

INDEPENDENT BANK CORPORATION EARNINGS CONFERENCE CALL 3RD QUARTER - 2015

October 29, 2015



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Agenda

3rd Quarter 2015 Earnings Conference Call

■ 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

	3Q'15	2Q'15	1Q'15	4Q'14	3Q'14
Diluted EPS	\$ 0.22	\$ 0.24	\$ 0.16	\$ 0.17	\$ 0.21
Income before taxes	7,325	8,243	5,561	5,438	7,274
Net income	5,047	5,619	3,781	3,902	4,929
Return on average assets	0.86%	0.98%	0.67%	0.69%	0.87%
Return on average equity	7.84%	8.86%	6.05%	6.19%	7.95%
Total assets	\$2,394,861	\$2,288,954	\$2,329,296	\$2,248,730	\$2,239,857
Total portfolio loans	1,467,999	1,450,007	1,422,959	1,409,962	1,398,784
Total deposits	2,060,962	1,961,417	2,000,473	1,924,302	1,895,895
Shareholders' equity	252,980	254,375	253,625	250,371	247,067
Tangible BV per share	11.11	11.06	10.94	10.79	10.65
TCE to tangible assets	10.48%	11.02%	10.79%	11.03%	10.92%

Note: Dollars in 000's, except per share data.



2015 3rd Quarter Financial Highlights

Income Statement

- Net income of \$5.0 million, or \$0.22 per diluted share.
- Net recoveries on loans of \$0.26 million led to a \$0.24 million credit loan loss provision.
- Gains on mortgage loans increased \$0.3 million, or 21.6%.
- Impairment charge on MSR's of \$0.9 million (\$0.025 per diluted share after tax).
- Gain on branch sale of \$1.2 million (\$0.034 per diluted share after tax).
- Continue to focus on long-term profitability through organic growth.

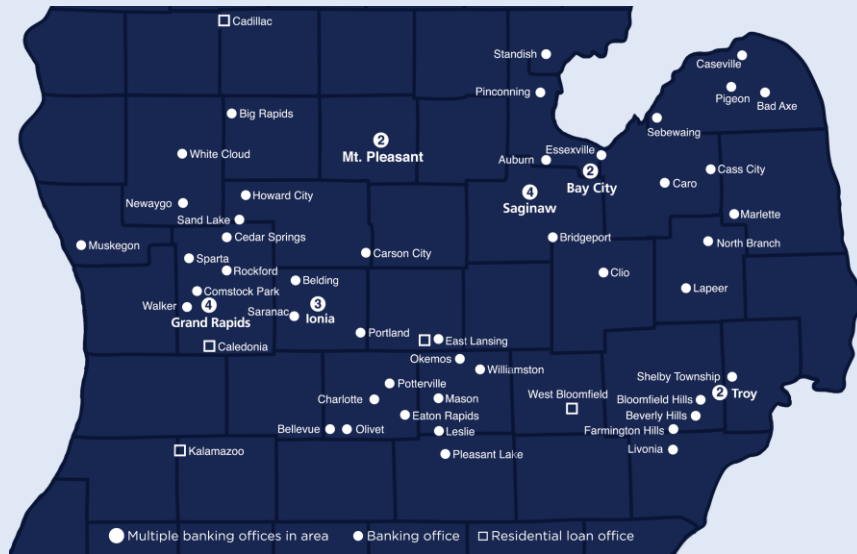
Balance Sheet/Capital

- Portfolio loans grew \$18.0 million, or 4.9% annualized.
- Investment securities totaled \$605 million at 9/30/15 compared to \$558 million at 6/30/15.
- Deposits totaled \$2.06 billion at 9/30/15 compared to \$1.96 billion at 6/30/15.
- Repurchased 381,747 shares at an average price of \$14.03 per share.
- TBV per share increased to \$11.11 at 9/30/15 from \$11.06 at 6/30/15.
- Paid a six cent per share cash dividend on common stock on 8/17/15.



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Core Banking 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 5.0% in September 2015 (1.7% lower than one year ago).
- Michigan payroll jobs totaled 4.272 million in September 2015 (84K higher than one year ago).
- S&P/Case-Shiller MI Detroit Home Price Index up 5.4% year over year (July 2015 vs. July 2014).

Region	Cities	Branches	9/30/15 Loans ⁽¹⁾	% of Loans ⁽¹⁾	9/30/15 Deposits ⁽³⁾	% of Deposits ⁽³⁾	9/30/14 Loans ⁽²⁾	9/30/14 Deposits ⁽³⁾
East / "Thumb"	Bay City / Saginaw	23	\$312	24%	\$711	36%	\$292	\$692
West	Grand Rapids / Ionia	22	492	37%	639	33%	438	574
Central	Lansing	11	181	14%	303	15%	183	289
Southeast	Troy	7	328	25%	323	16%	307	243
Total		63	\$1,313	100%	\$1,976	100%	\$1,220	\$1,798

Note: Dollars are in millions.

1) Loans exclude those related to resort lending (\$118 million) and payment plan receivables (\$37 million).

2) Loans exclude those related to resort lending (\$134 million) and payment plan receivables (\$45 million).

3) Deposits exclude reciprocal deposits, brokered deposits and certain other "non-market" deposits.

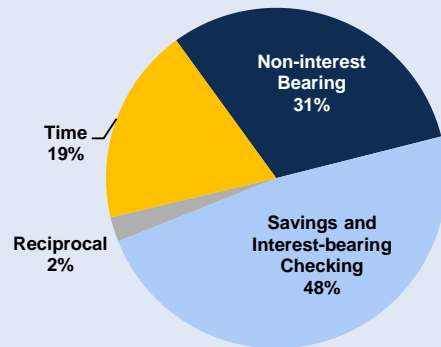


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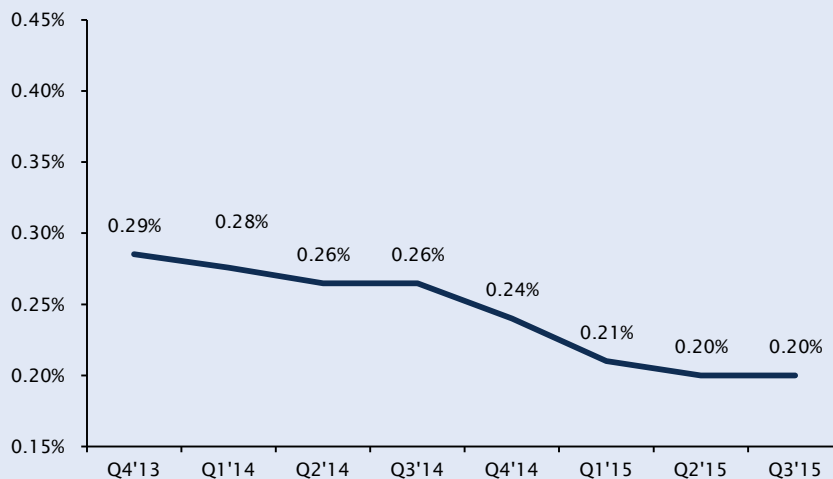
Statewide Low Cost Deposit Franchise

Focused on Core Deposit Growth

Deposit Composition – 9/30/15



Cost of Deposits (%)



Deposit Highlights

- \$2.06 billion in total deposits at 9/30/15.
 - Substantially all core funding.
 - \$1.64 billion of transaction accounts (79.5% of total deposits).
- Total deposits increased \$136.7 million, or 7.1% since 12/31/14.
- Average deposits per branch of \$32.7 million at 09/30/15 vs. \$20.2 million at 12/31/11 (an increase of 61.9%).
- 2015 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.
 - Branch consolidation completed on 4/30/15.
 - Sale of Midland branch closed on 8/28/15.

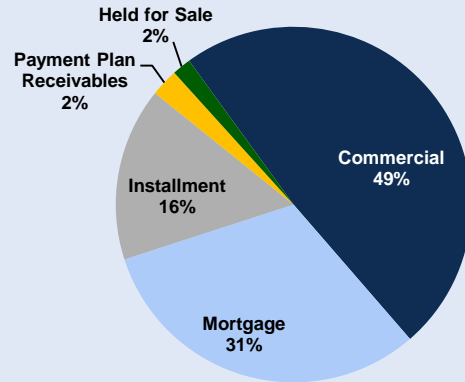


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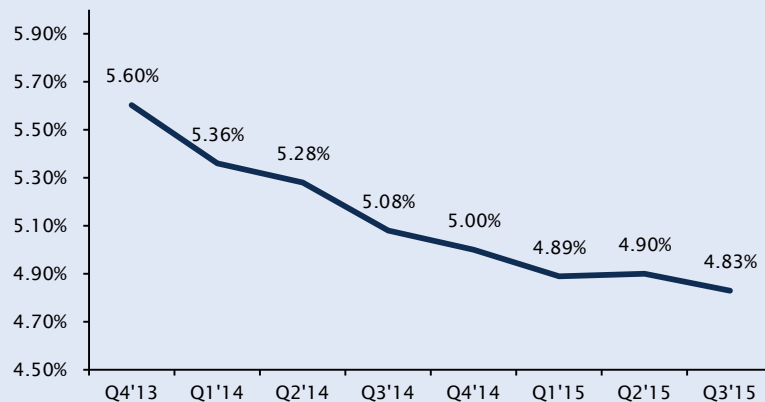
Diversified Loan Portfolio

Focused on High Quality Growth

Loan Composition – 9/30/15



Yield on Loans (%)



Lending Highlights

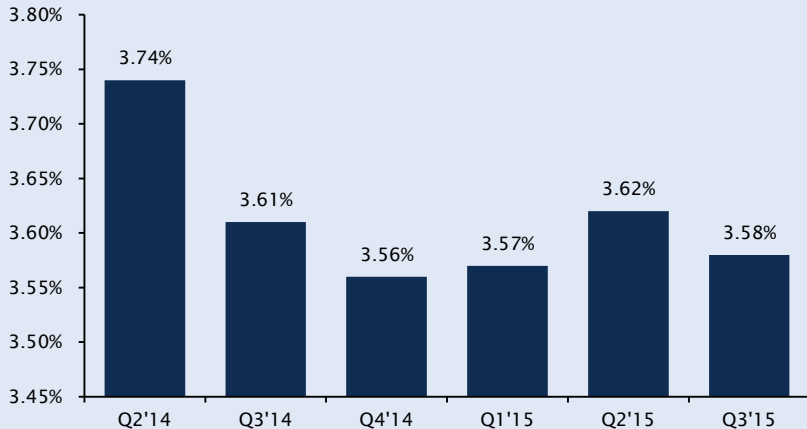
- Six consecutive quarters of net loan growth.
- \$1.49 billion in total loans at 9/30/15 (including \$25.5 million of loans held for sale).
- 3Q 2015 lending results include:
 - Commercial loan growth of \$15.3 million, or 8.6% annualized. Line usage at 46.9% at 3Q'15 vs. 49.6% at 2Q'15 (reduced balance by \$7.6 million).
 - Consumer installment loan growth of \$6.9 million, or 11.9%, annualized.
 - Residential mortgage loan originations of \$79.6 million and loan sales of \$71.1 million (net gains of \$1.8 million).
- 2015 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. Low interest rates spurred increased refinance activity in 2015.



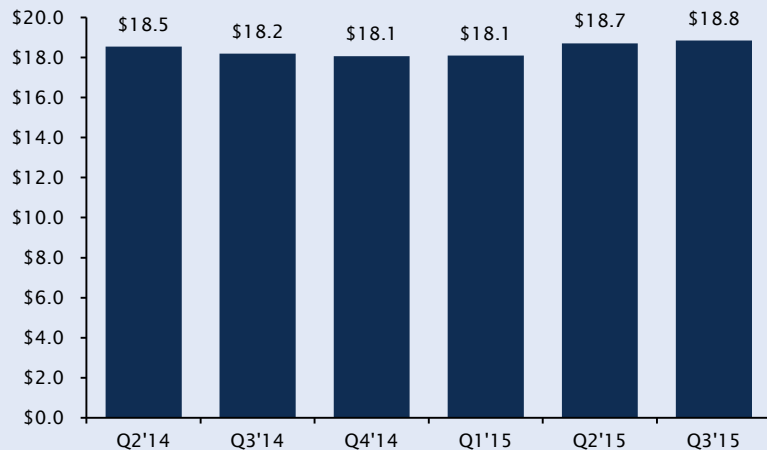
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Net Interest Margin/Income

Net Interest Margin (TE) (%)



Net Interest Income (\$ in Millions)



Note: All dollars 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 increased in 3Q'15 vs. 2Q'15 due to a \$29.4 million increase in average interest earning assets that was partially offset by a 4 bps decline in the NIM.
- Low interest rate environment continues to place some pressure on the net interest margin. 2015 goal is to grow net interest income by 2% to 3% as NIM compression ends and average loans increase.



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Net Interest Income and Net Interest Margin 10

Analysis of Linked Quarter Increase

■ Summary

- 3Q'15 net interest income of \$18.841 million, up \$140K from 2Q'15.
- The linked quarter increase was due to a \$118K increase in interest income and fees on loans and a \$44K increase in interest income on securities and investments that was partially offset by a \$22K increase in interest expense on deposits and borrowings.
- Net interest income was increased by approximately \$0.1 million due to one more day in 3Q'15 vs. 2Q'15.
- The tax equivalent net interest margin (NIM) decreased 4 bps (3.58% vs. 3.62%) due to a 5 bps decrease in the average yield on interest-earning assets that was partially offset by a 1 bps decline in the cost of funds.
- Average yield on new commercial loans was 4.88% on fixed rate (36% of production) and 3.35% on variable rate (64% of production); average yield on new retail loans (mortgage and consumer installment) was 3.83%.

■ Loan Portfolio Details

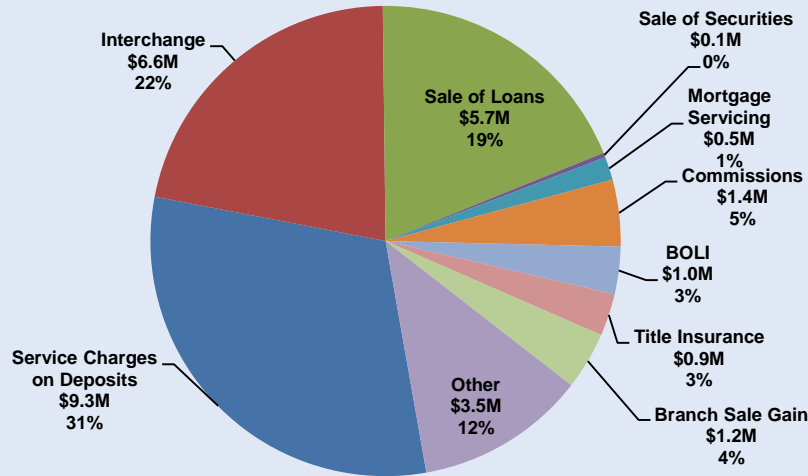
- Commercial loans: Interest income increased \$87K due to one more day in the quarter (\$91K impact) and an \$8.1 million increase in average balance that was partially offset by a 5 bps decrease in the average yield (4.67% vs. 4.72%).
- Mortgage loans (includes loans held for sale): Interest income increased \$22K due to a 3 bps increase in the average yield (4.23% vs. 4.20%) that was partially offset by a \$785K decrease in the average balance.
- Consumer installment loans: Interest income increased \$128K due to one more day in the quarter (\$33K impact) and a \$16.5 million increase in the average balance that was partially offset by a 21 bps decline in the average yield (5.10% vs. 5.31%).
- Payment plan receivables: Interest income decreased \$110K due to a \$2.6 million decrease in the average balance and a 22 bps decrease in the average yield (13.74% vs. 13.96%).

■ Other Factors

- Securities and investments: Interest income increased \$44K due to an \$8.6 million increase in average balance (average yield remained at 1.59% for both quarters).
- Deposits and borrowings: Interest expense increased \$22K due to one more day in the quarter (\$16K impact) and a \$0.2 million increase in the balance of interest-bearing liabilities. Funding cost was 0.41% in both quarters.

Non-interest Income

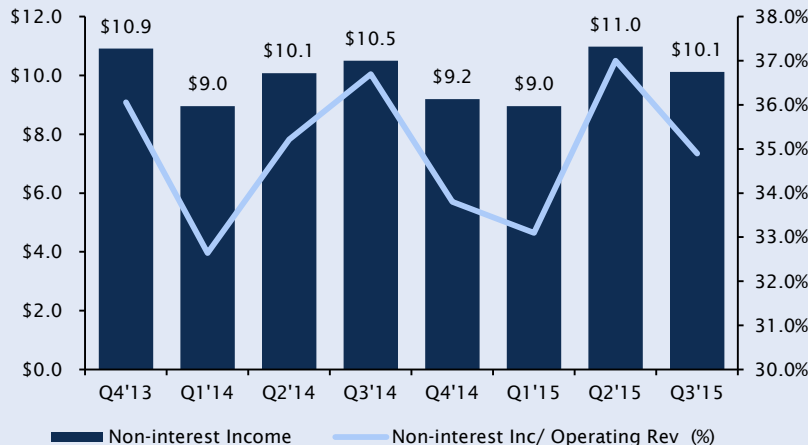
2015 Non-interest Income Breakout



Highlights

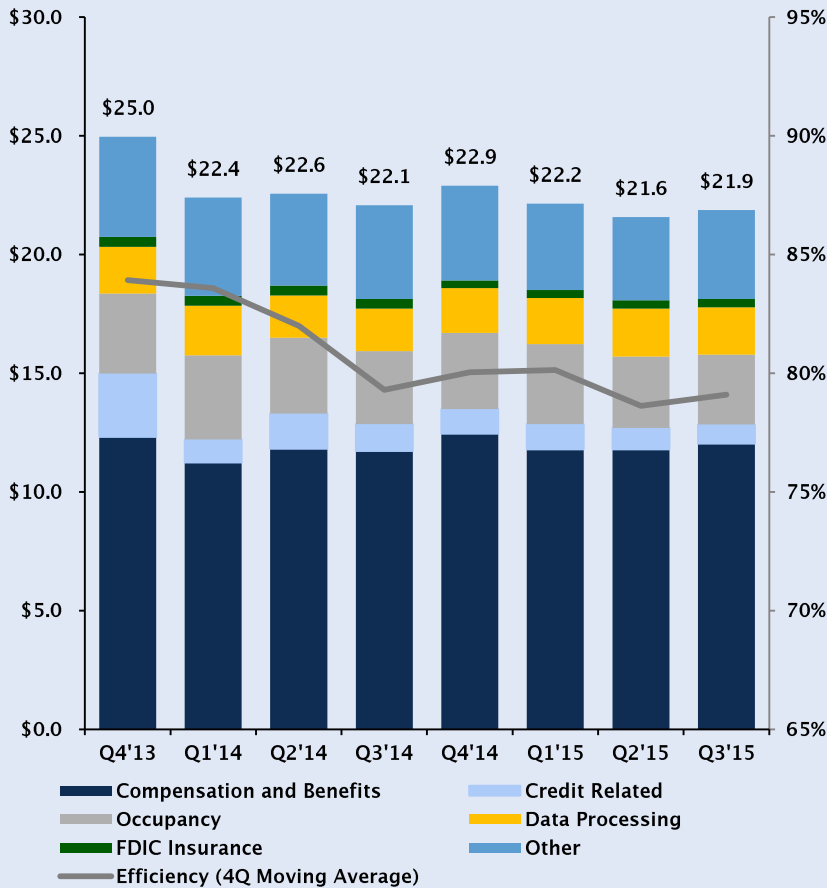
- Diverse sources of non-interest income which totaled \$10.1 million in 3Q'15.
- 3Q'15 total non-interest income represents approximately 34.9% of total revenue (net interest income and non-interest income).
- New debit card brand agreement executed in January 2014. Debit card conversion took place from June to September 2014. 3Q'15 interchange revenue up \$0.2 million, or 9.3%, compared to 3Q'14.
- 3Q'15 gains on mortgage loans totaled \$1.8 million, up \$0.3 million, or 21.6%, from 3Q'14.
- 3Q'15 mortgage loan servicing includes a \$0.9 million impairment charge on MSR's (\$0.0248 per diluted share after tax).
- 3Q'15 includes \$1.2 million gain on branch sale (\$0.0335 per diluted share after tax).

Non-interest Income Trends



Non-interest Expense

Non-interest Expense (\$ in Millions)



Highlights

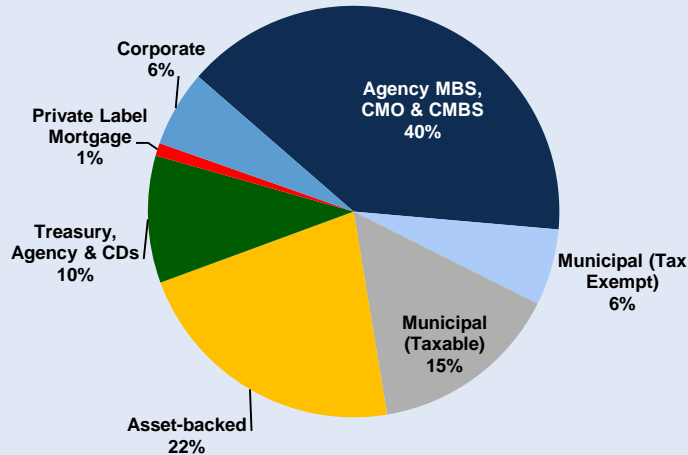
- Q3'15 non-interest expenses totaled \$21.9 million (a decrease from Q3'14 but an increase from Q2'15).
- Target for 2015 is total non-interest expenses at \$21 million to \$22 million per quarter (with an average at \$21.3 million) – representing a 5.4% reduction over 2014 actual. Actual average for 2015 likely to be above \$21.3 million per quarter original estimate due in part to higher performance based compensation that reflects better overall profitability and asset quality metrics.
- Branch consolidation (six offices) completed on April 30, 2015. Estimated annualized reduction in non-interest expenses of \$1.6 million.
- Q3'15 non-interest expense elevated by several smaller items, that individually were not significant, but collectively added approximately \$0.3 million of expenses.

Note: Efficiency ratio is defined as non-interest expense, excluding amortization of intangibles and non-recurring expense, as a percent of net interest income and non-interest income, excluding realized gains on securities and non-recurring items.

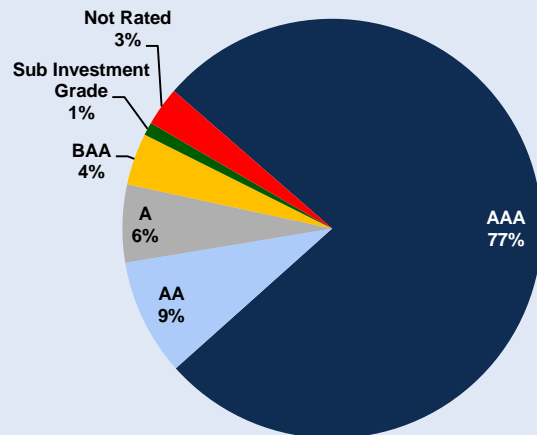


Investment Securities Portfolio

Investment Portfolio by Type (9/30/15)



Investment Portfolio by Rating (9/30/15)



Highlights

- High quality, liquid, diverse portfolio with short duration.
 - 77% 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 1.64% (without TE gross up).
 - Approximately 34% of the portfolio is variable rate.

Total Investments⁽¹⁾ FV: \$617.7 million

Net Unrealized Gain: \$2.0 million

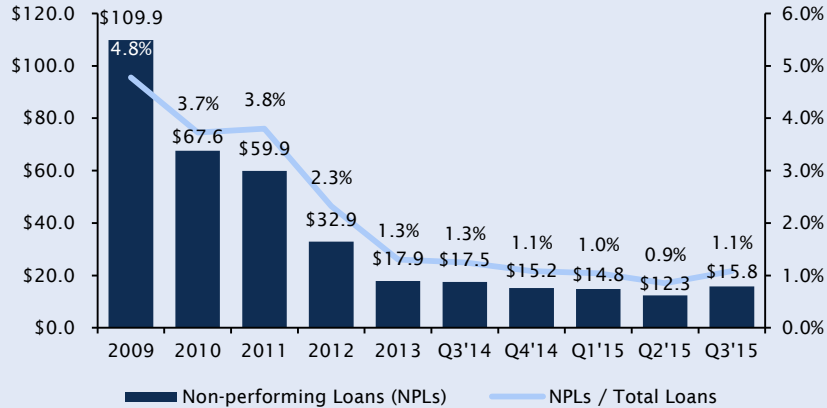
- (1) Includes investments in bank CD's of \$13.0 million but excludes \$0.2 million of trading securities.



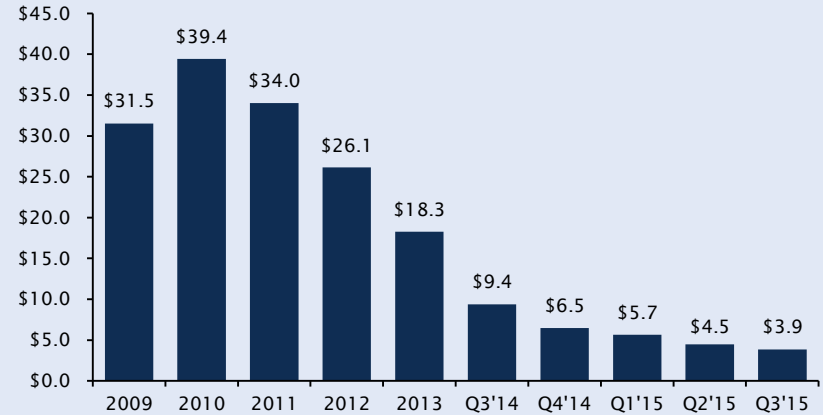
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Credit Quality Summary

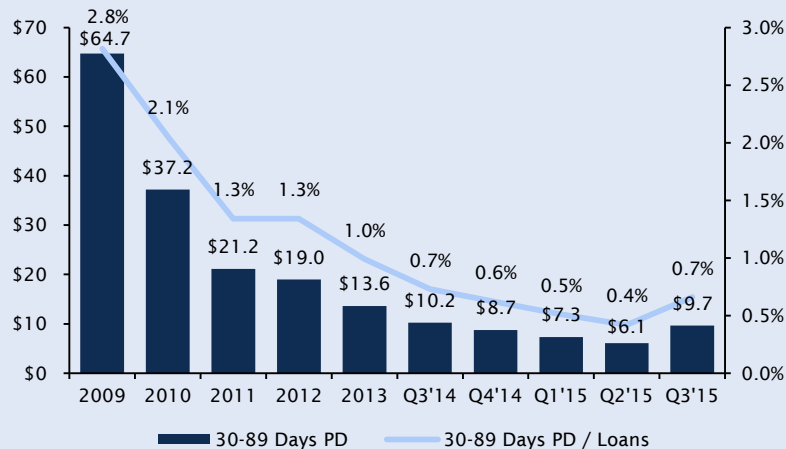
Non-performing Loans (\$ in Millions)



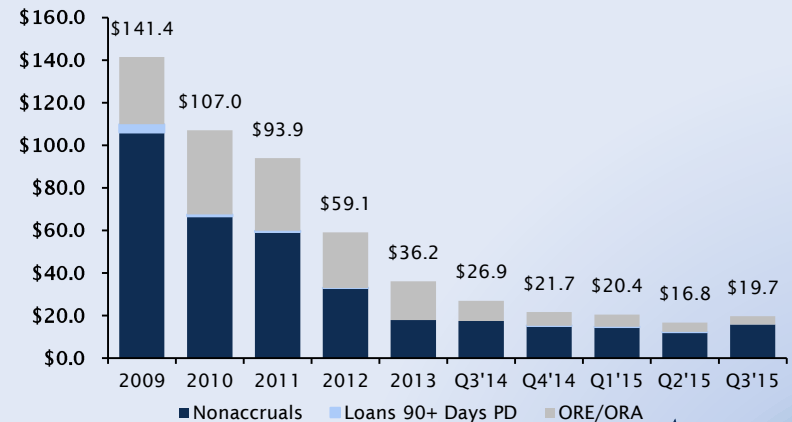
ORE / ORA (\$ in Millions)



30-89 Days Delinquent (\$ in Millions)



Non-performing Assets (\$ in Millions)

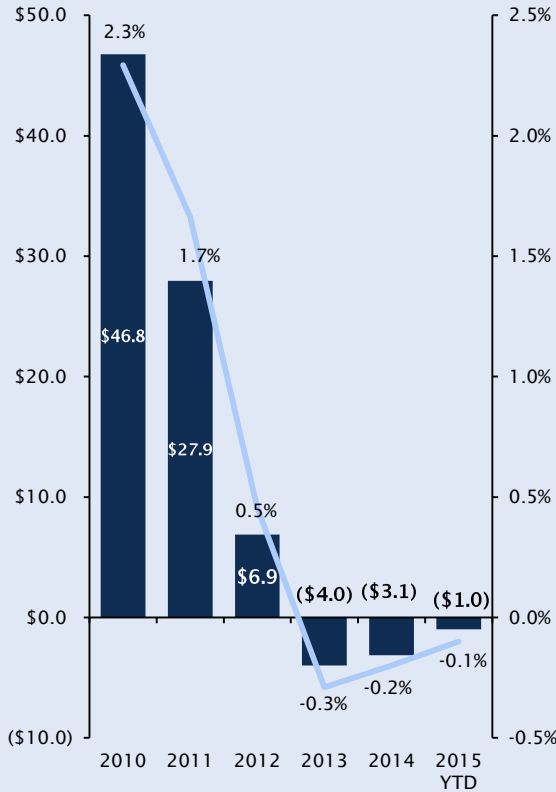


Note: Non-performing loans and non-performing assets exclude troubled debt restructurings that are performing.

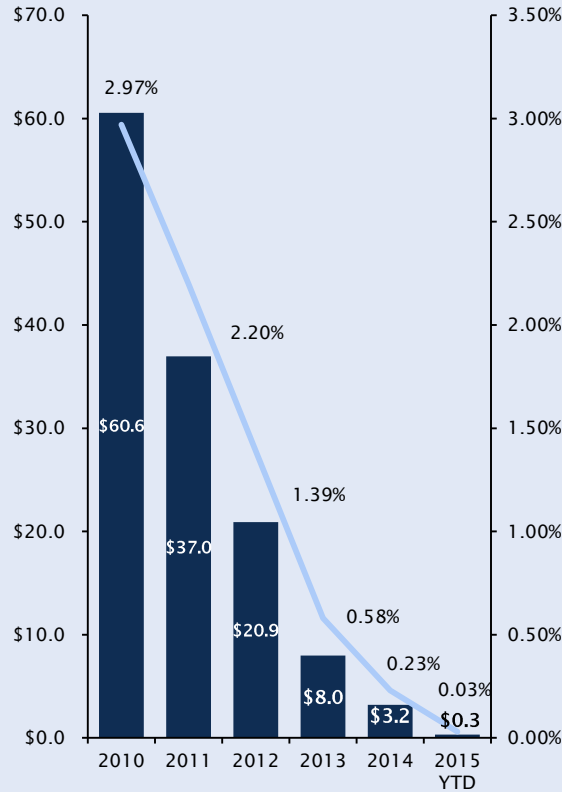


Credit Cost Summary

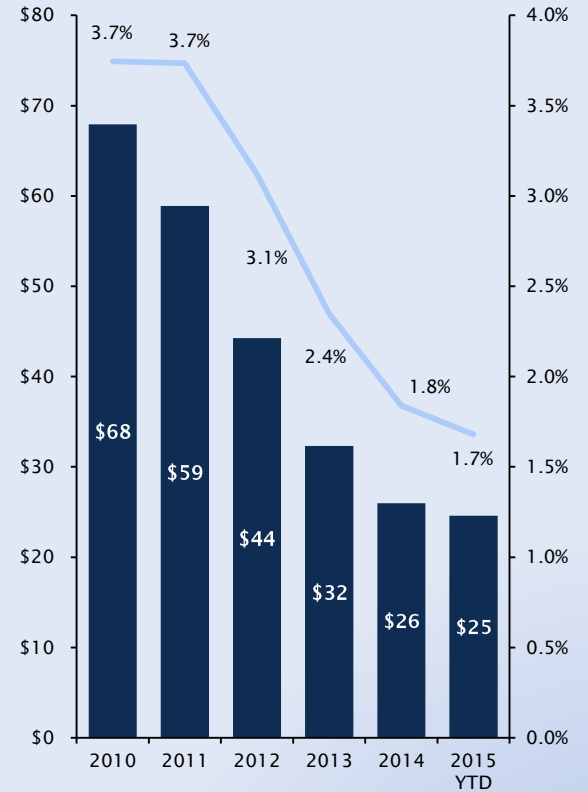
Provision for Loan Losses



Loan Net Charge-Offs



Allowance for Loan Losses



■ Provision — % of Avg. Portfolio Loans

■ NCOs — % of Avg. Portfolio Loans

■ Allowance — % of Portfolio Loans

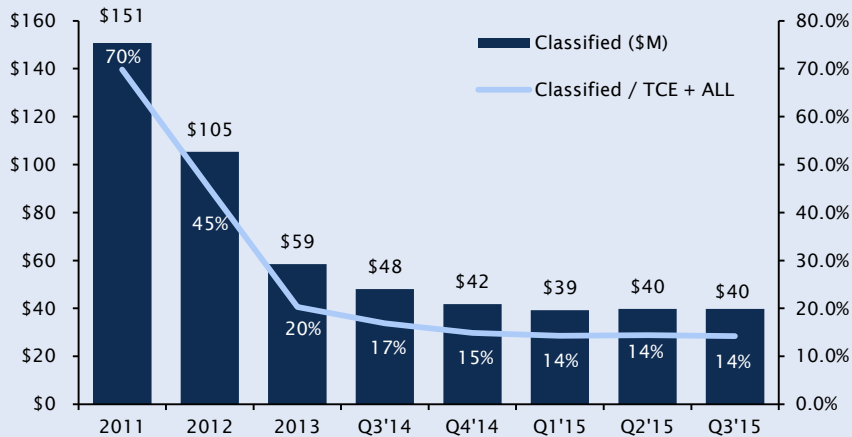
Note: Dollars all in millions



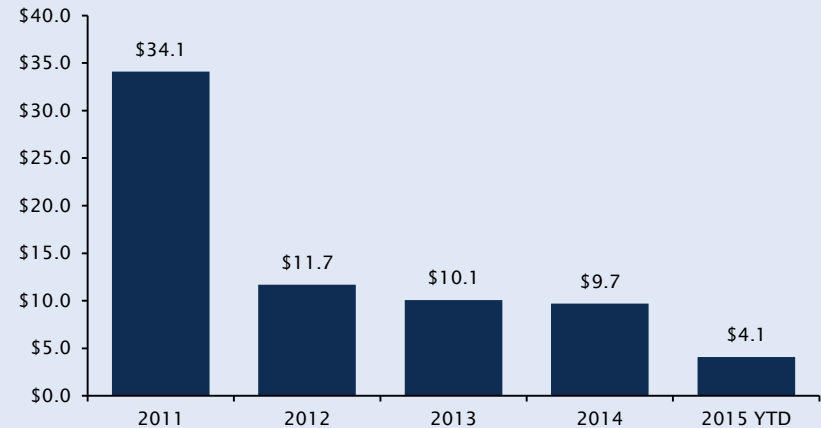
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Classified Assets and New Default Trends

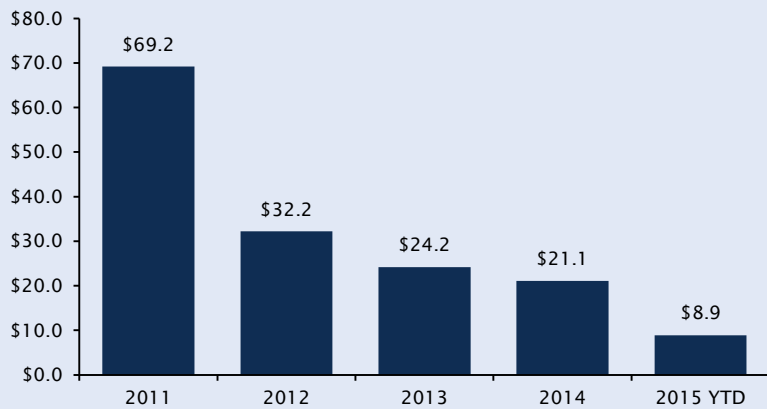
Total Classified Assets (\$ in Millions)



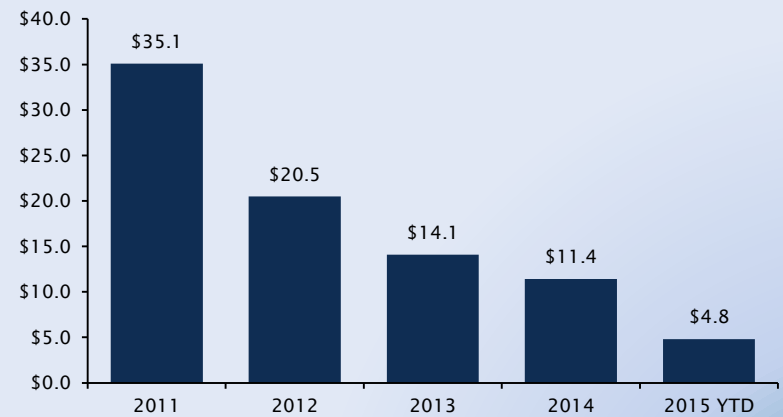
Commercial Loan New Defaults (\$ in Millions)



Total Loan New Defaults (\$ in Millions)



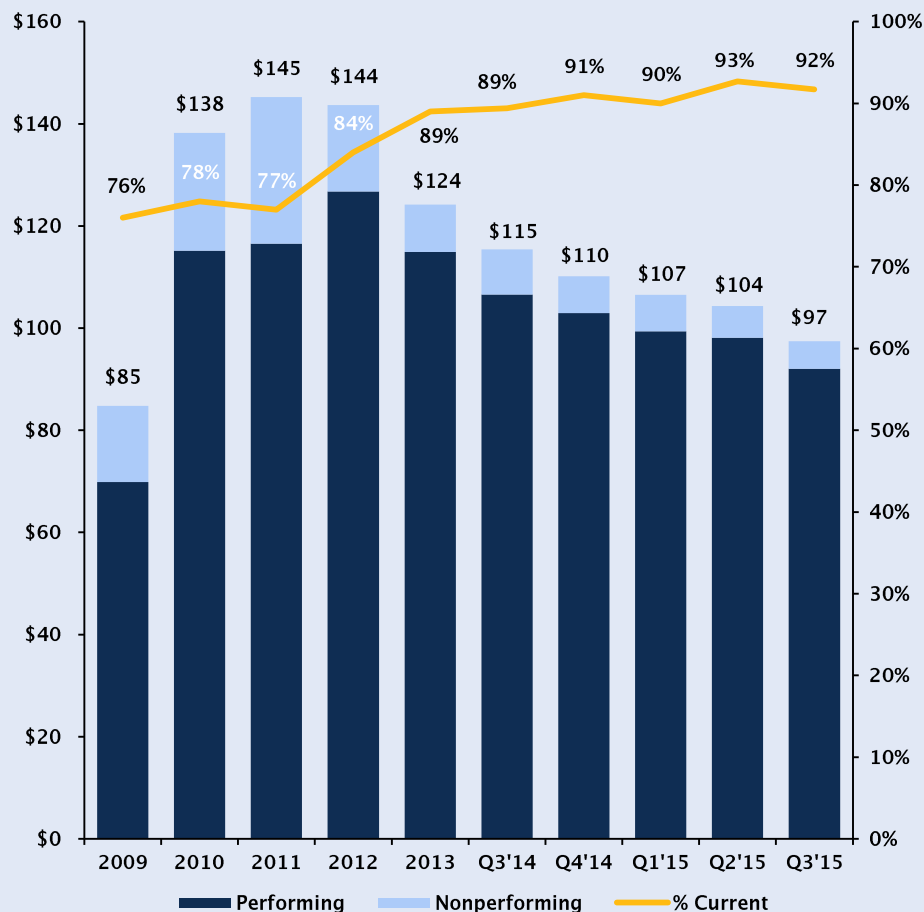
Retail Loan New Defaults (\$ in Millions)



Troubled Debt Restructurings (TDRs)

92% of TDRs are Current

TDRs (\$ in Millions)



TDR Highlights

- Working with client base to maximize sustainable performance.
- The specific reserves allocated to TDRs totaled \$10.5 million at 9/30/15.
- A majority of our TDRs are performing under their modified terms but remain in TDR status for the life of the loan.
- 91.7% of TDRs are current as of 9/30/15.
- **Commercial TDR Statistics:**
 - 80 loans with \$23.8 million book balance.
 - 93.7% performing.
 - WAR of 4.74% (accruing loans).
 - Well seasoned portfolio; over 97% of accruing loans are not only performing but have been for over a year since modification.
- **Retail TDR Statistics:**
 - 779 loans with \$73.6 million book balance.
 - 94.7% performing.
 - WAR of 4.38% (accruing loans).
 - Well seasoned portfolio; over 91% of accruing loans are not only performing but have been for over a year since modification.



2015 Actual vs. Management Original Outlook 18

Category	Outlook
Lending	<p>Modest growth Goal of mid single digit % overall loan growth, primarily supported by mid single digit % growth in commercial loans and consumer loans with modest increases in mortgage loans and payment plan receivables. Expect much of this growth to occur in the last three quarters of 2015. This growth forecast also assumes a stable to somewhat improving Michigan economy. 3Q'15 Update: YTD net loan growth of \$58.0 million, or 5.5% annualized. Growth concentrated in commercial and consumer installment loans.</p>
Net interest income	<p>Modestly higher Goal of low single digit % increase in net interest income over 2014. Pressure on the net interest margin is expected to abate by mid-2015. Growth in net interest income over 4Q'14 level expected by 2Q'15 with continued acceleration in last half of 2015 due primarily to growth in loans as described above. Forecast assumes short-term interest rates remain at current levels until 4Q'15 (modest 0.25% increase in the federal funds rates expected) and mid- to long-term rates up slightly over year end 2014 levels. 3Q'15 Update: Net interest income of \$18.84 million up 0.7% over 2Q'15, also NIM was 3.58% in 3Q'15 vs. 3.62% in 2Q'15.</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 1.84% at 12/31/14. Any credit provision in 2015 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. 3Q'15 Update: Generally improving asset quality metrics led to \$0.2 million credit loan loss provision. ALLL stood at 1.68% of portfolio loans at 9/30/15.</p>
Non-interest income	<p>Forecasted quarterly range of \$9.5 million to \$10 million with total for the year similar to 2014 Expect mortgage-banking revenues and mortgage lending volumes in 2015 to be similar to 2014. Expect modestly lower service charges on deposits (continued decline in NSF occurrences and related fees) and lower other non-interest income (due to decline in rental income on ORE properties). Expect higher interchange revenue (due to full year under new debit card brand agreement). 3Q'15 Update: Actual non-interest income of \$10.1 million. Includes \$0.9 million impairment charge on MSR's and \$1.2 million gain on branch sale.</p>
Non-interest expense	<p>Forecasted quarterly range of \$21 to \$22 million with full year low to mid-single digit % decline vs. 2014 The expected decline in non-interest expenses compared to 2014 is primarily concentrated in compensation and benefits, occupancy and equipment and loan and collection costs. This reflects the branch consolidation, staffing reductions and reduced levels of non-performing assets and watch credits. The reduced expenses are expected to be concentrated in the last three quarters of 2015. 3Q'15 Update: Actual non-interest expense of \$21.9 million.</p>
Income taxes	<p>Approximately 31% to 32% in 2015. 3Q'15 Update: Actual effective income tax rate of 31.1%.</p>

(1) Outlook as of 10/28/15



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Strategic Initiatives

■ Balance Sheet

- Generate quality loan growth with continued focus on commercial and consumer installment lending as well as salable mortgage loans.
- 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).
- Prudent capital management. Target TCE ratio – 10% to 11% near-term / 9% to 10% long-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 repurchase.
- Share repurchase plan approved for up to 5% of outstanding common shares. 382K shares repurchased in 3Q'15 (277K shares repurchased in 1H'15). In total have bought back 2.9% of outstanding common shares.
- Quarterly cash dividend rate on common stock increased 33% to eight cents per share effective with 11/16/15 dividend.

■ 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: 75% near-term (six to 12 months); 70% mid-term (18 to 24 months) and 65% longer-term (over 24 months). Achieve improvements through combination of revenue growth and expense reductions.
- ROA of 1% or better by end of 2016.

■ Enterprise Risk Management

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



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Independent Bank Corporation
3rd Quarter 2015 Earnings Conference Call

Question and Answer Session
Closing Remarks

Thank you for attending !

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