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Operator: Please stand by, we are about to begin. Good morning, ladies and gentlemen, and thank you for standing by. Welcome to the Chemical Financial Corporation Second Quarter Earnings Conference Call. At this time, all participants are in a listen only mode. Later, we will conduct a question and answer session and instructions will be given at that time. As a reminder, today's conference is being recorded. Chemical would like to remind you that a copy of today's earnings release can be accessed by logging onto chemicalbank.com and selecting the investor info tab at the top of the website. Also included is a slide presentation on our investor info page with supplemental information that will be referenced in today's call.

With us today are David Provost, CEO of Chemical Financial Corporation, Tom Shafer, Vice Chairman of the Chemical Financial Corporation and CEO of Chemical Bank, and Dennis Klaeser, Executive Vice President and Chief Financial Officer. After brief comments from management, the call will be open to your questions. Before we begin, we'd 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 the other information 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 forward-looking statements.

And now, I'd like to turn the call over to David Provost. Please go ahead, sir.

David Provost: Thanks and good morning everyone. I'd like to start off by saying we are encouraged with our improvement in operating expense trends, increased core fee income, and a high quality loan growth in the second quarter. All the while, we recognized we have more work to do. In taking on my new role within the organization, we will be working toward growing shareholder value through picking up the pace of play in investing in our markets and product lines that we feel provide the greatest opportunity to create value. In doing this, we will balance a disciplined expense management philosophy with a strong focus on driving revenue growth to further our progress toward our goal of being the Midwest premier community bank.

Looking at the second quarter financial highlights, earnings per share on both a GAAP and after excluding significant items were up from both the first quarter of 2017 and the second quarter of 2016. We had strong organic loan growth totaling $394 million or a 12% annual growth rate in the second quarter. Critically important, our credit quality remains high with our ratio of nonperforming loans to total loans at a favorable 37 basis points at quarter end, and a ratio of net charge-offs to average loans at just 3 basis points for the quarter.

As I previously mentioned, we are encouraged with the incremental improvements in our fundamental trends. We are concentrated on further improving our operating results and laying an even greater foundation for continued growth in future quarters. Let me turn it over to Tom Shafer who will give you an overview of some of the steps we are taking to achieve that goal. Welcome, Tom.

Tom Shafer: Thank you, David. Good morning everyone. Since taking on the role of President and CEO of Chemical Bank a few weeks ago, I've held numerous meetings with our executive and senior leadership teams as well as many employees across the entire franchise. While we have great pride in what our team has accomplished in the past, we recognize and are optimistic in future growth opportunities and our team believes there are a variety of changes we can make to further improve our core operating fundamentals and better position ourselves to take full advantage of the growth opportunities that we believe lie ahead.

A few days ago, I had an all employee conference call announcing we have launched a project to identify those strategies, which can be deployed in the short term to derive strong revenue growth in addition to steps we can take to further improve upon operating efficiency. This is part of an effort to refine and clarify our overall strategic plan of how we allocate our capital across the organization and take prompt yet carefully planned steps to improve upon our positioning. We will be focusing on evaluating product lines to expand and enhance those that will be value additive, while some product lines will see a decrease in focus.

We will additionally further rationalize our branch locations as the ways our customers are utilizing our services are changing at a fast pace. All of this is geared towards focusing our resources on those areas that we think are most important to build shareholder value while sustaining high customer satisfaction with our relationship focused community banking delivery model. I believe we will be able to achieve incremental though meaningful reductions in our overall operating expenses and better position the company for continued strong revenue growth. We will not be providing specific guidance on the cost saves at this point due to the largest component of this exercise requires freeing up resources in order to make well informed strategic decisions no our investments within those business segments and market areas that we believe will provide strong growth opportunities.

When we announced our third quarter earnings in late October, we expect we will be able to provide further specifics. With that, let me turn it over to Dennis to go through the financial results in further detail. Dennis?

Dennis Klaeser: Thank you, Tom. On slide 6, net income excluding significant items was $53.5 million in the second quarter of 2017, almost twice as much as a year ago quarter and up about $3 million from the previous quarter. Diluted earnings per share, excluding significant items were $0.75 per diluted share in the second quarter of 2017, up from $0.71 in the first quarter of 2017 and $0.72 in the second quarter of 2016.

As shown on the top of slide 7, year-over-year, our total loan portfolio has grown by $6 billion to $13.7 billion at June 20, 2017. The overall composition of our loan portfolio has remained relatively similar year-over-year with about 59% of our loans to commercial borrowers and about 41% being a mix of residential and consumer loans at the end of the second quarter. At the bottom of the slide, you will see that our organic loan growth of $1.1 billion over the past year and the Talmer acquisition added nearly $4.9 billion of loans.

Turning to slide 8, we achieved $394 million of loan growth in the second quarter, representing an annualized loan growth rate of 11.9%. We are pleased with the pace of growth and expected continued strong growth for the remainder of the year. Commercial real estate loans have been the biggest driver of loan growth over the past two quarters but the pace of C&I lending has improved and is expected to continue to improve in future quarters.

From slide 9, you can see that our $394 million of net loan growth for the quarter is a result of $700 million of growth in our originated portfolio offset by $306 million runoff in our acquired loan portfolios. This information is helpful for analysts and investors to understand why our provision for loan losses seems relatively high given our overall net loan growth. For the analysts and investors who understand the technical accounting issues, they know that for most banks when loans run-off the balance sheet, the income statement gets an immediate benefit from the release of loan loss reserve that was associated with those loans. However, for Chemical Bank, since we account for all of our acquired loans under ASC 310-30, otherwise known as purchase credit impaired guidance run-off of acquired loans does not result in immediate benefit to our loan loss provision, but rather it's only realized over the longer period of time to a likely benefit to our net interest margin.

Moving on to deposits, as you can see on slide 10, overall organic deposit growth was compressed in the second quarter of 2017. However, this compressed overall growth includes an increase in customer deposits of $94 million compared to a year ago, while letting roughly $453 million of broker deposits run-off our balance sheet. At yearend 2016, broker deposits had fallen to just $226 million, and it further dropped to $124 million at June 30, 2017. Our average cost to deposits increased during the second quarter of the year to 33 basis points compared to 28 basis points in the first quarter of 2017 and 23 basis points in the second quarter of 2016. The majority of the increase in cost compared to the first quarter was due to overall increases in deposits rates in our markets and the increase over the prior year was due to the inclusion of the Talmer deposits.

Looking at overall funding on slide 11, our average cost of funds ticked up to 44 basis points during the second quarter of 2017 compared to 35 basis points in the prior quarter and 27 basis points one year earlier.

Turning to slide 12, as David mentioned, asset quality remains very high, while $6.2 million of loan loss provision may seem high, note the provision expense is driven by the $700 million of growth in our originated loan portfolio during the second quarter without there being any provision expense offset from the run-off of acquired loans.

Net loan losses in the second quarter of 2017 were extremely low at only four basis points of average loans. Our ratio of non-performing loans to total loans remains low at 37 basis points as of June 30, 2017 only four basis points up from year end 2016 and a very substantial improvement from 58 basis points a year ago.

As shown on slide 13, net interest income was $137.9 million in the second quarter compared to $130.1 million in the prior quarter. Second quarter was impacted by an increase in interest accretion rom purchase accounting discounts and acquired loans, the impact of strong organic loan growth in the quarter, and growth in the securities portfolio, and also one additional day in the quarter versus the first quarter. These increases to net interest income were partially offset by the increase in short-term borrowings, which was used to fund loan growth and the growth of our securities portfolio.

The net interest margin on a tax equivalent basis was 3.48% in the second quarter down slightly from 3.49% in the first quarter and down from 3.70% in the second quarter of 2016. While the margin benefited from the credit quality improvement in our acquired loan portfolio to an increase in purchase accounting accretion on these loans, this margin benefit was muted by the impact of the increase in the investment securities portfolio funded by an increase in short-term borrowings. The roughly $500 million of securities added in the second quarter should result in about $1.2 million of incremental quarterly net interest income but this portfolio averages down our net interest margin by about 5 basis points.

Looking forward to the next couple of quarters, I do expect continued modest pressure on our margin but much of this pressure is due to the fact that we are now originating a larger volume of variable rate commercial loans and because we expect to further incrementally increase the size of our securities portfolio.

Moving on to non-interest income on slide 14, the increase in non-interest income was largely due to an increase in trust services income within wealth management and an increase in mortgage banking revenue. The mortgage banking revenue was muted by a $1.8 million detriment from the change in fair value of loan servicing rights as a result of high prepayment fees in the quarter and due to the drop in interest rates.

The first quarter of 2017 included $519,000 detriment to earnings due to a change in the fair value of loan servicing rights. Excluding the change in fair value of loan servicing rights, non-interest income increased by $2.3 million in the second quarter of 2017 compared to the first quarter.

As seen on slide 15, operating expenses excluding transaction expenses were $97.7 million in the second quarter of 2017 compared to $100 million in the first quarter. Quarter-over-quarter, the decline was primarily due to a decrease in $8 million in salaries and wages and employee benefit expenses, which was aided by a decrease in payroll taxes and an increase in deferral of loan origination costs. The shift in deferral of loan origination costs was a result of the combined impact of the increase in loan production and revised loan origination costs based on the completion of an updated loan origination cost study.

Consistent with our prior guidance as we look forward to the latter part of 2017 and into 2018, our goal is to keep our efficiency ratio in the low 50% range due to the combined impact of disciplined expense management offset by prudent investments in our infrastructure to position us for sustained growth over the longer-term.

Turning to slide 16, we needed the quarter with tangible book value per share of $20.89, which represents 6.1% growth in our tangible book value compared to one year ago. I think this is an impressive amount of growth in tangible book value given the corporation paid $1.08 of dividends per share over the last year and absorbed the modestly diluted impact of the Talmer merger.

Our (TCE) to total assets ratio remains strong at 8.4% at June 30 and our regulatory capital ratios are strong at an estimated 10.4% for Tier 1 capital ratio and 11.1% for our total risk based capital ratio. I will now turn it back to (David) for some closing remarks.

David Provost: Thanks Dennis Klaeser. While we believe the economies in the markets we serve remain favorable, we retain our focus on what we can control. Two key factors that will drive future earnings are revenue growth and disciplined expense management. We are pleased with the level of high quality loans we have in our pipeline and anticipate another quarter of high quality loan growth. Further, we will be careful to implement any cost saving directives in a matter that does not undermine our ability to grow our top-line or hinder the level of quality or customers experience. We continue to execute on our strategy of being mid-West's premier community bank. We believe that our combination of market focus, balance sheet strength, talent and convenience provides a compelling choice to customers and businesses alike.

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

Operator: Thank you sir. To signal for a question on the phone, please press the star key followed by the Digit 1. Please make sure that your mute function is off to allow your signal to reach our equipment. Again, it is Star 1 to signal. A voice prompt on your line will indicate when your line is open and we ask that you please state your question and we'll go first to Scott Siefers with Sandler O'Neill & Partners.

Scott Siefers: Good morning guys.

Man 1: Morning.

Scott Siefers: Hi, let's see Dennis Klaeser, first question for you just on the leverage program. I'm hoping you can just discuss in a little more detail sort of where you think you are in it relative to completion. You added nearly $500 million of securities in the quarter which is obviously pretty substantial but I think you're still only around a 13% securities to assets ratio and I think the goal is to get up closer to 20% or so of assets. So, as you think about this, will the program be based on an aggregate dollar amount of purchases or a target percent of assets, how are you thinking about that and where do we stand?

Dennis Klaeser: Yes, and the $500 million there we added was added relatively early in the second quarter. And frankly as the interest rate environment changed in the second quarter, we significantly slowed down the pace of adding additional securities. Just because the spread that we could get between our funding cost versus a yield in the securities had compressed below our target level.

Now the environment changed a little bit as we moved into the third quarter and we have added another approximately $120 million or so of securities here in the third quarter but I would say the pace of expansion of the securities portfolio is going to go very slowly just given the current interest rate environment. So I did indicate that, my long-term target would be to have securities at roughly 20% of total assets but it's going to take quite a few quarters to get to that point particularly given the current interest rate environment.

Scott Siefers: Okay. All right, perfect. So then - so it sounds like we get to 20% but maybe more slowly than we thought so somewhere in the neighborhood of, you know, you said $120 so somewhere between $120 and $500 million a quarter I guess that is a fair bogey. I mean, wide range obviously but perhaps lower than might have originally been the intent, is that correct?

Dennis Klaeser: Yes, as I sit here today for the third quarter I would expect only about $200 million or so of growth of the securities portfolio and then we'll revisit that in the fourth quarter and determine whether we continue at that pace or increase or decrease it.

Scott Siefers: Okay, that makes sense. And then sort of along those lines in your prepared comments you had suggested continued modest pressure on the margin over the next couple of quarters due in part to the securities portfolio. When you refer to the margin are you talking about the stated margin or the core margin of roughly (326) or so.

Dennis Klaeser: Yes, I'm really referring more to that core margin. Yes, in and of itself, the securities portfolio leverage depressed our margin by 5 or 6 basis points in the second quarter because the margin on that securities portfolio leveraged out obviously is much lower, it's only about 1.2%, 1.1%, you know. The other factor that creates some pressure on the margin is that as we try to move the portfolio, overall balance sheet to be more asset sensitive, and we're growing our commercial lending business more significantly than the other parts of our lending business, that is - we're adding more variable rate loans which obviously have a little bit lower yield relative to the fixed rate. Other - fixed rate loans that we may be booking.

Scott Siefers: Okay, all right, that's very helpful color and then I guess so just as we look at that core margin of 326, about half of it, half of the compression, sequentially then it sounds like due to the securities portfolio and half due to those other dynamics, would you anticipate the order of magnitude of compression in coming quarters being less than the 11, I guess, in part because the securities build will perhaps be a little slower?

Dennis Klaeser: Yes, and the other thing that's going on is that when I look back over time in the fourth quarter of last year the new loans that we were booking were roughly 40 basis points lower yield then the existing loan portfolio. So there was a - given the interest rate environment there was a significant, you know, trending down of average yields on the loan portfolios that we were originating. That differential has compressed very substantially and in the second quarter where there's about 15 basis points and I see that continuing to trend down. So that pressure of the new originations being lowered in the existing portfolio and subsiding substantially.

Scott Siefers: Okay, all right. That's very helpful, thank you very much.

Operator: And we'll move to our next question from Chris Magrady with KBW.

Chris Magrady: Hi good morning, thanks for the question. It seems that David and Dennis Klaeser you're going to be in time you're going to be more proactive with managing the balance sheet and managing kind of the exposures. One of the things that you highlighted was the branches again because I think you were conservative initially after the ((inaudible)) deal. Understanding the seasonality in the deposits in the second quarter, can you help us with kind of rationalizing the branches but also kind of keeping the loan to deposit ratio at a comfortable level, thanks.

Dennis Klaeser: Yes, I think that what we're doing is really looking at the branch structure once again and evaluating the branches. Historically when we have closed a branch we have had very little migration and deposits out of the bank. So, it's an opportunity for us to control expenses and really not suffer too much on the deposit side.

Chris Magrady: Okay, and maybe if I could, a lot of your competitors are talking about just the desire to make acquisitions that are deposit focused. I'm wondering if you could comment on appetite of when you guys might be ready to look at something again and then what the - kind of the ideal opportunity would look like form a profile and a (size) geography perspective. Thanks.

Dennis Klaeser: Yes, clearly I think in this environment deposit rich franchises are valuable and could add a lot of value to Chemical. And our guidance is similar to where it was before. The odds of our pursuing a transaction this year is relatively low but we are anxious to look at acquisition opportunities and of course we're going to be very cautious and prudent as to pricing and our execution of the acquisitions. Clearly we're growing the franchise very well organically and we can create a lot of value there and we think that we can continue to drive very strong organic growth particularly because we have very low market share in some of our larger urban markets.

Chris Magrady: Great, if I could sneak one in on the tax rate Dennis Klaeser. Can you help us with the kind of back half effective tax rates and kind of the outlook for next year? Thanks.

Dennis Klaeser: Sure. Sure the tax rate was a little higher in the second quarter than what we had expected just due to the timing of some of the low income housing historic tax credit deals that we expect to get benefit from. So in the back half of the year modeling that 28%, 29% is a reasonable level to use.

In the third quarter it should be a bit lower than that, however, some of that benefits can be offset by historic tax (rate) deal where we have a charge related to the capital investment but that charge is more than offset by the tax benefit that we get for the quarter.

Chris Magrady: Great and that (20,29) is an effective number, right?

Dennis Klaeser: Yes, I would model that and, again, there's going to be a little bit of noise in terms of the timing of the historic tax credit deal whether that hits in the third quarter or fourth quarter.

Chris Magrady: Great, thank you very much.

Operator: We'll go next to Terry McEvoy with Stephens.

Terry McEvoy: Good morning guys.

Dennis Klaeser: Hi Terry, morning.

Terry McEvoy: Maybe Tom and I appreciate this is a new role for you and some of your comments are early on but I think about the changes that you're contemplating to take advantage of growth opportunities, over the short-term it sounds like it's more expense related connected to possibly the branch network and then longer-term our mid to long-term, more of a revenue upside, is that a safe kind of interpretation from your comments?

Tom Shafer: Yes, I would say that I actually think that there's opportunity on both sides, you know, a short-term there are some expense opportunities that we have but there's some things that I think as we've - the companies have gone through a number of mergers, some revenue opportunities have been left on the table and our executive team is looking at those to move those forward near-term also.

But, did - generally speaking, revenue, especially if you're moving in new markets takes a little longer time to develop but we've got, I would say, a good start on what our plans are.

Terry McEvoy: And Dennis Klaeser, you talked about investments in growth for the long-term. How much of that is called DFAST and regulatory expenses now that the bank is larger versus those that hopefully will translate into revenue growth opportunities in the future?

Dennis Klaeser: Yes, for the most part the investments in DFAST and regulatory compliance and enterprise risk management so forth is already in the run rate. You know, the incremental expenses there are we think fairly modest. In terms of the investments I think we're referring to is really more investments in things that are going to be driving our revenue and our goal is redeploying some of our resources so that when you look at our operating expenses and efficiency ratio you're not going to see that creeping up but rather maintaining that efficiency ratio in the very low 50% range.

The investments, you know, I think relate to hiring additional talent, hiring additional lenders, particularly commercial lenders in some of our markets where we think we have a lot of opportunities such as Southeast Michigan, you know, Grand Rapids and Cleveland.

Terry McEvoy: And then just one last question if I could for David Provost. The Midwest Talmer was really Michigan and Ohio, now that the name is different, the bank is larger, do you think that over the next few years your geographic view of the Midwest expands from where it was at Talmer?

Dennis Klaeser: Oh yes, remember we also had a presence in Wisconsin and in Chicago so I think we can widen the circle out a little bit and looking at different opportunities as they present themselves.

Terry McEvoy: Thanks everyone.

Operator: We'll go next to Kevin Reevey with DA Davidson.

Kevin Reevey: Good morning guys.

Group: Good morning.

Kevin Reevey: So Dennis it looks like on the consumer installment you had some very strong growth in the quarter. Could you talk about kind of the FICO scores that are coming on and I'm assuming that's more on the auto side given a lot of competitors are kind of exiting that market and this is creating opportunity.

Dennis Klaeser: Yes historically the second quarter here in Michigan is a seasonally strong market for auto. And we remain firmly focused just on the prime space and so the vast majority of our business, 80 plus percent of it is, 90 plus percent of it is FICO score 720 and higher. And so we're very cautious about that space so we did have seasonal growth in auto. I think it grew to about $940 million of our total loan portfolio up from about $890 million at the end of the prior quarter. But going forward I would expect that to see very modest if any growth and as we, you know, study the allocation of our capital across our different niches, that's one area where I would expect more likely to see, you know, very little growth going forward and therefore is a percentage of our overall balance sheet that is likely to decline going forward.

Kevin Reevey: And then on the C&I you also had some very strong growth there. Were there any particular industries that stood out that contributed to the growth as well as was the growth more Detroit, was it Grand Rapids or was it more central part of Michigan?

Tom Shafer: Yes Tom Shafer. We had really strong growth across most of our markets. The C&I would be more focused in our Grand Rapids, Cleveland and Detroit marketplace. That's where there's a larger percentage of opportunities like that. But, you know, we had growth not quite as much C&I in even the northern region of our company. But really the urban areas are what's driving C&I.

Kevin Reevey: And then my last question's on the AG. I know AG is a very small percentage of your loan book. How are your AG borrowers fairing given where commodity prices are?

Tom Shafer: Yes we've got a very small percent of our portfolio in AG. Our credit teams are very focused on some of the performance. We've got really very few cash crop exposure in the company. Implement entities are suffering but I would say that the Michigan and where we have these they're well tested. These are long-term relationships that we understand in both the organization and their management teams. So it's a difficult market right now but we have a very small commitment or exposure to it.

Kevin Reevey: Great thank you.

Operator: We'll move next to Nathan Race with Piper Jaffrey.

Nathan Race: Hey guys, good morning.

Group: Good morning Nathan.

Nathan Race: A question on just the deposit growth outlook here in the third quarter. Can you kind of just provide an update in terms of where you guys are pricing across your footprint and just some of the competitive factors that you're seeing particularly in light of the June rate hike.

Dennis Klaeser: Yes so we've historically had very seasonal deposit flows so what happens is that in the second quarter we have deposit outflows from our municipalities just as they're, you know, utilizing the taxes that they collected in the prior quarter. So third quarter that switches again where municipality deposits increase very, you know, substantially. And so we would expect very strong deposit growth driven by municipalities in the third quarter. You know we're trying to drive deposit growth across the entire spectrum so we did run some special campaigns in the second quarter that were, you know, CDs. And so we're competing with the market there and clearly rates have moved up.

In terms of money market accounts particularly with municipalities those are also, you know, fairly rate sensitive and they've moved up with the overall interest rate market. You know so we're, you know, we're seeing a deposit cost tick up in line with where we see other competitors. So it's hard to sort of say exactly, you know, what are the incremental increases and basis points of our offering rates but it varies across the board. And clearly with the growth of our C&I lending and commercial lending generally we're also very focused on gathering deposits from our commercial customers and those can be very attractive to us.

Nathan Race: That's great color and if I could ask just one more on the reserve build this quarter. Is it kind of fair to expect an incremental reserve built similar magnitude in the back half of this year assuming loan growth remains in the slow double-digit range and charge offs are also kind of in the seven basis point range that we see in the first half of this year?

Dennis Klaeser: I would say so in that neighborhood. There's always factors that are hard to predict but I would say roughly in the range that we're seeing. But the normal noise that you would get in there would be, you know, add plus or minus $1.5 million or so as sort of the guidance range that I would suggest right now.

Nathan Race: Okay I appreciate all the color.

Dennis Klaeser: Thank you.

Operator: As another reminder please press Star 1 to signal for questions. We'll go to David Long with Raymond James.

David Long: Hey guys.

Dennis Klaeser: Hello David.

David Long: Hey I'm wanting to follow up on the comments you made about auto and it's obviously good growth in the quarter but any changes in the underlying trends there in the performance of your legacy portfolio?

Dennis Klaeser: No it's been very stable. Charge off rates are exceptionally low. We have not seen any particular deterioration in, you know, credit quality.

David Long: Great and then my second question regarding commercial pipeline. It sounds, like, you've got a pretty good C&I pipeline and wanted to hear maybe a little bit more color on the pipeline for commercial lenders. And I know you guys have had some success in bringing over some veterans in that space. Any key hires in the quarter and, you know, how's the pipeline looking there going forward?

Tom Shafer: Yes this is Tom. You know your comments about our general commercial C&I pipeline are accurate. We expect continued momentum at segment with our forward look on our pipelines. Probably the most significant hire was our Regional President in Southeast Michigan in December from Comerica. He's running a very large business unit for us. Came and was running a large middle market team prior to joining us. He's had a great start with his team here and I would say that he's looking to expand his team in Southeast Michigan. We also have the same with our Regional President in Cleveland and for the most part they're looking at regional competitors for additions to our team.

David Long: Excellent, thanks for the call. Thanks guys.

Tom Shafer: Thanks.

Operator: We'll go next to Andy Stapp with Hilliard Lyons.

Andy Stapp: Good morning. Just wondering if the Q2 level of salaries and benefits is a good base to start from for modeling purposes.

Dennis Klaeser: I would expect it to creep up a little bit in the third quarter just due to the fact that loan production will be a little bit lower in the third and fourth quarters. So just a modest uptick there. However I do hope that that's more than offset by reductions in other operating expenses which was a bit higher than what we would have targeted for the quarter.

Andy Stapp: Okay. And you referenced there might be a charge related to historic tax credit in Q3. Just wondering how much that might be.

Dennis Klaeser: You know I don't have the specific numbers at this point but again the charge there is more than offset by the incremental tax benefit above and beyond the guidance that I gave. So while there's going to be a charge showing up in the other expenses we'll carefully carve that out and we'll identify the offsetting tax benefit that we get in the quarter.

Andy Stapp: Okay great. That's the last of my questions.

Dennis Klaeser: And the charge is, you know, in the neighborhood of a couple million dollars, $3 million but again rather than giving you very specific guidance on that we'll very carefully carve that out when we report the earnings for the quarter. And that's presuming that the property actually goes into service at that point in time and there's some question as to whether it's going to be third quarter or fourth quarter that that happens.

Andy Stapp: Okay, great, thanks.

Operator: Thank you and it's Star 1 for questions. We'll go to a follow up from Scott Siefers with Sandler O'Neill & Partners.

Scott Siefers: Hey guys thanks for taking the follow up. Dennis I think you might actually have answered this in the prior question but just on the aggregate expense based on sort of the core way that we would look at it if you're right around $98 million as of the second quarter. Is the expectation basically flat if, you know, salaries go up but you get maybe a little relief on some of those other ones because I know previously we were targeting back to the fourth quarter '16 level. So what's maybe a good proxy in your mind as we look forward?

Dennis Klaeser: Yes you're correct. Operating expense was a little bit higher than we had targeted and it's primarily as a result of the other expenses, various other expenses. And so our goal is to bring that down modestly. Again the jury's still out. How significant we can reduce that but our goal is to bring that down modestly.

Scott Siefers: Okay terrific, thank you. And then just back on the leverage program and so in spite of maybe the size of the balance sheet not growing in aggregate, not growing as rapidly as we might have thought because of a slower pace of purchases but at the margin remaining under some pressure. It looks, like, you should still be able to grow NII on a sequential basis. Is that the way you're thinking about it?

Dennis Klaeser: Oh yes with the growth particularly in the growth of volume of the loan portfolio and incremental growth of securities portfolio absolutely we see NII growth quarter over quarter.

Scott Siefers: Okay perfect. All right thank you guys very much.

Dennis Klaeser: All right, thanks.

Operator: And gentlemen we have no additional questions. I'd like to turn the call back to you for any additional comments or closing remarks.

Terry McEvoy: On behalf of Tom Shafer and Dennis Klaeser and myself and all the team at Chemical we appreciate everyone's interest and if you have any questions you can give us a call. Otherwise have an especially nice day. Thank you.

Operator: Thank you sir and again that does conclude our call. We do appreciate your participation. You may disconnect at this time.