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Moderator: **Jennifer Russeau**

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Operator: We'll begin in 10, 9, 8, 7, 6.

(Tara): Good morning ladies and gentlemen and thank you for standing by. Welcome to the Chemical Financial Corporation Third 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. As a reminder, today's conference is being recorded.

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, Thomas 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 may contain forward-looking statements about Chemical, its business, strategies and prospects.

Please refer to the forward-looking statements disclaimer and other information's on Pages 2 through 3 of the slide presentation for a description of risks and uncertainties that could cause actual results to differ materially from those reflected in the forward-looking statements.

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

David Provost: Thanks (Tara) and good morning everyone. Looking at the third quarter financial highlights earnings of $70.4 million represent earnings per diluted share of 98 cents which is up from both from the prior quarter and the Third Quarter of 2017.

Our solid earnings for the quarter are reflective of our continued strong growth in our earning assets and overall credit quality improvement. These benefits are partially offset by the addition of our operating expenses in order to build upon our foundation with key additions to our Management Team, upgraded operating systems and the continued expansion of our Commercial Lending Team.

We are proud of our ability to have increased our deposit base in a highly competitive market by $893 million or 24.6% annualized in the third quarter alone.

It's important to note that this level of growth does not yet include the impact of the operating accounts we expect from our selection as the City of Detroit's primary banking partner announced earlier this quarter. We expect the deposit growth from the City of Detroit's partnership to begin slowly in the fourth quarter and then increase to a larger extent in the First Quarter of 2019.

We are also pleased with our loan growth for the quarter of $217 million or a 5.9% annual growth rate during a seasonally slow quarter. Our growth was primarily driven by new relationships in our commercial and industrial portfolio as many of our new lenders we've added to our team are now fully up and running.

The recent additions to our team join with the strength we had previously built, provide us with a continued optimistic outlook and belief that we have positioned ourselves for further expansion and increased market share in our high growth potential markets of Detroit, Cleveland and Grand Rapids 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 the Midwest premier community bank providing best-in-class service to all of our customers.

With that, let me turn it over to Tom to go through some of the specifics of our overall strategic plan. Tom.

Thomas Shafer: Thanks David. I'm pleased with the improvement in our fundamentals following the assessment of our allocation of capital over a year ago. We have succeeded in reinvesting our operational cost reduction implemented during the fourth quarter of last year in the business segments and markets now producing an improved return on capital.

And although our total operating cost run rate has not decreased it has been reallocated toward enhancing our revenue growth streams strengthening our regulatory compliance and enhancing customer satisfaction.

Our key focus is now on solidifying and growing our foundation maintaining strong market share and brand recognition in our historical markets and driving growth in our high potential markets of West Michigan, Southeast Michigan and Cleveland. These high potential markets are defined as markets where we are currently, have relatively low market share but where we are investing additional resources to grow the institution.

As an example in the Detroit MSA we have 2% deposit market share in a $133 billion market where 84% of those deposits are held by out-of-state national or large out-of-state regional banks.

The investments I mentioned include strategic staffing additions and product enhancements leveraging our system upgrade that was completed in July. A recruitment of some of the market's top commercial bankers mostly coming from national and large super regionals to our team in high potential growth markets has shown positive results through our commercial loan growth specifically C&I growth this past quarter and we anticipate more significant growth over the remainder of the year and into 2019.

We currently expect our loan growth rate to be in the high single digits in the fourth quarter. Let me be more specific. The 28 commercial bankers added in our high potential markets are meaningfully adding to our commercial loan and deposit growth this year and as these bankers continue to gain market recognition as Chemical Bankers, their quarter-over-quarter production has grown.

We also continued to add commercial talent including three commercial bankers in the third quarter and anticipate adding five in the fourth. In the third quarter we also hired two professionals that are long time commercial deposit specialists to enhance our commercial deposit growth.

In addition, the excitement for the move of our headquarters to Detroit continues as the plans for our new building in the center of the Entertainment and Business District are underway and our partnership with Detroit to service the city is beginning to ramp up.

We are proud to be part of building our economy and investing in Michigan and the Midwest future.

With that let me turn it over to Dennis to go through the financial results in further detail. Dennis.

Dennis Klaeser: Thank you Tom and good morning everyone. Moving onto Slide 7, net income was $70.4 million in the Third Quarter of 2018, an increase of $1.4 million from the previous quarter's net income and $29.9 million from the same quarter a year ago.

Diluted earnings per share were 98 cents per diluted share in the Third Quarter of 2018, an increase from 96 cents in the second quarter and from 56 cents in the Third Quarter of 2017. The increase in net income compared to the prior quarter was primarily driven by the increase in our net interest income resulting from increases in average balances and yields earned on loans and investment securities.

As seen on Slide 8, our return on average equity and return on average tangible common equity, return on assets and return on average tangible common equity remains very strong at 1.37% and 17.5% respectively down just a couple of basis points from the prior quarter.

As shown on Slide 9, year-over-year our total loan portfolio has grown by approximately 7% or $963 million to $14.8 billion at September 30, 2018. I think it's important to focus on the composition of the loan growth. In our view the highest quality loan growth is in commercial and industrial loans which accounted for $400 million worth of growth and in owner occupied CRE loans which contributed $180 million of the growth.

Together these two loan categories are responsible for 60% of the growth of the past year and during 2018 these categories are driving almost 70% of our loan growth.

Turning to Slide 10, we had about $217 million of loan growth in the third quarter representing an annualized loan growth of just under 6%. We are pleased with this level of growth given the third quarter is seasonally slower for loan growth but more importantly we are very pleased with the quality and composition of our loan growth.

From Slide 11 you can see that our $217 million of net loan growth for the quarter is a result of $448 million of growth in our originated portfolio offset by $231 million runoff in our acquired loan portfolio. While the runoff of acquired loan slowed from the prior quarter overall loan runoff is faster than we previously expected which we believe is a reflection of the strong economy which is improving customer's ability to pay down loans.

Moving onto deposits as you see on Slide 12, overall deposit growth year-over-year totaled $1.6 billion or 12%. For Third Quarter 2018 was exceptionally strong with deposit growth of $893 million as we have actively pursued new customer deposits which have reduced our reliance on broker deposits and FHRB borrowings.

As Dave previously mentioned this growth does not yet include City of Detroit operating account deposits which we expect to start coming in later this year and during the first quarter of next year.

Our average cost of deposits increased to 72 basis points in the third quarter up from 56 basis points in the prior quarter which is partly due to the competitive environment but probably more importantly because we are being more aggressive to keep our loan-to-deposit ratio below 100%.

In managing our overall funding and deposit costs one of the key strategic focuses is growing our noninterest bearing checking accounts. Looking at our net interest margin table you'll see that the average balances for noninterest bearing checking accounts has grown nearly 10% year-over-year to just over $4 billion in the Third Quarter of 2018.

One of the key drivers of this growth is our success of providing treasury management services to our growing base of commercial loan borrowers.

Turn to Slide 14, our asset quality and loan loss coverage ratios remain strong. The decrease in the provision for loan losses for originated loans to $5.1 million in the third quarter compared to $9.6 million in the second quarter is a result of lower level of loan growth in the third quarter and also reflects improvement in collateral position on loans that are individually evaluated for impairment.

The total provision for loan losses of $6 million includes $970,000 of impairment identified in one of the – our older acquired loan pools as a result of our quarterly re-estimation of cash flows that we do for all of our acquired loans.

Net loan charge-offs were just 5 basis points of average loans in the third quarter which was a decline from the prior quarter.

As I'm sure we'll discuss more during the Q&A section of this call the increase in nonperforming loans to $97 million or .65% of total loans from $63 million or .45% of total loans in the prior quarter is largely due to a single commercial loan relationship. This loan relationship was classified as nonperforming because it fell out of compliance with a loan covenant which we expect to be resolved this quarter.

The loan relationship is not delinquent currently nor was it ever delinquent on any contractual debt service payments. The loan is a Michigan-based loan to a Michigan-based businessman with whom we have a long standing relationship. Because of our collateral position and strength of the borrower the potential losses on this loan relationship is very low.

Our charge-off rates have remained consistently low over the past couple of years and we see no signs of that materially changing. In fact we find that our overall loan quality is improving given that collateral values continue to rise and the overall business environment remains very healthy.

As shown on Slide 15, net interest income increased $2 million to $159.5 million in the third quarter compared to the prior quarter. The net interest margin on a tax equivalent basis was 3.48% in the third quarter compared to 3.59% in the Second Quarter of 2018.

The margin was negatively impacted by the $213 million increase in our securities portfolio. As I've discussed previous quarters we will add leverage to our securities portfolio by match funding those securities resulting in a fairly narrow spread of only about 1.1%.

Additionally as a result of the substantial growth in deposits over the quarter our low yielding deposits at the Federal Home – Federal Reserve Bank increased by about $100 million. Additionally, we had the normal pressure on margin given the reduced accretive yield contribution as our acquired loan portfolios run off.

Overall the margin was weaker than I expected for the quarter but looking forward I expect less pressure on the margin given the yield increase we will get on existing loan portfolio and really generate loans for the recent increases in prime rate and LIBOR. We will get a yield pickup on about 25% of our securities portfolio. And we're – and we'll also get yield benefit from more effective deployment of a portion of our liquid funds which again will provide incremental benefit to the margin.

Longer term our continued success in bringing in operating accounts from municipalities like Detroit and broadening our treasury management relationships with commercial customers will provide additional benefits as we move into 2019.

Moving onto noninterest income on Slide 16, our noninterest income for the third quarter totaled $37.9 million compared to $38 million in the second quarter despite decrease in noninterest income was largely due to a seasonal decrease in wealth management revenue of $1.1 million partially offset by an increase in net gain on sale and other mortgage banking revenue of $1 million. Our mortgage banking revenue benefited from an increase in a change in fair value or our loan servicing rights in the third quarter.

As seen on Slide 17 core operating expenses excluding impairment associated with tax credits realized during the quarter were $106.5 million in the Third Quarter of 2015 compared to $102.8 million in the Second Quarter of 2018.

Included in our operating expenses was $2.7 million of conversion related costs during the third quarter compared to $3.2 million in the prior quarter.

Expenses associated with historic tax credits added $3.2 million to our operating expenses in the third quarter compared to $1.7 million in the Second Quarter of 2018. Also during the third quarter our occupancy expense increased by (9) .9 million dollars due to a lease termination cost. During the quarter we exited a lease and consolidated some of our office space. We expect the lease termination will result in annual reduction of our occupancy expense of about $450,000.

Going back to our historic tax credits, we expect an additional $6 million of historic tax credit impairment expense in the fourth quarter. That's up a little bit from the prior guidance. Again that will be fully offset by tax benefits realized during the fourth quarter.

We expect our effective tax rate to be approximately 11% in the fourth quarter assuming the previously discussed timing of historic tax credits are completed on schedule compared to our effective tax rate of approximately 13.8% in the Third Quarter of 2018.

Our adjusted efficiency ratio was 52.8% in the Third Quarter of 2018 compared to 51.2% in both the Second and the – Quarter of 2018 and from one year ago. We expect to move our adjusted efficiency ratio closer to the 51% level during the fourth quarter as we reduce our expenses related to our core operating system conversion and we continue to increase our revenue streams.

Turning to Slide 18 we ended the quarter with tangible book value of $22.87 which represents just over 7% in our tangible book value compared to a year ago. Our TCE to total assets remain strong at 8.3% at the end of the quarter and our regulatory capital ratios are strong at an estimated 10.9% Tier 1 capital ratio and 11.7% total risk-based capital ratio.

I will now turn it back to Dave for some closing remarks.

David Provost: Thanks Dennis. As usual the key factors that will drive our 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 with benefit to come in the future are very much worth the expense.

From an M&A standpoint, we periodically evaluate merger 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 as always we strive to appropriately balance risk and reward. And as I said before and I'll say it again not every deal is created equal.

As always we appreciate your time and interest in Chemical Financial Corporation. And on that note, moderator, let's open it up for questions.

Operator: Thank you. If you would like to ask a question, please press star 1 on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. A voice prompt on your phone line will indicate when your line is open. Once again that is star 1 for questions.

We'll take our first question from Chris McGratty at KBW.

Chris McGratty: Hey good morning everybody.

David Provost: Good morning.

Chris McGratty: Dennis let me just start on expenses. I got the tax credit $6 million in the fourth quarter. Can you just help us with kind of the next couple quarters given all the moving pieces with the systems and the investments and maybe compare it to this quarter? Thanks.

Dennis Klaeser: Sure. So the sort of unusual items are that tax credit of approximately $6 million in the fourth quarter assuming the deals that we're working on get completed as expected.

The other item is the final expenses related to the systems conversion which was completed in July but there's some, you know, lingering expenses associated with that full implementation. We expect that to be about $1 million in that neighborhood in the fourth quarter.

And then the, sort of the base level of expenses underlying that is in the $104 million range. And that has primarily crept up because the quarterly run rate of our core operating system has ticked up now that we're on the better system and we're paying the costs associated with this upgraded system.

Additionally as Tom noted, you know, we have done some incremental hiring and so we have seen some incremental increases in our compensation expense as well.

As I've commented before in 2019 the expense base, the pace of growth should slow because we've made the investments in the, you know, core operating systems. We will have the normal sort of inflation adjustments to base levels of compensation. The pace of hiring – of the higher cost in commercial lenders will slow. We'll continue to do some hiring but I think the cost of that and the pace of that hiring will be more moderate than we experienced in 2018.

Chris McGratty: Okay. Thanks a lot. It's a lot of detail but I can go back and make sure I got it all. But relative to this quarter if we take out the termination charge, you were like $109 million roughly which included about $3 million on the tax credit so it's 100 and call it $106 ex the tax.

Can you just help kind of circle it in a little bit narrower for the fourth quarter relative to that number?

Dennis Klaeser: Yes, so.

Chris McGratty: Maybe I just need to go back and add it all up but I just want to make sure I got the model right.

Dennis Klaeser: Yes. So in total expenses in the $111 million range with $6 million of that being historic tax credits and $1 million of that being final conversion expenses.

Chris McGratty: Got it, okay, got it. I appreciate that. And just maybe pivoting to the margin, I totally get what you're doing with the great deposit strategy. And obviously the yield curve is not helping many banks today.

But the guide has been a little more challenged for you guys. And I guess the 8 basis points or so of core compression ex the accretion this quarter, you're saying slightly less pressure.

But just maybe help magnitude and also kind of how you see like when the trough might occur. Thanks.

Dennis Klaeser: Yes. When you just look for example at the increase in the deposits at the Federal Reserve we're probably $100 million, $150 million of our target. If we move $100 million of that into loans we would benefit margin by about 2 basis points or so.

The other thing is that as you know LIBOR really didn't move throughout the quarter. It did move later in the quarter, probably moved at the end of the quarter. We will get the benefit and just under a third of our own portfolio, you know, immediately adjusting up. But maybe more importantly in terms of the new loan production it'll be pegged off of the higher rates.

And the majority of what we're – the new loan originations are prime or LIBOR-based floating. We also have about 20% or so of our securities portfolio that is variable rate pegged either off of LIBOR or prime. There's a slight lag and sort of the benefit we get on the lift there but we will a lift on 20% of our securities portfolio. Then there's another 5% or so of just cash flow portfolio that gets re-priced and reinvested.

So all of those things create a bit more lift in the yield on the loan portfolio, you know more lift in the fourth quarter versus what we saw in the third quarter.

But the overall deposit growth in the fourth quarter will likely be lower than what we saw in the third quarter and the change in those deposit flows actually has, you know, incremental benefit on the margin as well.

Chris McGratty: Okay thank you for all that color. And David if you can take one more, in your concluding remarks about not all M&A is kind of created equal. Maybe elaborate on that. I'm interested in those comments. Thanks.

David Provost: So, you know, this Management Team has a history of being inquisitive. But the deals that we have done have really benefited our shareholders. And I don't want to get thrown in with the mix of deals that have been done recently that really don't benefit shareholders. So that's really the purpose of that comment.

Chris McGratty: Okay thank you. Thanks for the questions.

Operator: And we'll go next to David Long at Raymond James.

David Long: Good morning guys.

David Provost: Hey David.

Dennis Klaeser: Morning.

Thomas Shafer: Morning.

David Long: With the City of Detroit deposits that you should start to add here at least the operational account deposits here in the fourth quarter and into the first quarter, how much is there that you think you guys can add? And then at what cost do you anticipate these deposits coming on at?

Thomas Shafer: Yes, so you know, depending on the year because of the cycle of the collections of municipalities it will probably range from 200 to 500 in that general range throughout the year when we're fully implemented. We expect the operating accounts to begin, you know, this quarter and through the first quarter.

It's a significant I would say system upgrade for the city as we, you know, help them move to a more modern, you know, finance program. The average cost, I mean there'll be a mix between both operating deposits and money markets, something like that depending on the amount of collections they have at any given time. There are some permanent dollars that they have at all times. That's probably around, you know, $100 million that will stay with us and it will help them through a money market arrangement probably.

David Long: Okay can you talk about the expected cost on those deposits? And then also any operational or operating expenses in the third or fourth quarter that you guys may have realized as a result of building out your infrastructure to handle these deposits?

Dennis Klaeser: Yes. We really shouldn't be quoting particular rates for particular clients. But overall the deposit relationship is expected to average down our overall deposit costs.

David Long: Got it. Okay thanks guys.

Operator: We'll go next to Scott Siefers at Sandler O'Neill & Partners.

Scott Siefers: Morning guys.

David Provost: Morning Scott.

Thomas Shafer: Morning.

Dennis Klaeser: Morning.

Scott Siefers: I wanted to circle back. Hey, I wanted to go back on both the margin and the expense question. So I guess Dennis maybe to start on the cost side, I think on the last call you guys had suggested that when we get into like the First Quarter of '19 since we'll have less noise from the tax credit business we should be able to get down to like a $102 million kind of steady state run rate.

It sounds like there might be a little more pressure on that number if I read your comments correctly. What are you thinking for a sort of steady state cost base as we go into early '19?

Dennis Klaeser: Yes. No. I believe I was talking more of a 103 or 104 range previously as sort of that baseline. And that's crept up to say 104 range because of the additional hiring that we're doing that's starting out into next year.

So that's sort of the baseline that we're building off of. And again if we see opportunities to add talent, make investments that we think are going to drive revenue growth that over time benefits shareholders, you know, we're going to do that. We see the significant opportunity of capturing market share particularly in what we view as our growth markets and we think it's a good opportunity to exploit that.

Scott Siefers: Okay, all right thank you for the clarification. So it sounds like basically $111 million in the third quarter or excuse me. In the fourth quarter down to about 104 in the first quarter and then we sort of grow just, you know, normally on that.

Dennis Klaeser: Yes. Again not to split hairs but in the first quarter like every institution has you typically have, you know costs of living adjustments to compensation. It's seasonally higher in terms of payroll taxes so you've got that issue. So I'm sure you're accustomed to modeling that sort of normal trend line into the first quarter.

I suggested that we end the year at a base run rate level of the 104 excluding those items, the historic tax credits and the conversion expense.

Scott Siefers: Oh okay. I understand. That actually clarifies it quite a bit so I appreciate that.

And then going back to the margin, just want to try to resolve exactly where it's going. So if I think back to the second quarter I think the hope was that would be stable to up. Now, you know, more pressure than we anticipated.

And it sounds like the hope is just for less pressure going forward meaning that it will still be down. So if we start on the 3.25 core margin, you know, what would be your expectation into the fourth quarter and beyond?

Dennis Klaeser: Yes. In hindsight I probably should've been a bit more cautious, taking and to consider all the different moving parts that affect margin. But overall I'm expecting some very modest pressure on the margin going forward based on the various items I talked about.

So optimistically, you know, we might see a little bit of lift. But I want to be just cautious and suggest that – to expect a little bit of pressure on the margin given our expectations that our loan growth is going to be higher than peer and thus our deposit growth is going to be higher peer. And any bank that has high levels of loan and deposit growth tends to have a little bit higher betas to get those incremental deposits.

Scott Siefers: Okay, perfect. And then I guess as a final one, hopefully when the city of deposit – city, pardon me, City of Detroit deposits come all online that'll at least ease some of the incremental pressure. Will that allow the margin to sort of flatten out? Is there enough of a base from those deposits or is this sort of going to be an ongoing funding pressure issue?

Dennis Klaeser: Yes. You can do the calculation that, you know, average balances that might, you know, range up to $500,000 at…

Male 1: ((Inaudible)).

Dennis Klaeser: Five hundred million at an overall lower cost relative to the overall deposit base does have some incremental benefit.

But that, you know, it doesn't dramatically move the needle. What's, you know, what's our strategic focus is other relationships as well, other similar relationships to the City of Detroit, other municipalities, other institutions, law firms and in particular just overall our commercial relationships where we're cross selling treasury management services.

Additionally, when we look at the growth of our noninterest bearing checking accounts we've had very significant growth in our retail deposit base there as well. So we're gaining market share and market – and share of wallet with our retail customers.

And so it's really hitting on all of those cylinders that's I think going to be our strategic focus to manage funding as we move through the cycle and expect to have – continue to have strong loan growth. And we're obviously looking to fund the largest portion of that loan growth with core deposits.

Scott Siefers: Okay, perfect. Thank you very much for the color.

Dennis Klaeser: Thanks.

Operator: We'll take our next question from Kevin Reevey at D.A. Davidson. Your line is now…

Kevin Reevey: Good morning gentlemen. How are you?

David Provost: Good Kevin.

Kevin Reevey: So can you talk about, I know the rise in salaries and benefits one quarter - that was mostly due to additional hires. Was that all lenders or were there other hires that you brought onboard during the quarter and how many did you bring on and where?

Thomas Shafer: Yes. So I think that the – there's a number of groups that we're focused on. We added some treasury management skillsets to the organization last quarter. I mentioned the deposit specialist that we brought on. We did bring on some additional commercial bankers and support staff for them.

And we bring that. You continue to grow that. You've also got some credit talent that you've got to add to the team.

The – Dennis answer – is there anything specific about, you know, quarter-over-quarter because these people don't come on right at the beginning of the quarter and so you end up having, you know a little bit of mixed expenses between, you know, quarter-over-quarter?

But for the most part it's been focused on commercial and the commercial segment which includes treasury and support staff associated with that segment.

Dennis Klaeser: Yes. And the overall move is pretty modest quarter-over-quarter. There's also a little bit of noise within the quarter-over-quarter given a change in mortgage loan production. You know and also there's a change as a result of with lower new loan origination there's less salary expenses are capitalized along with the cost of originating those loans.

So the – a portion of its driven by those incremental hires but the other portion is just driven by that normal noise that you have between quarters.

Kevin Reevey: And then as far as the – I know you have other municipal RFPs that are in the pipeline. Can you give us a timeline as to when you think some of those other RFPs could be announced and what the potential dollar amount of those RFPs are?

Thomas Shafer: Yes. Certainly I want to be careful to predict, you know, which ones we're in. We're looking at public funds opportunities so regularly significant, you know clients and prospects throughout the Midwest. I'd say that we're actively pursuing them both public funds, municipalities and commercial.

So, you know, we're routinely bringing them on. And I think that that's reflected in the growth of our deposits and growth of our loans so, you know, routinely.

But, you know, I don't think I can give guidance on any specific client.

Kevin Reevey: Okay thank you.

Dennis Klaeser: Yes, you know.

Kevin Reevey: Yes.

Dennis Klaeser: You there? In general obviously Detroit is very unusual in terms of its size. And also unusual in the fact that we wanted – after having a, you know, nearly 100 year relationship with another regional bank, these other relationships aren't necessarily things that are going to require or justify a separate sort of 8-K filing or public announcement.

Thomas Shafer: Individually move the needle like that one did. I think also the importance of the message on winning the Detroit businesses is to really message the skillset that goes along with that.

Kevin Reevey: Excellent, thank you.

Operator: We'll take our next question from Terry McEvoy at Stephens.

David Provost: Hey Terry.

Terry McEvoy: Good morning guys. Hi. Good morning. Just a question on 2019, if I just put this together expense growth slows, net interest income growth accelerates from here, I guess my question is what are your thoughts on operating leverage and the efficiency ratio or maybe any other thoughts on kind of ROA or ROTCE targets just to give us some level of comfort around kind of profitability in '19?

Dennis Klaeser: Yes. No. ’19 we expect to be a year of increased operating leverage. We did achieve some operating leverage this year. But we expect to have increased operating leverage because of that dynamic of the slowing pace of growth of operating expenses and sustained growth of revenues driven by, you know, strong loan growth and we expect some, you know, growth in the fee income area as well.

And right now I don’t think we want to set a particular ROTCE target. But we’re very focused on that. And we think there’s meaningful upside to that.

Terry McEvoy: Thank you. And then 4Q ’18 loan originations is that going to look similar to maybe what we saw in the second quarter or is there potential upside to that figure given the new hires and what they bring to the table?

Dennis Klaeser: Our target is to have it at that level. The one wildcard is the repayments, the pay downs of other loans whether its acquired loans or the – within the originated loan portfolio.

And frankly that’s, in both of those categories have proved to be higher than we’ve expected. And we think it’s, you know, reflective of the very strong economy, very strong balance sheets that our customers have.

And, you know, we prefer customers not to pay down loans. But because of the very strong financial positions we see that create a little bit more headwind to the loan growth than we expected.

But I think Tom indicated very clearly that, you know, for the fourth quarter we think the annualized loan growth rate is going to get to that, you know, previous guidance of the high single digit annualized loan growth rate.

Terry McEvoy: And then just one last question Dennis. If none of the historic tax credits get pushed into 2019 what would the effective tax rate look like?

Dennis Klaeser: Yes. There – and in '19 there are two credits that are still counted for under the old accounting regime.

And so will have an impact in the quarter that those go into effect. But they're projects that have probably at least a couple of quarters before they are completed. And so when they do go into effect that quarter will have a very low, you know, tax rate like we occasionally saw this year.

So in general for the full year I'm expecting the effective tax rate to be in the 17% range. And potentially moving down a little bit lower depending on the timing and level of the, you know, not only historic tax credits business that are pursuing but also loan and housing tax credits that we're pursuing.

Terry McEvoy: Right. Thank you.

Operator: And as a reminder if you would like to ask a question please press star 1. We'll go next to Nathan Race at Piper Jaffray.

Nathan Race: Hey guys, good morning.

David Provost: Morning.

Nathan Race: I want to touch on income trends. Tom just curious with a lot of the hires that you guys are making on the commercial side, I mean what kind of impact should we see on maybe treasury management fees and other fee income categories as we think about 2019 run rates?

Thomas Shafer: Yes so the majority of the team that's not only been hired but here is benefiting by the improved treasury management services that we have and the new system that we have in place that was implemented during third quarter.

So, you know, when we talk about the segment growth for C&I the vast majority of those come with treasuries that are expected. You would see the continued growth, gradual growth because of the annuity like value of that over time. And so we're very focused on growing that segment with those services for that segment.

Nathan Race: Okay got it. And then Dennis going back to expenses for 2019, what impact do you guys potentially expect to see as FDIC assessments come down perhaps later this quarter or into early 2019?

Dennis Klaeser: Yes. We haven't fully analyzed that impact but obviously it's going to have a fairly meaningful benefit on operating expenses for us.

Nathan Race: Okay got it and then any kind of updated thoughts on how we should think about the accretion running through spread income into 2019 as well and perhaps into 4Q?

Dennis Klaeser: Yes. So I think the pattern that occurred between the second and the third quarter is likely to continue. And as we did last year in the first quarter we do a periodic sort of reassessment of all the assumptions underlying, you know, the accretion and the market that we have in the portfolio.

And so there's potentially some benefit if the results of our next re-estimation or reevaluation turned out like they did last year. That would benefit us starting in the first quarter of next year.

Nathan Race: Okay perfect. I appreciate all the color guys. Thanks.

David Provost: Thank you.

Operator: And we'll go next to John Rodis at FIG Partners.

David Provost: Hello John.

John Rodis: Good morning guys. Good morning.

David Provost: Good morning.

John Rodis: Dennis just back to the tax rate, you said for Full Year '19 roughly 17% which was a little bit down from what you said last quarter. Should we be – what about as far as tax credit amortization? Should we still be modeling a couple million dollars or?

Dennis Klaeser: It'll be – yes. So to bring that rate down below 18% it's the result of tax credit and there is an offset in the amortization expense and other expenses and noninterest operating expenses.

John Rodis: Okay so a couple million dollars, is that sort of the – for the full year as far as amortization expense?

Dennis Klaeser: Yes. It's a little bit higher than that. I don't have the exact number. But it's a little bit higher than that. And again it's the amount that brings the tax rate down to roughly 17% for the full year.

John Rodis: Okay so but it's probably less than $5 million for the year.

Dennis Klaeser: Yes. Yes.

John Rodis: Okay, fair enough.

Dennis Klaeser: And it's likely to be concentrated in a single quarter during the latter half of the year.

John Rodis: Okay fair enough. Thank you.

Operator: And that does conclude the question and answer session. At this time I'll turn the conference back over to management for any closing remarks.

David Provost: All right thanks. As always we appreciate your interest in Chemical Financial. We continue to remain very confident in the future. And we believe we're very well positioned to achieve additional market share as we move forward.

And so with that thank you for your interest and thank you for joining the call. Have a great day. Thank you everybody.

Operator: And that does conclude today's conference. Again thank you for your participation.