9.6%) but 1,214 (57.3%) in number of the total PPP loan portfolio.
 - Forgiveness application approvals and payments from the SBA began to be received in October 2020.
 - Expect remaining unaccreted fees at September 30, 2020 to be accreted into interest income over the next 15 months with the heaviest activity over the next three quarters.

**Loans by Industry as a % of Total Commercial Loans
(\$ in millions)**



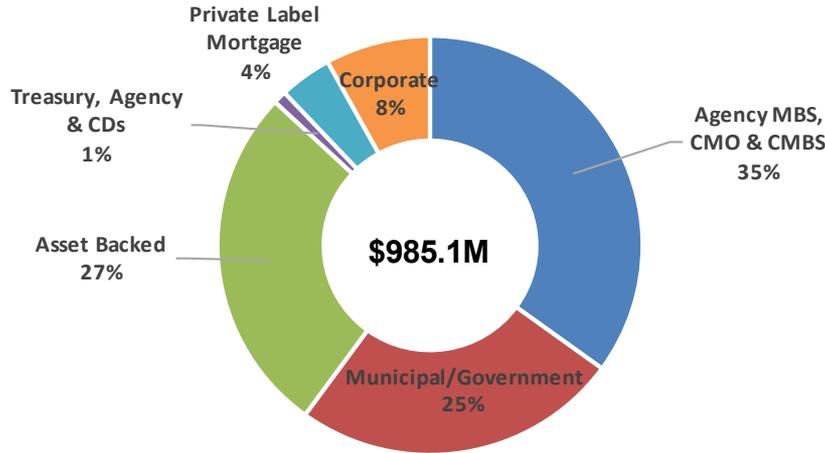
Investor RE by Collateral Type as a % of Total Commercial Loans (\$ in millions)



\$931 million, or 68.9% of the commercial loan portfolio is C&I or owner occupied, while \$421 million, or 31.1% is investment real estate.

Percentage concentrations are based on the entire commercial portfolio of \$1.352 billion as of September 30, 2020.

Investment Portfolio by Type (9/30/20)



Investment Securities Activity – 3Q’20

	Agency MBS, CMO & CMBS	Municipal /Government	Asset-backed	Private Label Mortgage	Corp.	Total
(Dollars in 000’s)						
Purchases (at cost)	\$75,855	\$41,708	\$78,994	\$3,854	\$12,505	\$212,916
Repayments (a)	33,626	5,352	42,901	1,526	2,118	86,888
Sales	--	--	--	--	--	--
Purchases in 3Q’20						
Yield (TE)	1.39%	2.35%	1.29%	1.63%	3.07%	1.64%
Duration	2.06%	10.13%	0.56%	4.09%	5.70%	3.34%

(a) Total repayments include \$1.365 million of repayments on Treasury/Agency securities not shown in the table.

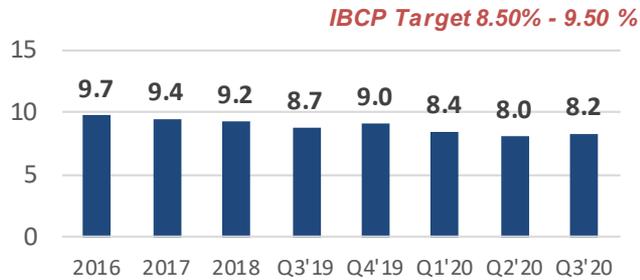
Highlights

- High quality, liquid, diverse portfolio with relatively short duration.
- Fair value of \$985.1 million, an increase of \$128.8 million in 3Q’20.
- Net unrealized gain of \$17.0 million, representing 1.76% of amortized cost.
- Portfolio ratings: 65% AAA rated (or backed by the U.S. Government); 20% AA rated; 6% A rated; 6% BAA rated and 3% unrated.
- 2.64 year estimated average duration with a weighted average yield of 2.17% (with TE gross up).
- Approximately 26% of the portfolio is variable rate.

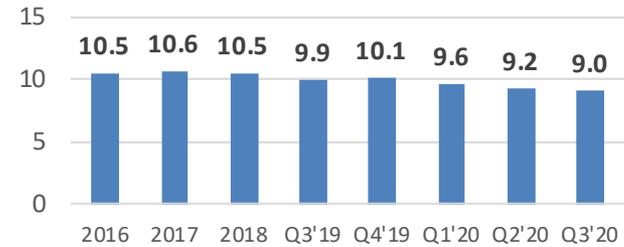
**Long-Term
Capital
Priorities:**

- a) Capital retention to support (i) organic growth and (ii) acquisitions; and
- b) Return of capital through (i) strong and consistent dividend and (ii) share repurchases

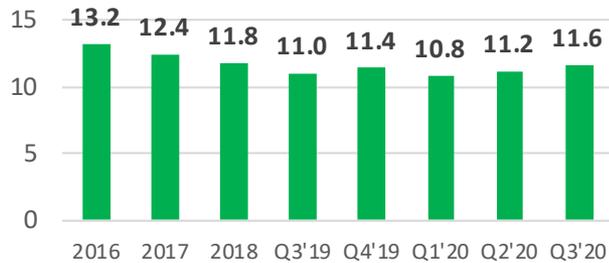
TCE / TA (%)



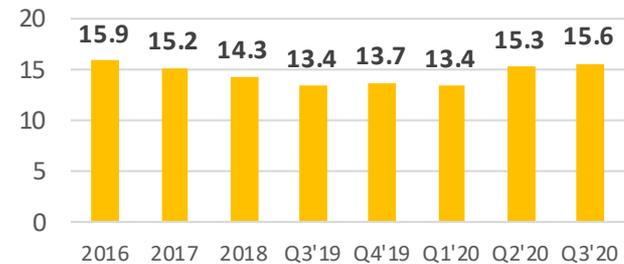
Leverage Ratio (%)



CET1 Ratio (%)

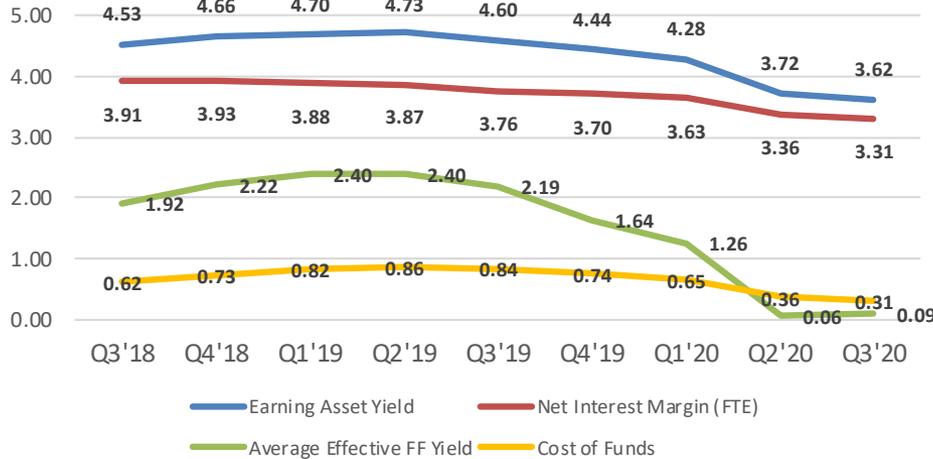


Total RBC Ratio (%)



Source: S&P Global Market Intelligence and Company documents.
 Note: Company closed acquisition of TCSB Bancorp, Inc. in Q2 '18.

Yields, NIM and Cost of Funds (%)



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 as slightly asset sensitive.
- Net interest income increased \$1.5 million, or 4.9%, in 3Q'20 vs. 2Q'20 due primarily to a \$227.8 million increase in average interest earning assets that was only partially offset by a five basis point decline in the net interest margin.
- Net interest margin was 3.31% during the third quarter of 2020, compared to 3.76% in the year-ago quarter and 3.36% in the second quarter of 2020.

Q3'20 NIM Changes

Q2'20	3.36%
Decline in cost of funds	0.08%
Accelerated discount accretion on commercial loan	0.05%
Impact of subordinated debt being outstanding for full quarter	-0.03%
Decline in earning asset yields (growth and mix)	-0.15%
Q3'20	3.31%

3Q'20 Highlights

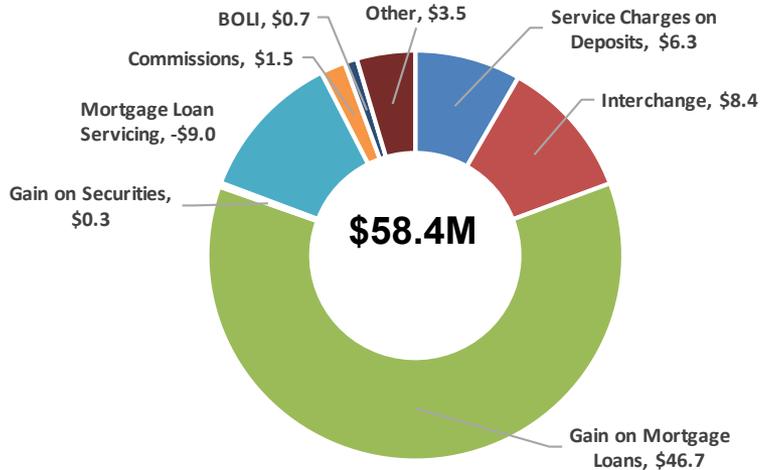
- Yield on average interest-earning assets declined 10 basis points.
 - Loan yields were generally unchanged. Earning asset growth was primarily in investments where the overall yield declined by 26 basis points due to new investments being added at lower interest rates.
 - Commercial loan yield benefited from the acceleration of \$0.5 million of discount on a 3Q'20 payoff (this loan had been purchased from the FDIC many years ago).
- Funding costs declined by 7 basis points due primarily to the repricing of maturing time deposits.

Linked Quarter Average Balances and FTE Rates

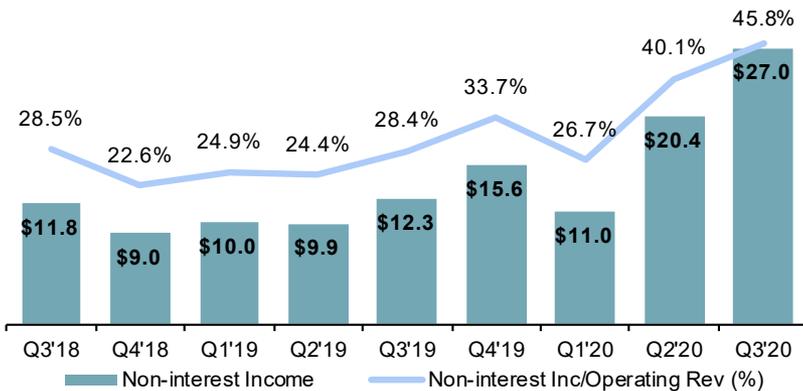
	3Q20			2Q20			Change		
	Avg Bal	Inc/Exp	Yield	Avg Bal	Inc/Exp	Yield	Avg Bal	Inc/Exp	Yield
(\$ in thousands)									
Cash	\$ 51,181	\$ 14	0.11%	\$ 67,204	\$ 18	0.11%	\$ (16,023)	\$ (4)	0.00%
Investments	910,402	4,867	2.14%	678,553	4,078	2.40%	231,849	789	-0.26%
Commercial loans	1,360,639	14,373	4.20%	1,336,094	13,808	4.16%	24,545	565	0.04%
Mortgage loans	1,102,233	10,927	3.97%	1,125,844	11,146	3.96%	(23,611)	(219)	0.01%
Installment loans	463,000	5,111	4.39%	451,919	4,927	4.38%	11,081	184	0.01%
Earning assets	\$ 3,887,455	\$ 35,292	3.62%	\$ 3,659,614	\$ 33,977	3.72%	\$ 227,841	\$ 1,315	-0.10%
Nonmaturity deposits	\$ 1,922,971	\$ 686	0.14%	\$ 1,754,503	\$ 505	0.12%	\$ 168,468	\$ 181	0.02%
Time deposits	498,796	1,376	1.10%	494,411	1,883	1.53%	4,385	(507)	-0.43%
Other borrowings	110,714	1,006	3.61%	153,447	904	2.37%	(42,733)	102	1.24%
Costing funds	\$ 2,532,481	\$ 3,068	0.48%	\$ 2,402,361	\$ 3,292	0.55%	\$ 130,120	\$ (224)	-0.07%
Free funds	\$ 1,354,974			\$ 1,257,253			\$ 97,721		
Net interest income (FTE)		\$ 32,224			\$ 30,685			\$ 1,539	
Net interest margin (FTE)			3.31%			3.36%			-0.05%

Strong Non-interest Income

2020 YTD Non-interest Income (millions)



Non-interest Income Trends (\$M)

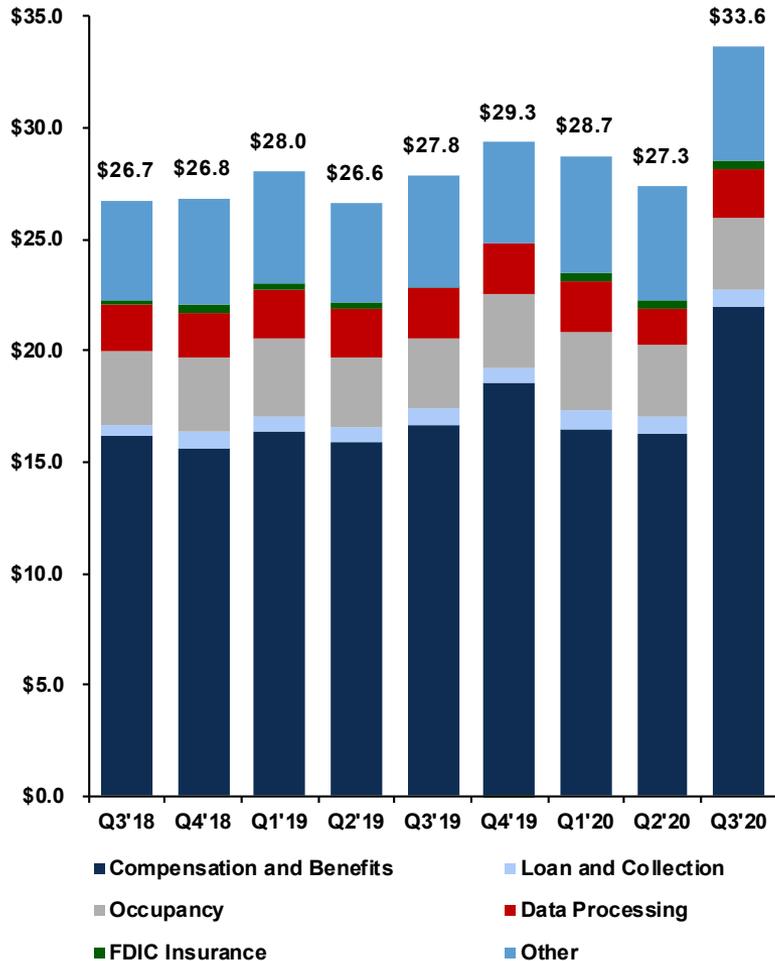


Highlights

- Diverse sources of non-interest income – representing 45.8% of revenue in 3Q'20.
- COVID-19 has adversely impacted service charges on deposits. In addition, we have suspended certain electronic banking fees due to the enhanced need for customers to access this channel.
- Mortgage banking:
 - \$20.2 million in net gains on mortgage loans in 3Q'20 vs. \$5.7 million in the year ago quarter. A combination of higher sales volumes, stronger profit margins and fair value adjustments on the pipeline led to this increase.
 - \$536.5 million in mortgage loan originations in 3Q'20 vs. \$329.5 million in 3Q'19 and \$470.6 million in 2Q'20.
 - Purchase / Refinance mix in 2019 was 70% / 30% vs. 3Q'20 mortgage loan origination mix of 50% / 50% as refinance activity continues to be robust. Despite COVID-19 related challenges, home purchase activity is solid in our markets.
 - 3Q'20 mortgage loan servicing includes a \$1.1 million (\$0.04 per diluted share, after tax) decrease in fair value adjustment due to price compared to a decrease of \$2.2 million (\$0.08 per diluted share, after tax) in the year ago quarter.

Source: Company documents.

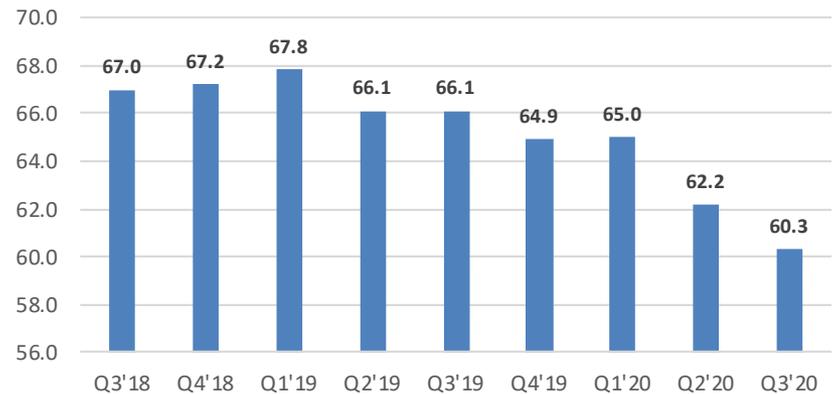
Non-interest Expense (\$M)



Highlights

- Continued focus on expense control and driving positive operating leverage.
- 3Q'20 performance based compensation increased \$4.5 million over 2Q'20 due primarily to an increase in the accrual for the annual management incentive compensation plan as a result of significant improvements in performance metrics reflecting the strong 3Q'20 results.**
- 3Q'20 non-interest expense included \$0.64 million of conversion related expenses (associated with core data processing conversion that is in process).
- Eight branch closings in June/July 2020 with anticipated annual savings in excess of \$1.3 million.
- Opportunities exist to gain additional efficiencies as we continue to optimize our delivery channels.

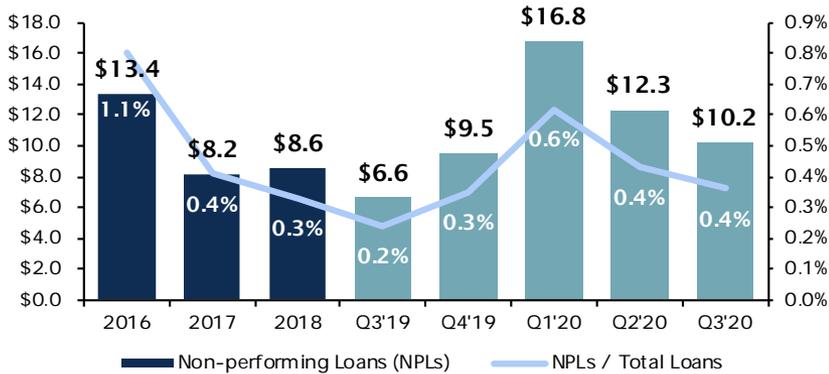
Efficiency Ratio (4 quarter rolling average)



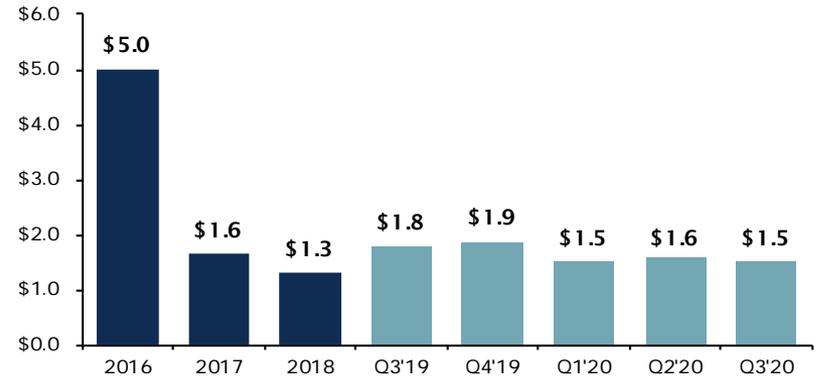
Source: Company documents.

Credit Quality Summary

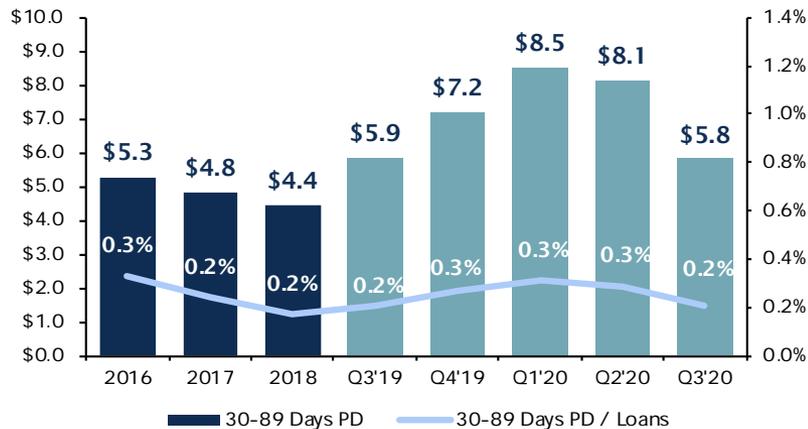
Non-performing Loans (\$ in Millions)



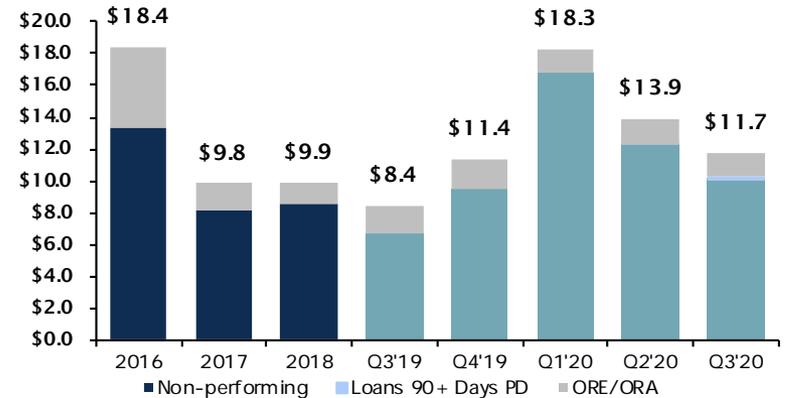
ORE/ORA (\$ in Millions)



30 to 89 Days Delinquent (\$ in Millions)



Non-performing Assets (\$ in Millions)



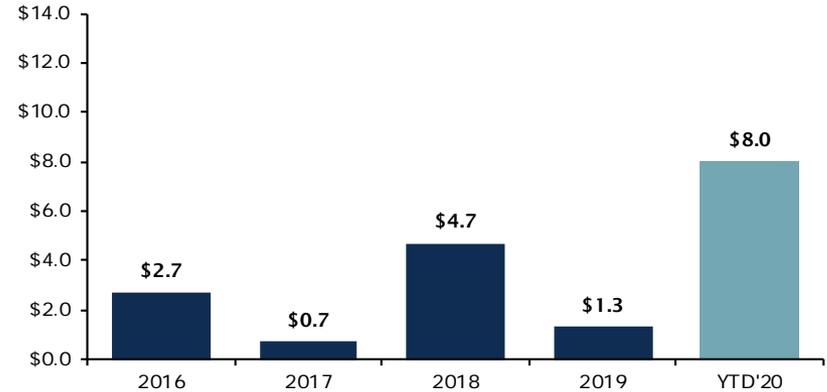
Note 1: Non-performing loans and non-performing assets exclude troubled debt restructurings that are performing.

Note 2: 12/31/16 30 to 89 days delinquent data excludes \$1.63 million of payment plan receivables that were held for sale.

Total Classified Assets



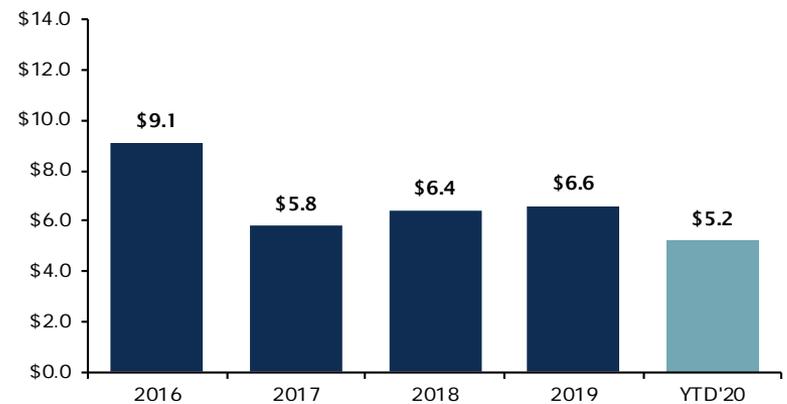
Commercial Loan New Defaults



Total Loan New Defaults



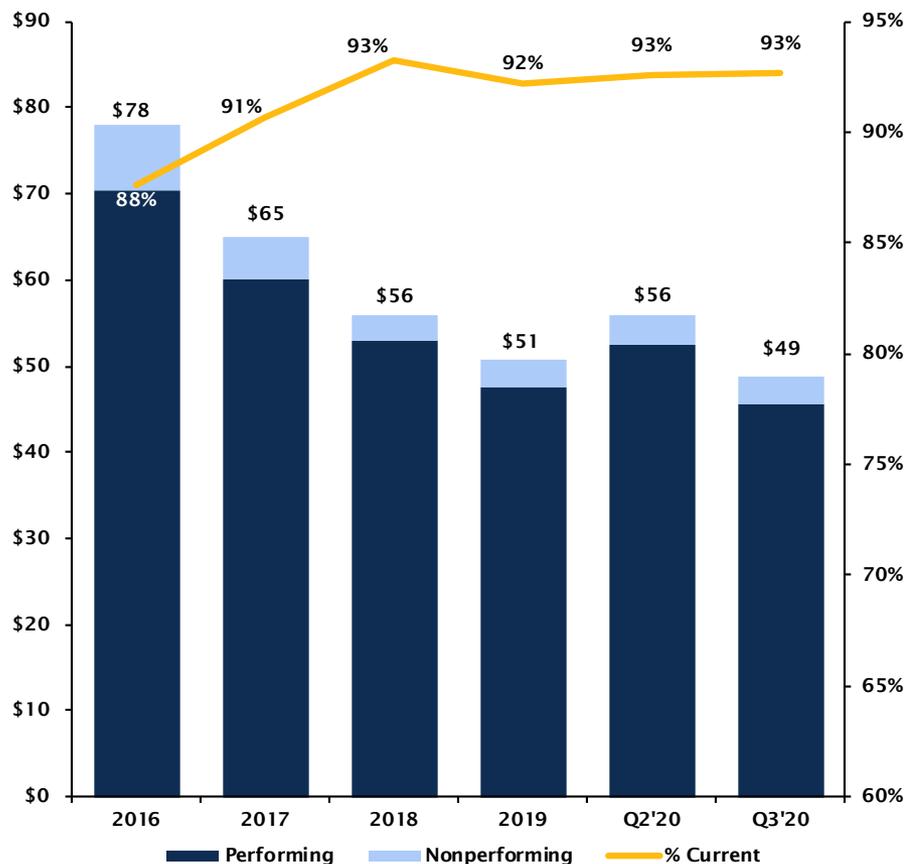
Retail Loan New Defaults



Note: Dollars all in millions.

93% of TDRs are Current

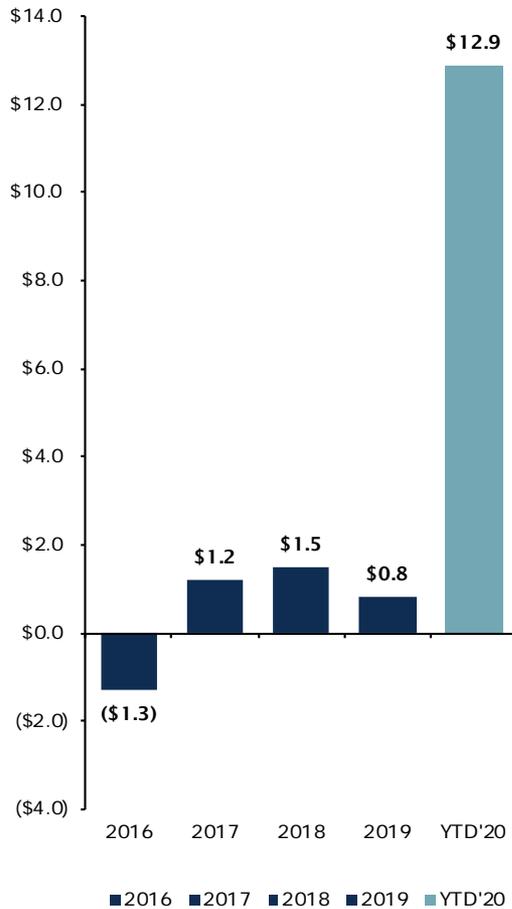
TDRs (\$ in Millions)



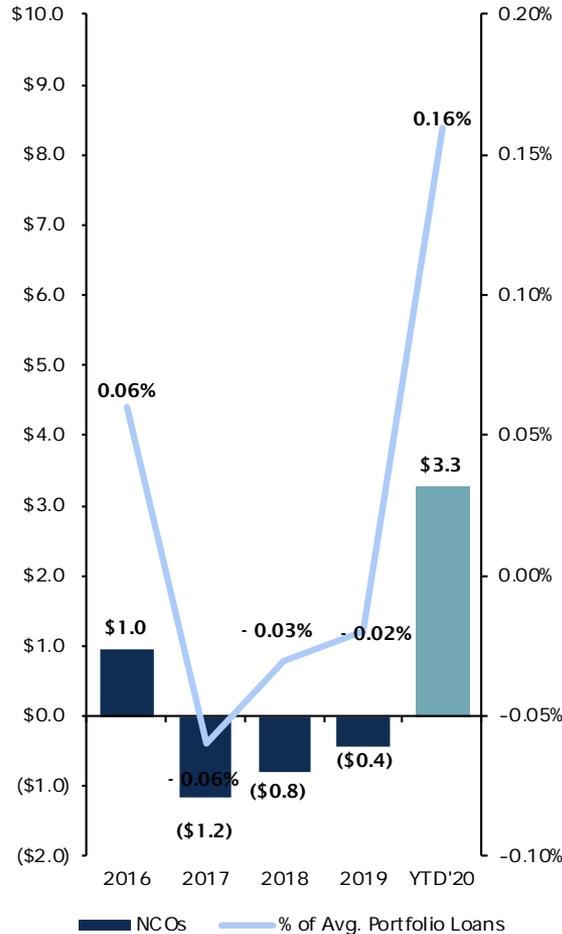
TDR Highlights

- Working with client base to maximize sustainable performance.
- The specific reserves allocated to TDRs totaled \$4.9 million at 9/30/20.
- A majority of our TDRs are performing under their modified terms but remain in TDR status for the life of the loan.
- 92.7% of TDRs are current as of 9/30/20.
- **Commercial TDR Statistics:**
 - 30 loans with \$9.5 million book balance.
 - 87.3% performing.
 - WAR of 5.23% (accruing loans).
 - Well seasoned portfolio; over 96% of accruing loans are not only performing but have been for over a year since modification.
- **Retail TDR Statistics:**
 - 470 loans with \$39.2 million book balance.
 - 95.3% performing.
 - WAR of 4.99% (accruing loans).
 - Well seasoned portfolio; approximately 96% of accruing loans are not only performing but have been for over a year since modification.

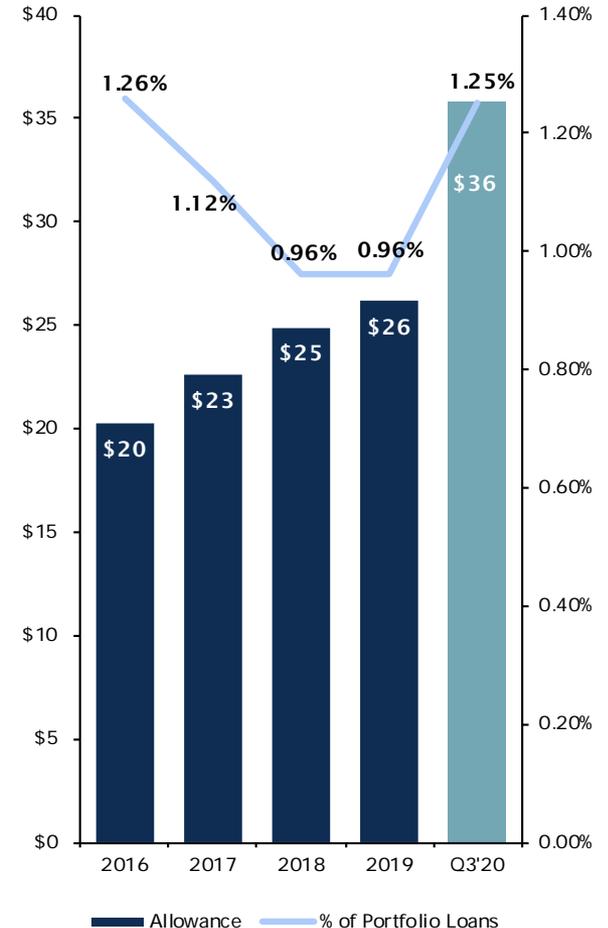
Provision for Loan Losses



Loan Net Charge-Offs/Recoveries



Allowance for Loan Losses

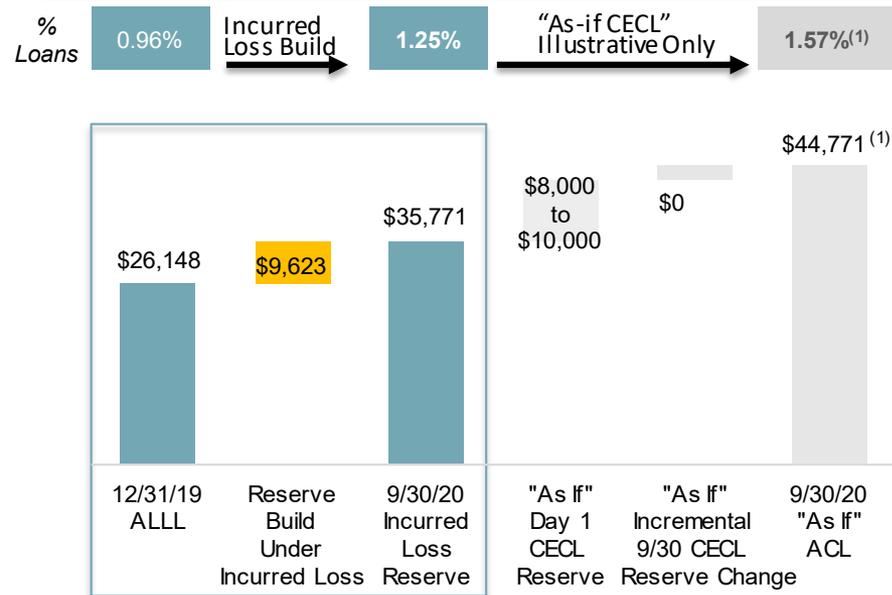


Note: Dollars all in millions.

Allocation of Incurred ALLL

	June 30, 2020	Sept. 30, 2020	Change
(In thousands)			
Commercial	\$8,731	\$8,153	(\$578)
Mortgage	7,261	6,999	(262)
Installment	1,218	1,239	21
Qualitative/Subjective	17,290	19,380	2,090
Total	\$34,500	\$35,771	\$1,271

Incurring vs. CECL (\$ in Thousands)



- We delayed adopting CECL under the CARES Act:
 - Increased visibility into the economic (local, regional, national) impact of the COVID-19 pandemic.
 - Unemployment forecast sources exhibiting wide disparity.
 - Relationship between unemployment and credit impacted by non-traditional factors, including “stay at home” executive orders, increased unemployment eligibility as well as supplemental unemployment benefits.
- Incurred Model:
 - Reserve build with Q3 provision expense of \$1.0 million.
 - September 30, 2020 allowance for loan losses of \$35.8 million or,
 - 1.25% of portfolio loans;
 - 1.44% of portfolio loans excluding PPP loans and remaining Traverse City State Bank acquired loans; and
 - 349% of non-performing loans.
 - Qualitative/subjective allocation increased \$2.1 million in 3Q’20 (and by \$10.7 million in the first nine months of 2020) due to impact of: economic shock, high unemployment claims, “stay at home” executive orders and the level of forbearance requests.
- CECL:
 - CECL day 1 impact range is \$8.0 million to \$10.0 million with \$1.0 million to \$2.0 million for unfunded commitments.
 - “As if” CECL in Q3’20: \$8.0 million to \$10.0 million with \$0.5 million to \$1.5 million for unfunded commitments.
 - CECL Model Details:
 - Discounted cash flow model with fourteen loan segments.
 - Probability of default and loss given default based on long-term average for commercial loans and regression for mortgage and installment loans.
 - Regression uses two year forecast / two year reversion to mean driven primarily by unemployment.
 - Unemployment data: median of Bloomberg survey: 8.7% Q3, falls to 8.1% in Q4, reaches 6.4% by Q4, 2021.
 - Q factors: model maturity, economic shock and forbearance activity.
 - Slightly lower loan balances (excluding PPP loans) at September 30, 2020.

(1) 9/30/20 “As If” ACL and percent of loans calculated at midpoint of incremental range with additional \$9.0 million at Day 1 and \$9.0 million at Q3’20.

2020 Outlook Update

25

Category	Outlook
Lending	<p>Continued growth IBCP goal of mid- single digit (approximately 7%) overall loan growth in 2020, primarily supported by increases in commercial loans, mortgage loans and consumer loans. Expect much of this growth to occur in the last three quarters of 2020. This growth forecast also assumes a stable Michigan economy. Q3 Update: Loans decreased \$11.2 million in the quarter but are up \$130.5 million YTD due primarily to PPP balances. The year end total portfolio loan balance and 4Q'20 activity will primarily reflect the pace of PPP loan forgiveness.</p>
Net Interest Income	<p>Growth driven primarily by higher portfolio loan balances, expect total deposits (including brokered time) to grow by approximately 5% in 2020 IBCP goal of approximately a 2% increase in net interest income (NII) over 2019. Expect the net interest margin (NIM) to be relatively stable in 2020 and comparable to the 4Q'19 level but lower than the full year 2019 NIM. The forecast assumes no changes in the target federal funds rate in 2020 and long-term interest rates up very slightly over year end 2019 levels. Q3 Update: The interest rate environment in the first nine months of 2020 has been very different than the original forecast. Actual short term rates declined 150 bps and long-term rates declined by approximately 100 bps. Actual NIM compression of 0.05% on a linked quarter basis. We anticipate NIM to be relatively stable for the last quarter of 2020 (comparable to 3Q'20) as the impact of lower rates slows, yields on PPP loans improve (due to increased accretion of fees) and excess liquidity has been invested.</p>
Provision for Loan Losses	<p>Steady asset quality metrics Very difficult area to forecast. Future provision levels under CECL will be particularly sensitive to loan growth and mix, projected economic conditions, watch credit levels and loan default volumes. The allowance as a percentage of total loans was at 0.96% at 12/31/19. The initial (effective 1/1/2020) CECL adjustment is now expected to be approximately \$8 million to \$10 million. This revised lower range (compared to the 3Q'19 CECL estimate) primarily reflects the following factors: (i) a decline in commercial loan watch credits; (ii) a 4Q'19 update of the credit scoring of the retail loan portfolio reflecting improved scores; (iii) slightly higher prepayment rates in the retail loan portfolio; (iv) methodology refinements in the retail construction loan portfolio; and (v) changes in specific reserves. This CECL adjustment is still subject to certain final review procedures that will be completed in 1Q'20. A full year 2020 provision (expense) for loan losses of approximately 0.15% to 0.20% of average total portfolio loans would not be unreasonable. Q3 Update: We opted to delay implementation of CECL as described earlier. Actual YTD 2020 provision of \$12.9 million (or 0.60% annualized of average total loans). This provision includes an increase in the qualitative/subjective reserve under the incurred method of \$10.7 million (or 0.50% annualized of average total loans), due to the economic shock from the COVID-19 pandemic, elevated unemployment and forbearance activity. Future provision levels will depend on how deep and how long this economic disruption lasts and the impact on the loan portfolio. 4Q'20 provision will primarily depend on level of net loan charge-offs, new loan defaults and new forbearance activity (all were low in 3Q'20).</p>
Non-interest Income	<p>IBCP forecasted 2020 quarterly range of \$11 million to \$13.5 million with the total for the year up 3% to 4% from 2019 actual of \$47.7 million Expect mortgage loan origination volumes in 2020 to be down by approximately 15% due primarily to a decline in refinance activity. Expect overall mortgage banking revenues (gain on sale and mortgage loan servicing) to improve in 2020 due to not having any fair value write downs due to price for MSRs. Expect service charges on deposits and interchange income in 2020 to be collectively comparable to 2019 (i.e. a decline in servicing charges on deposits due to lower NSF fees to be largely offset by an increase in interchange income). Q3 Update: Actual non-interest income of \$27.0 million was well above the high end of the range of \$13.5 million. Very strong 3Q'20 mortgage loan origination volumes due to heavy refinance activity and solid purchase activity. \$20.2 million in gains on mortgage loans were partially offset by \$1.1 million of negative MSR fair value change due to price. Expect the last quarter of 2020 to be slightly above the high end of the forecasted range.</p>
Non-interest Expenses	<p>IBCP forecasted 2020 quarterly range of \$27.5 to \$28.5 million with the total for the year up very slightly (less than 1%) from the 2019 actual of \$111.7 million. Expect total compensation and employee benefits to be slightly lower in 2020 compared to 2019 due primarily to a reduction in incentive compensation. Most other categories of non-interest expense expected to have small (1% to 2%) increases. Q3 Update: Actual non-interest expenses of \$33.6 million were well above the high end of the range due primarily to an increased accrual for incentive compensation due to strong YTD financial performance and \$0.6 million of conversion related expenses. Expect these total expenses to be slightly above the high end of the range outlined above for the last quarter of 2020.</p>
Income Taxes	<p>Approximately a 20% effective income tax rate in 2020. This assumes a 21% statutory federal corporate income tax rate during 2020. Q3 Update: 19.6% actual effective income tax rate. Reaffirm approximately 20% effective rate for the last quarter of 2020.</p>
Share Repurchases	<p>2020 share repurchase authorization at approximately 5% of outstanding shares. Expect total share repurchases in 2020 at just above the mid-point of this authorization. Q3 Update: Share repurchase activity initially ceased on March 16, 2020. Share repurchase plan being reactivated effective October 30, 2020.</p>



Growth

- **Improve net interest income** via balanced loan growth, disciplined risk adjusted loan pricing and active management of deposit pricing.
- **Innovative and targeted customer acquisition**, retention and cross sales strategies leveraging data analytics, inside sales staff, and intra-company referrals with strategic business unit partners.
- Add new customers and grow revenue through **outbound calling**.
- Add new customers and grow revenue through the **addition of new talented sales professionals** in our existing markets.
- **Supplement our organic growth initiatives** via **selective and opportunistic bank acquisitions** and branch acquisitions.



Talent Management

- We recognize that the **path to organizational success is through the success of each and every one of our team members**. Accordingly we encourage and support the professional development of our colleagues through our IB Leadership Program, mentoring and other initiatives.
- We are passionate about our desire to ensure that our **team members are empowered** and supported in a way that will best position them **to serve our customers**.
- We believe that if we are **committed to the well-being of our team members**, and recognize and reward their contributions, they will ensure our success.



Process Improvement & Cost Controls

- **Completion of core data processing provider contract.**
- **On-going branch optimization:** including assessing existing locations; new locations; service hours; staffing; workflow; and our leveraging of existing technology.
- **Modernize branch delivery technology/systems.**
- **Expand Digital Branch (Call Center) services.**
- All business lines and departments: **streamline/automate operating processes and workflows**
- Build/enhance dashboard reporting and business intelligence.



Risk Management

- Maintain strong, **high quality, capital levels** – augmented by **consistent earnings**.
- Maintain **excellent asset quality** and strong proactive monitoring.
- Active liquidity and **interest rate risk monitoring** and management.
- Strong, independent and collaborative risk management, utilizing 3 layers of defense (business unit, risk management and internal audit).
- Effective operational controls with special **emphasis on cyber security, fraud prevention, regulatory compliance, crisis communications and business continuity plan.**
- Effective working **relationships with banking regulators and other key outside oversight partners.**

Question and Answer Session
Closing Remarks
Thank you for attending!

NASDAQ: IBCP