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Moderator: Jennifer Russeau

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Operator: Good morning, ladies and gentlemen, and thank you for standing by. Welcome to the Chemical Financial Corporation's Second Quarter Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we'll conduct a question-and-answer session and instructions will be given at that time. Today's conference is being recorded.

As a reminder, a copy of today's earnings release can be accessed by logging onto chemicalbank.com and selecting the investor information tab at the top of the Web site. Also included is a slide presentation on our Investor information page with supplemental information that will be referenced in today's call.

With us today are David Provost, CEO and President of Chemical Financial Corporation, Tom Shafer, Vice Chairman of Chemical Financial Corporation and CEO and President of Chemical Bank and Dennis Klaeser, our Chief Financial Officer. After brief comments from management, the call will be opened to your questions.

Before we begin, we would like to caution listeners that this conference call contains forward-looking statements about Chemical, its business, strategies and prospects. Please refer to the forward-looking statements, disclaimer and the other information on Pages 2 through 3 of the slide presentation and our periodic filings with the SEC including our annual report for a description of risks and uncertainties that could cause actual results to differ materially from those reflected in forward-looking statements.

And now, I'd like to turn the call over to David Provost.

David Provost: Thanks and good morning everyone. It's exciting to be here in Downtown Detroit at the Detroit Athletic Club. I find it ironic that this morning I was in a room that used to be called the NBD Suite, overlooking a ballpark called Comerica Park. These were the last two major banks to call themselves Detroit's hometown bank.

Earlier this morning, we conducted a joint press conference with the City of Detroit to announce the move of Chemical Bank's headquarters to Downtown Detroit. I am also very pleased to tell you that the City of Detroit put out a press release earlier today to announce that it has selected Chemical Bank as its primary banking partner for managing the city's deposits.

We are proud to be an integral player in the investment in the rebirth of Detroit and to become Detroit's hometown bank. With the move of our headquarters, we will temporarily utilize our current Detroit location as our headquarters.

Later we expect to move our headquarters to a new office space within a newly constructed building at the corner of Woodward Avenue and Elizabeth Street. Upon the completion of that construction, we plan to have over 500 employees in Detroit and believe this will be a catalyst for many new business relationships, furthering our opportunities for our investment in the city and growing our market share.

It is important to note that while we are moving our headquarters to Detroit, we have not left behind our roots in Midland. We plan on retaining over 500 employees based in Midland and retain our business presence as Midland would continue to become our operational hub.

And now, I'd like to turn it over to more positive news and discuss our results for the quarter. Our earnings of $69 million for the quarter, representing earnings per diluted share of 96 cents continue to be strong.

Our earnings results reflected strong growth in our net interest income and a 10 percent annualized loan growth for the quarter that was primarily driven by new relationships in our commercial and industrial portfolio. Our positive results for the quarter also show a strong underlying trend of maintaining a low efficiency ratio.

Even while diligently working to complete a substantial upgrade to our core operating system, we were able to maintain an adjusted efficiency ratio of 51.2 percent. I'd like to note that we successfully completed the core operating system conversion this past weekend.

We continue to have an optimistic outlook, as we are beginning to see the rewards of the reinvestment of a portion of the cost savings we created from the restructuring effort we took in the second half of last year in the top-notch commercial lenders in building our banking team in high growth potential markets, including Detroit, Cleveland and Grand Rapids.

Through the addition of our team, we believe we have positioned ourselves for further expansion and increased market share in these high growth markets as we focus on services and product lines that provide the greatest opportunity to create value.

Know that while we continue to make strategic market investments, we will continue to balance our disciplined expense management philosophy with a strong focus on driving revenue growth as we continue to make progress toward our goal of being Midwest's premiere community bank providing best-in-class service to all of our customers.

With that, let me turn it over to Dennis to go over our financial results in further detail. Dennis?

Dennis Klaeser: Okay. Thank you, David, and good morning to everyone. Moving to Slide 7, net income was $69 million in the second quarter of 2018, a decrease of $2.6 million from the previous quarter's net income and up $17 million from the same quarter a year ago.

Diluted earnings per share were 96 cents per diluted share in the second quarter down from 99 cents in the first quarter and up from 73 cents in the second quarter of '17.

The decline in net income compared to the prior quarter was primarily driven by the fact that in the first quarter, we had an earnings benefit from MSR valuation adjustments of $3.8 million. In the second quarter, we had an increase in our provision for loan losses as a result of very strong loan growth. And also we had higher costs associated with the implementation of upgrades to our core operating system.

As shown on Slide 8, year-over-year our total loan portfolio has grown $913 million to $14.6 billion as of June 30, 2018. This growth was largely driven by our commercial loans, which grew by 9 percent and a residential mortgage portfolio which grew by 6 percent, tempered by our consumer loan portfolio, which decreased by 1 percent year-over-year.

Turning to Slide 9, we had $361 million of loan growth in the second quarter, representing an annualized loan growth of 10.2 percent compared to 1.8 percent annualized growth in the first quarter.

Approximately 40 percent of the growth in the second quarter was in our C&I portfolio. We are pleased with the pace of loan growth and expect strong growth over the latter half of the year.

From Slide 10, you can see that our $361 million of net loan growth for the quarter is a result of $684 million of growth in our originated loan portfolio offset by $323 million of runoff of our acquired loan portfolio.

Moving onto deposits, as you can see on Slide 11 overall deposit growth year-over-year totaled $1.4 billion, or about 10 percent, with a little less than half of this growth coming from broker deposits.

With our winning of the City of Detroit deposit business as well as significant headway we are making on a number of other deposit funds to enhance our overall core deposit base, we expect our reliance on broker deposits and FHLB borrowings will decline in future periods.

Our average cost of deposits increased to 56 basis points in the second quarter compared to 46 basis points for the first quarter 2018 and 33 basis points in the second quarter of 2017.

Looking at overall funding on Slide 12, our average cost of funds increased to 76 basis points during the second quarter compared to 64 in the prior quarter and 44 basis points one year earlier, primarily driven by the rising rate environment and increased competition for deposits.

Turning to Slide 13, our asset quality remains high. The increase in provision loan losses to $9.6 million in the second quarter compared to $6.3 million in the first quarter is reflective of that $684 million of growth in our originated loan portfolio.

The net loan charge-offs were at 12 basis points on average loans in the second quarter. It was a slight increase from the prior quarter being related to charge-offs taken on loans individually evaluated for impairment with previously established specific reserves.

Our ratio of nonperforming loans to total loans was 46 basis points as of June 30 compared to 45 basis points from yearend 2016.

The slight increase in nonperforming loans in the second quarter was primarily due to a real estate construction loan relationship that was downgraded to nonaccrual status. We expect this construction loan to be resolved this quarter. And we do not expect to incur any losses from the loan.

As shown on Slide 14, net interest income increased $6 million to $157.5 million in the second quarter compared to $151.9 million in the prior quarter, with the increase primarily due to increases in yields earned on assets and the investment securities portfolios, partially being offset by the increase in cost of funds.

The net interest margin on a tax equivalent basis improved to 3.59 percent in the second quarter, compared to 3.56 percent in the first quarter and 3.48 in the second quarter of 2017.

Quarter-over-quarter our net interest margin benefited from a 15 basis point yield increase on total loans primarily due to the combined impact of higher rates on newly originated loans and yield adjustments on existing loans due to the Fed funds increases that occurred in late March and June. These benefits were partially offset by the increase in cost of funds discussed earlier.

Moving on to noninterest income on Slide 15, our noninterest income for the second quarter totaled $38 million compared to $41 million in the first quarter of 2018.

The decrease in noninterest income was largely due to a $3.8 million of benefit that we recognized in the first quarter related to a change in the fair value of our loan servicing rights compared to only a $30,000 detriment to loan servicing rights recognized in the second quarter.

If we were to exclude the change in fair value of loan servicing rights, our noninterest income for the second quarter compared to the first increased by $1.2 million.

As seen on Slide 16 core operating expenses, excluding impairment associated with income tax credits, realized during the quarter were $102.8 million in the second quarter compared to $100 million in the first quarter of 2018.

Quarter-over-quarter the increase was primarily due to a $3.2 million increase in an expense incurred related to the conversion of our core operating system. Additionally, there were $2.4 million in conversion-related costs capitalized during the quarter.

The first quarter of 2018 included costs associated with our systems upgrade of $2.8 million, made up of $1 million of expenses and $1.8 million of capitalized costs.

We decided to change how we account for the cost of implementing our core systems conversion and its related system enhancements because FASB, which is a governing body that establishes GAAP accounting rules, has announced that it is issuing a clarifying GAAP accounting guidance that will require us to capitalize the software development costs associated with the systems conversion.

Given the pending publication of this guidance, we decided to apply current GAAP accounting rules to capitalize a portion of these costs in the second quarter and retrospectively in the first quarter of this year.

As we completes the core systems upgrade this past weekend, these costs are expected to decrease in the third quarter and then trend significantly down in the fourth quarter of 2018.

Expenses associated with historic tax credits were $1.7 million to our operating expenses in the second quarter of 2018 and $1.6 million in the first quarter of 2018. We expect an additional $8 million or so of historic tax credit impairment expenses over the remainder of 2018 with about $3 million of that expense occurring in the third quarter and $5 million or so in the fourth quarter.

These historic tax credits impairment expenses are expected to be more than offset by a reduction in overall tax rate, which we expect to be in the 14 to 15 percent range in the third quarter and down to 11 to 12 percent range in the fourth quarter, compared to our effective tax rate of 15.3 percent for both the second and first quarter of this year.

Our current projection for total operating expenses for the third quarter of 2018 is approximately $108 million, inclusive of approximately $3 million of expenses associated with the core systems upgrade and approximately $3 million of expenses associated with the historic tax credit impairments.

For the fourth quarter, we expect operating expenses of about $109 million with about $5 million of expenses associated with historic tax credits and less than $1 million of final system conversion expenses.

Our adjusted efficiency ratio was 51.2 percent in the second quarter of 2018 compared to 51.6 percent in the first quarter and 52.2 percent one year ago. Our goal is to maintain our adjusted efficiency ratio close to the 50 percent level.

Turning to Slide 17 we ended the quarter with tangible book value of $22.33, which represents an almost 7 percent growth in our tangible book value per share compared to a year ago. Our TCEs, total asset ratios, remain strong at 8.3 percent at the end of the second quarter. And our regulatory capital ratios are estimated to be 10.5 percent for Tier 1 capital and 11.3 percent for our total risk-based capital ratio.

We also announced a substantial increase in our stock dividend to 34 cents, up from 28 cents the prior quarter. We increased the dividend given our growth and profitably over the past year.

But it is important to note that our dividend rate of 34 cents is a conservative 35 percent dividend payout ratio. So we are effectively retaining approximately two-thirds of our earnings, which we believe provides sufficient capital retention to increase our regulatory capital ratios even with expected sustained strong organic loan growth.

I will now turn it back to Tom for some closing remarks

Tom Shafer: Thanks, Dennis. I'm just going to make some comments on the operation. I'd like to start by sharing with you how proud I am of how employees came together, showed the commitment to our customers, each other and Chemical Bank with the successful completion of our core system upgrade this past weekend.

For any company, that's a significant event, and our team performed extraordinarily well, both in the planning process as well as execution. This was an all-hands-on-deck effort, which required very careful coordination and a considerable amount of additional effort on all of our employees, both our operational teams as well as our client-facing employees.

The completion of the significant systems upgrade is the underpinning of our planning for future growth, regulatory compliance and customer satisfaction.

Our focus is now on solidifying and growing our foundation, maintaining our strong market share and brand recognition in our historical markets and driving growth in West Michigan, Southeast Michigan and the Cleveland market through strategic staffing additions and making use of our systems upgrades.

As David discussed, we shared in a press release earlier today we are extremely pleased to be moving our headquarters to Detroit. We are immediately moving our headquarters to our existing Detroit offices and expect to be in a new 20-story Chemical Bank Tower that will be built in the corner of Woodward and Elizabeth Avenue, Detroit, in the center of the Entertainment and Business District.

Our headquarters move is in conjunction with the news of being selected as Detroit's new financial institution to manage the city's operating deposit accounts, with expected balances of up to $500 million.

For the first time in more than 10 years, Detroit will be home to Michigan's largest headquartered bank. With becoming Detroit's hometown bank we look forward to servicing the city and building additional relationships of equal scale and complexity in Michigan's largest market.

We also look forward to our partnership with Detroit and are excited to build our economy and invest in Michigan's future.

With the move, it is important to note that we will not be departing from our strong ties to the Midland community, which is home to the majority of our operational infrastructure.

As David mentioned, we will maintain our strong presence in Midland with over 500 jobs. Our operational infrastructure in the Midland community will also benefit by supporting increased volumes in our growth markets.

In addition we are pleased to have recently added Krista Flynn as our Regional President for our West Michigan region based in Grand Rapids. Grand Rapids is another high growth market in which we are focused. And we look forward to the relationships we will foster and create as Krista builds on the strong momentum we currently have in West Michigan.

As we shared with you for the last few quarters, we have continued to recruit some of the market's top commercial bankers to our team in the highest potential growth markets. As expected, we are now seeing results of their calling efforts in our commercial loan growth this past quarter and anticipate more significant growth over the remainder of the year and into 2019.

The commercial bankers we have added have a vast level of knowledge of the local markets and a strong reputation that we believe will allow them to build their portfolios at a pace greater than the economic growth rates in their markets.

With the level of effort we have put in to this so far and the excitement we are creating, we are pleased with the progress we have made and the future potential we are seeing. As we move to expand our market presence to loan and deposit growth, we will continue to have a keen focus on our foundation of expense management.

I will now turn it back to David for some additional remarks.

David Provost: Thank you, Tom. Key factors that will drive future earnings are revenue growth and the continuation of our disciplined expense management. We continue to believe that while the reinvestments we are making in our foundation come at a cost, we believe the benefits to come in the future are very much worth the expense.

From an M&A standpoint we constantly evaluate mergers and acquisitions and believe activity in our geographic market areas can offer the potential for additional opportunities to better leverage our capital position and further accelerate our forward momentum. However, we always strive to appropriately balance risk and return. And as I said before not every deal is created equal.

As always, we appreciate your time and interest in Chemical Financial. On that note, moderator, let's open up the call to questions.

Operator: Thank you. If you would like to ask a question, please signal by pressing star 1 on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star 1 to ask a question.

We'll pause for just a moment to allow everyone an opportunity to signal for questions. Our first question will come from Scott Siefers with Sandler O'Neill & Partners.

David Provost: Hi, Scott.

Scott Siefers: Congratulations on all the Detroit-related stuff. So I h ad a question specifically on the City of Detroit deposits. Dennis, can go through just the logistics? You know, how quickly do those come in? What's the cost of deposits? How much runway does this give you? And then, you know, broadly speaking, what's the impact on the margin in the aggregate?

Tom Shafer: Scott, it's Tom Shafer. Dennis and I will both handle this one. So the announcement was made today. We have been working with the city. And there will be some kind of early activity to bring over some balances in the short-term.

But we have about a 90-day process where we will go through a needs assessment to make sure that we're building a modern system for them not just replace what they have. And so I'd say it's really a 90-day process to bring all of them, but we'll start with a significant dollar amount in the short term.

Scott Siefers: Okay. And then, Dennis, impact on the margin. And I guess broadly speaking, with all things included can you maybe make some comments on the margin trajectory overall, ideally from the 3.33 core from the same quarter?

Dennis Klaeser: Sure. So clearly it has incremental benefit on the margin. This is going to be replacing higher cost either brokered funds or FHLB borrowings. And these are, you know, in a sense, you know, business account-type operating accounts. And so we have a positive impact on the margin.

You know, we are very pleased for the quarter that our margin expanded by the three basis points. We had three basis points of headwind from a accretable yield from the purchase of portfolios. So excluding that, there was a six basis point expansion in the margin.

That was much stronger than I expected and the primary driver of that is due to the pickup in yield on the loan portfolio. So our loan portfolio is becoming more reactive to the rising rate environment. And when we look at loan growth being driven primarily by commercial loans that are primarily floating rate, additional rate moves in the year would likely also add some incremental benefit to our margin.

Scott Siefers: Okay. So all else equal, I guess, so the City of Detroit deposits doesn't sound like will really start helping you guys until fourth quarter when they fully come online. But is your expectation that in the third quarter and fourth quarter – third quarters and fourth quarters, you can improve upon the 3.33 core margins still?

Dennis Klaeser: We expect the core margin to be stable to improve. And that's changed from my prior guidance where we were expecting, you know, modest pressure on that margin over the next few quarters. So we definitely have a more bullish outlook on the margin at this point.

Scott Siefers: Okay. Perfect. Thank you.

Operator: Our next question comes from David Long with Raymond James.

David Long: Good morning, guys, and congratulations on all the activity. Great quarter and great news out of Detroit so. And when it relates to the relationship with the city did the move to headquarter yourselves in Detroit, did that have to happen to get that relationship? Or is that something that you guys have been planning for a little while here?

Tom Shafer: Yes, they were not linked. But as we, you know, looked at our strategic plan, and we're discussing those with the board, you know, where is our greatest growth opportunities is what we are focused on, but they weren't linked.

David Long: Got it. Excellent. And then with the commercial lending environment we're hearing about more competition and more competitors and non-bank competitors. Tom, can you just talk about the competitiveness in that marketplace?

Tom Shafer: I'd say that, you know, we're well into an expansion. So you see a very competitive environment. In all of our markets we're seeing that. But because of the market share that we have in some of the markets that we're focused on while everything has to be – we've got to be competitive.

It's really about market share opportunities, companies going through change who are dissatisfied with their current providers. But it's competitive. But, you know, with the team that we have and the systems that we've added, we're very capable of competing with the market that we're serving.

David Long: And then last question, Tom, as it relates to hiring and bringing in some more talented and veteran bankers, how is that pipeline and has there been any recent hires that you can talk about?

Tom Shafer: In the call I just mentioned that we hired Krista Flynn. Krista came from a large regional organization. She's very well prepared for becoming our Regional President.

We have added in the West Region two group managers, senior bankers from large regionals. One of them is from the National, I call it. The Detroit marketplace is the same type of hiring pattern. Cleveland is the type of hiring pattern. We're right on track where we began to give you guidance in the third quarter of '17.

David Long: Got it. Thanks for the update.

Operator: Thank you. If you find that your question has answered, you may remove yourself from the queue by pressing star 2. Our next question comes Chris McGratty.

Chris McGratty: Hi, good morning. Dennis, a question on the expenses. I just want to make sure I got the guide. So 108 in the third quarter and then 109 in the fourth quarter. I missed the components of the 109 million. Did you give the amortization expense? And I think you said $5 million on the systems.

Dennis Klaeser: Yes. What I mentioned was in the fourth quarter about $5 million was associated with historic tax credits amortization. So that's always a little bit difficult to predict that timing.

That expense was lower than expected in the second quarter only because a couple of projects were delayed into the third quarter to going into use. So we've got $5 million of historic tax credit expense in the fourth quarter and then less than $1 million of the final sort of the systems conversion expenses.

Dennis Klaeser: So $109 million minus the $7 million puts us at a roughly $102 million run rate going into the next year.

Chris McGratty: Right. That's where I was going. So for 2019 is it the right way to think of, you know, the base rate on expenses, $102 million annualized and then assume some level of tax credits but also, maybe, 2 to 3 percent inflation. Is that the right way to think of the costs for next year?

Dennis Klaeser: Yes. So very little, if any, of the tax credit impacts because the accounting on that is now being changed. Rather than hitting it all at once, it's going to be spread out over time.

So from 102, we have a normal inflationary builds with, you know, compensation increases and so forth annually. And we have sort of a normal expense build of a high-growth company, however, definitely at a much slower pace than what we had in '18 because we're in a period of absorption.

We're hiring a lot of fairly senior bankers here in 2018. There will be some continued hiring in '19, but it will be at a slower pace and there'll be more of a back building support groups for those teams. Also we do not expect any incremental expenses in terms of core system improvements.

Chris McGratty: Okay. So maybe, you know, the growth component maybe takes into the 2 to 3 percent inflation, maybe mid-single-digit, and that should get you there?

Dennis Klaeser: We'll let you figure out that that's where we're at. But definitely it's a period where we expect to achieve significant operating leverage given the momentum that we expect to have.

Chris McGratty: Okay, no problem. Thanks for that. Maybe, David, a question for you on M&A. Certainly, I think, like you said before, all deals are different. Yesterday I had a pretty big announcement in the southeast and the stocks didn't really respond appropriately, or, you know, positively, I should say.

Can you remind us of the profile of what you might be looking at now that you have, you know, scaled well beyond 10 and obviously the 50 moving up. Is it in-market fill ins? Is it more transformational, you know, deposit versus asset motivated? I'd be interested in your updated thoughts. Thanks.

David Provost: So as you know, this team has been very opportunistic since 2010 with, you know, all the acquisitions that we have done. I think it's 13 of them. What we're really looking for, and we continue to look for, as I stated before, we're looking for either end-market deals or contiguous markets.

We're not looking to, you know, expand too far unless there's unusual opportunities. But we like a balanced approach. As we're growing by 10 percent, basically annually, in both the deposits and the loan side, we can really be selective in what we're looking for.

I just really don't want to have an announcement that everybody criticizes us for and that's not value created for our shareholders because that's really what we're all about. So if there's some attractive end-market deals, contiguous markets at a reasonable price, that's our focus.

Chris McGratty: Great. Thanks a lot. I appreciate it.

Operator: Thank you. Our next question comes from Terry McEvoy with Stephens.

Terry McEvoy: Hi. Good morning and congrats to all of you guys in the room including Gary, if he is not in the room. Dennis, just circling back to expenses, all the numbers you ran through with Chris, does that take into account the headquarter build, the 500 new employees and any additional costs, kind of, wrapped up with today's announcement?

Dennis Klaeser: It does not include the headquarters' build but the headquarters would be a lease arrangement. And so the exact impact of that really isn't going to come into play until, you know, two or three years out when we would be signing that lease.

There is some space in our current facility in Troy that matured right around that time. You know, so there might be some relief of expense there as some of the new expenses come on board.

So some of the headcount is already down here in another office that is full of lenders. There are some people who would be relocating down from Troy. And then, you know, over the next two, three years we're going to have natural growth of our employee base. So I don't think that, you know, over the next few quarters and through 2019, I don't think you would be adjusting your model for that move at this point.

Terry McEvoy: Okay. And then I saw you hired a new Chief Operating Officer, I believe, an old friend. Was that announcement or position needed to get the Detroit business? And are there any other obligations to the City of Detroit on maybe on the lending side that you need to fulfill in connection with the Detroit deposit business?

Dennis Klaeser: No. The Chief Operating Officer is unrelated to Detroit. These are really, you know, other activities that, you know, have converted on this recent time period today but not connected.

As we continue to think about operating and running at $20 billion, $30 billion company, we've added two people to our executive staff more recently. Chris McComish runs mortgage wealth and retail. Brennan is managing all of our risk. He's got the legal area and all of the risk-based activities of the company. So it was natural additions to the executive team for the complexity of our organization.

Terry McEvoy: And just one last question for Dennis. If I take the $500 million of deposits, do you pay down any brokerage CDs or FHL advances? Or is it just those balances stay kind of flat looking on into 2019? I want to make sure I understand your statement correctly.

Dennis Klaeser: Well, there was little impact on the third quarter because, again, it's going to take a while for these funds to flow in. But all else being equal, yes, in the fourth quarter we would expect a bit lesser broker deposits and FHLB. However, obviously, we are expecting strong loan growth through that period.

I think my point is that when you think about our ability to win this very large, very complex deposit relationship that most typically it's never at a bank our size. It's typically at national and very large regional banks.

It demonstrates a level of sophistication and ability to penetrate a part of the market, you know, that previously we weren't able to penetrate. And there are other large deposit relationships that we are very aggressively focused on.

And, you know, we think there's good chance that we'll be successful over the next many quarters. And that ultimately is going to be a benefit to our overall deposit mix and with the goal of reducing our reliance on the higher costing, you know, institutional or FHLB funding borrowings and the broker deposits long term.

Terry McEvoy: Great. Thank you.

Operator: Thank you. Our next question comes from Kevin Reevey with Davidson.

Kevin Reevey: Good morning.

David Provost: You, too.

Kevin Reevey: Congratulations on the win.

David Provost: Yes, thanks.

Kevin Reevey: I was just curious the $500 million of the City of Detroit deposits, are those all transactional deposits?

David Provost: These are the transaction operating accounts. There's a total of approximately 200 accounts and, you know, this is the bulk of them, including their lock box facilities. So we are very, very happy with it.

Dennis mentioned that our new systems upgrade makes this possible. But it also opens the door for a lot of other very complex deposit relationships that we're working on.

Kevin Reevey: And so there's a –it could be an opportunity to cross-sell some other fee-based products once this depository relationship comes in the door.

Tom Shafer: You know, we're handing the full operational cash management. So you think of collections, deposit reporting, information reporting, disbursements, payroll.

Kevin Reevey: And then on CRE front, given where we are in the cycle, what's your appetite to continue to grow that lending segment?

Tom Shafer: So one of the areas that we've added to the company is so we've been, obviously, as a community bank rolling into a regional bank, investing and having, you know, commercial real estate portfolios in all of our marketplaces. We've recently hired a very senior banker, who has a career of only lending through large banks, a CRE.

So we're, I would say, upgrading the sophistication of our commercial real estate lending activities. We've got a group of senior real estate bankers from all over the company that filter all the real estate that we're doing of any size and complexity so that we are preparing ourselves not only for high-quality assets, but any turn that would take place in, you know, in the economy that we're serving.

So, we're being very careful with that and upgrading our skills to make sure that we've got a portfolio that can survive the next change.

Kevin Reevey: And then my last question is related to your auto portfolio. How is the book holding up?

Dennis Klaeser: From a credit standpoint, exceptional. There's no issues of credit whatsoever. The portfolio was relatively stable in the second quarter. As you know, it declined, I think it was $67 million in the first quarter. We would expect in the latter half of the year that portfolio to decline in size as we've reduced our emphasis on that niche.

Kevin Reevey: Great, thank you. Congratulations.

Dennis Klaeser: Thanks, Kevin.

Operator: Thank you. Our next question comes from Nathan Race with Piper Jaffray.

Nathan Race: Hey, guys, good morning and congrats again.

Tom Shafer: Thanks.

Nathan Race: I wanted to touch on the deposit win. I think you guys also had some other RFPs with some other entities in the state. I'm just curious if you could kind of update on, you know, the progress there and kind of what you expect to see on that front-end?

With these deposits coming over I'm just curious if you still expect, you know, deposit betas to, you know, unfold at a similar clip we had or that we saw in the quarter or if you think they moderate perhaps in the back half of this year and then maybe pick up again in 2019?

Tom Shafer: There are a couple of questions in there. So let me start with just the normal RFP flow. We are actively pursuing public funds relationships throughout the region. Michigan is particularly, you know, favorable for the public funds marketplace.

I would say that, as David referenced, the scale and complexity of winning the City of Detroit's business, I would say, is a very strong signal of our capacity to handle other large complex organizations and so you think about county level and large cities. So we will actively pursue them. And we've got, you know, a number of them going on at any given time.

Dennis Klaeser: Yes. So clearly our deposit beta increased in the second quarter. The industry's deposit beta increased in the second quarter. And long-term one of our key strategic goals is to enhance the quality of our core deposit base. And winning deposits like the City of Detroit is a key part of that. And to the extent that we can do that and more that will have a benefit to the deposit betas long-term.

Nathan Race: Understood. I appreciate that color guys. And kind of changing gears and thinking about the securities book, Dennis, just curious, to get any updated thoughts on the growth of that portfolio on an absolute basis going forward.

Obviously, you know, the flat end of the curve probably is making it a little less palatable to continue to grow on a leveraged basis. So just curious to hear your thoughts on how we should think about securities portfolio growth in the back half of this year as well.

Dennis Klaeser: Yes, we grew it. It was $160 million or so in that neighborhood in the second quarter. I do expect it to grow a bit here through the end of the year. And, you know, the pace of growth in the second quarter might be repeated in the third and fourth quarter, again, dependent on how the interest rate environment evolves and funding costs.

You know, our goal is to add leverage in the securities portfolio but not add interest rate risk. For the most part when we do add securities, we are match funding it through a derivative transaction with FHLB borrowing where we swap it out to fix it to the duration of the securities that we're acquiring.

So, I do see some additional opportunities to grow that. And it's likely to grow a little faster than what we expect the loan portfolio to grow at.

Nathan Race: Got it. And just lastly, I appreciate your guidance on the tax rate and the tax for the amortization in 3Q and 4Q of '18. But can you kind of just help us think about, you know, how we should think about the effective tax rate in 2019, you know, under the assumption that, you know, we get a little smoothing of the tax rate amortization to your earlier point?

Dennis Klaeser: Yes. Yes. So the tax rate in 2019 we expect it to be the low 18 percent range. It may come maybe a little lower than that depending on the volume, the low income housing tax credits and historic tax credits that will – but again the historic tax credits flow through, you know, the financial statements on a smoother basis starting in 2019. So 18 percent, sorry, 18.5 percent is sort of the range that you might expect for '19 going forward.

Nathan Race: Okay. Great. I appreciate all the color, guys. Congrats again.

Dennis Klaeser: Thanks.

Operator: Thank you. Our next question comes from John Rodis with FIG Partners.

John Rodis: Dennis, the outlook for loan growth, I mean, you guys seem pretty upbeat. Is it still high single digit loan growth? Or do you think you can do a little bit better?

Dennis Klaeser: Yes, I think we would stick with the high single digit, you know, loan growth. Again, we're very focused on the quality of growth. You know, we're going to get very little growth in the consumer category.

Third quarter, historically, is seasonally a little slower. It is a slower quarter for us. But overall we expect pretty strong growth in that high single-digit range for the second half of the year and that we expect to continue that into '19.

John Rodis: Okay. And then just sort of back to Chris' earlier question on operating expenses. So if we start with $103 million, I guess, as a base, or $102, $103 million in the fourth quarter, and then I think, you know, maybe a couple of quarters ago we talked about, you know, low single-digit growth just off normal inflation and stuff.

But you sort of just said, earlier to Chris' question, that that growth rate should be higher just given your higher growth in new initiatives and stuff like that. Is that correct?

Dennis Klaeser: No. I wasn't trying to change my guidance. I was just noting that our build of the employee base is probably going to be stronger than the typical bank. But overall, you know, it is the, you know, lower single digit pace of growth that we expect in '19 going forward.

John Rodis: Okay, okay. And then, Dennis, just one other question. On the provision, you know, if loan growth sort of stays at a similar clip to the second quarter would sort of $9 to $10 million, sort of similar with what you saw this quarter, be reasonable going forward for provision expense?

Dennis Klaeser: Yes. It was probably a little bit higher than the normal trend. But, you know, I would say $7 to $10 million is the right range to think about.

John Rodis: Okay, thanks. Nice quarter, guys.

Dennis Klaeser: Thanks.

Operator: Thank you. Once again if you would like to ask a question, please press star 1. We'll take our next question from Scott Siefers with Sandler O' Neill & Partners.

Scott Siefers: I have a follow-up, guys. I just wanted to clarify, Dennis, one thing. When you offered the guidance on the tax rate for '19, when you said 18 to 18-1/2, that's an effective tax rate, right, as opposed to an FTE? So if we're looking at an FTE add on, you know, maybe 2, 2-1/2 percentage points on that. So somewhere in that 20 to 21 percent range. Is that a fair way to think about it for next year?

Dennis Klaeser: I'm not sure how I answer your question. We start with a 21 percent corporate rate. Our Michigan taxes run through operating expenses rather than tax line item.

And then we go from the 21 percent corporate rate down to the 18 percent, primarily driven by the fact of our municipal securities portfolio and also benefit incrementally by low income housing tax credits. So I hope I'm getting to the answer to your...

Scott Siefers: I think so. So that's basically just – that's not adjusted for the FTE adjustment, though, right, when you give to 18 to 18-1/2 percent guide?

Dennis Klaeser: Why don't I follow-up with you offline because I'm not sure I understand your question. The 18 percent is the effective tax rate on the face of our income statement.

Scott Siefers: Okay, all right. Yes, I'll give you call afterward. All right. I think everything else I had has been answered so thank you, guys.

Operator: Thank you. At this time, we have no further questions. I would like to turn the conference over to David Provost for closing remarks.

David Provost: All right. Again, everyone, it's a very exciting time here. We appreciate your interest in Chemical Financial. We continue to remain very confident in the future. And we believe we're well positioned to achieve additional market share gains as we move forward. So with that, thank you and have a great day. Thanks.

Operator: Thank you, ladies and gentlemen. This concludes today's teleconference. You may now disconnect.