

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED June 30, 2021

Commission file number 0-7818

INDEPENDENT BANK CORPORATION

(Exact name of registrant as specified in its charter)

Michigan

(State or jurisdiction of Incorporation or Organization)

38-2032782

(I.R.S. Employer Identification Number)

4200 East Beltline, Grand Rapids, Michigan 49525

(Address of principal executive offices)

(616) 527-5820

(Registrant's telephone number, including area code)

NONE

Former name, address and fiscal year, if changed since last report.

Securities registered pursuant to Section 12(b) of the Act:

Title of each Class	Trading Symbol	Name of each exchange which registered
<u>Common stock, no par value</u>	<u>IBCP</u>	<u>The Nasdaq Stock Market, LLC</u>

Indicate by check mark whether the registrant (1) has filed all documents and reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, non-accelerated filer, smaller reporting company or an emerging growth company.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to section 13(a) of the Exchange Act. Yes No

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: common stock, no par value, 21,518,960 as of August 5, 2021.

INDEPENDENT BANK CORPORATION AND SUBSIDIARIES

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FORWARD-LOOKING STATEMENTS

Statements in this report that are not statements of historical fact, including statements that include terms such as “will,” “may,” “should,” “believe,” “expect,” “forecast,” “anticipate,” “estimate,” “project,” “intend,” “likely,” “optimistic” and “plan” and statements about future or projected financial and operating results, plans, projections, objectives, expectations, and intentions, are forward-looking statements. Forward-looking statements include, but are not limited to, descriptions of plans and objectives for future operations, products or services; projections of our future revenue, earnings or other measures of economic performance; forecasts of credit losses and other asset quality trends; statements about our business and growth strategies; and expectations about economic and market conditions and trends. These forward-looking statements express our current expectations, forecasts of future events, or long-term goals. They are based on assumptions, estimates, and forecasts that, although believed to be reasonable, may turn out to be incorrect. Actual results could differ materially from those discussed in the forward-looking statements for a variety of reasons, including:

- economic, market, operational, liquidity, credit, and interest rate risks associated with our business including the impact of the ongoing COVID-19 pandemic on each of these items;
- economic conditions generally and in the financial services industry, particularly economic conditions within Michigan and the regional and local real estate markets in which our bank operates including the economic impact of the ongoing COVID-19 pandemic in each of these areas;
- the failure of assumptions underlying the establishment of, and provisions made to, our allowance for credit losses;
- increased competition in the financial services industry, either nationally or regionally;
- our ability to achieve loan and deposit growth;
- volatility and direction of market interest rates;
- the continued services of our management team; and
- implementation of new legislation, which may have significant effects on us and the financial services industry.

This list provides examples of factors that could affect the results described by forward-looking statements contained in this report, but the list is not intended to be all-inclusive. The risk factors disclosed in Part I – Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2020, as updated by any new or modified risk factors disclosed in Part II – Item 1A of any subsequently filed Quarterly Report on Form 10-Q, include the known risks our management believes could materially affect the results described by forward-looking statements in this report. However, those risks may not be the only risks we face. Our results of operations, cash flows, financial position, and prospects could also be materially and adversely affected by additional factors that are not presently known to us that we currently consider to be immaterial, or that develop after the date of this report. We cannot assure you that our future results will meet expectations. While we believe the forward-looking statements in this report are reasonable, you should not place undue reliance on any forward-looking statement. In addition, these statements speak only as of the date made. We do not undertake, and expressly disclaim, any obligation to update or alter any statements, whether as a result of new information, future events, or otherwise, except as required by applicable law.

INDEPENDENT BANK CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Financial Condition

	June 30, 2021	December 31, 2020
	(Unaudited)	
	(In thousands, except share amounts)	
Assets		
Cash and due from banks	\$ 46,242	\$ 56,006
Interest bearing deposits	23,012	62,699
	Cash and Cash Equivalents	118,705
Securities available for sale	1,330,660	1,072,159
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	18,427	18,427
Loans held for sale, carried at fair value	59,752	92,434
Loans		
Commercial	1,244,547	1,242,415
Mortgage	1,045,108	1,015,926
Installment	524,904	475,337
	Total Loans	2,733,678
Allowance for credit losses (1)	(45,926)	(35,429)
	Net Loans	2,698,249
Other real estate and repossessed assets, net	296	766
Property and equipment, net	36,507	36,127
Bank-owned life insurance	55,446	55,180
Capitalized mortgage loan servicing rights, carried at fair value	22,431	16,904
Other intangibles	3,821	4,306
Goodwill	28,300	28,300
Accrued income and other assets	67,745	62,456
	Total Assets	\$ 4,461,272
		\$ 4,204,013
Liabilities and Shareholders' Equity		
Deposits		
Non-interest bearing	\$ 1,298,282	\$ 1,153,473
Savings and interest-bearing checking	1,699,463	1,526,465
Reciprocal	589,493	556,185
Time	272,305	287,402
Brokered time	2,923	113,830
	Total Deposits	3,862,466
Other borrowings	30,005	30,012
Subordinated debt	39,319	39,281
Subordinated debentures	39,558	39,524
Accrued expenses and other liabilities	93,950	68,319
	Total Liabilities	4,065,298
		3,814,491
Commitments and contingent liabilities		
Shareholders' Equity		
Preferred stock, no par value, 200,000 shares authorized; none issued or outstanding	-	-
Common stock, no par value, 500,000,000 shares authorized; issued and outstanding: 21,632,912 shares at June 30, 2021 and 21,853,800 shares at December 31, 2020	332,457	339,353
Retained earnings	55,101	40,145
Accumulated other comprehensive income	8,416	10,024
	Total Shareholders' Equity	395,974
	Total Liabilities and Shareholders' Equity	\$ 4,461,272
		\$ 4,204,013

(1) Beginning January 1, 2021, calculation is based on CECL methodology. Prior to January 1, 2021, calculation was based on the probable incurred loss methodology.

See notes to interim condensed consolidated financial statements (Unaudited)

INDEPENDENT BANK CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Operations

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
	<u>(Unaudited)</u>		<u>(Unaudited)</u>	
(In thousands, except per share amounts)				
Interest Income				
Interest and fees on loans	\$ 28,091	\$ 29,863	\$ 56,196	\$ 61,627
Interest on securities available for sale				
Taxable	3,656	2,847	6,452	5,906
Tax-exempt	1,544	793	2,928	1,183
Other investments	208	251	425	617
Total Interest Income	<u>33,499</u>	<u>33,754</u>	<u>66,001</u>	<u>69,333</u>
Interest Expense				
Deposits	1,142	2,388	2,398	7,088
Other borrowings and subordinated debt and debentures	964	904	1,926	1,592
Total Interest Expense	<u>2,106</u>	<u>3,292</u>	<u>4,324</u>	<u>8,680</u>
Net Interest Income	<u>31,393</u>	<u>30,462</u>	<u>61,677</u>	<u>60,653</u>
Provision for credit losses (1)	(1,425)	5,188	(1,899)	11,909
Net Interest Income After Provision for Credit Losses	<u>32,818</u>	<u>25,274</u>	<u>63,576</u>	<u>48,744</u>
Non-interest Income				
Interchange income	3,453	2,526	6,502	4,983
Service charges on deposit accounts	2,318	1,623	4,234	4,214
Net gains on assets				
Mortgage loans	9,091	17,642	21,919	26,482
Securities available for sale	-	-	1,416	253
Mortgage loan servicing, net	(1,962)	(3,022)	3,205	(8,322)
Other	1,871	1,598	3,901	3,761
Total Non-interest Income	<u>14,771</u>	<u>20,367</u>	<u>41,177</u>	<u>31,371</u>
Non-interest Expense				
Compensation and employee benefits	19,883	16,279	38,405	32,788
Occupancy, net	2,153	2,159	4,496	4,619
Data processing	2,576	1,590	4,950	3,945
Furniture, fixtures and equipment	1,034	1,090	2,037	2,126
Interchange expense	1,201	726	2,149	1,585
Communications	777	800	1,658	1,603
Loan and collection	859	756	1,618	1,561
Conversion related expenses	1,143	346	1,361	402
Advertising	164	364	653	1,047
Legal and professional	522	468	1,021	861
FDIC deposit insurance	307	430	637	800
Other	1,917	2,338	3,572	4,728
Total Non-interest Expense	<u>32,536</u>	<u>27,346</u>	<u>62,557</u>	<u>56,065</u>
Income Before Income Tax	<u>15,053</u>	<u>18,295</u>	<u>42,196</u>	<u>24,050</u>
Income tax expense	2,665	3,523	7,771	4,468
Net Income	<u>\$ 12,388</u>	<u>\$ 14,772</u>	<u>\$ 34,425</u>	<u>\$ 19,582</u>
Net Income Per Common Share				
Basic	<u>\$ 0.57</u>	<u>\$ 0.67</u>	<u>\$ 1.58</u>	<u>\$ 0.89</u>
Diluted	<u>\$ 0.56</u>	<u>\$ 0.67</u>	<u>\$ 1.56</u>	<u>\$ 0.88</u>

(1) Beginning January 1, 2021, calculation is based on CECL methodology. Prior to January 1, 2021, calculation was based on the probable incurred loss methodology.

See notes to interim condensed consolidated financial statements (Unaudited)

INDEPENDENT BANK CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Income

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
	(Unaudited - In thousands)			
Net income	\$ 12,388	\$ 14,772	\$ 34,425	\$ 19,582
Other comprehensive income (loss)				
Securities available for sale				
Unrealized gains (losses) arising during period	5,162	10,522	(619)	9,924
Change in unrealized gains and losses for which a portion of other than temporary impairment has been recognized in earnings	-	88	-	(81)
Reclassification adjustments for gains included in earnings	-	-	(1,416)	(253)
Unrealized gains (losses) recognized in other comprehensive income (loss) on securities available for sale	5,162	10,610	(2,035)	9,590
Income tax expense (benefit)	1,084	2,228	(427)	2,014
Unrealized gains (losses) recognized in other comprehensive income (loss) on securities available for sale, net of tax	4,078	8,382	(1,608)	7,576
Derivative instruments				
Unrealized gains (losses) arising during period	-	78	-	(328)
Reclassification adjustment for expense recognized in earnings	-	261	-	336
Unrealized gains (losses) recognized in other comprehensive income (loss) on derivative instruments	-	339	-	8
Income tax expense	-	71	-	2
Unrealized gains recognized in other comprehensive income (loss) on derivative instruments, net of tax	-	268	-	6
Other comprehensive income (loss)	4,078	8,650	(1,608)	7,582
Comprehensive income	\$ 16,466	\$ 23,422	\$ 32,817	\$ 27,164

See notes to interim condensed consolidated financial statements (Unaudited)

INDEPENDENT BANK CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows

	Six months ended June 30,	
	2021	2020
	(Unaudited - In thousands)	
Net Income	\$ 34,425	\$ 19,582
Adjustments to Reconcile Net Income to Net Cash From Operating Activities		
Proceeds from sales of loans held for sale	708,526	637,682
Disbursements for loans held for sale	(653,925)	(625,106)
Provision for credit losses (1)	(1,899)	11,909
Deferred income tax benefit	(251)	(2,427)
Net deferred loan fees (costs)	(345)	7,433
Net depreciation, amortization of intangible assets and premiums and accretion of discounts on securities, and loans	6,279	4,124
Net gains on mortgage loans	(21,919)	(26,482)
Net gains on securities available for sale	(1,416)	(253)
Share based compensation	947	1,009
(Increase) decrease in accrued income and other assets	(9,205)	3,596
Increase in accrued expenses and other liabilities	5,381	12,886
	Total Adjustments	32,173
	Net Cash From Operating Activities	66,598
Cash Flow Used in Investing Activities		
Proceeds from the sale of securities available for sale	81,178	36,593
Proceeds from maturities, prepayments and calls of securities available for sale	222,767	111,349
Purchases of securities available for sale	(546,621)	(447,645)
Proceeds from the maturity of interest bearing deposits - time	-	350
Purchase of Federal Home Loan Bank stock	-	(68)
Net increase in portfolio loans (loans originated, net of principal payments)	(79,241)	(181,765)
Proceeds from the sale of portfolio loans	-	2,395
Proceeds from bank-owned life insurance	-	945
Proceeds from the sale of other real estate and repossessed assets	854	262
Capital expenditures	(3,081)	(1,653)
	Net Cash Used in Investing Activities	(324,144)
Cash Flow From Financing Activities		
Net increase in total deposits	225,111	448,398
Net decrease in other borrowings	(7)	(25,004)
Proceeds from Federal Home Loan Bank Advances	-	239,254
Payments of Federal Home Loan Bank Advances	-	(252,910)
Proceeds from issuance of subordinated debt, net of issuance costs	-	39,277
Dividends paid	(9,166)	(8,855)
Proceeds from issuance of common stock	49	11
Repurchase of common stock	(7,285)	(13,784)
Share based compensation withholding obligation	(607)	(591)
	Net Cash From Financing Activities	208,095
	Net Decrease in Cash and Cash Equivalents	(49,451)
Cash and Cash Equivalents at Beginning of Period	118,705	65,304
	Cash and Cash Equivalents at End of Period	\$ 69,254
	\$ 69,254	\$ 55,816
Cash paid during the period for		
Interest	\$ 4,393	\$ 9,126
Income taxes	8,659	-
Operating leases	867	936
Transfers to other real estate and repossessed assets	210	66
Purchase of securities available for sale not yet settled	23,825	2,450
Securitization of portfolio loans	-	26,325
Right of use assets obtained in exchange for lease obligations	-	116

(1) Beginning January 1, 2021, calculation is based on CECL methodology. Prior to January 1, 2021, calculation was based on the probable incurred loss methodology.

See notes to interim condensed consolidated financial statements (Unaudited)

INDEPENDENT BANK CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Shareholders' Equity.

	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
(Dollars in thousands, except per share amounts)				
Balances at April 1, 2021	\$ 335,704	\$ 47,287	\$ 4,338	\$ 387,329
Net income, three months ended June 30, 2021	-	12,388	-	12,388
Cash dividends declared, \$0.21 per share	-	(4,574)	-	(4,574)
Repurchase of 163,338 shares of common stock	(3,684)	-	-	(3,684)
Issuance of 18,400 shares of common stock	30	-	-	30
Share based compensation (issuance of 8,871 shares of common stock)	505	-	-	505
Share based compensation withholding obligation (withholding of 4,755 shares of common stock)	(98)	-	-	(98)
Other comprehensive income	-	-	4,078	4,078
Balances at June 30, 2021	<u>\$ 332,457</u>	<u>\$ 55,101</u>	<u>\$ 8,416</u>	<u>\$ 395,974</u>
Balances at April 1, 2020	\$ 338,528	\$ 1,944	\$ (4,854)	\$ 335,618
Net income, three months ended June 30, 2020	-	14,772	-	14,772
Cash dividends declared, \$0.20 per share	-	(4,378)	-	(4,378)
Issuance of 350 shares of common stock	-	-	-	-
Share based compensation (issuance of zero shares of common stock)	462	-	-	462
Share based compensation withholding obligation (withholding of 156 shares of common stock)	(1)	-	-	(1)
Other comprehensive income	-	-	8,650	8,650
Balances at June 30, 2020	<u>\$ 338,989</u>	<u>\$ 12,338</u>	<u>\$ 3,796</u>	<u>\$ 355,123</u>
Balances at January 1, 2021	\$ 339,353	\$ 40,145	\$ 10,024	\$ 389,522
Adoption of ASU 2016-13	-	(10,303)	-	(10,303)
Balances at January 1, 2021, as adjusted	339,353	29,842	10,024	379,219
Net income, six months ended June 30, 2021	-	34,425	-	34,425
Cash dividends declared, \$0.42 per share	-	(9,166)	-	(9,166)
Repurchase of 344,005 shares of common stock	(7,285)	-	-	(7,285)
Issuance of 37,450 shares of common stock	49	-	-	49
Share based compensation (issuance of 117,946 shares of common stock)	947	-	-	947
Share based compensation withholding obligation (withholding of 32,279 shares of common stock)	(607)	-	-	(607)
Other comprehensive income	-	-	(1,608)	(1,608)
Balances at June 30, 2021	<u>\$ 332,457</u>	<u>\$ 55,101</u>	<u>\$ 8,416</u>	<u>\$ 395,974</u>
Balances at January 1, 2020	\$ 352,344	\$ 1,611	\$ (3,786)	\$ 350,169
Net income, six months ended June 30, 2020	-	19,582	-	19,582
Cash dividends declared, \$0.40 per share	-	(8,855)	-	(8,855)
Repurchase of 678,929 shares of common stock	(13,784)	-	-	(13,784)
Issuance of 11,917 shares of common stock	11	-	-	11
Share based compensation (issuance of 93,882 shares of common stock)	1,009	-	-	1,009
Share based compensation withholding obligation (withholding of 28,330 shares of common stock)	(591)	-	-	(591)
Other comprehensive income	-	-	7,582	7,582
Balances at June 30, 2020	<u>\$ 338,989</u>	<u>\$ 12,338</u>	<u>\$ 3,796</u>	<u>\$ 355,123</u>

See notes to interim condensed consolidated financial statements (Unaudited)

1. Preparation of Financial Statements

The condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) have been condensed or omitted pursuant to those rules and regulations, although we believe that the disclosures made are adequate to make the information not misleading. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes for the year ended December 31, 2020 included in our Annual Report on Form 10-K.

In our opinion, the accompanying unaudited condensed consolidated financial statements contain all the adjustments necessary to present fairly our consolidated financial condition as of June 30, 2021 and December 31, 2020, and the results of operations for the three and six-month periods ended June 30, 2021 and 2020. The results of operations for the three and six-month periods ended June 30, 2021, are not necessarily indicative of the results to be expected for the full year. Certain reclassifications have been made in the prior period condensed consolidated financial statements to conform to the current period presentation. Our critical accounting policies include the determination of the allowance for credit losses (“ACL”) and the valuation of capitalized mortgage loan servicing rights. Refer to our 2020 Annual Report on Form 10-K for a disclosure of our accounting policies.

2. New Accounting Standards

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-13, “Financial Instruments — Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments”. This ASU significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income.

This ASU:

- Replaces the existing incurred loss impairment guidance and establishes a single allowance framework for financial assets carried at amortized cost, which will reflect our estimate of credit losses over the full remaining expected life of the financial assets and will consider expected future changes in macroeconomic conditions.
- Eliminates existing guidance for purchase credit impaired (“PCI”) loans, and requires recognition of the nonaccretable difference as an increase to the allowance for expected credit losses on financial assets purchased with more than insignificant credit deterioration since origination, which will be offset by an increase in the recorded investment of the related loans.
- Requires inclusion of expected recoveries, limited to the cumulative amount of prior write-offs, when estimating the ACL for in scope financial assets (including collateral dependent assets).
- Amends existing impairment guidance for securities available for sale to incorporate an allowance, which will allow for reversals of credit impairments in the event that the credit of an issuer improves. Credit losses on securities available for sale are limited to the amount of the decline in fair value regardless of what the credit loss model would show for impairment.
- Generally requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption.

We began evaluating this ASU in 2016 and established a company-wide, cross-discipline governance structure, which provides implementation oversight. We continued to test and refine our current expected credit loss (“CECL”) models that satisfied the requirements of this ASU. Oversight and testing, as well as efforts to meet expanded disclosure requirements, extended through the end of 2020. We currently estimate losses over approximately a one year forecast period using external economic forecast sources, including the Federal Open Market Committee median economic projections, and then revert to longer term historical loss experience to estimate losses over more extended periods. We were originally required to adopt this ASU on January 1, 2020 but section 4014 of the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act allowed for temporary relief from applying this ASU. Under the amended CARES Act we were allowed to delay the adoption of this ASU until the earlier of the termination of the national emergency that was declared on March 13, 2020, or January 1, 2022. Early adoption was also allowed on either January 1, 2020 or January 1, 2021. As such, we chose to delay the adoption of this ASU during 2020 and adopted this ASU on January 1, 2021. Results for the reporting periods after January 1, 2021 are presented under this new ASU while prior period amounts continue to be reported in accordance with previously applicable accounting guidance.

We adopted this ASU using the modified retrospective method for all financial assets measured at amortized cost and unfunded lending commitments. As of January 1, 2021 we increased the ACL by \$11.7 million which was primarily driven by the longer contractual maturities of our mortgage and consumer installment loan portfolio segments. In addition, we increased the allowance for losses related to unfunded loan commitments by \$1.5 million. The ultimate impact of adopting this ASU, and at each subsequent reporting period, is highly dependent on credit quality, economic forecasts and conditions, composition of our loan portfolios and securities available for sale, along with other management judgments. As of January 1, 2021, we recorded a cumulative-effect adjustment of \$10.3 million to decrease retained earnings.

Based on our evaluation of securities available for sale, we did not record an ACL on these securities under this ASU.

We adopted this ASU using the prospective transition approach for financial assets purchased with credit deterioration (“PCD”) that were previously classified as PCI and accounted for under accounting standards codification (“ASC”) 310-30. In accordance with this ASU, we did not reassess whether PCI assets met the definition of PCD assets as of the date of adoption. On January 1, 2021, the amortized cost basis of the PCD assets were adjusted to reflect the addition of \$0.13 million to the ACL for loans. The remaining noncredit discount in the amount of \$0.34 million (based on the adjusted amortized cost basis) will be accreted into interest income at the effective interest rate as of January 1, 2021.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

The impact of the adoption of this ASU follows:

	As Reported Under ASU 2016-13	Pre-ASU 2016-13 Adoption	Impact of ASU 2016-13
Assets			
Loans			
Commercial	\$ 1,242,510	\$ 1,242,415	\$ 95
Mortgage	1,015,944	1,015,926	18
Installment	475,358	475,337	21
Total loans	2,733,812	2,733,678	134
Allowance for credit losses	(47,137)	(35,429)	(11,708)
Net loans	\$ 2,686,675	\$ 2,698,249	\$ (11,574)
Deferred tax assets (1)	\$ 65,196	\$ 62,456	\$ 2,740
Total Assets	\$ 4,195,179	\$ 4,204,013	\$ (8,834)
Liabilities and shareholders's equity			
Allowance for credit losses on unfunded lending commitments (2)	\$ 3,274	\$ 1,805	\$ 1,469
Total liabilities	\$ 3,815,960	\$ 3,814,491	\$ 1,469
Retained earnings	\$ 29,842	\$ 40,145	\$ (10,303)
Total shareholders' equity	\$ 379,219	\$ 389,522	\$ (10,303)
Total liabilities and shareholders' equity	\$ 4,195,179	\$ 4,204,013	\$ (8,834)

(1) Included in Accrued income and other assets in our Condensed Consolidated Statements of Financial Condition.

(2) Included in Accrued expenses and other liabilities in our Condensed Consolidated Statements of Financial Condition.

In March 2020, the FASB issued ASU 2020-04, "Reference Rate Reform (Topic 848), Facilitation of the Effects of Reference Rate Reform on Financial Reporting". This new ASU provides temporary optional expedients and exceptions to GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burdens of the expected market transition from LIBOR and other interbank offered rates to alternative reference rates. Entities can elect not to apply certain modification accounting requirements to contracts affected by reference rate reform, if certain criteria are met. Entities that make such elections would not have to remeasure contracts at the modification date or reassess a previous accounting determination. Entities can elect various optional expedients that would allow them to continue applying hedge accounting for hedging relationships affected by reference rate reform, if certain criteria are met. This amended guidance and our ability to elect its temporary optional expedients and exceptions are effective for us as of March 12, 2020 through December 31, 2022.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

3. Securities

Securities available for sale consist of the following:

	Amortized Cost	Unrealized		Fair Value
		Gains	Losses	
(In thousands)				
June 30, 2021				
U.S. agency	\$ 8,355	\$ 245	\$ 4	\$ 8,596
U.S. agency residential mortgage-backed	364,072	3,185	1,890	365,367
U.S. agency commercial mortgage-backed	18,829	197	16	19,010
Private label mortgage-backed	67,976	1,329	41	69,264
Other asset backed	193,509	1,743	26	195,226
Obligations of states and political subdivisions	509,250	10,499	533	519,216
Corporate	148,205	3,570	172	151,603
Trust preferred	1,973	-	106	1,867
Foreign government	499	12	-	511
Total	<u>\$ 1,312,668</u>	<u>\$ 20,780</u>	<u>\$ 2,788</u>	<u>\$ 1,330,660</u>
December 31, 2020				
U.S. agency	\$ 10,456	\$ 305	\$ 13	\$ 10,748
U.S. agency residential mortgage-backed	340,224	4,951	593	344,582
U.S. agency commercial mortgage-backed	6,869	326	-	7,195
Private label mortgage-backed	41,429	1,539	139	42,829
Other asset backed	252,596	1,796	211	254,181
Obligations of states and political subdivisions	315,780	8,691	178	324,293
Corporate	82,307	3,807	97	86,017
Trust preferred	1,971	-	173	1,798
Foreign government	500	16	-	516
Total	<u>\$ 1,052,132</u>	<u>\$ 21,431</u>	<u>\$ 1,404</u>	<u>\$ 1,072,159</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Our investments' gross unrealized losses and fair values aggregated by investment type and length of time that individual securities have been at a continuous unrealized loss position follows:

	Less Than Twelve Months		Twelve Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
June 30, 2021						
U.S. agency	\$ -	\$ -	\$ 1,491	\$ 4	\$ 1,491	\$ 4
U.S. agency residential mortgage-backed	144,894	1,830	6,617	60	151,511	1,890
U.S. agency commercial mortgage-backed	2,892	16	-	-	2,892	16
Private label mortgage-backed	5,574	27	1,426	14	7,000	41
Other asset backed	10,466	15	1,697	11	12,163	26
Obligations of states and political subdivisions	60,954	533	-	-	60,954	533
Corporate	20,313	164	547	8	20,860	172
Trust preferred	-	-	1,867	106	1,867	106
Total	\$ 245,093	\$ 2,585	\$ 13,645	\$ 203	\$ 258,738	\$ 2,788
December 31, 2020						
U.S. agency	\$ 1,469	\$ 3	\$ 2,329	\$ 10	\$ 3,798	\$ 13
U.S. agency residential mortgage-backed	96,839	592	83	1	96,922	593
Private label mortgage-backed	11,838	95	2,050	44	13,888	139
Other asset backed	7,142	25	21,197	186	28,339	211
Obligations of states and political subdivisions	28,957	177	800	1	29,757	178
Corporate	1,924	97	-	-	1,924	97
Trust preferred	-	-	1,798	173	1,798	173
Total	\$ 148,169	\$ 989	\$ 28,257	\$ 415	\$ 176,426	\$ 1,404

Securities available for sale in unrealized loss positions are evaluated quarterly for impairment related to credit losses. For securities available for sale in an unrealized loss position, we first assess whether we intend to sell, or it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For securities available for sale that do not meet this criteria, we evaluate whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, we consider the extent to which fair value is less than amortized cost, adverse conditions specifically related to the security and the issuer and the impact of changes in market interest rates on the market value of the security, among other factors. If this assessment indicates that a credit loss exists, we compare the present value of cash flows expected to be collected from the security with the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis for the security, a credit loss exists and an ACL is recorded, limited to the amount that the fair value of the security is less than its amortized cost basis. Any impairment that has not been recorded through an ACL is recognized in other comprehensive income (loss), net of applicable taxes. No ACL for securities available for sale was needed at June 30, 2021. Accrued interest receivable on securities available for sale totaled \$5.4 million at June 30, 2021 and is excluded from the estimate of credit losses.

U.S. agency, U.S. agency residential mortgage-backed and U.S. agency commercial mortgage-backed securities — at June 30, 2021, we had 12 U.S. agency, 47 U.S. agency residential mortgage-backed and eight U.S. agency commercial mortgage-backed securities whose fair value is less than amortized cost. These securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major credit rating agencies, and have a long history of no credit losses. The unrealized losses are largely attributed to widening spreads to Treasury bonds and/or an increase in interest rates since acquisition.

Private label mortgage backed, other asset backed and corporate securities — at June 30, 2021, we had 14 private label mortgage backed, 17 other asset backed and 19 corporate securities whose fair value is less than amortized cost. The unrealized losses are primarily due to credit spread widening and/or an increase in interest rates since acquisition.

Obligations of states and political subdivisions — at June 30, 2021, we had 116 municipal securities whose fair value is less than amortized cost. The unrealized losses are primarily due to an increase in interest rates since acquisition.

Trust preferred securities — at June 30, 2021, we had two trust preferred securities whose fair value is less than amortized cost. Both of our trust preferred securities are single issue securities issued by a trust subsidiary of a bank holding company. The pricing of trust preferred securities has suffered from credit spread widening. One of the securities is rated by a major rating agency as investment grade while the other one is non-rated. The non-rated issue is a relatively small bank and was never rated. The issuer of this non-rated trust preferred security, which had a total amortized cost of \$1.0 million and total fair value of \$0.91 million as of June 30, 2021, continues to have satisfactory credit metrics and make interest payments.

At June 31, 2021 management does not intend to liquidate any of the securities discussed above and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses.

We recorded no credit related charges in our Condensed Consolidated Statements of Operations related to securities available for sale during the six month periods ended June 30, 2021 and 2020, respectively.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

The amortized cost and fair value of securities available for sale at June 30, 2021, by contractual maturity, follow:

	Amortized Cost	Fair Value
	(In thousands)	
Maturing within one year	\$ 15,770	\$ 16,080
Maturing after one year but within five years	112,878	116,373
Maturing after five years but within ten years	165,791	171,342
Maturing after ten years	373,843	377,998
	<u>668,282</u>	<u>681,793</u>
U.S. agency residential mortgage-backed	364,072	365,367
U.S. agency commercial mortgage-backed	18,829	19,010
Private label mortgage-backed	67,976	69,264
Other asset backed	193,509	195,226
Total	<u>\$ 1,312,668</u>	<u>\$ 1,330,660</u>

The actual maturity may differ from the contractual maturity because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

Gains and losses realized on the sale of securities available for sale are determined using the specific identification method and are recognized on a trade-date basis. A summary of proceeds from the sale of securities available for sale and gains and losses for the six month periods ending June 30, follows:

	Proceeds	Realized	
		Gains	Losses
	(In thousands)		
2021	\$ 81,178	\$ 1,466	\$ 50
2020	36,593	253	-

4. Loans

We estimate the ACL based on relevant available information from both internal and external sources, including historical loss trends, current conditions and forecasts, specific analysis of individual loans, and a review of other relevant and appropriate factors. The allowance process is designed to provide for expected future losses based on our reasonable and supportable (“R&S”) forecast as of the reporting date. Our ACL process is administered by our Risk Management group utilizing a third party software solution, with significant input and ultimate approval from our Executive Enterprise Risk Committee. Further, we have established a CECL Forecast Committee, which includes a cross discipline structure with membership from Executive Management, Risk Management, and Accounting, which approves ACL model assumptions each quarter. Our ACL is comprised of three principal elements: (i) specific analysis of individual loans identified during the review of the loan portfolio, (ii) pooled analysis of loans with similar risk characteristics based on historical experience, adjusted for current conditions, R&S forecasts, and expected prepayments, and (iii) additional allowances based on subjective factors, including local and general economic business factors and trends, portfolio concentrations and changes in the size and/or the general terms of the loan portfolios.

The first ACL element (specific allocations) includes loans that do not share similar risk characteristics and are evaluated on an individual basis. We will typically evaluate on an individual basis loans that are on nonaccrual, commercial loans designated as a TDR, or mortgage and installment TDR loans with a rate concession. When we determine that foreclosure is probable or when repayment is expected to be provided substantially through the operation or sale of underlying collateral, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for estimated selling costs. For loans evaluated on an individual basis that are not determined to be collateral dependent, a discounted cash flow analysis is performed to determine expected credit losses.

The second ACL element (pooled analysis) includes loans with similar risk characteristics, which are broken down by segment, class, and risk metric. The Bank's primary segments of commercial, mortgage, and installment loans are further classified by other relevant attributes, such as collateral type, lien position, occupancy status, amortization method, and balance size. Commercial classes are additionally segmented by risk rating, and mortgage and installment loan classes by credit score tier, which are updated at least semi-annually.

We utilize a discounted cash flow ("DCF") model to estimate expected future losses for pooled loans. Expected future cash flows are developed from payment schedules over the contractual term, adjusted for forecasted default (probability of default), loss, and prepayment assumptions. We are not required to develop forecasts over the full contractual term of the financial asset or group of financial assets. Rather, for periods beyond which the entity is able to make or obtain R&S forecasts of expected credit losses, we revert to the long term average on a straight line or immediate basis, as determined by the CECL Forecast Committee, and which may vary depending on the economic outlook and uncertainty.

The DCF model for the mortgage and installment pooled loan segments includes using probability of default ("PD") assumptions that are derived through regression analysis with forecasted US unemployment levels by credit score tier. We review the Bloomberg composite forecast of approximately 50 analysts as well as the FOMC projections in setting the unemployment forecast for the R&S period. The current ACL utilizes a one year R&S forecast followed by immediate reversion to the 30 year average unemployment rate. PD assumptions for the remaining segments are based primarily on historical rates by risk metric as defaults were not strongly correlated with any economic indicator. Loss given default ("LGD") assumptions for the mortgage loan segment are based on a two year forecast followed by a two year straight line reversion period to the longer term average, while LGD rates for the remaining segments are the historical average for the entire period. Prepayment assumptions represent the two year average rates per segment as calculated through the Bank's Asset and Liability Management program.

Pooled reserves for the commercial loan segment are calculated using the DCF model with assumptions generally based on historical averages by class and risk rating. Effective risk rating practices allow for strong predictability of defaults and losses over the portfolio's expected shorter duration, relative to mortgage and installment loans. Our rating system is similar to those employed by state and federal banking regulators.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

The third ACL element (additional allocations based on subjective factors) is based on factors that cannot be associated with a specific credit or loan category and reflects our attempt to ensure that the overall ACL appropriately reflects a margin for the imprecision necessarily inherent in the estimates of expected credit losses. We adjust our quantitative model for certain qualitative factors to reflect the extent to which management expects current conditions and R&S forecasts to differ from the conditions that existed for the period over which historical information was evaluated. The qualitative framework reflects changes related to relevant data, such as changes in asset quality trends, portfolio growth and composition, national and local economic factors, credit policy and administration and other factors not considered in the base quantitative model. We utilize a survey completed by business unit management throughout the bank, as well as discussion with the CECL Forecast Committee to establish reserves under the qualitative framework. The current period's ACL further recognizes inherent risk related to the ongoing COVID-19 pandemic; specifically to the volume of loans on forbearance, commercial loans in high risk industries, and mortgage and installment borrowers with occupations in those high risk industries. Identified high risk industries include: food service, hospitality, entertainment, retail, investment real estate, assisted living, and non-owner occupied office.

An analysis of the allowance for credit losses by portfolio segment for the three months ended June 30, follows:

	<u>Commercial</u>	<u>Mortgage</u>	<u>Installment</u>	<u>Subjective</u> <u>Allocation</u>	<u>Total</u>
	(In thousands)				
2021					
Balance at beginning of period	\$ 9,530	\$ 18,448	\$ 3,979	\$ 14,798	\$ 46,755
Additions (deductions)					
Provision for credit losses	(946)	340	(219)	(600)	(1,425)
Recoveries credited to the allowance	510	169	207	-	886
Loans charged against the allowance	-	(24)	(266)	-	(290)
Balance at end of period	<u>\$ 9,094</u>	<u>\$ 18,933</u>	<u>\$ 3,701</u>	<u>\$ 14,198</u>	<u>\$ 45,926</u>
2020					
Balance at beginning of period	\$ 10,212	\$ 7,416	\$ 1,258	\$ 13,609	\$ 32,495
Additions (deductions)					
Provision for credit losses (1)	1,461	(130)	175	3,682	5,188
Recoveries credited to the allowance	1,058	90	207	-	1,355
Loans charged against the allowance	(4,000)	(115)	(423)	-	(4,538)
Balance at end of period	<u>\$ 8,731</u>	<u>\$ 7,261</u>	<u>\$ 1,217</u>	<u>\$ 17,291</u>	<u>\$ 34,500</u>

(1) Beginning January 1, 2021, calculation is based on CECL methodology. Prior to January 1, 2021, calculation was based on the probable incurred loss methodology.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

An analysis of the allowance for credit losses by portfolio segment for the six months ended June 30, follows (1):

	<u>Commercial</u>	<u>Mortgage</u>	<u>Installment</u> (In thousands)	<u>Subjective Allocation</u>	<u>Total</u>
2021					
Balance at beginning of period	\$ 7,401	\$ 6,998	\$ 1,112	\$ 19,918	\$ 35,429
Additions (deductions)					
Impact of adoption of ASC 326	2,551	12,000	3,052	(6,029)	11,574
Provision for credit losses	(1,622)	(280)	(306)	309	(1,899)
Initial allowance on loans purchased with credit deterioration	95	18	21	-	134
Recoveries credited to the allowance	669	381	384	-	1,434
Loans charged against the allowance	-	(184)	(562)	-	(746)
Balance at end of period	<u>\$ 9,094</u>	<u>\$ 18,933</u>	<u>\$ 3,701</u>	<u>\$ 14,198</u>	<u>\$ 45,926</u>
2020					
Balance at beginning of period	\$ 7,922	\$ 8,216	\$ 1,283	\$ 8,727	\$ 26,148
Additions (deductions)					
Provision for credit losses (1)	3,679	(638)	304	8,564	11,909
Recoveries credited to the allowance	1,166	207	381	-	1,754
Loans charged against the allowance	(4,036)	(524)	(751)	-	(5,311)
Balance at end of period	<u>\$ 8,731</u>	<u>\$ 7,261</u>	<u>\$ 1,217</u>	<u>\$ 17,291</u>	<u>\$ 34,500</u>

(1) Beginning January 1, 2021, calculation is based on CECL methodology. Prior to January 1, 2021, calculation was based on the probable incurred loss methodology.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

The ACL and recorded investment in loans by portfolio segment at December 31, 2020 follows (1):

	<u>Commercial</u>	<u>Mortgage</u>	<u>Installment</u> (In thousands)	<u>Subjective Allocation</u>	<u>Total</u>
December 31, 2020					
ACL:					
Individually evaluated for impairment	\$ 1,266	\$ 4,124	\$ 191	\$ -	\$ 5,581
Collectively evaluated for impairment	6,135	2,874	921	19,918	29,848
Loans acquired with deteriorated credit quality	-	-	-	-	-
Total ending ACL	<u>\$ 7,401</u>	<u>\$ 6,998</u>	<u>\$ 1,112</u>	<u>\$ 19,918</u>	<u>\$ 35,429</u>
Loans					
Individually evaluated for impairment	\$ 9,431	\$ 39,245	\$ 1,996		\$ 50,672
Collectively evaluated for impairment	1,236,052	980,449	474,379		2,690,880
Loans acquired with deteriorated credit quality	468	410	147		1,025
Total loans recorded investment	1,245,951	1,020,104	476,522		2,742,577
Accrued interest included in recorded investment	3,536	4,178	1,185		8,899
Total loans	<u>\$ 1,242,415</u>	<u>\$ 1,015,926</u>	<u>\$ 475,337</u>		<u>\$ 2,733,678</u>

(1) Beginning January 1, 2021, calculation is based on CECL methodology. Prior to January 1, 2021, calculation was based on the probable incurred loss methodology.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Loans on non-accrual status and past due more than 90 days (“Non-performing Loans”) follow:

	June 30, 2021					December 31, 2020
	Non- Accrual with no Allowance for Credit Loss	Non-Accrual with an Allowance for Credit Loss	Total Non-Accrual (In thousands)	90+ and Still Accruing	Total Non-Performing Loans	Total Non-Performing Loans (1)
Commercial						
Commercial and industrial (2)	\$ -	\$ 189	\$ 189	\$ -	\$ 189	\$ 1,387
Commercial real estate	-	-	-	-	-	-
Mortgage						
1-4 family owner occupied - jumbo	619	-	619	-	619	623
1-4 family owner occupied - non-jumbo (3)	104	1,602	1,706	-	1,706	2,281
1-4 family non-owner occupied	174	701	875	-	875	1,112
1-4 family - 2nd lien	186	919	1,105	14	1,119	1,344
Resort lending	-	248	248	-	248	607
Installment						
Boat lending	-	110	110	-	110	52
Recreational vehicle lending	-	54	54	-	54	74
Other	-	198	198	-	198	393
Total	\$ 1,083	\$ 4,021	\$ 5,104	\$ 14	\$ 5,118	\$ 7,873
Accrued interest excluded from total	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

(1) Non-performing loans at December 31, 2020 exclude PCI loans.

(2) Non-performing commercial and industrial loans exclude \$0.053 million of government guaranteed loans at both June 30, 2021 and December 31, 2020.

(3) Non-performing 1-4 family owner occupied – non jumbo loans exclude \$0.374 million and \$0.386 million of government guaranteed loans at June 30, 2021 and December 31, 2020, respectively.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

The following table provides collateral information by class of loan for collateral-dependent loans with a specific reserve. A loan is considered to be collateral dependent when the borrower is experiencing financial difficulty and the repayment is expected to be provided substantially through the operation or sale of collateral.

The amortized cost of collateral-dependent loans by class follows:

	<u>Collateral Type</u>		<u>Allowance for Credit Losses</u>
	<u>Real Estate</u>	<u>Other</u>	
	(In thousands)		
June 30, 2021			
Commercial			
Commercial and industrial	\$ 104	\$ 667	251
Commercial real estate	136	-	31
Mortgage			
1-4 family owner occupied - jumbo	619	-	-
1-4 family owner occupied - non-jumbo	982	-	313
1-4 family non-owner occupied	396	-	79
1-4 family - 2nd lien	446	-	93
Resort lending	248	-	34
Installment			
Boat lending	-	56	20
Recreational vehicle lending	-	30	11
Other	11	135	52
Total	<u>\$ 2,942</u>	<u>\$ 888</u>	<u>\$ 884</u>
Accrued interest excluded from total	<u>\$ 1</u>	<u>\$ 1</u>	

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

An aging analysis of loans by class follows:

	Loans Past Due				Loans not Past Due	Total Loans
	30-59 days	60-89 days	90+ days	Total		
	(In thousands)					
June 30, 2021						
Commercial						
Commercial and industrial	\$ 52	\$ -	\$ 110	\$ 162	\$ 673,592	\$ 673,754
Commercial real estate	-	-	-	-	570,793	570,793
Mortgage						
1-4 family owner occupied - jumbo	-	-	619	619	482,670	483,289
1-4 family owner occupied - non-jumbo	1,017	269	616	1,902	249,216	251,118
1-4 family non-owner occupied	383	96	396	875	168,307	169,182
1-4 family - 2nd lien	416	21	397	834	86,771	87,605
Resort lending	-	220	248	468	53,446	53,914
Installment						
Boat lending	601	24	24	649	228,044	228,693
Recreational vehicle lending	540	46	27	613	201,332	201,945
Other	312	64	135	511	93,755	94,266
Total	\$ 3,321	\$ 740	\$ 2,572	\$ 6,633	\$ 2,807,926	\$ 2,814,559
Accrued interest excluded from total	\$ 37	\$ 16	\$ -	\$ 53	\$ 7,735	\$ 7,788
December 31, 2020						
Commercial						
Commercial and industrial	\$ 5,003	\$ 131	\$ 70	\$ 5,204	\$ 671,115	\$ 676,319
Commercial real estate	2,600	-	-	2,600	567,032	569,632
Mortgage						
1-4 family owner occupied - jumbo	761	-	623	1,384	438,794	440,178
1-4 family owner occupied - non-jumbo	1,888	453	502	2,843	264,730	267,573
1-4 family non-owner occupied	1,184	139	476	1,799	157,977	159,776
1-4 family - 2nd lien	710	228	732	1,670	92,860	94,530
Resort lending	32	195	358	585	57,462	58,047
Installment						
Boat lending	95	101	-	196	207,317	207,513
Recreational vehicle lending	207	37	48	292	169,282	169,574
Other	337	162	199	698	98,737	99,435
Total recorded investment	\$ 12,817	\$ 1,446	\$ 3,008	\$ 17,271	\$ 2,725,306	\$ 2,742,577
Accrued interest included in recorded investment	\$ 147	\$ 22	\$ -	\$ 169	\$ 8,730	\$ 8,899

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Impaired loans at December 31, 2020 are as follows (1):

	<u>2020</u>
Impaired loans with no allocated ACL	(In thousands)
Troubled debt restructurings ("TDR")	\$ 93
Non - TDR	1,367
Impaired loans with an allocated ACL	
TDR - allowance based on collateral	9,027
TDR - allowance based on present value cash flow	37,953
Non - TDR - allowance based on collateral	1,873
Total impaired loans	<u>\$ 50,313</u>
Amount of ACL allocated (1)	
TDR - allowance based on collateral	\$ 1,058
TDR - allowance based on present value cash flow	3,755
Non - TDR - allowance based on collateral	768
Total amount of ACL allocated	<u>\$ 5,581</u>

(1) Beginning January 1, 2021, calculation is based on CECL methodology. Prior to January 1, 2021, calculation was based on the probable incurred loss methodology.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Impaired loans by class at December 31, 2020 are as follows (1):

	2020		
	Recorded Investment	Unpaid Principal Balance (In thousands)	Related ACL (1)
With no related ACL recorded:			
Commercial			
Commercial and industrial	\$ 77	\$ 80	\$ -
Commercial real estate	-	-	-
Mortgage			
1-4 family owner occupied - jumbo	623	629	-
1-4 family owner occupied - non-jumbo	-	-	-
1-4 family non-owner occupied	305	473	-
1-4 family - 2nd lien	301	304	-
Resort lending	154	379	-
Installment			
Boat lending	-	-	-
Recreational vehicle lending	-	-	-
Other	-	-	-
	<u>1,460</u>	<u>1,865</u>	<u>-</u>
With an ACL recorded:			
Commercial			
Commercial and industrial	2,227	2,370	756
Commercial real estate	7,127	7,096	510
Mortgage			
1-4 family owner occupied - jumbo	506	880	50
1-4 family owner occupied - non-jumbo	21,655	22,311	2,300
1-4 family non-owner occupied	4,335	4,704	495
1-4 family - 2nd lien	811	829	200
Resort lending	10,555	10,764	1,079
Installment			
Boat lending	7	11	2
Recreational vehicle lending	87	100	19
Other	1,902	2,040	170
	<u>49,212</u>	<u>51,105</u>	<u>5,581</u>
Total			
Commercial			
Commercial and industrial	2,304	2,450	756
Commercial real estate	7,127	7,096	510
Mortgage			
1-4 family owner occupied - jumbo	1,129	1,509	50
1-4 family owner occupied - non-jumbo	21,655	22,311	2,300
1-4 family non-owner occupied	4,640	5,177	495
1-4 family - 2nd lien	1,112	1,133	200
Resort lending	10,709	11,143	1,079
Installment			
Boat lending	7	11	2
Recreational vehicle lending	87	100	19
Other	1,902	2,040	170
Total	<u>\$ 50,672</u>	<u>\$ 52,970</u>	<u>\$ 5,581</u>
Accrued interest included in recorded investment	<u>\$ 359</u>		

(1) Beginning January 1, 2021, calculation is based on CECL methodology. Prior to January 1, 2021, calculation was based on the probable incurred loss methodology.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Average recorded investment in and interest income earned on impaired loans by class follows (1):

	Three months ended June 30, 2020		Six months ended June 30, 2020	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
(In thousands)				
With no related ACL recorded:				
Commercial				
Commercial and industrial	\$ 84	\$ 1	\$ 142	\$ 2
Commercial real estate	-	-	199	-
Mortgage				
1-4 family owner occupied - jumbo	316	-	211	-
1-4 family owner occupied - non-jumbo	482	1	392	4
1-4 family non-owner occupied	355	3	308	3
1-4 family - 2nd lien	374	-	385	-
Resort lending	77	-	51	-
Installment				
Boat lending	-	-	-	-
Recreational vehicle lending	-	-	-	-
Other	-	-	-	-
	<u>1,688</u>	<u>5</u>	<u>1,688</u>	<u>9</u>
With an a ACL recorded:				
Commercial				
Commercial and industrial	2,409	29	2,158	67
Commercial real estate	15,988	288	12,887	511
Mortgage				
1-4 family owner occupied - jumbo	1,187	11	1,273	28
1-4 family owner occupied - non-jumbo	22,249	273	18,220	624
1-4 family non-owner occupied	4,774	52	4,837	118
1-4 family - 2nd lien	694	2	5,149	6
Resort lending	11,554	92	11,739	233
Installment				
Boat lending	74	-	49	-
Recreational vehicle lending	110	-	73	1
Other	2,546	35	2,672	76
	<u>61,585</u>	<u>782</u>	<u>59,057</u>	<u>1,664</u>
Total				
Commercial				
Commercial and industrial	2,493	30	2,300	69
Commercial real estate	15,988	288	13,086	511
Mortgage				
1-4 family owner occupied - jumbo	1,503	11	1,484	28
1-4 family owner occupied - non-jumbo	22,731	274	18,612	628
1-4 family non-owner occupied	5,129	55	5,145	121
1-4 family - 2nd lien	1,068	2	5,534	6
Resort lending	11,631	92	11,790	233
Installment				
Boat lending	74	-	49	-
Recreational vehicle lending	110	-	73	1
Other	2,546	35	2,672	76
Total	<u>\$ 63,273</u>	<u>\$ 787</u>	<u>\$ 60,745</u>	<u>\$ 1,673</u>

(1) Beginning January 1, 2021, calculation is based on CECL methodology. Prior to January 1, 2021, calculation was based on the probable incurred loss methodology.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Cash receipts on impaired loans on non-accrual status are generally applied to the principal balance.

TDRs follow:

	June 30, 2021		
	Commercial	Retail (1)	Total
	(In thousands)		
Performing TDRs	\$ 4,948	\$ 34,561	\$ 39,509
Non-performing TDRs (2)	-	1,165 ⁽³⁾	1,165
Total	\$ 4,948	\$ 35,726	\$ 40,674

	December 31, 2020		
	Commercial	Retail (1)	Total
	(In thousands)		
Performing TDRs	\$ 7,956	\$ 36,385	\$ 44,341
Non-performing TDRs (2)	1,148	1,584 ⁽³⁾	2,732
Total	\$ 9,104	\$ 37,969	\$ 47,073

(1) Retail loans include mortgage and installment loan portfolio segments.

(2) Included in non-performing loans table above.

(3) Also includes loans on non-accrual at the time of modification until six payments are received on a timely basis.

We allocated \$4.1 million and \$4.8 million of specific reserves to customers whose loan terms have been modified in troubled debt restructurings (“TDR”) at June 30, 2021 and December 31, 2020, respectively.

During the six months ended June 30, 2020, the terms of certain loans were modified as TDRs (there were no TDR modifications during the six months ended June 30, 2021). The modification of the terms of such loans generally included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for a new loan with similar risk; or a permanent reduction of the recorded investment in the loan.

Modifications involving a reduction of the stated interest rate of the loan have generally been for periods ranging from 9 months to 36 months but have extended to as much as 480 months in certain circumstances. Modifications involving an extension of the maturity date have generally been for periods ranging from 1 month to 60 months but have extended to as much as 230 months in certain circumstances.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Loans that have been classified as TDRs during the three-month periods ended June 30 follow:

	Number of Contracts	Pre-modification Recorded Balance	Post-modification Recorded Balance
(Dollars in thousands)			
2021			
Commercial			
Commercial and industrial	-	\$ -	\$ -
Commercial real estate	-	-	-
Mortgage			
1-4 family owner occupied - jumbo	-	-	-
1-4 family owner occupied - non-jumbo	-	-	-
1-4 family non-owner occupied	-	-	-
1-4 family - 2nd lien	-	-	-
Resort lending	-	-	-
Installment			
Boat lending	-	-	-
Recreational vehicle lending	-	-	-
Other	-	-	-
Total	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>
2020			
Commercial			
Commercial and industrial	6	\$ 1,108	\$ 1,108
Commercial real estate	1	5,835	5,835
Mortgage			
1-4 family owner occupied - jumbo	-	-	-
1-4 family owner occupied - non-jumbo	1	54	58
1-4 family non-owner occupied	-	-	-
1-4 family - 2nd lien	2	45	46
Resort lending	-	-	-
Installment			
Boat lending	-	-	-
Recreational vehicle lending	-	-	-
Other	-	-	-
Total	<u>10</u>	<u>\$ 7,042</u>	<u>\$ 7,047</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Loans that have been classified as TDRs during the six-month periods ended June 30 follow:

	Number of Contracts	Pre-modification Balance	Post-modification Balance
(Dollars in thousands)			
2021			
Commercial			
Commercial and industrial	-	\$ -	\$ -
Commercial real estate	-	-	-
Mortgage			
1-4 family owner occupied - jumbo	-	-	-
1-4 family owner occupied - non-jumbo	-	-	-
1-4 family non-owner occupied	-	-	-
1-4 family - 2nd lien	-	-	-
Resort lending	-	-	-
Installment			
Boat lending	-	-	-
Recreational vehicle lending	-	-	-
Other	-	-	-
Total	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>
2020			
Commercial			
Commercial and industrial	7	\$ 1,207	\$ 1,207
Commercial real estate	4	7,012	7,012
Mortgage			
1-4 family owner occupied - jumbo	-	-	-
1-4 family owner occupied - non-jumbo	2	103	108
1-4 family non-owner occupied	1	59	62
1-4 family - 2nd lien	2	45	46
Resort lending	-	-	-
Installment			
Boat lending	-	-	-
Recreational vehicle lending	-	-	-
Other	1	33	34
Total	<u>17</u>	<u>\$ 8,459</u>	<u>\$ 8,469</u>

There have been no TDR modifications in 2021 and consequently no impact on the allowance for credit losses and no charge offs during the three- or six months ended June 30, 2021.

The TDR modifications described above for 2020 decreased the allowance for credit losses by \$0.02 million and resulted in zero charge offs during the three months ended June 30, 2020, and increased the allowance for credit losses by \$0.20 million and resulted in zero charge offs during the six months ended June 30, 2020.

There were no TDRs that subsequently defaulted within twelve months following the modification during the three and six months periods ended June 30, 2021 and 2020.

A loan is considered to be in payment default generally once it is 90 days contractually past due under the modified terms.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

In order to determine whether a borrower is experiencing financial difficulty, we perform an evaluation of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under our internal underwriting policy.

Non-TDR Loan Modifications and Paycheck Protection Program (“PPP”) due to COVID-19 - On March 22, 2020, the federal banking agencies issued an “Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus”. This guidance encourages financial institutions to work prudently with borrowers that may be unable to meet their contractual obligations because of the effects of COVID-19. The guidance goes on to explain that in consultation with the Financial Accounting Standards Board staff that the federal banking agencies conclude that short-term modifications (e.g. six months or less) made on a good faith basis to borrowers who were current (less than 30 days past due) as of the implementation date of a relief program are not TDRs. In addition, on March 27, 2020, the CARES Act was signed into law. Section 4013 of the CARES Act also addressed COVID-19 related modifications and specified that COVID-19 related modifications on loans that were current (less than 30 days past due) as of December 31, 2019 are not TDRs. We are assisting both commercial and retail (mortgage and installment) borrowers with reduced or suspended payments. Commercial loan accommodations are typically a three month interest-only period while retail loan (mortgage and installment) forbearances have primarily been payment suspensions for three months. For loans subject to these forbearance agreements each borrower is required to resume making regularly scheduled loan payments at the end of the forbearance period. The deferred principal and interest will be repaid based upon individualized agreements. Options for repayment include separate repayment plans, extending the term of the loan or re-amortizing the loan based upon the affordability of the payment in relationship to a reduced income. While some borrowers may elect to make a lump sum payment, we anticipate the majority will require some type of repayment plan. During the forbearance period, the loan will not be reported as past due in keeping with the guidance discussed previously.

A summary of accommodations entered into under this guidance as of June 30, 2021 follows:

Commercial and Retail Loan COVID-19 Accommodations

Loan Category	Covid-19 Accommodations		Total Loans	% of Total Loans
	Loans (#)	Loans (\$)		
	(Dollars in thousands)			
Commercial	-	\$ -	\$ 1,244,547	0.0%
Mortgage	82	12,416	1,045,108	1.2%
Installment	18	327	524,904	0.1%
Total	<u>100</u>	<u>\$ 12,743</u>	<u>\$ 2,814,559</u>	<u>0.5%</u>
Mortgage loans serviced for others(1)	<u>150</u>	<u>\$ 20,231</u>	<u>\$ 3,142,812</u>	<u>0.6%</u>

1) We have delegated authority from all investors to grant these deferrals on their behalf.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Information on subsequent accommodation extensions follows:

Commercial and Retail Loan COVID-19 Subsequent Accommodations (1)

Loan Category	Loans (#)	Loans (\$)
	(Dollars in thousands)	
Commercial	-	\$ -
Mortgage	65	8,157
Installment	14	289
Total	79	\$ 8,446

1) Subsequent accommodations are extensions of the original accommodations that were given as summarized in the paragraph above.

The CARES Act also included an initial \$349 billion loan program administered through the U.S. Small Business Administration (“SBA”) referred to as the PPP. Under the PPP, small businesses and other entities and individuals could apply for loans from existing SBA lenders and other approved regulated lenders that enrolled in the program, subject to numerous limitations and eligibility criteria. We are participating as a lender in the PPP. The PPP opened on April 3, 2020 intending to provide American small businesses with eight weeks of cash-flow assistance through 100 percent federally guaranteed loans through the SBA. In late April 2020 the Paycheck Protection Program and Health Care Enhancement Act, added another \$310 billion in funding while the Paycheck Protection Program Flexibility Act made certain changes to the program, by allowing for more time to spend the funds, and making it easier to get a loan fully forgiven. The PPP initially closed on August 8, 2020 (“Round 1”). On December 27, 2020, the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (“Economic Aid Act”) was signed into law which allocated an additional \$284 billion in funding for the PPP (“Round 2”). The Economic Aid Act reopened the PPP through March 31, 2021 with generally the same terms and conditions as originally enacted under the CARES Act while clarifying eligibility and ineligibility for certain entities and expanding the permitted uses of PPP funds. In addition, the Economic Aid Act simplified the loan forgiveness process for PPP loans of \$150,000 or less. The Economic Aid Act also established second draw loans for entities that had already used the initial PPP funds, subject to numerous limitations and eligibility criteria. PPP Round 2 loans are eligible for forgiveness similar to Round 1 PPP loans, subject to limitations set forth in the Economic Aid Act. Round 2 closed on May 31, 2021.

The following table summarizes PPP loans outstanding:

Paycheck Protection Program

	As of June 30, 2021		As of December 31, 2020	
	Amount (#)	Amount	Amount (#)	Amount
	(Dollars in thousands)		(Dollars in thousands)	
Closed and outstanding - Round 1 loans	298	\$ 42,315	1,483	\$ 169,782
Closed and outstanding - Round 2 loans	1,409	129,573	-	-
Total closed and outstanding	1,707	\$ 171,888	1,483	\$ 169,782
Unaccrued net fees remaining at period end		\$ 5,810		\$ 3,216

PPP loans are included in the commercial and industrial class of the commercial loan portfolio segment. As these loans are 100% guaranteed through the SBA the allowance for credit losses recorded on these loans is zero. Interest and fees on loans in our condensed consolidated statement of operations includes \$1.8 million and \$3.9 million during the three and six month periods ended June 30, 2021, related to the accretion of net loan fees on PPP loans. Accretion of net loan fees on PPP loans was \$1.0 million in both three and six month periods in 2020.

Credit Quality Indicators – As part of our on-going monitoring of the credit quality of our loan portfolios, we track certain credit quality indicators including (a) risk grade of commercial loans, (b) the level of classified commercial loans, (c) credit scores of mortgage and installment loan borrowers, and (d) delinquency history and non-performing loans.

For commercial loans, we use a loan rating system that is similar to those employed by state and federal banking regulators. Loans are graded on a scale of 1 to 12. A description of the general characteristics of the ratings follows:

Rating 1 through 6: These loans are generally referred to as our “non-watch” commercial credits that include very high or exceptional credit fundamentals through acceptable credit fundamentals.

Rating 7 and 8: These loans are generally referred to as our “watch” commercial credits. These ratings include loans to borrowers that exhibit potential credit weakness or downward trends. If not checked or cured these trends could weaken our asset or credit position. While potentially weak, no loss of principal or interest is envisioned with these ratings.

Rating 9: These loans are generally referred to as our “substandard accruing” commercial credits. This rating includes loans to borrowers that exhibit a well-defined weakness where payment default is probable and loss is possible if deficiencies are not corrected. Generally, loans with this rating are considered collectible as to both principal and interest primarily due to collateral coverage.

Rating 10 and 11: These loans are generally referred to as our “substandard - non-accrual” and “doubtful” commercial credits. Our doubtful rating includes a sub classification for a loss rate other than 50% (which is the standard doubtful loss rate). These ratings include loans to borrowers with weaknesses that make collection of the loan in full, on the basis of current facts, conditions and values at best questionable and at worst improbable. All of these loans are placed in non-accrual.

Rating 12: These loans are generally referred to as our “loss” commercial credits. This rating includes loans to borrowers that are deemed incapable of repayment and are charged-off.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

The following table summarizes loan ratings by loan class for our commercial portfolio loan segment as of June 30, 2021:

	Commercial						Revolving Loans Amortized Cost Basis	Total
	Term Loans Amortized Cost Basis by Origination Year							
	2021	2020	2019	2018	2017	Prior		
(In thousands)								
June 30, 2021								
Commercial and industrial								
Non-watch (1-6)	\$ 160,401	\$ 114,729	\$ 63,354	\$ 52,377	\$ 46,861	\$ 101,907	\$ 108,991	\$ 648,620
Watch (7-8)	30	117	848	3,954	2,646	9,836	5,256	22,687
Substandard Accrual (9)	-	-	1,239	282	-	684	-	2,205
Non-Accrual (10-11)	-	132	-	-	-	110	-	242
Total	\$ 160,431	\$ 114,978	\$ 65,441	\$ 56,613	\$ 49,507	\$ 112,537	\$ 114,247	\$ 673,754
Accrued interest excluded from total	\$ 481	\$ 652	\$ 111	\$ 254	\$ 118	\$ 295	\$ 189	\$ 2,100
Commercial real estate								
Non-watch (1-6)	\$ 47,775	\$ 53,528	\$ 107,034	\$ 87,569	\$ 44,269	\$ 191,347	\$ 34,913	\$ 566,435
Watch (7-8)	-	-	386	388	191	1,040	-	2,005
Substandard Accrual (9)	-	-	-	1,220	1,133	-	-	2,353
Non-Accrual (10-11)	-	-	-	-	-	-	-	-
Total	\$ 47,775	\$ 53,528	\$ 107,420	\$ 89,177	\$ 45,593	\$ 192,387	\$ 34,913	\$ 570,793
Accrued interest excluded from total	\$ 56	\$ 80	\$ 213	\$ 188	\$ 107	\$ 370	\$ 57	\$ 1,071
Total Commercial								
Non-watch (1-6)	\$ 208,176	\$ 168,257	\$ 170,388	\$ 139,946	\$ 91,130	\$ 293,254	\$ 143,904	\$ 1,215,055
Watch (7-8)	30	117	1,234	4,342	2,837	10,876	5,256	24,692
Substandard Accrual (9)	-	-	1,239	1,502	1,133	684	-	4,558
Non-Accrual (10-11)	-	132	-	-	-	110	-	242
Total	\$ 208,206	\$ 168,506	\$ 172,861	\$ 145,790	\$ 95,100	\$ 304,924	\$ 149,160	\$ 1,244,547
Accrued interest excluded from total	\$ 537	\$ 732	\$ 324	\$ 442	\$ 225	\$ 665	\$ 246	\$ 3,171

The following table summarizes loan ratings by loan class for our commercial portfolio loan segment as of December 31, 2020:

	Commercial				Total
	Non-watch 1-6	Watch 7-8	Substandard Accrual 9	Non- Accrual 10-11	
	(In thousands)				
December 31, 2020					
Commercial and industrial	\$ 637,826	\$ 32,765	\$ 4,341	\$ 1,387	\$ 676,319
Commercial real estate	561,382	5,978	2,272	-	569,632
Total	\$ 1,199,208	\$ 38,743	\$ 6,613	\$ 1,387	\$ 1,245,951
Accrued interest included in total	\$ 3,408	\$ 105	\$ 23	\$ -	\$ 3,536

For each of our mortgage and installment portfolio segment classes, we generally monitor credit quality based on the credit scores of the borrowers. These credit scores are generally updated semi-annually.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

The following tables summarize credit scores by loan class for our mortgage and installment loan portfolio segments at June 30, 2021:

	Mortgage (1)						Revolving Loans Amortized Cost Basis	Total
	Term Loans Amortized Cost Basis by Origination Year							
	2021	2020	2019	2018	2017	Prior		
	(In thousands)							
June 30, 2021								
1-4 family owner occupied - jumbo								
800 and above	\$ 13,200	\$ 29,651	\$ 10,170	\$ 3,004	\$ 3,039	\$ 1,051	\$ -	\$ 60,115
750-799	88,565	97,242	40,772	12,265	15,456	4,004	-	258,304
700-749	31,225	29,810	16,476	8,562	13,558	5,387	-	105,018
650-699	4,979	13,876	10,971	6,654	8,905	2,505	-	47,890
600-649	-	1,463	2,808	-	2,014	1,694	-	7,979
550-599	-	1,878	-	-	555	-	-	2,433
500-549	-	-	475	456	619	-	-	1,550
Under 500	-	-	-	-	-	-	-	-
Unknown	-	-	-	-	-	-	-	-
Total	<u>\$ 137,969</u>	<u>\$ 173,920</u>	<u>\$ 81,672</u>	<u>\$ 30,941</u>	<u>\$ 44,146</u>	<u>\$ 14,641</u>	<u>\$ -</u>	<u>\$ 483,289</u>
Accrued interest excluded from total	<u>\$ 273</u>	<u>\$ 455</u>	<u>\$ 225</u>	<u>\$ 134</u>	<u>\$ 128</u>	<u>\$ 46</u>	<u>\$ -</u>	<u>\$ 1,261</u>
1-4 family owner occupied - non-jumbo								
800 and above	\$ 626	\$ 7,906	\$ 5,562	\$ 2,531	\$ 4,820	\$ 5,677	\$ 2,241	\$ 29,363
750-799	4,117	33,175	10,263	8,733	13,181	11,589	6,098	87,156
700-749	7,784	13,294	7,129	4,017	5,145	23,456	2,549	63,374
650-699	7,447	5,944	4,069	2,864	2,980	11,433	1,098	35,835
600-649	107	2,031	1,750	1,786	3,372	9,429	71	18,546
550-599	-	-	76	1,874	500	6,598	144	9,192
500-549	-	-	404	99	1,178	3,992	-	5,673
Under 500	-	405	266	35	345	913	15	1,979
Unknown	-	-	-	-	-	-	-	-
Total	<u>\$ 20,081</u>	<u>\$ 62,755</u>	<u>\$ 29,519</u>	<u>\$ 21,939</u>	<u>\$ 31,521</u>	<u>\$ 73,087</u>	<u>\$ 12,216</u>	<u>\$ 251,118</u>
Accrued interest excluded from total	<u>\$ 141</u>	<u>\$ 141</u>	<u>\$ 107</u>	<u>\$ 79</u>	<u>\$ 144</u>	<u>\$ 267</u>	<u>\$ 52</u>	<u>\$ 931</u>
1-4 family non-owner occupied								
800 and above	\$ 6,658	\$ 4,236	\$ 3,579	\$ 1,682	\$ 3,944	\$ 6,416	\$ 1,763	\$ 28,278
750-799	20,518	24,055	13,115	4,057	5,974	10,659	7,342	85,720
700-749	9,048	8,058	2,004	2,780	2,783	7,224	3,910	35,807
650-699	1,633	859	1,315	602	477	6,916	1,266	13,068
600-649	-	-	40	22	142	2,305	278	2,787
550-599	-	59	85	249	156	1,783	54	2,386
500-549	-	-	-	-	-	824	-	824
Under 500	-	-	-	-	-	297	15	312
Unknown	-	-	-	-	-	-	-	-
Total	<u>\$ 37,857</u>	<u>\$ 37,267</u>	<u>\$ 20,138</u>	<u>\$ 9,392</u>	<u>\$ 13,476</u>	<u>\$ 36,424</u>	<u>\$ 14,628</u>	<u>\$ 169,182</u>
Accrued interest excluded from total	<u>\$ 86</u>	<u>\$ 102</u>	<u>\$ 64</u>	<u>\$ 47</u>	<u>\$ 44</u>	<u>\$ 154</u>	<u>\$ 60</u>	<u>\$ 557</u>
1-4 family - 2nd lien								
800 and above	\$ 248	\$ 525	\$ 200	\$ 374	\$ 677	\$ 260	\$ 8,728	\$ 11,012
750-799	2,463	4,620	1,752	1,804	2,518	1,903	25,196	40,256
700-749	945	1,437	1,292	1,082	1,498	1,793	12,605	20,652
650-699	140	273	722	334	1,072	1,416	5,707	9,664
600-649	-	370	33	100	210	1,023	1,253	2,989
550-599	-	-	81	139	83	728	673	1,704
500-549	-	-	236	35	298	322	98	989
Under 500	-	-	128	36	139	36	-	339
Unknown	-	-	-	-	-	-	-	-
Total	<u>\$ 3,796</u>	<u>\$ 7,225</u>	<u>\$ 4,444</u>	<u>\$ 3,904</u>	<u>\$ 6,495</u>	<u>\$ 7,481</u>	<u>\$ 54,260</u>	<u>\$ 87,605</u>
Accrued interest excluded from total	<u>\$ 9</u>	<u>\$ 19</u>	<u>\$ 17</u>	<u>\$ 18</u>	<u>\$ 21</u>	<u>\$ 54</u>	<u>\$ 225</u>	<u>\$ 363</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Mortgage - continued (1)								
	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	Total
	2021	2020	2019	2018	2017	Prior		
(In thousands)								
June 30, 2021								
Resort lending								
800 and above	\$ 103	\$ 717	\$ 290	\$ 276	\$ -	\$ 9,667	\$ -	\$ 11,053
750-799	577	761	73	604	357	21,092	-	23,464
700-749	-	120	-	378	68	10,568	-	11,134
650-699	-	-	-	-	-	5,945	-	5,945
600-649	-	-	-	-	-	1,493	-	1,493
550-599	-	-	-	-	-	535	-	535
500-549	-	-	-	-	-	290	-	290
Under 500	-	-	-	-	-	-	-	-
Unknown	-	-	-	-	-	-	-	-
Total	<u>\$ 680</u>	<u>\$ 1,598</u>	<u>\$ 363</u>	<u>\$ 1,258</u>	<u>\$ 425</u>	<u>\$ 49,590</u>	<u>\$ -</u>	<u>\$ 53,914</u>
Accrued interest excluded from total	<u>\$ 2</u>	<u>\$ 5</u>	<u>\$ 1</u>	<u>\$ 5</u>	<u>\$ 1</u>	<u>\$ 221</u>	<u>\$ -</u>	<u>\$ 235</u>
Total Mortgage								
800 and above	\$ 20,835	\$ 43,035	\$ 19,801	\$ 7,867	\$ 12,480	\$ 23,071	\$ 12,732	\$ 139,821
750-799	116,240	159,853	65,975	27,463	37,486	49,247	38,636	494,900
700-749	49,002	52,719	26,901	16,819	23,052	48,428	19,064	235,985
650-699	14,199	20,952	17,077	10,454	13,434	28,215	8,071	112,402
600-649	107	3,864	4,631	1,908	5,738	15,944	1,602	33,794
550-599	-	1,937	242	2,262	1,294	9,644	871	16,250
500-549	-	-	1,115	590	2,095	5,428	98	9,326
Under 500	-	405	394	71	484	1,246	30	2,630
Unknown	-	-	-	-	-	-	-	-
Total	<u>\$ 200,383</u>	<u>\$ 282,765</u>	<u>\$ 136,136</u>	<u>\$ 67,434</u>	<u>\$ 96,063</u>	<u>\$ 181,223</u>	<u>\$ 81,104</u>	<u>\$ 1,045,108</u>
Accrued interest excluded from total	<u>\$ 511</u>	<u>\$ 722</u>	<u>\$ 414</u>	<u>\$ 283</u>	<u>\$ 338</u>	<u>\$ 742</u>	<u>\$ 337</u>	<u>\$ 3,347</u>

(1) Credit scores have been updated within the last twelve months.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

	Installment (1)						
	Term Loans Amortized Cost Basis by Origination Year						
	2021	2020	2019	2018	2017	Prior	Total
	(In thousands)						
June 30, 2021							
Boat lending							
800 and above	\$ 8,768	\$ 5,595	\$ 7,168	\$ 6,159	\$ 3,604	\$ 5,429	\$ 36,723
750-799	33,194	28,984	24,325	19,453	11,619	14,202	131,777
700-749	12,767	10,854	9,153	5,703	3,892	4,999	47,368
650-699	1,507	2,178	2,164	1,349	1,157	1,993	10,348
600-649	23	123	350	228	200	442	1,366
550-599	-	26	49	177	76	388	716
500-549	-	-	32	3	210	121	366
Under 500	-	-	-	21	8	-	29
Unknown	-	-	-	-	-	-	-
Total	<u>\$ 56,259</u>	<u>\$ 47,760</u>	<u>\$ 43,241</u>	<u>\$ 33,093</u>	<u>\$ 20,766</u>	<u>\$ 27,574</u>	<u>\$ 228,693</u>
Accrued interest excluded from total	<u>\$ 132</u>	<u>\$ 110</u>	<u>\$ 112</u>	<u>\$ 84</u>	<u>\$ 51</u>	<u>\$ 66</u>	<u>\$ 555</u>
Recreational vehicle lending							
800 and above	\$ 8,871	\$ 4,877	\$ 5,851	\$ 5,721	\$ 2,860	\$ 4,448	\$ 32,628
750-799	34,252	27,477	21,005	13,967	6,966	8,547	112,214
700-749	16,614	11,770	6,711	4,989	1,931	2,834	44,849
650-699	1,197	3,244	2,481	1,059	508	1,170	9,659
600-649	40	302	475	434	166	231	1,648
550-599	-	87	157	109	66	182	601
500-549	-	33	-	162	26	83	304
Under 500	-	-	22	-	10	10	42
Unknown	-	-	-	-	-	-	-
Total	<u>\$ 60,974</u>	<u>\$ 47,790</u>	<u>\$ 36,702</u>	<u>\$ 26,441</u>	<u>\$ 12,533</u>	<u>\$ 17,505</u>	<u>\$ 201,945</u>
Accrued interest excluded from total	<u>\$ 144</u>	<u>\$ 113</u>	<u>\$ 95</u>	<u>\$ 67</u>	<u>\$ 31</u>	<u>\$ 39</u>	<u>\$ 489</u>
Other							
800 and above	\$ 2,081	\$ 1,867	\$ 1,936	\$ 1,293	\$ 540	\$ 822	\$ 8,539
750-799	7,175	10,912	7,417	3,831	2,745	3,168	35,248
700-749	5,328	6,806	4,695	2,564	1,368	2,171	22,932
650-699	14,934	2,684	1,904	870	875	1,498	22,765
600-649	443	381	463	397	239	510	2,433
550-599	2	76	69	139	95	179	560
500-549	-	34	54	141	66	91	386
Under 500	-	6	47	3	19	36	111
Unknown	1,292	-	-	-	-	-	1,292
Total	<u>\$ 31,255</u>	<u>\$ 22,766</u>	<u>\$ 16,585</u>	<u>\$ 9,238</u>	<u>\$ 5,947</u>	<u>\$ 8,475</u>	<u>\$ 94,266</u>
Accrued interest excluded from total	<u>\$ 51</u>	<u>\$ 47</u>	<u>\$ 47</u>	<u>\$ 26</u>	<u>\$ 15</u>	<u>\$ 40</u>	<u>\$ 226</u>
Total installment							
800 and above	\$ 19,720	\$ 12,339	\$ 14,955	\$ 13,173	\$ 7,004	\$ 10,699	\$ 77,890
750-799	74,621	67,373	52,747	37,251	21,330	25,917	279,239
700-749	34,709	29,430	20,559	13,256	7,191	10,004	115,149
650-699	17,638	8,106	6,549	3,278	2,540	4,661	42,772
600-649	506	806	1,288	1,059	605	1,183	5,447
550-599	2	189	275	425	237	749	1,877
500-549	-	67	86	306	302	295	1,056
Under 500	-	6	69	24	37	46	182
Unknown	1,292	-	-	-	-	-	1,292
Total	<u>\$ 148,488</u>	<u>\$ 118,316</u>	<u>\$ 96,528</u>	<u>\$ 68,772</u>	<u>\$ 39,246</u>	<u>\$ 53,554</u>	<u>\$ 524,904</u>
Accrued interest excluded from total	<u>\$ 327</u>	<u>\$ 270</u>	<u>\$ 254</u>	<u>\$ 177</u>	<u>\$ 97</u>	<u>\$ 145</u>	<u>\$ 1,270</u>

(1) Credit scores have been updated within the last twelve months.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

The following tables summarize credit scores by loan class for our mortgage and installment loan portfolio segments at December 31, 2020:

	Mortgage					Total
	1-4 Family Owner Occupied - Jumbo	1-4 Family Owner Occupied - Non-jumbo	1-4 Family Non-owner Occupied	1-4 Family 2nd Lien	Resort Lending	
(In thousands)						
December 31, 2020						
800 and above	\$ 61,077	\$ 40,187	\$ 25,468	\$ 12,490	\$ 9,546	\$ 148,768
750-799	223,177	70,642	82,124	42,138	27,530	445,611
700-749	101,086	75,489	30,326	22,962	11,726	241,589
650-699	40,296	44,344	13,182	11,269	6,393	115,484
600-649	11,146	18,519	4,303	2,703	1,670	38,341
550-599	-	11,021	2,388	1,608	917	15,934
500-549	3,396	5,129	1,580	1,012	192	11,309
Under 500	-	2,242	405	348	73	3,068
Total	\$ 440,178	\$ 267,573	\$ 159,776	\$ 94,530	\$ 58,047	\$ 1,020,104
Accrued interest included in total	<u>\$ 1,301</u>	<u>\$ 1,641</u>	<u>\$ 587</u>	<u>\$ 373</u>	<u>\$ 276</u>	<u>\$ 4,178</u>

	Installment			Total
	Boat Lending	Recreational Vehicle Lending	Other	
(In thousands)				
December 31, 2020				
800 and above		\$ 32,231	\$ 29,223	\$ 9,154
750-799		123,689	95,890	37,512
700-749		38,223	33,476	25,262
650-699		10,189	8,794	21,138
600-649		2,083	1,305	3,730
550-599		661	551	1,299
500-549		342	283	767
Under 500		95	52	63
Unknown		-	-	510
Total		\$ 207,513	\$ 169,574	\$ 99,435
Accrued interest included in total		<u>\$ 572</u>	<u>\$ 457</u>	<u>\$ 156</u>

Foreclosed residential real estate properties included in other real estate and repossessed assets on our Condensed Consolidated Statements of Financial Condition totaled \$0.3 million and \$0.7 million at June 30, 2021 and December 31, 2020, respectively. Retail mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process according to local requirements totaled \$0.3 million at both June 30, 2021 and December 31, 2020.

During the first quarter of 2020, we securitized \$26.3 million of portfolio residential fixed rate mortgage loans servicing retained with Freddie Mac and recognized a gain on sale of \$0.72 million. We also sold \$2.4 million of portfolio residential fixed rate mortgage loans servicing retained into the secondary market and recognized a gain on sale of \$0.07 million. These transactions were done primarily for asset/liability management purposes.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

5. Shareholders' Equity and Earnings Per Common Share

On December 18, 2020, our Board of Directors authorized a share repurchase plan (the "Repurchase Plan") to buy back up to 1,100,000 shares of our outstanding common stock through December 31, 2021. Shares would be repurchased through open market transactions, though we could execute repurchases through other means, such as privately negotiated transactions. The timing and amount of any share repurchases will depend on a variety of factors, including, among others, securities law restrictions, the trading price of our common stock, regulatory requirements, potential alternative uses for capital, and our financial performance. During the six month periods ended June 30, 2021 and 2020 repurchases were made totaling 344,005 shares and 678,929 shares of common stock, respectively, for an aggregate purchase price of \$7.3 million and \$13.8 million, respectively.

A reconciliation of basic and diluted net income per common share follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(In thousands, except per share data)			
Net income	\$ 12,388	\$ 14,772	\$ 34,425	\$ 19,582
Weighted average shares outstanding (1)	21,750	21,891	21,788	22,081
Stock units for deferred compensation plan for non-employee directors	113	109	118	119
Effect of stock options	70	84	76	92
Performance share units	34	29	32	33
Weighted average shares outstanding for calculation of diluted earnings per share	21,967	22,113	22,014	22,325
Net income per common share				
Basic (1)	\$ 0.57	\$ 0.67	\$ 1.58	\$ 0.89
Diluted	\$ 0.56	\$ 0.67	\$ 1.56	\$ 0.88

(1) Basic net income per common share includes weighted average common shares outstanding during the period and participating share awards.

Weighted average stock options outstanding that were not considered in computing diluted net income per common share because they were anti-dilutive were zero for the three and six month periods ended June 30, 2021 and 2020.

6. Derivative Financial Instruments

We are required to record derivatives on our Condensed Consolidated Statements of Financial Condition as assets and liabilities measured at their fair value. The accounting for increases and decreases in the value of derivatives depends upon the use of derivatives and whether the derivatives qualify for hedge accounting.

We have used variable-rate and short-term fixed-rate (less than 12 months) debt obligations to fund a portion of our Condensed Consolidated Statements of Financial Condition, which exposed us to variability in interest rates. To meet our asset/liability management objectives, we may periodically enter into derivative financial instruments to mitigate exposure to fluctuations in cash flows resulting from changes in interest rates (“Cash Flow Hedges”). Cash Flow Hedges had included certain pay-fixed interest rate swap and interest rate cap agreements. Pay-fixed interest rate swap agreements convert the variable-rate cash flows on debt obligations to fixed-rates. Under interest-rate cap agreements, we will receive cash if interest rates rise above a predetermined level. As a result, we effectively have variable-rate debt with an established maximum rate. We paid an upfront premium on interest rate caps which was recognized in earnings in the same period in which the hedged item affected earnings. During the first and third quarters of 2020 we transferred all of our Cash Flow Hedge interest rate cap and pay-fixed interest rate swap agreements, respectively to a no hedge designation. The \$2.0 million and \$0.5 million unrealized loss on our Cash Flow Hedge interest rate cap and pay-fixed interest rate swap agreements, respectively, which were included as a component of accumulated other comprehensive income at the time of the transfers, were being reclassified into earnings over the remaining life of the interest rate cap agreements and pay-fixed interest rate swap agreements. In the fourth quarter of 2020 it became probable that the forecasted transactions being hedged by these interest rate cap and pay-fixed interest rate swap agreements would not occur by the end of the originally specified time period. As a result, all remaining unrealized losses included as a component of accumulated other comprehensive income were reclassified into earnings at that time. The interest rate cap and pay-fixed interest rate swap agreements are now classified as a no hedge designation at June 30, 2021 and any changes in fair value since the transfers to the no hedge designation are recorded in earnings.

We have entered into a pay-fixed interest rate swap to protect a portion of the fair value of a certain fixed rate commercial loan (“Fair Value Hedge – Commercial Loan”). As a result, changes in the fair value of the pay-fixed interest rate swap is expected to offset changes in the fair value of the fixed rate commercial loan due to fluctuations in interest rates. We record the fair value of Fair Value Hedge – Commercial Loan in accrued income and other assets and accrued expenses and other liabilities on our Condensed Consolidated Statements of Financial Condition. The hedged item (fixed rate commercial loan) is also recorded at fair value which offsets the adjustment to the Fair Value Hedge – Commercial Loan. On an ongoing basis, we adjust our Condensed Consolidated Statements of Financial Condition to reflect the then current fair value of both the Fair Value Hedge – Commercial Loan and the hedged item. The related gains or losses are reported in interest income – interest and fees on loans in our Condensed Consolidated Statements of Operations.

We have entered into pay-fixed interest rate swaps to protect a portion of the fair value of certain securities available for sale (“Fair Value Hedge – AFS Securities”). As a result, the change in the fair value of the pay-fixed interest rate swaps is expected to offset a portion of the change in the fair value of the fixed rate securities available for sale due to fluctuations in interest rates. We record the fair value of Fair Value Hedge – AFS Securities in accrued income and other assets and accrued expenses and other liabilities on our Condensed Consolidated Statements of Financial Condition. The hedged items (fixed rate securities available for sale) are also recorded at fair value which offsets the adjustment to the Fair Value Hedge – AFS Securities. On an ongoing basis, we adjust our Condensed Consolidated Statements of Financial Condition to reflect the then current fair value of both the Fair Value Hedge – AFS Securities and the hedged item. The related gains or losses are reported in interest income – interest on securities available for sale – tax-exempt in our Condensed Consolidated Statements of Operations.

Certain financial derivative instruments have not been designated as hedges. The fair value of these derivative financial instruments has been recorded on our Condensed Consolidated Statements of Financial Condition and is adjusted on an ongoing basis to reflect their then current fair value. The changes in fair value of derivative financial instruments not designated as hedges are recognized in our Condensed Consolidated Statements of Operations.

In the ordinary course of business, we enter into rate-lock mortgage loan commitments with customers (“Rate-Lock Commitments”). These commitments expose us to interest rate risk. We also enter into mandatory commitments to sell mortgage loans (“Mandatory Commitments”) to reduce the impact of price fluctuations of mortgage loans held for sale and Rate-Lock Commitments. Mandatory Commitments help protect our loan sale profit margin from fluctuations in interest rates. The changes in the fair value of Rate-Lock Commitments and Mandatory Commitments are recognized currently as part of net gains on mortgage loans in our Condensed Consolidated Statements of Operations. We obtain market prices on Mandatory Commitments and Rate-Lock Commitments. Net gains on mortgage loans, as well as net income may be more volatile as a result of these derivative instruments, which are not designated as hedges.

We have purchased a swaption agreement, whereby the bank has the right but not the obligation to pay fixed on an interest rate swap at a future date, in an attempt to reduce the impact of price fluctuations of certain mortgage construction loans held for sale. The changes in the fair value of the swaption agreement is recognized currently as part of net gains on mortgage loans in our Condensed Consolidated Statements of Operations.

In prior periods we offered to our deposit customers an equity linked time deposit product (“Altitude CD”). The Altitude CD was a time deposit that provides the customer a guaranteed return of principal at maturity plus a potential equity return (a written option), while we receive a like stream of funds based on the equity return (a purchased option). The written and purchased options will generally move in opposite directions resulting in little or no net impact on our Condensed Consolidated Statements of Operations. All of the written and purchased options in the table above relate to this Altitude CD product.

We have a program that allows commercial loan customers to lock in a fixed rate for a longer period of time than we would normally offer for interest rate risk reasons. We will enter into a variable rate commercial loan and an interest rate swap agreement with a customer and then enter into an offsetting interest rate swap agreement with an unrelated party. The interest rate swap agreement fair values will generally move in opposite directions resulting in little or no net impact on our Condensed Consolidated Statements of Operations. All of the interest rate swap agreements noted as commercial in the table above with no hedge designation relate to this program.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

The following tables illustrate the impact that the derivative financial instruments discussed above have on individual line items in the Condensed Consolidated Statements of Financial Condition for the periods presented:

Fair Values of Derivative Instruments

	Asset Derivatives				Liability Derivatives			
	June 30, 2021		December 31, 2020		June 30, 2021		December 31, 2020	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value

(In thousands)

Derivatives designated as hedging instruments

Pay-fixed interest rate swap agreements	Other assets	\$ 2,654	Other assets	\$ 15	Other liabilities	\$ 516	Other liabilities	\$ 776
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Derivatives not designated as hedging instruments

Rate-lock mortgage loan commitments	Other assets	4,356	Other assets	7,020	Other liabilities	-	Other liabilities	-
Mandatory commitments to sell mortgage loans	Other assets	-	Other assets	-	Other liabilities	131	Other liabilities	941
Interest rate swaption agreement	Other assets	162	Other assets	-	Other liabilities	-	Other liabilities	-
Pay-fixed interest rate swap agreements - commercial	Other assets	45	Other assets	-	Other liabilities	6,918	Other liabilities	9,700
Pay-variable interest rate swap agreements - commercial	Other assets	6,918	Other assets	9,700	Other liabilities	45	Other liabilities	-
Pay-fixed interest rate swap agreements	Other assets	-	Other assets	-	Other liabilities	57	Other liabilities	295
Interest rate cap agreements	Other assets	16	Other assets	5	Other liabilities	-	Other liabilities	-
Purchased options	Other assets	71	Other assets	42	Other liabilities	-	Other liabilities	-
Written options	Other assets	-	Other assets	-	Other liabilities	71	Other liabilities	42
		<u>11,568</u>		<u>16,767</u>		<u>7,222</u>		<u>10,978</u>
Total derivatives		<u>\$ 14,222</u>		<u>\$ 16,782</u>		<u>\$ 7,738</u>		<u>\$ 11,754</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

The effect of derivative financial instruments on the Condensed Consolidated Statements of Operations follows:

		Three Month Periods Ended June 30,					
		Gain (Loss) Recognized in Other Comprehensive Income (Loss) (Effective Portion)	Location of Loss Reclassified from Accumulated Other Comprehensive Income into Income (Effective Portion)	Loss Reclassified from Accumulated Other Comprehensive Income into Income (Effective Portion)	Location of Gain (Loss) Recognized in Income	Gain (Loss) Recognized in Income	
		2021	2020	2021	2020	2021	2020
		(In thousands)					
Fair Value Hedges							
Pay-fixed interest rate swap agreement - Commercial loan						Interest and fees on loans	\$ (92) \$ (78)
Pay-fixed interest rate swap agreement - Securities available for sale						Interest on securities available for sale - tax - exempt	(2,234) -
Total						\$ (2,326)	\$ (78)
Cash Flow Hedges							
Interest rate cap agreements		\$ -	\$ 140	Interest expense	\$ -	\$ (180)	
Pay-fixed interest rate swap agreements		-	(62)	Interest expense	-	(81)	
Total		\$ -	\$ 78		\$ -	\$ (261)	
No hedge designation							
Rate-lock mortgage loan commitments						Net gains on mortgage loans	\$ 1,158 \$ 1,528
Mandatory commitments to sell mortgage loans						Net gains on mortgage loans	(1,027) 1,472
Interest rate swaption agreement						Net gains on mortgage loans	(27) -
Pay-fixed interest rate swap agreements - commercial						Interest income	(448) 315
Pay-variable interest rate swap agreements - commercial						Interest income	448 (315)
Pay-fixed interest rate swap agreements						Interest expense	120 -
Interest rate cap agreements						Interest expense	(4) (7)
Purchased options						Interest expense	11 3
Written options						Interest expense	(11) (4)
Total						\$ 220	\$ 2,992

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Six Month Periods Ended June 30,

	Gain (Loss) Recognized in Other Comprehensive Income (Loss) (Effective Portion)		Location of Loss Reclassified from Accumulated Other Comprehensive Income into Income (Effective Portion)	Loss Reclassified from Accumulated Other Comprehensive Income into Income (Effective Portion)		Location of Gain (Loss) Recognized in Income	Gain (Loss) Recognized in Income	
	2021	2020		2021	2020		2021	2020
(In thousands)								
Fair Value Hedges								
Pay-fixed interest rate swap agreement - Commercial loan						Interest and fees on loans	\$ 260	\$ (624)
Pay-fixed interest rate swap agreement - Securities available for sale						Interest on securities available for sale - tax - exempt	2,639	-
Total							<u>\$ 2,899</u>	<u>\$ (624)</u>
Cash Flow Hedges								
Interest rate cap agreements	\$ -	\$ 126	Interest expense	\$ -	\$ (233)			
Pay-fixed interest rate swap agreements	-	(454)	Interest expense	-	(103)			
Total	<u>\$ -</u>	<u>\$ (328)</u>		<u>\$ -</u>	<u>\$ (336)</u>			
No hedge designation								
Rate-lock mortgage loan commitments						Net gains on mortgage loans	\$ (2,664)	\$ 5,848
Mandatory commitments to sell mortgage loans						Net gains on mortgage loans	810	(482)
Interest rate swaption agreement						Net gains on mortgage loans	(27)	-
Pay-fixed interest rate swap agreements - commercial						Interest income	2,827	(7,858)
Pay-variable interest rate swap agreements - commercial						Interest income	(2,827)	7,858
Pay-fixed interest rate swap agreements						Interest expense	238	-
Interest rate cap agreements						Interest expense	11	(42)
Purchased options						Interest expense	29	(101)
Written options						Interest expense	(29)	99
Total							<u>\$ (1,632)</u>	<u>\$ 5,322</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

7. Goodwill and Other Intangibles

The following table summarizes intangible assets, net of amortization:

	<u>June 30, 2021</u>		<u>December 31, 2020</u>	
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>
	(In thousands)			
Amortized intangible assets - core deposits	\$ 11,916	\$ 8,095	\$ 11,916	\$ 7,610
Unamortized intangible assets - goodwill	\$ 28,300		\$ 28,300	

A summary of estimated core deposits intangible amortization at June 30, 2021 follows:

	(In thousands)
Six months ending December 31, 2021	\$ 485
2022	785
2023	547
2024	516
2025	487
2026 and thereafter	1,001
Total	\$ 3,821

8. Share Based Compensation

We maintain share based payment plans that include a non-employee director stock purchase plan and a long-term incentive plan that permits the issuance of share based compensation, including stock options and non-vested share awards. The long-term incentive plan, which is shareholder approved, permits the grant of additional share based awards for up to 0.6 million shares of common stock as of June 30, 2021. The non-employee director stock purchase plan permits the issuance of additional share based payments for up to 0.1 million shares of common stock as of June 30, 2021. Share based awards and payments are measured at fair value at the date of grant and are expensed over the requisite service period. Common shares issued upon exercise of stock options come from currently authorized but unissued shares.

A summary of restricted stock and performance stock units (“PSU”) granted pursuant to our long-term incentive plan follows:

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Restricted stock	10,000	-	85,584	52,996
PSU	-	-	23,981	20,897

The shares of restricted stock and PSUs shown in the above table cliff vest after a period of three years. The performance feature of the PSUs is based on a comparison of our total shareholder return over the three year period starting on the grant date to the total shareholder return over that period for an index of our banking peers.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Our directors may elect to receive all or a portion of their cash retainer fees in the form of common stock (either on a current basis or on a deferred basis) pursuant to the non-employee director stock purchase plan referenced above. Shares equal in value to that portion of each director's fees that he or she has elected to receive in stock on a current basis are issued each quarter and vest immediately. Shares issued on a deferred basis are credited at the rate of 90% of the current fair value of our common stock and vest immediately. During the six month periods ended June 30, 2021 and 2020 we issued 0.009 million and 0.011 million shares, respectively and expensed their value during those same periods.

Total compensation expense recognized for grants pursuant to our long-term incentive plan was \$0.5 million and \$0.8 million during the three and six month periods ended June 30, 2021, respectively, and was \$0.4 million and \$0.8 million during the same periods in 2020, respectively. The corresponding tax benefit relating to this expense was \$0.1 million and \$0.2 million for the three and six month periods ended June 30, 2021, respectively and \$0.1 million and \$0.2 million for the same periods in 2020. Total expense recognized for non-employee director share based payments was \$0.09 million and \$0.19 million during the three and six month periods ended June 30, 2021, respectively, and was \$0.09 million and \$0.17 million during the same periods in 2020, respectively. The corresponding tax benefit relating to this expense was \$0.02 million and \$0.04 million for the three and six month periods ended June 30, 2021, respectively and \$0.02 million and \$0.04 million during the same periods in 2020.

At June 30, 2021, the total expected compensation cost related to non-vested restricted stock and PSUs not yet recognized was \$2.9 million. The weighted-average period over which this amount will be recognized is 2.2 years.

A summary of outstanding stock option grants and related transactions follows:

	Number of Shares	Average Exercise Price	Weighted- Average Remaining Contractual Term (Years)	Aggregated Intrinsic Value (In thousands)
Outstanding at January 1, 2021	121,189	\$ 4.81		
Granted	-			
Exercised	(37,450)	2.76		
Forfeited	-			
Expired	-			
Outstanding at June 30, 2021	<u>83,739</u>	<u>\$ 5.72</u>	<u>2.1</u>	<u>\$ 1,339</u>
Vested and expected to vest at June 30, 2021	<u>83,739</u>	<u>\$ 5.72</u>	<u>2.1</u>	<u>\$ 1,339</u>
Exercisable at June 30, 2021	<u>83,739</u>	<u>\$ 5.72</u>	<u>2.1</u>	<u>\$ 1,339</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

A summary of outstanding non-vested restricted stock and PSUs and related transactions follows:

	Number of Shares	Weighted- Average Grant Date Fair Value
Outstanding at January 1, 2021	207,117	\$ 22.70
Granted	109,565	20.45
Vested	(63,982)	23.60
Forfeited	(10,754)	22.63
Outstanding at June 30, 2021	<u>241,946</u>	<u>\$ 21.45</u>

Certain information regarding options exercised during the periods follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(In thousands)		(In thousands)	
Intrinsic value	\$ 388	\$ 3	\$ 701	\$ 213
Cash proceeds received	\$ 44	\$ 1	\$ 104	\$ 42
Tax benefit realized	\$ 81	\$ 1	\$ 147	\$ 45

9. Income Tax

Income tax expense was \$2.7 million and \$3.5 million during the three month periods ended June 30, 2021 and 2020, respectively and \$7.8 million and \$4.5 million during the six months ended June 30, 2021 and 2020, respectively. Our actual federal income tax expense is different than the amount computed by applying our statutory income tax rate to our income before income tax primarily due to tax-exempt interest income and tax-exempt income from the increase in the cash surrender value on life insurance. In addition, the three and six month periods ending June 30, 2021 include reductions of zero and \$0.1 million, respectively, of income tax expense related to the impact of the excess value of stock awards that vested and stock options that were exercised as compared to the initial fair values that were expensed. These amounts during the same periods in 2020 were zero and \$0.2 million, respectively.

We assess whether a valuation allowance should be established against our deferred tax assets based on the consideration of all available evidence using a “more likely than not” standard. The ultimate realization of this asset is primarily based on generating future income. We concluded at June 30, 2021, June 30, 2020 and December 31, 2020 that the realization of substantially all of our deferred tax assets continues to be more likely than not.

At both June 30, 2021 and December 31, 2020, we had approximately \$0.2 million, of gross unrecognized tax benefits. We do not expect the total amount of unrecognized tax benefits to significantly increase or decrease during the balance of 2021.

10. Regulatory Matters

Capital guidelines adopted by federal and state regulatory agencies and restrictions imposed by law limit the amount of cash dividends our Bank can pay to us. Under these guidelines, the amount of dividends that may be paid in any calendar year is limited to the Bank's current year net profits, combined with the retained net profits of the preceding two years. Further, the Bank cannot pay a dividend at any time that it has negative undivided profits. As of June 30, 2021, the Bank had positive undivided profits of \$86.6 million. It is not our intent to have dividends paid in amounts that would reduce the capital of our Bank to levels below those which we consider prudent or that would not be in accordance with guidelines of regulatory authorities.

We are also subject to various regulatory capital requirements. The prompt corrective action regulations establish quantitative measures to ensure capital adequacy and require minimum amounts and ratios of total, Tier 1, and common equity Tier 1 capital to risk-weighted assets and Tier 1 capital to average assets. Failure to meet minimum capital requirements can result in certain mandatory, and possibly discretionary, actions by regulators that could have a material effect on our interim condensed consolidated financial statements. In addition, capital adequacy rules include a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets that applies to all supervised financial institutions. To avoid limits on capital distributions and certain discretionary bonus payments we must meet the minimum ratio for adequately capitalized institutions plus the buffer. Under capital adequacy guidelines, we must meet specific capital requirements that involve quantitative measures as well as qualitative judgments by the regulators. The most recent regulatory filings as of June 30, 2021 and December 31, 2020, categorized our Bank as well capitalized. Management is not aware of any conditions or events that would have changed the most recent Federal Deposit Insurance Corporation ("FDIC") categorization.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Our actual capital amounts and ratios follow (1):

	Actual		Minimum for Adequately Capitalized Institutions		Minimum for Well-Capitalized Institutions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
June 30, 2021						
Total capital to risk-weighted assets						
Consolidated	\$ 474,100	15.44%	\$ 245,683	8.00%	NA	NA
Independent Bank	420,724	13.71	245,486	8.00	\$ 306,857	10.00%
Tier 1 capital to risk-weighted assets						
Consolidated	\$ 395,701	12.88%	\$ 184,263	6.00%	NA	NA
Independent Bank	382,355	12.46	184,114	6.00	\$ 245,486	8.00%
Common equity tier 1 capital to risk-weighted assets						
Consolidated	\$ 357,367	11.64%	\$ 138,197	4.50%	NA	NA
Independent Bank	382,355	12.46	138,086	4.50	\$ 199,457	6.50%
Tier 1 capital to average assets						
Consolidated	\$ 395,701	9.00%	\$ 175,868	4.00%	NA	NA
Independent Bank	382,355	8.69	175,936	4.00	\$ 219,921	5.00%
December 31, 2020						
Total capital to risk-weighted assets						
Consolidated	\$ 455,072	15.95%	\$ 228,214	8.00%	NA	NA
Independent Bank	401,005	14.06	228,111	8.00	\$ 285,139	10.00%
Tier 1 capital to risk-weighted assets						
Consolidated	\$ 379,395	13.30%	\$ 171,161	6.00%	NA	NA
Independent Bank	365,343	12.81	171,083	6.00	\$ 228,111	8.00%
Common equity tier 1 capital to risk-weighted assets						
Consolidated	\$ 341,095	11.96%	\$ 128,370	4.50%	NA	NA
Independent Bank	365,343	12.81	128,312	4.50	\$ 185,340	6.50%
Tier 1 capital to average assets						
Consolidated	\$ 379,395	9.15%	\$ 165,825	4.00%	NA	NA
Independent Bank	365,343	8.81	165,828	4.00	\$ 207,285	5.00%

(1) These ratios do not reflect a capital conservation buffer of 2.50% at June 30, 2021 and December 31, 2020.
NA - Not applicable

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

The components of our regulatory capital are as follows:

	Consolidated		Independent Bank	
	June 30, 2021	December 31, 2020	June 30, 2021	December 31, 2020
	(In thousands)			
Total shareholders' equity Add (deduct)	\$ 395,974	\$ 389,522	\$ 420,962	\$ 413,770
Accumulated other comprehensive income for regulatory purposes	(14,213)	(15,821)	(14,213)	(15,821)
Goodwill and other intangibles	(32,121)	(32,606)	(32,121)	(32,606)
CECL (1)	7,727	-	7,727	-
Common equity tier 1 capital	357,367	341,095	382,355	365,343
Qualifying trust preferred securities	38,334	38,300	-	-
Tier 1 capital	395,701	379,395	382,355	365,343
Subordinated debt	40,000	40,000	-	-
Allowance for credit losses and allowance for unfunded lending commitments limited to 1.25% of total risk-weighted assets (2)	38,399	35,677	38,369	35,662
Total risk-based capital	<u>\$ 474,100</u>	<u>\$ 455,072</u>	<u>\$ 420,724</u>	<u>\$ 401,005</u>

(1) We elected the three year CECL transition method for regulatory purposes.

(2) Beginning January 1, 2021, calculation of allowances are based on CECL methodology. Prior to January 1, 2021, calculation was based on the probable incurred loss methodology.

11. Fair Value Disclosures

FASB ASC topic 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets. Level 1 instruments include securities traded on active exchange markets, such as the New York Stock Exchange, as well as U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market. Level 2 instruments include securities traded in less active dealer or broker markets.

Level 3: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

We used the following methods and significant assumptions to estimate fair value:

Securities: Where quoted market prices are available in an active market, securities available for sale are classified as Level 1 of the valuation hierarchy. We currently do not have any Level 1 securities. If quoted market prices are not available for the specific security, then fair values are estimated by (1) using quoted market prices of securities with similar characteristics, (2) matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for specific securities but rather by relying on the securities' relationship to other benchmark quoted prices, or (3) a discounted cash flow analysis whose significant fair value inputs can generally be verified and do not typically involve judgment by management. These securities are classified as Level 2 of the valuation hierarchy and primarily include agency securities, private label mortgage-backed securities, other asset backed securities, obligations of states and political subdivisions, trust preferred securities, corporate securities and foreign government securities.

Loans held for sale: The fair value of mortgage loans held for sale, carried at fair value is based on agency cash window loan pricing for comparable assets (recurring Level 2).

Collateral dependent loans with specific loss allocations based on collateral value: From time to time, certain collateral dependent loans will have an ACL established. When the fair value of the collateral is based on an appraised value or when an appraised value is not available we record the collateral dependent loan as nonrecurring Level 3. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments can be significant and thus will typically result in a Level 3 classification of the inputs for determining fair value.

Other real estate: At the time of acquisition, other real estate is recorded at fair value, less estimated costs to sell, which becomes the property's new basis. Subsequent write-downs to reflect declines in value since the time of acquisition may occur from time to time and are recorded in net (gains) losses on other real estate and repossessed assets, which is part of non-interest expense - other in the Condensed Consolidated Statements of Operations. The fair value of the property used at and subsequent to the time of acquisition is typically determined by a third party appraisal of the property. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments can be significant and typically result in a Level 3 classification of the inputs for determining fair value.

Appraisals for both collateral-dependent loans and other real estate are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by us. Once received, an independent third party, or a member of our Collateral Evaluation Department (for commercial properties), or a member of our Special Assets Group (for residential properties) reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. We compare the actual selling price of collateral that has been sold to the most recent appraised value of our properties to determine what additional adjustment, if any, should be made to the appraisal value to arrive at fair value. For commercial and residential properties we typically discount an appraisal to account for various factors that the appraisal excludes in its assumptions. These additional discounts generally do not result in material adjustments to the appraised value.

Capitalized mortgage loan servicing rights: The fair value of capitalized mortgage loan servicing rights is based on a valuation model used by an independent third party that calculates the present value of estimated net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income. Certain model assumptions are generally unobservable and are based upon the best information available including data relating to our own servicing portfolio, reviews of mortgage servicing assumption and valuation surveys and input from various mortgage servicers and, therefore, are recorded as Level 3. Management evaluates the third party valuation for reasonableness each quarter as part of our financial reporting control processes.

Derivatives: The fair value of rate-lock mortgage loan commitments is based on agency cash window loan pricing for comparable assets and the fair value of mandatory commitments to sell mortgage loans is based on mortgage backed security pricing for comparable assets (recurring Level 2). The fair value of interest rate swap, interest rate cap and swaption agreements are derived from proprietary models which utilize current market data. The significant fair value inputs can generally be observed in the market place and do not typically involve judgment by management (recurring Level 2). The fair value of purchased and written options is based on prices of financial instruments with similar characteristics and do not typically involve judgment by management (recurring Level 2).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Assets and liabilities measured at fair value, including financial assets for which we have elected the fair value option, were as follows:

	Fair Value Measurements	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Un-observable Inputs (Level 3)
(In thousands)				
June 30, 2021:				
Measured at Fair Value on a Recurring Basis				
Assets				
Securities available for sale				
U.S. agency	\$ 8,596	\$ -	\$ 8,596	\$ -
U.S. agency residential mortgage-backed	365,367	-	365,367	-
U.S. agency commercial mortgage-backed	19,010	-	19,010	-
Private label mortgage-backed	69,264	-	69,264	-
Other asset backed	195,226	-	195,226	-
Obligations of states and political subdivisions	519,216	-	519,216	-
Corporate	151,603	-	151,603	-
Trust preferred	1,867	-	1,867	-
Foreign government	511	-	511	-
Loans held for sale, carried at fair value	59,752	-	59,752	-
Capitalized mortgage loan servicing rights	22,431	-	-	22,431
Derivatives (1)	14,222	-	14,222	-
Liabilities				
Derivatives (2)	7,738	-	7,738	-
Measured at Fair Value on a Non-recurring Basis:				
Assets				
Collateral dependent loans (3)				
Commercial				
Commercial and industrial	462	-	-	462
Commercial real estate	105	-	-	105
Mortgage				
1-4 family owner occupied - non-jumbo	566	-	-	566
1-4 family non-owner occupied	143	-	-	143
1-4 family - 2nd lien	168	-	-	168
Resort lending	214	-	-	214
Installment				
Boat lending	36	-	-	36
Recreational vehicle lending	19	-	-	19
Other	94	-	-	94

(1) Included in accrued income and other assets

(2) Included in accrued expenses and other liabilities

(3) Only includes individually evaluated loans with specific loss allocations based on collateral value.

(4) Only includes other real estate with subsequent write downs to fair value.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

	Fair Value Measurements Using			
	Fair Value Measurements	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Un-observable Inputs (Level 3)
(In thousands)				
December 31, 2020:				
Measured at Fair Value on a Recurring Basis				
Assets				
Securities available for sale				
U.S. agency	\$ 10,748	\$ -	\$ 10,748	\$ -
U.S. agency residential mortgage-backed	344,582	-	344,582	-
U.S. agency commercial mortgage-backed	7,195	-	7,195	-
Private label mortgage-backed	42,829	-	42,829	-
Other asset backed	254,181	-	254,181	-
Obligations of states and political subdivisions	324,293	-	324,293	-
Corporate	86,017	-	86,017	-
Trust preferred	1,798	-	1,798	-
Foreign government	516	-	516	-
Loans held for sale, carried at fair value	92,434	-	92,434	-
Capitalized mortgage loan servicing rights	16,904	-	-	16,904
Derivatives (1)	16,782	-	16,782	-
Liabilities				
Derivatives (2)	11,754	-	11,754	-
Measured at Fair Value on a Non-recurring Basis:				
Assets				
Impaired loans (3)				
Commercial				
Commercial and industrial	1,468	-	-	1,468
Commercial real estate	6,586	-	-	6,586
Mortgage				
1-4 family owner occupied - jumbo	-	-	-	-
1-4 family owner occupied - non-jumbo	321	-	-	321
1-4 family non-owner occupied	155	-	-	155
1-4 family - 2nd lien	324	-	-	324
Resort lending	61	-	-	61
Installment				
Boat lending	4	-	-	4
Recreational vehicle lending	31	-	-	31
Other	124	-	-	124
Other real estate (4)				
1-4 family owner occupied - non-jumbo	102	-	-	102

(1) Included in accrued income and other assets

(2) Included in accrued expenses and other liabilities

(3) Only includes impaired loans with specific loss allocations based on collateral value.

(4) Only includes other real estate with subsequent write downs to fair value.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Changes in fair values for financial assets which we have elected the fair value option for the periods presented were as follows:

	Changes in Fair Values for the Six-Month Periods Ended June 30 for Items Measured at Fair Value Pursuant to Election of the Fair Value Option		
	Net Gains on Assets Mortgage Loans	Mortgage Loan Servicing, net	Total Change in Fair Values Included in Current Period Earnings
	(In thousands)		
2021			
Loans held for sale	\$ (2,400)	\$ -	\$ (2,400)
Capitalized mortgage loan servicing rights	-	(581)	(581)
2020			
Loans held for sale	1,387	-	1,387
Capitalized mortgage loan servicing rights	-	(11,641)	(11,641)

For those items measured at fair value pursuant to our election of the fair value option, interest income is recorded within the Condensed Consolidated Statements of Operations based on the contractual amount of interest income earned on these financial assets and dividend income is recorded based on cash dividends received.

The following represent impairment charges recognized during the three and six month periods ended June 30, 2021 and 2020 relating to assets measured at fair value on a non-recurring basis:

- Loans that are individually evaluated using the fair value of collateral for collateral dependent loans had a carrying amount of \$1.8 million, which is net of a valuation allowance of \$0.9 million at June 30, 2021, and had a carrying amount of \$9.1 million, which is net of a valuation allowance of \$1.8 million at December 31, 2020. The provision for credit losses included in our results of operations relating to collateral dependent loans was a net expense of \$0.1 million and \$3.4 million for the three month periods ending June 30, 2021 and 2020, respectively, and a net expense of \$0.1 million and \$5.5 million for the six month periods ending June 30, 2021 and 2020, respectively.
- Other real estate, which is measured using the fair value of the property, had a carrying amount of zero which is net of a valuation allowance of \$0.06 million at June 30, 2021, and a carrying amount of \$0.10 million which is net of a valuation allowance of \$0.09 million, at December 31, 2020. Charges included in our results of operations relating to other real estate measured at fair value were zero during both the three and six month periods ended June 30, 2021, and were zero and \$0.09 million during the three and six month periods ended June 30, 2020.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

A reconciliation for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) follows:

	Capitalized Mortgage Loan Servicing Rights			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2021	2020	2021	2020
	(In thousands)		(In thousands)	
Beginning balance	\$ 23,530	\$ 14,829	\$ 16,904	\$ 19,171
Total losses realized and unrealized:				
Included in results of operations	(3,838)	(4,667)	(581)	(11,641)
Included in other comprehensive income (loss)	-	-	-	-
Purchases, issuances, settlements, maturities and calls	2,739	3,611	6,108	6,243
Transfers in and/or out of Level 3	-	-	-	-
Ending balance	<u>\$ 22,431</u>	<u>\$ 13,773</u>	<u>\$ 22,431</u>	<u>\$ 13,773</u>
Amount of total losses for the period included in earnings attributable to the change in unrealized gains (losses) relating to assets and liabilities still held at June 30	<u>\$ (3,838)</u>	<u>\$ (4,667)</u>	<u>\$ (581)</u>	<u>\$ (11,641)</u>

The fair value of our capitalized mortgage loan servicing rights has been determined based on a valuation model used by an independent third party as discussed above. The significant unobservable inputs used in the fair value measurement of the capitalized mortgage loan servicing rights are discount rate, cost to service, ancillary income, float rate and prepayment rate. Significant changes in all five of these assumptions in isolation would result in significant changes to the value of our capitalized mortgage loan servicing rights. Quantitative information about our Level 3 fair value measurements measured on a recurring basis follows:

	Asset Fair Value (In thousands)	Valuation Technique	Unobservable Inputs	Range	Weighted Average
June 30, 2021					
Capitalized mortgage loan servicing rights	\$ 22,431	Present value of net servicing revenue	Discount rate	10.00% to 13.00%	10.09%
			Cost to service	\$ 51 to \$329	82
			Ancillary income	20 to 35	22
			Float rate	0.97%	0.97%
			Prepayment rate	7.04% to 45.79%	15.63%
December 31, 2020					
Capitalized mortgage loan servicing rights	\$ 16,904	Present value of net servicing revenue	Discount rate	10.00% to 13.00%	10.09%
			Cost to service	\$ 69 to \$289	79
			Ancillary income	20 to 37	22
			Float rate	0.43%	0.43%
			Prepayment rate	7.92% to 64.70%	20.85%

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Quantitative information about Level 3 fair value measurements measured on a non-recurring basis follows:

	Asset Fair Value (In thousands)	Valuation Technique	Unobservable Inputs	Range	Weighted Average
June 30, 2021					
Collateral dependent loans					
Commercial			Adjustment for differences between comparable sales	(25.0)% to 12.0%	(2.3)%
Mortgage and Installment(1)	\$ 567	Sales comparison approach			
	1,240	Sales comparison approach	Adjustment for differences between comparable sales	(73.3) to 104.6	0.8
December 31, 2020					
Collateral dependent loans					
Commercial			Adjustment for differences between comparable sales	(40.0)% to 75.0%	3.8%
Mortgage and Installment(1)	\$ 8,054	Sales comparison approach			
	1,020	Sales comparison approach	Adjustment for differences between comparable sales	(73.3) to 104.6	(1.5)
Other real estate					
Mortgage			Adjustment for differences between comparable sales	(13.1) to 2.4	(3.6)
	102	Sales comparison approach			

(1) In addition to the valuation techniques and unobservable inputs discussed above, at June 30, 2021 and December 31, 2020 certain collateral dependent installment loans totaling approximately \$0.15 million and \$0.16 million, respectively are secured by collateral other than real estate. For the majority of these loans, we apply internal discount rates to industry valuation guides.

The following table reflects the difference between the aggregate fair value and the aggregate remaining contractual principal balance outstanding for loans held for sale for which the fair value option has been elected for the periods presented.

	Aggregate Fair Value	Difference (In thousands)	Contractual Principal
Loans held for sale			
June 30, 2021	\$ 59,752	\$ 1,456	\$ 58,296
December 31, 2020	92,434	3,856	88,578

12. Fair Values of Financial Instruments

Most of our assets and liabilities are considered financial instruments. Many of these financial instruments lack an available trading market and it is our general practice and intent to hold the majority of our financial instruments to maturity. Significant estimates and assumptions were used to determine the fair value of financial instruments. These estimates are subjective in nature, involving uncertainties and matters of judgment, and therefore, fair values may not be a precise estimate. Changes in assumptions could significantly affect the estimates.

Estimated fair values have been determined using available data and methodologies that are considered suitable for each category of financial instrument. For instruments with adjustable interest rates which reprice frequently and without significant credit risk, it is presumed that estimated fair values approximate the recorded book balances.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

The estimated recorded book balances and fair values follow:

	Recorded Book Balance	Fair Value	Fair Value Using		
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Un- observable Inputs (Level 3)
(In thousands)					
June 30, 2021					
Assets					
Cash and due from banks	\$ 46,242	\$ 46,242	\$ 46,242	\$ -	\$ -
Interest bearing deposits	23,012	23,012	23,012	-	-
Securities available for sale	1,330,660	1,330,660	-	1,330,660	-
Federal Home Loan Bank and Federal Reserve Bank Stock	18,427	NA	NA	NA	NA
Net loans and loans held for sale	2,828,385	2,862,494	-	59,752	2,802,742
Accrued interest receivable	13,240	13,240	2	5,450	7,788
Derivative financial instruments	14,222	14,222	-	14,222	-
Liabilities					
Deposits with no stated maturity (1)	\$ 3,552,144	\$ 3,552,144	\$ 3,552,144	\$ -	\$ -
Deposits with stated maturity (1)	310,322	311,525	-	311,525	-
Other borrowings	30,005	30,422	-	30,422	-
Subordinated debt	39,319	43,642	-	43,642	-
Subordinated debentures	39,558	31,457	-	31,457	-
Accrued interest payable	532	532	71	461	-
Derivative financial instruments	7,738	7,738	-	7,738	-
December 31, 2020					
Assets					
Cash and due from banks	\$ 56,006	\$ 56,006	\$ 56,006	\$ -	\$ -
Interest bearing deposits	62,699	62,699	62,699	-	-
Securities available for sale	1,072,159	1,072,159	-	1,072,159	-
Federal Home Loan Bank and Federal Reserve Bank Stock	18,427	NA	NA	NA	NA
Net loans and loans held for sale	2,790,683	2,794,058	-	92,434	2,701,624
Accrued interest receivable	12,315	12,315	3	3,414	8,898
Derivative financial instruments	16,782	16,782	-	16,782	-
Liabilities					
Deposits with no stated maturity (1)	\$ 3,198,338	\$ 3,198,338	\$ 3,198,338	\$ -	\$ -
Deposits with stated maturity (1)	439,017	441,457	-	441,457	-
Other borrowings	30,012	30,844	-	30,844	-
Subordinated debt	39,281	41,417	-	41,417	-
Subordinated debentures	39,524	30,265	-	30,265	-
Accrued interest payable	601	601	59	542	-
Derivative financial instruments	11,754	11,754	-	11,754	-

(1) Deposits with no stated maturity include reciprocal deposits with a recorded book balance of \$554.399 million and \$518.400 million at June 30, 2021 and December 31, 2020, respectively. Deposits with a stated maturity include reciprocal deposits with a recorded book balance of \$35.094 million and \$37.785 million at June 30, 2021 and December 31, 2020, respectively.

The fair values for commitments to extend credit and standby letters of credit are estimated to approximate their aggregate book balance, which is nominal and therefore are not disclosed.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale the entire holdings of a particular financial instrument.

Fair value estimates are based on existing on- and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business, the value of future earnings attributable to off-balance sheet activities and the value of assets and liabilities that are not considered financial instruments.

Fair value estimates for deposit accounts do not include the value of the core deposit intangible asset resulting from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market.

13. Contingencies

Pandemic

The COVID-19 pandemic and the related government restrictions and guidance have had and may continue to have a significant effect on us, our customers, and the markets we serve. Since the U.S. Food and Drug Administration (FDA) issued its first emergency use authorization for a COVID-19 vaccine on December 11, 2020, more than two-thirds of the adult population in the U.S. has received at least one vaccination. As of July 12, 2021, 62.4% of Michigan residents ages 16 and older have had at least one vaccination. Widespread vaccinations have slowed the spread of the virus. Effective June 22, 2021, the State of Michigan rescinded the emergency orders it implemented in response to the pandemic, including the rescission of restrictions on restaurant capacities and other restrictions on the size of in-person gatherings. Despite these positive developments, the pandemic continues to cause a great deal of economic uncertainty and disruption to financial and other markets, including as a result of concerns relating to possible variants of the original virus.

As a result of the pandemic, the related governmental responses, and the ongoing uncertainty, our business, results of operations, and financial condition may be adversely affected by a number of factors that could impact us and our customers, including but not limited to:

- business closures and higher than normal levels of unemployment may cause increases in loan delinquencies, foreclosures and defaults;
- increases in our allowance for credit losses may be necessary;
- declines in collateral values may occur;
- third party disruptions may occur, including outages at network providers, on-line banking vendors and other suppliers;
- there is increased cyber and payment fraud risk, as cybercriminals attempt to profit from the disruption, given increased online and remote activity;
- we may experience operational failures due to changes in our normal business practices necessitated by the pandemic and related governmental actions; and/or
- our production and efficiency may suffer due to employee illnesses and/or employees having to work remotely.

Given the ongoing uncertainty with respect to the pandemic and potential governmental responses, these risk factors may continue to some degree for a significant period of time.

The extent to which the COVID-19 pandemic may impact our business, results of operations and financial condition will depend on future developments, which are highly uncertain and difficult to predict. Those developments and factors are expected to include the evolution of the virus and possible virus variants, the number of people who become vaccinated, actions taken by governmental authorities to address the foregoing, and how quickly and to what extent normal economic and operating conditions can resume. We do not yet know the full extent of the impact. However, the effects could have a material adverse impact on our business, asset valuations, financial condition and results of operations. Material adverse impacts may include all or a combination of valuation impairments on our intangible assets, securities available for sale, loans, capitalized mortgage loan servicing rights or deferred tax assets.

Certain industries (such as hotels and restaurants) have been more adversely impacted by the COVID-19 pandemic and related periodic shutdowns of our economy. We believe that the following industry concentrations within our commercial loan portfolio represent greater potential risk in the current economic environment. The balances below are as of June 30, 2021.

Commercial and industrial portfolio segment:

- Retail - \$74 million
- Food service - \$61 million
- Hotel - \$42 million

Commercial real estate portfolio segment:

- Retail - \$102 million
- Office - \$76 million
- Multifamily - \$63 million

At June 30, 2021, we had no commercial loans in forbearance. However, we continue to closely monitor these industry concentrations and at present do not foresee any significant losses relative to this portion of our loan portfolio given the current economic conditions in Michigan and the fact that many businesses have reopened. However, a high degree of uncertainty still exists with respect to the impact of the COVID-19 pandemic and the related economic disruptions on the future performance of our loan portfolio, including these concentrations.

Litigation

We are involved in various litigation matters in the ordinary course of business. At the present time, we do not believe any of these matters will have a significant impact on our interim condensed consolidated financial position or results of operations. The aggregate amount we have accrued for losses we consider probable as a result of these litigation matters is immaterial. However, because of the inherent uncertainty of outcomes from any litigation matter, we believe it is reasonably possible we may incur losses in addition to the amounts we have accrued. At this time, we estimate the maximum amount of additional losses that are reasonably possible is insignificant. However, because of a number of factors, including the fact that certain of these litigation matters are still in their early stages, this maximum amount may change in the future.

The litigation matters described in the preceding paragraph primarily include claims that have been brought against us for damages, but do not include litigation matters where we seek to collect amounts owed to us by third parties (such as litigation initiated to collect delinquent loans). These excluded, collection-related matters may involve claims or counterclaims by the opposing party or parties, but we have excluded such matters from the disclosure contained in the preceding paragraph in all cases where we believe the possibility of us paying damages to any opposing party is remote.

Loss Reimbursement Obligations

The provision for loss reimbursement on sold loans represents our estimate of incurred losses related to mortgage loans that we have sold to investors (primarily Fannie Mae, Freddie Mac, Ginnie Mae and the Federal Home Loan Bank of Indianapolis). Since we sell mortgage loans without recourse, loss reimbursements only occur in those instances where we have breached a representation or warranty or other contractual requirement related to the loan sale. The provision for loss reimbursement on sold loans was an expense of \$0.03 million and \$0.08 million for the three month periods ended June 30, 2021 and 2020 and an expense of \$0.06 million and \$0.11 million for the six month periods ended June 30, 2021 and 2020, respectively. The reserve for loss reimbursements on sold mortgage loans totaled \$1.08 million and \$1.02 million at June 30, 2021 and December 31, 2020, respectively. This reserve is included in accrued expenses and other liabilities in our Condensed Consolidated Statements of Financial Condition. This reserve is based on an analysis of mortgage loans that we have sold which are further categorized by delinquency status, loan to value, and year of origination. The calculation includes factors such as probability of default, probability of loss reimbursement (breach of representation or warranty) and estimated loss severity. We believe that the amounts that we have accrued for incurred losses on sold mortgage loans are appropriate given our analyses. However, future losses could exceed our current estimate.

Visa Stock

We own 12,566 shares of VISA Class B common stock. At the present time, these shares can only be sold to other Class B shareholders. As a result, there has generally been limited transfer activity in private transactions between buyers and sellers. Given the limited activity that we have become aware of and the continuing uncertainty regarding the likelihood, ultimate timing and eventual exchange rate for Class B shares into Class A shares, we continue to carry these shares at zero, representing cost basis less impairment. However, given the current conversion ratio of 1.6228 Class A shares for every 1 Class B share and the closing price of VISA Class A shares on June 30, 2021 of \$233.82 per share, our 12,566 Class B shares would have a current "value" of approximately \$4.8 million. We continue to monitor Class B trading activity and the status of the resolution of certain litigation matters at VISA that would trigger the conversion of Class B common shares into Class A common shares, which would not have any trading restrictions.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

14. Accumulated Other Comprehensive Income (Loss) (“AOCIL”)

A summary of changes in AOCIL follows:

	Unrealized Gains on Securities Available for Sale	Dispropor- tionate Tax Effects from Securities Available for Sale	Unrealized Losses on Cash Flow Hedges	Total
	(In thousands)			
For the three months ended June 30, 2021				
Balances at beginning of period	\$ 10,136	\$ (5,798)	\$ -	\$ 4,338
Other comprehensive income loss before reclassifications	4,078	-	-	4,078
Amounts reclassified from AOCIL	-	-	-	-
Net current period other comprehensive income	4,078	-	-	4,078
Balances at end of period	<u>\$ 14,214</u>	<u>\$ (5,798)</u>	<u>\$ -</u>	<u>\$ 8,416</u>
2020				
Balances at beginning of period	\$ 2,933	\$ (5,798)	\$ (1,989)	\$ (4,854)
Other comprehensive income loss before reclassifications	8,382	-	62	8,444
Amounts reclassified from AOCIL	-	-	206	206
Net current period other comprehensive income (loss)	8,382	-	268	8,650
Balances at end of period	<u>\$ 11,315</u>	<u>\$ (5,798)</u>	<u>\$ (1,721)</u>	<u>\$ 3,796</u>
For the six months ended June 30, 2021				
Balances at beginning of period	\$ 15,822	\$ (5,798)	\$ -	\$ 10,024
Other comprehensive loss before reclassifications	(2,727)	-	-	(2,727)
Amounts reclassified from AOCIL	1,119	-	-	1,119
Net current period other comprehensive loss	(1,608)	-	-	(1,608)
Balances at end of period	<u>\$ 14,214</u>	<u>\$ (5,798)</u>	<u>\$ -</u>	<u>\$ 8,416</u>
2020				
Balances at beginning of period	\$ 3,739	\$ (5,798)	\$ (1,727)	\$ (3,786)
Other comprehensive income (loss) before reclassifications	7,776	-	(259)	7,517
Amounts reclassified from AOCIL	(200)	-	265	65
Net current period other comprehensive income	7,576	-	6	7,582
Balances at end of period	<u>\$ 11,315</u>	<u>\$ (5,798)</u>	<u>\$ (1,721)</u>	<u>\$ 3,796</u>

The disproportionate tax effects from securities available for sale arose due to tax effects of other comprehensive income (“OCI”) in the presence of a valuation allowance against our deferred tax assets and a pretax loss from operations. Generally, the amount of income tax expense or benefit allocated to operations is determined without regard to the tax effects of other categories of income or loss, such as OCI. However, an exception to the general rule is provided when, in the presence of a valuation allowance against deferred tax assets, there is a pretax loss from operations and pretax income from other categories in the current period. In such instances, income from other categories must offset the current loss from operations, the tax benefit of such offset being reflected in operations. Release of material disproportionate tax effects from other comprehensive income to earnings is done by the portfolio method whereby the effects will remain in AOCIL as long as we carry a more than inconsequential portfolio of securities available for sale.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

A summary of reclassifications out of each component of AOCIL for the three months ended June 30 follows:

AOCIL Component	Amount Reclassified From AOCIL (In thousands)	Affected Line Item in Condensed Consolidated Statements of Operations
2021		
Unrealized gains on securities available for sale	\$ -	Net gains on securities available for sale
		- Income tax expense
	<u>\$ -</u>	Reclassifications, net of tax
2020		
Unrealized gains on securities available for sale	\$ -	Net gains on securities available for sale
		- Net impairment loss recognized in earnings
		- Total reclassifications before tax
		- Income tax expense
	<u>\$ -</u>	Reclassifications, net of tax
Unrealized losses on cash flow hedges	\$ 261	Interest expense
	55	Income tax expense
	<u>\$ 206</u>	Reclassification, net of tax
	<u>\$ (206)</u>	Total reclassifications for the period, net of tax

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

A summary of reclassifications out of each component of AOCIL for the six months ended June 30 follows:

AOCIL Component	Amount Reclassified From AOCIL (In thousands)	Affected Line Item in Condensed Consolidated Statements of Operations
2021		
Unrealized gains on securities available for sale	\$ 1,416	Net gains on securities available for sale
	297	Income tax expense
	<u>\$ 1,119</u>	Reclassifications, net of tax
2020		
Unrealized gains on securities available for sale	\$ 253	Net gains on securities available for sale
	-	Net impairment loss recognized in earnings
	253	Total reclassifications before tax
	53	Income tax expense
	<u>\$ 200</u>	Reclassifications, net of tax
Unrealized losses on cash flow hedges	\$ 336	Interest expense
	71	Income tax expense
	<u>\$ 265</u>	Reclassification, net of tax
	<u>\$ (65)</u>	Total reclassifications for the period, net of tax

15. Revenue from Contracts with Customers

We account for revenue in accordance with ASC Topic 606, Revenue from Contracts with Customers. We derive the majority of our revenue from financial instruments and their related contractual rights and obligations which for the most part are excluded from the scope of this topic. These sources of revenue that are excluded from the scope of this topic include interest income, net gains on mortgage loans, net gains on securities available for sale, mortgage loan servicing, net and bank owned life insurance and were approximately 86.6% and 87.7% of total revenues for the six month periods ending June 30, 2021 and 2020, respectively.

Material sources of revenue that are included in the scope of this topic include service charges on deposit accounts, other deposit related income, interchange income and investment and insurance commissions and are discussed in the following paragraphs. Generally these sources of revenue are earned at the time the service is delivered or over the course of a monthly period and do not result in any contract asset or liability balance at any given period end. As a result, there were no contract assets or liabilities recorded as of June 30, 2021 and December 31, 2020.

Service charges on deposit accounts and other deposit related income: Revenues are earned on depository accounts for commercial and retail customers and include fees for transaction-based, account maintenance and overdraft services. Transaction-based fees, which includes services such as ATM use fees, stop payment charges and ACH fees are recognized at the time the transaction is executed as that is the time we fulfill our customer's request. Account maintenance fees, which includes monthly maintenance services are earned over the course of a month representing the period over which the performance obligation is satisfied. Our obligation for overdraft services is satisfied at the time of the overdraft.

Interchange income: Interchange income primarily includes debit card interchange and network revenues. Debit card interchange and network revenues are earned on debit card transactions conducted through payment networks such as MasterCard, NYCE and Accel. Interchange income is recognized concurrently with the delivery of services on a daily basis. Interchange and network revenues are presented gross of interchange expenses, which are presented separately as a component of non-interest expense.

Investment and insurance commissions: Investment and insurance commissions include fees and commissions from asset management, custody, recordkeeping, investment advisory and other services provided to our customers. Revenue is recognized on an accrual basis at the time the services are performed and is generally based on either the market value of the assets managed or the services provided. We have an agent relationship with a third party provider of these services and net certain direct costs charged by the third party provider associated with providing these services to our customers.

Net (gains) losses on other real estate and repossessed assets: We record a gain or loss from the sale of other real estate when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. If we were to finance the sale of other real estate to the buyer, we would assess whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction is probable. Once these criteria are met, the other real estate asset would be derecognized and the gain or loss on sale would be recorded upon the transfer of control of the property to the buyer. There were no other real estate properties sold during the six month periods ending June 30, 2021 and 2020 that were financed by us.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Disaggregation of our revenue sources by attribute follows:

Three months ending June 30, 2021

	<u>Service Charges on Deposit Accounts</u>	<u>Other Deposit Related Income</u>	<u>Interchange Income</u>	<u>Investment and Insurance Commissions</u>	<u>Total</u>
	(In thousands)				
Retail					
Overdraft fees	\$ 1,835	\$ -	\$ -	\$ -	\$ 1,835
Account service charges	331	-	-	-	331
ATM fees	-	213	-	-	213
Other	-	175	-	-	175
Business					
Overdraft fees	152	-	-	-	152
ATM fees	-	4	-	-	4
Other	-	70	-	-	70
Interchange income	-	-	3,453	-	3,453
Asset management revenue	-	-	-	401	401
Transaction based revenue	-	-	-	233	233
Total	\$ 2,318	\$ 462	\$ 3,453	\$ 634	\$ 6,867

Reconciliation to Condensed Consolidated Statement of Operations:

Non-interest income - other:	
Other deposit related income	\$ 462
Investment and insurance commissions	634
Bank owned life insurance	127
Other	648
Total	\$ 1,871

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Three months ending June 30, 2020

	<u>Service Charges on Deposit Accounts</u>	<u>Other Deposit Related Income</u>	<u>Interchange Income</u>	<u>Investment and Insurance Commissions</u>	<u>Total</u>
	(In thousands)				
Retail					
Overdraft fees	\$ 1,019	\$ -	\$ -	\$ -	\$ 1,019
Account service charges	451	-	-	-	451
ATM fees	-	276	-	-	276
Other	-	157	-	-	157
Business					
Overdraft fees	153	-	-	-	153
ATM fees	-	4	-	-	4
Other	-	73	-	-	73
Interchange income	-	-	2,526	-	2,526
Asset management revenue	-	-	-	289	289
Transaction based revenue	-	-	-	146	146
Total	<u>\$ 1,623</u>	<u>\$ 510</u>	<u>\$ 2,526</u>	<u>\$ 435</u>	<u>\$ 5,094</u>

Reconciliation to Condensed Consolidated Statement of Operations:

Non-interest income - other:	
Other deposit related income	\$ 510
Investment and insurance commissions	435
Bank owned life insurance	265
Other	388
Total	<u>\$ 1,598</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Six months ending June 30, 2021

	<u>Service Charges on Deposit Accounts</u>	<u>Other Deposit Related Income</u>	<u>Interchange Income</u>	<u>Investment and Insurance Commissions</u>	<u>Total</u>
	(In thousands)				
Retail					
Overdraft fees	\$ 3,047	\$ -	\$ -	\$ -	\$ 3,047
Account service charges	843	-	-	-	843
ATM fees	-	481	-	-	481
Other	-	373	-	-	373
Business					
Overdraft fees	344	-	-	-	344
ATM fees	-	10	-	-	10
Other	-	159	-	-	159
Interchange income	-	-	6,502	-	6,502
Asset management revenue	-	-	-	783	783
Transaction based revenue	-	-	-	434	434
Total	<u>\$ 4,234</u>	<u>\$ 1,023</u>	<u>\$ 6,502</u>	<u>\$ 1,217</u>	<u>\$ 12,976</u>

Reconciliation to Condensed Consolidated Statement of Operations:

Non-interest income - other:	
Other deposit related income	\$ 1,023
Investment and insurance commissions	1,217
Bank owned life insurance	266
Other	1,395
Total	<u>\$ 3,901</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Six months ending June 30, 2020

	Service Charges on Deposit Accounts	Other Deposit Related Income	Interchange Income	Investment and Insurance Commissions	Total
	(In thousands)				
Retail					
Overdraft fees	\$ 2,759	\$ -	\$ -	\$ -	\$ 2,759
Account service charges	957	-	-	-	957
ATM fees	-	576	-	-	576
Other	-	393	-	-	393
Business					
Overdraft fees	498	-	-	-	498
ATM fees	-	11	-	-	11
Other	-	163	-	-	163
Interchange income	-	-	4,983	-	4,983
Asset management revenue	-	-	-	602	602
Transaction based revenue	-	-	-	346	346
Total	\$ 4,214	\$ 1,143	\$ 4,983	\$ 948	\$ 11,288

Reconciliation to Condensed Consolidated Statement of Operations:

Non-interest income - other:	
Other deposit related income	\$ 1,143
Investment and insurance commissions	948
Bank owned life insurance	535
Other	1,135
Total	\$ 3,761

16. Leases

We have entered into leases in the normal course of business primarily for office facilities, some of which include renewal options and escalation clauses. Certain leases also include both lease components (fixed payments including rent, taxes and insurance costs) and non-lease components (common area or other maintenance costs) which are accounted for as a single lease component as we have elected the practical expedient to group lease and non-lease components together for all leases. We have also elected not to recognize leases with original lease terms of 12 months or less (short-term leases) on our Condensed Consolidated Statements of Financial Condition. Most of our leases include one or more options to renew. The exercise of lease renewal options is typically at our sole discretion and are included in our right of use ("ROU") assets and lease liabilities if they are reasonably certain of exercise.

Leases are classified as operating or finance leases at the lease commencement date (we did not have any finance leases as of June 30, 2021). Lease expense for operating leases and short-term leases is recognized on a straight-line basis over the lease term. The ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of the lease payment over the lease term.

As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at the lease commencement date in determining the present value of the lease payments.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

The cost components of our operating leases follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(In thousands)		(In thousands)	
Operating lease cost	\$ 412	\$ 476	\$ 835	\$ 962
Variable lease cost	15	21	31	36
Short-term lease cost	16	9	30	16
Total	<u>\$ 443</u>	<u>\$ 506</u>	<u>\$ 896</u>	<u>\$ 1,014</u>

Variable lease costs consist primarily of taxes, insurance, and common area or other maintenance costs for our leased facilities.

Supplemental balance sheet information related to our operating leases follows:

	June 30, 2021	December 31, 2020
	(Dollars in thousands)	
Lease right of use asset (1)	<u>\$ 6,977</u>	<u>\$ 7,646</u>
Lease liabilities (2)	<u>\$ 7,134</u>	<u>\$ 7,868</u>
Weighted average remaining lease term (years)	<u>6.87</u>	<u>7.12</u>
Weighted average discount rate	<u>2.4%</u>	<u>2.4%</u>

(1) Included in Accrued income and other assets in our Condensed Consolidated Statements of Financial Condition.

(2) Included in Accrued expenses and other liabilities in our Condensed Consolidated Statements of Financial Condition.

Maturity analysis of our lease liabilities at June 30, 2021 based on required contractual payments follows:

	(In thousands)
Six months ending December 31, 2021	\$ 838
2022	1,489
2023	1,222
2024	815
2025	809
2026 and thereafter	2,533
Total lease payments	<u>7,706</u>
Less imputed interest	(572)
Total	<u>\$ 7,134</u>

ITEM 2.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Introduction. The following section presents additional information to assess the financial condition and results of operations of Independent Bank Corporation ("IBCP"), its wholly-owned bank, Independent Bank (the "Bank"), and their subsidiaries. This section should be read in conjunction with the Condensed Consolidated Financial Statements. We also encourage you to read our 2020 Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission ("SEC"). That report includes a list of risk factors that you should consider in connection with any decision to buy or sell our securities.

Overview. We provide banking services to customers located primarily in Michigan's Lower Peninsula. We also have two loan production offices in Ohio (Columbus and Fairlawn). As a result, our success depends to a great extent upon the economic conditions in Michigan's Lower Peninsula.

Recent Developments. The COVID-19 pandemic and the related government restrictions and guidance have had and may continue to have a significant effect on us, our customers, and the markets we serve. Since the U.S. Food and Drug Administration (FDA) issued its first emergency use authorization for a COVID-19 vaccine on December 11, 2020, more than two-thirds of the adult population in the U.S. has received at least one vaccination. Based on published reports, as of July 12, 2021, 62.4% of Michigan residents ages 16 and older have had at least one vaccination. Effective June 22, 2021, the State of Michigan rescinded the emergency orders it implemented in response to the pandemic, including the rescission of restrictions on restaurant capacities and other restrictions on the size of in-person gatherings. Despite these positive developments, the pandemic continues to cause a great deal of economic uncertainty and disruption in our markets, including as a result of concerns relating to possible variants of the original virus.

As a result of the pandemic, the related governmental responses, and the ongoing uncertainty, our business, results of operations, and financial condition may be adversely affected by a number of factors that could impact us and our customers, including but not limited to:

- business closures and higher than normal levels of unemployment may cause increases in loan delinquencies, foreclosures and defaults;
- increases in our allowance for credit losses may be necessary;
- declines in collateral values may occur;
- third party disruptions may occur, including outages at network providers, on-line banking vendors and other suppliers;
- there is increased cyber and payment fraud risk, as cybercriminals attempt to profit from the disruption, given increased online and remote activity;
- we may experience operational failures due to changes in our normal business practices necessitated by the pandemic and related governmental actions; and/or
- our production and efficiency may suffer due to employee illnesses and/or employees having to work remotely.

Given the ongoing uncertainty with respect to the pandemic and potential governmental responses, these risk factors may continue to some degree for a significant period of time.

The extent to which the COVID-19 pandemic may impact our business, results of operations and financial condition will depend on future developments, which are highly uncertain and difficult to predict. Those developments and factors are expected to include the evolution of the virus and possible virus variants, the number of people who become vaccinated, actions taken by governmental authorities to address the foregoing, and how quickly and to what extent normal economic and operating conditions can resume. We do not yet know the full extent of the impact. However, the effects could have a material adverse impact on our business, asset valuations, financial condition and results of operations. Material adverse impacts may include all or a combination of valuation impairments on our intangible assets, securities available for sale, loans, capitalized mortgage loan servicing rights or deferred tax assets.

It is against this backdrop that we discuss our results of operations and financial condition in the first two quarters of 2021 as compared to earlier periods.

RESULTS OF OPERATIONS

Summary. We recorded net income of \$12.4 million and \$14.8 million during the three months ended June 30, 2021 and 2020, respectively. The decrease in 2021 second quarter results as compared to 2020 is primarily due to a decline in non-interest income and an increase in non-interest expense that were partially offset by an increase in net interest income and decreases in the provision for credit losses and income tax expense.

We recorded net income of \$34.4 million and \$19.6 million during the six months ended June 30, 2021 and 2020, respectively. The increase in 2021 year-to-date results as compared to 2020 is primarily due to increases in net interest income and non-interest income and a decrease in the provision for credit losses that was partially offset by increases in non-interest expense and income tax expense.

Key performance ratios

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Net income (annualized) to				
Average assets	1.12%	1.54%	1.60%	1.06%
Average shareholders' equity	12.78%	17.39%	18.06%	11.41%
Net income per common share				
Basic	\$ 0.57	\$ 0.67	\$ 1.58	\$ 0.89
Diluted	0.56	0.67	1.56	0.88

Net interest income. Net interest income is the most important source of our earnings and thus is critical in evaluating our results of operations. Changes in our net interest income are primarily influenced by our level of interest-earning assets and the income or yield that we earn on those assets and the manner and cost of funding our interest-earning assets. Certain macro-economic factors can also influence our net interest income such as the level and direction of interest rates, the difference between short-term and long-term interest rates (the steepness of the yield curve) and the general strength of the economies in which we are doing business. Finally, risk management plays an important role in our level of net interest income. The ineffective management of credit risk and interest-rate risk in particular can adversely impact our net interest income.

Our net interest income totaled \$31.4 million during the second quarter of 2021, an increase of \$0.9 million, or 3.1% from the year-ago period. This increase primarily reflects a \$564.0 million increase in average interest-earning assets that was partially offset by a 34 basis point decrease in our tax equivalent net interest income as a percent of average interest-earning assets (the “net interest margin”).

For the first six months of 2021, net interest income totaled \$61.7 million, an increase of \$1.0 million, or 1.7% from 2020. This increase primarily reflects a \$631.0 million increase in average interest-earning assets that was partially offset by a 45 basis point decrease in our net interest margin.

Due principally to the economic impact of COVID-19, the Federal Reserve has taken a variety of actions to stimulate the economy, including significantly lowering short-term interest rates. These lower interest rates combined with a higher allocation to lower yielding securities available for sale has placed continued pressure on our net interest margin.

The increase in average interest-earning assets in 2021 as compared to 2020 primarily reflects growth in securities available for sale funded from an increase in deposits.

Interest and fees on loans include \$1.8 million and \$3.9 million of accretion of net loan fees on PPP loans in the second quarter and first six months of 2021, respectively, compared to \$1.0 million for the second quarter and first six months of 2020. Interest and fees on loans also include \$0.2 million and \$0.6 million for the second quarter and first six months of 2021, respectively, and include \$0.2 million and \$0.5 million for the second quarter and first six months of 2020, respectively, of accretion of the discount recorded on loans acquired in the April 2018 acquisition of Traverse City State Bank (“TCSB”).

Our net interest income is also adversely impacted by our level of non-accrual loans. In the second quarter and first six months of 2021, non-accrual loans averaged \$6.1 million and \$7.0 million, respectively. In the second quarter and first six months of 2020, non-accrual loans averaged \$15.6 million and \$13.3 million, respectively. In addition, in the second quarter and first six months of 2021, we had net recoveries of \$0.43 million and \$0.60 million, respectively, of unpaid interest on loans placed on or taken off non-accrual during each period or on loans previously charged-off compared to net recoveries of \$0.25 million and \$0.41 million, respectively, during the same periods in 2020.

Average Balances and Tax Equivalent Rates

	Three Months Ended June 30,					
	2021			2020		
	Average Balance	Interest	Rate ⁽²⁾	Average Balance	Interest	Rate ⁽²⁾
	(Dollars in thousands)					
Assets						
Taxable loans	\$ 2,852,972	\$ 28,026	4.13%	\$ 2,906,843	\$ 29,793	4.11%
Tax-exempt loans ⁽¹⁾	6,572	82	5.00	7,014	88	5.05
Taxable securities available for sale	908,622	3,656	1.61	535,345	2,847	2.13
Tax-exempt securities available for sale ⁽¹⁾	365,934	2,005	2.19	124,781	998	3.20
Interest bearing cash	71,043	22	0.12	67,204	18	0.11
Other investments	18,427	186	4.05	18,427	233	5.09
Interest Earning Assets	4,223,570	33,977	3.22	3,659,614	33,977	3.72
Cash and due from banks	54,120			45,714		
Other assets, net	157,070			163,080		
Total Assets	<u>\$ 4,434,760</u>			<u>\$ 3,868,408</u>		
Liabilities						
Savings and interest-bearing checking	\$ 2,260,172	689	0.12	\$ 1,754,503	505	0.12
Time deposits	305,390	453	0.59	494,411	1,883	1.53
Other borrowings	108,863	964	3.55	153,447	904	2.37
Interest Bearing Liabilities	2,674,425	2,106	0.32	2,402,361	3,292	0.55
Non-interest bearing deposits	1,314,153			1,054,388		
Other liabilities	57,402			70,053		
Shareholders' equity	388,780			341,606		
Total liabilities and shareholders' equity	<u>\$ 4,434,760</u>			<u>\$ 3,868,408</u>		
Net Interest Income		<u>\$ 31,871</u>			<u>\$ 30,685</u>	
Net Interest Income as a Percent of Average Interest Earning Assets			<u>3.02%</u>			<u>3.36%</u>

(1) Interest on tax-exempt loans and securities available for sale is presented on a fully tax equivalent basis assuming a marginal tax rate of 21%.

(2) Annualized

Average Balances and Tax Equivalent Rates

	Six Months Ended June 30,					
	2021			2020		
	Average Balance	Interest	Rate ⁽²⁾	Average Balance	Interest	Rate ⁽²⁾
	(Dollars in thousands)					
Assets						
Taxable loans	\$ 2,840,224	\$ 56,065	3.98%	\$ 2,832,876	\$ 61,481	4.36%
Tax-exempt loans ⁽¹⁾	6,624	166	5.07	7,438	185	5.00
Taxable securities available for sale	845,895	6,452	1.52	501,720	5,906	2.35
Tax-exempt securities available for sale ⁽¹⁾	338,692	3,775	2.22	92,040	1,488	3.23
Interest bearing cash	86,384	51	0.12	52,814	146	0.56
Other investments	18,427	374	4.10	18,393	471	5.15
Interest Earning Assets	4,136,246	66,883	3.25	3,505,281	69,677	3.99
Cash and due from banks	55,239			47,663		
Other assets, net	153,540			164,167		
Total Assets	<u>\$ 4,345,025</u>			<u>\$ 3,717,111</u>		
Liabilities						
Savings and interest-bearing checking	\$ 2,200,620	1,364	0.13	\$ 1,685,046	2,435	0.29
Time deposits	322,535	1,034	0.65	544,642	4,653	1.72
Other borrowings	108,844	1,926	3.58	126,491	1,592	2.53
Interest Bearing Liabilities	2,631,999	4,324	0.33	2,356,179	8,680	0.74
Non-interest bearing deposits	1,266,607			955,114		
Other liabilities	61,950			60,540		
Shareholders' equity	384,469			345,278		
Total liabilities and shareholders' equity	<u>\$ 4,345,025</u>			<u>\$ 3,717,111</u>		
Net Interest Income		<u>\$ 62,559</u>			<u>\$ 60,997</u>	
Net Interest Income as a Percent of Average Interest Earning Assets			<u>3.04%</u>			<u>3.49%</u>

(1) Interest on tax-exempt loans and securities available for sale is presented on a fully tax equivalent basis assuming a marginal tax rate of 21%.

(2) Annualized

Reconciliation of Non-GAAP Financial Measures

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(Dollars in thousands)			
Net Interest Margin, Fully Taxable Equivalent ("FTE")				
Net interest income	\$ 31,393	\$ 30,462	\$ 61,677	\$ 60,653
Add: taxable equivalent adjustment	478	223	882	344
Net interest income - taxable equivalent	<u>\$ 31,871</u>	<u>\$ 30,685</u>	<u>\$ 62,559</u>	<u>\$ 60,997</u>
Net interest margin (GAAP) ⁽¹⁾	<u>2.98%</u>	<u>3.34%</u>	<u>3.00%</u>	<u>3.47%</u>
Net interest margin (FTE) ⁽¹⁾	<u>3.02%</u>	<u>3.36%</u>	<u>3.04%</u>	<u>3.49%</u>

(1) Annualized.

Provision for credit losses. We adopted Financial Accounting Standards Board Accounting Standards Update 2016-13, Financial Instruments — Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments ("CECL") on January 1, 2021. See note #2 to the Condensed Consolidated Financial Statements included within this report for our discussion on CECL implementation.

The provision for credit losses was a credit of \$1.4 million and an expense of \$5.2 million for the three months ended June 30, 2021 and 2020, respectively. During the six-month periods ended June 30, 2021 and 2020, the provision for credit losses was a credit of \$1.9 million and an expense of \$11.9 million, respectively. The provision reflects our assessment of the allowance for credit losses (the "ACL") taking into consideration factors such as loan growth, loan mix, levels of non-performing and classified loans, economic conditions and loan net charge-offs. While we use relevant information to recognize losses on loans, additional provisions for related losses may be necessary based on changes in economic conditions, customer circumstances and other credit risk factors. See "Portfolio Loans and asset quality" for a discussion of the various components of the ACL and their impact on the provision for credit losses in 2021. See note #13 to the Condensed Consolidated Financial Statements included within this report for a discussion on industry concentrations. In particular, the higher year-to-date provision for credit losses in 2020 included an \$8.7 million (or 98.2%) increase in the qualitative/subjective portion of the allowance for loan losses. That increase principally reflected the unique challenges and economic uncertainty resulting from the COVID-19 pandemic during the first half of 2020 and the potential impact on the loan portfolio.

Non-interest income. Non-interest income is a significant element in assessing our results of operations. Non-interest income totaled \$14.8 million during the second quarter of 2021 compared to \$20.4 million in the second quarter of 2020. For the first six months of 2021, non-interest income totaled \$41.2 million compared to \$31.4 million for the first six months of 2020.

The components of non-interest income are as follows:

Non-Interest Income

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
	(In thousands)			
Interchange income	\$ 3,453	\$ 2,526	\$ 6,502	\$ 4,983
Service charges on deposit accounts	2,318	1,623	4,234	4,214
Net gains on assets				
Mortgage loans	9,091	17,642	21,919	26,482
Securities available for sale	-	-	1,416	253
Mortgage loan servicing, net	(1,962)	(3,022)	3,205	(8,322)
Investment and insurance commissions	634	435	1,217	948
Bank owned life insurance	127	265	266	535
Other	1,110	898	2,418	2,278
Total non-interest income	<u>\$ 14,771</u>	<u>\$ 20,367</u>	<u>\$ 41,177</u>	<u>\$ 31,371</u>

Interchange income increased on both a comparative quarterly and year-to-date basis in 2021 as compared to 2020, primarily due to growth in debit card transaction volume (the second quarter of 2020 was adversely impacted by COVID-19 pandemic related shut-downs of businesses and stay at home mandates), a new switch contract that was initially effective in the fourth quarter of 2020 that increased revenues and joining a surcharge free ATM network in April 2020 that increased both interchange income and interchange expense.

Service charges on deposit accounts increased on a comparative quarterly basis and were relatively unchanged on a year-to-date basis in 2021 as compared to 2020. The quarterly increase was principally due to an increase in non-sufficient funds occurrences (and related fees) In particular, the second quarter of 2020 was impacted by COVID-19 pandemic related business shut-downs and stay at home mandates that reduced checking account activity.

Net gains on mortgage loans declined in 2021 from 2020 on both a quarterly and a year-to-date basis. Mortgage loan activity is summarized as follows:

Mortgage Loan Activity

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
	(Dollars in thousands)			
Mortgage loans originated	\$ 473,742	\$ 470,626	\$ 982,745	\$ 781,704
Mortgage loans sold	306,789	379,048	684,207	641,308
Net gains on mortgage loans	9,091	17,642	21,919	26,482
Net gains as a percent of mortgage loans sold ("Loan Sales Margin")	2.96%	4.65%	3.20%	4.13%
Fair value adjustments included in the Loan Sales Margin	(0.08)	1.14	(0.57)	0.99

Mortgage loans originated increased in 2021 as compared to 2020 due primarily to an increase in purchase money mortgages reflecting strong home sales in many of our markets. Mortgage loan refinance volumes declined by 30.6% in the second quarter of 2021 as compared to 2020 as higher mortgage loan interest rates in 2021 reduced this activity. Mortgage loans sold decreased in the second quarter of 2021 as compared to 2020 due to a lower mix of salable loans in our origination volumes. Net gains on mortgage loans also decreased in 2021 as compared to 2020 due principally to fair value adjustments as discussed below.

The volume of loans sold is dependent upon our ability to originate mortgage loans as well as the demand for fixed-rate obligations and other loans that we choose to not put into portfolio because of our established interest-rate risk parameters. (See "Portfolio Loans and asset quality.") Net gains on mortgage loans are also dependent upon economic and competitive factors as well as our ability to effectively manage exposure to changes in interest rates and thus can often be a volatile part of our overall revenues.

Our Loan Sales Margin is impacted by several factors including competition and the manner in which the loan is sold. Net gains on mortgage loans are also impacted by recording fair value accounting adjustments. Excluding these fair value accounting adjustments, the Loan Sales Margin would have been 3.04% and 3.51% in the second quarters of 2021 and 2020, respectively and 3.77% and 3.14% for the comparative 2021 and 2020 year-to-date periods, respectively. The decline in the Loan Sales Margin (excluding fair value adjustments) in the second quarter of 2021 was generally due to lower primary-to-secondary market pricing spreads as market interest rates rose in 2021 (relative to 2020) and mortgage loan refinance volumes decreased. The changes in the fair value accounting adjustments are primarily due to changes in the amount of commitments to originate mortgage loans for sale.

We recorded no net gains on securities available for sale in the comparative quarterly periods. We recorded a net gain of \$1.42 million and \$0.25 million on securities available for sale for the first six months of 2021 and 2020, respectively. We recorded no net impairment losses in either 2021 or 2020 on securities available for sale. See "Securities" below and note #3 to the Condensed Consolidated Financial Statements.

Mortgage loan servicing, net, generated a loss of \$2.0 million and \$3.0 million in the second quarters of 2021 and 2020, respectively. For the first six months of 2021 and 2020, mortgage loan servicing, net, generated income of \$3.2 million and a loss of \$8.3 million, respectively. The significant variances in mortgage loan servicing, net are primarily due to changes in the fair value of capitalized mortgage loan servicing rights associated with changes in mortgage loan interest rates and expected future prepayment levels. Mortgage loan servicing, net activity is summarized in the following table:

Mortgage Servicing Revenue

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Mortgage loan servicing	(In thousands)			
Revenue, net	\$ 1,876	\$ 1,646	\$ 3,786	\$ 3,319
Fair value change due to price	(2,426)	(2,921)	2,214	(8,852)
Fair value change due to pay-downs	(1,412)	(1,747)	(2,795)	(2,789)
Total	\$ (1,962)	\$ (3,022)	\$ 3,205	\$ (8,322)

Activity related to capitalized mortgage loan servicing rights is as follows:

Capitalized Mortgage Loan Servicing Rights

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
	(In thousands)			
Balance at beginning of period	\$ 23,530	\$ 14,829	\$ 16,904	\$ 19,171
Originated servicing rights capitalized	2,739	3,611	6,108	6,243
Change in fair value	(3,838)	(4,667)	(581)	(11,641)
Balance at end of period	\$ 22,431	\$ 13,773	\$ 22,431	\$ 13,773

At June 30, 2021 we were servicing approximately \$3.14 billion in mortgage loans for others on which servicing rights have been capitalized. This servicing portfolio had a weighted average coupon rate of 3.57% and a weighted average service fee of approximately 25.6 basis points. Capitalized mortgage loan servicing rights at June 30, 2021 totaled \$22.4 million, representing approximately 71.4 basis points on the related amount of mortgage loans serviced for others.

Investment and insurance commissions represent revenues generated on the sale or management of investments and insurance for our customers. These revenues increased on both a quarterly and year-to-date basis in 2021 as compared to 2020, primarily due to growth in assets under management and in annuity sales (reflecting customers seeking alternatives to traditional fixed income products such as time deposits given the prolonged low interest rate environment).

Income from bank owned life insurance ("BOLI") declined on both a comparative quarterly and year-to-date basis in 2021 compared to 2020 reflecting a lower crediting rate on our cash surrender value. Our BOLI separate account is primarily invested in agency mortgage-backed securities. The crediting rate (on which the earnings are based) reflects the performance of the separate account. The total cash surrender value of our BOLI was \$55.4 million and \$55.2 million at June 30, 2021 and December 31, 2020, respectively.

Other non-interest income increased on both a comparative quarterly and year-to-date basis in 2021 as compared to 2020 due primarily to increases in credit card and merchant processing revenue and commercial loan swap fee income. These revenues and fees were adversely impacted in the first half of 2020 by COVID-19 pandemic related business shut-downs and stay at home mandates.

Non-interest expense. Non-interest expense is an important component of our results of operations. We strive to efficiently manage our cost structure.

Non-interest expense increased by \$5.2 million to \$32.5 million and increased by \$6.5 million to \$62.6 million during the three- and six-month periods ended June 30, 2021, respectively, compared to the same periods in 2020.

The components of non-interest expense are as follows:

Non-Interest Expense

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
	(In thousands)			
Compensation	\$ 11,136	\$ 9,668	\$ 21,257	\$ 20,371
Performance-based compensation	4,783	3,809	9,075	5,930
Payroll taxes and employee benefits	3,964	2,802	8,073	6,487
Compensation and employee benefits	19,883	16,279	38,405	32,788
Data processing	2,576	1,590	4,950	3,945
Occupancy, net	2,153	2,159	4,496	4,619
Interchange expense	1,201	726	2,149	1,585
Furniture, fixtures and equipment	1,034	1,090	2,037	2,126
Communications	777	800	1,658	1,603
Loan and collection	859	756	1,618	1,561
Conversion related expenses	1,143	346	1,361	402
Legal and professional	522	468	1,021	861
Advertising	164	364	653	1,047
FDIC deposit insurance	307	430	637	800
Amortization of intangible assets	243	255	485	510
Supplies	170	203	344	387
Correspondent bank service fees	115	94	215	193
Provision for loss reimbursement on sold loans	25	77	59	114
Branch closure costs	-	417	-	417
Costs (recoveries) related to unfunded lending commitments	26	111	(6)	230
Net (gains) losses on other real estate and repossessed assets	6	(9)	(174)	100
Other	1,332	1,190	2,649	2,777
Total non-interest expense	\$ 32,536	\$ 27,346	\$ 62,557	\$ 56,065

Compensation and employee benefits expenses, in total, increased \$3.6 million on a quarterly comparative basis and increased \$5.6 million for the first six months of 2021 compared to the same periods in 2020.

Compensation expense increased by \$1.5 million and \$0.9 million in the second quarter and first six months of 2021, respectively, compared to the same periods in 2020. These comparative increases in 2021 were primarily due to higher overtime levels (particularly in the second quarter of 2021 related to the May 2021 core data processing system conversion) and by salary increases that were predominantly effective on January 1, 2021.

Performance-based compensation increased by \$1.0 million and \$3.1 million in the second quarter and first six months of 2021, respectively, compared to the same periods in 2020. The increases primarily reflect the changes in the accrual for anticipated incentive compensation based on our estimated full-year performance as compared to goals.

Payroll taxes and employee benefits increased by \$1.2 million and \$1.6 million in the second quarter and first six months of 2021, respectively, compared to the same periods in 2020, due primarily to increases in payroll taxes (reflecting higher compensation costs), in our 401(k) plan match and in health care costs (due to increased claims in 2021). Health care claims in 2020 were relatively low in part due to the COVID-19 pandemic that resulted in the closing of many medical and dental facilities during that time period except for emergency care during Michigan's "stay home, stay safe" period. In addition, our prescription drug rebate received in the second quarter and first six months of 2021 was \$0.2 million lower than the prescription drug rebate received in the comparable year ago periods.

Occupancy, net, furniture, fixtures and equipment, communications, supplies, correspondent bank service fees and other non-interest expenses were all relatively unchanged on a comparative quarterly and year-to-date basis in 2021 as compared to 2020.

Data processing expense increased by \$1.0 million for both the second quarter and first six months of 2021, respectively, compared to the same periods in 2020. The second quarter and first six months of 2020 included a \$0.9 million reduction of expenses (compared to reductions of \$0.3 million and \$0.7 million in the second quarter and first six months of 2021, respectively) associated with a cost savings agreement related to core data processing services that was executed in the second quarter of 2020. The remainder of the increased costs in 2021 principally relate to new software and technology product/service additions.

Interchange expense primarily represents our third-party cost to process debit card transactions. The increases in this expense in 2021 on both a comparative quarterly and year-to-date basis as compared to 2020 are due principally to changes in transaction volume and transaction channel mix.

Loan and collection expense reflects costs related to new lending activity as well as the management and collection of non-performing loans and other problem credits. These costs increased in 2021 on both a comparative quarterly and year-to-date basis as compared to 2020 due primarily to higher loan origination activity.

Conversion related expenses totaled \$1.1 million and \$1.4 million for the second quarter and first six months of 2021, respectively, compared to \$0.3 million and \$0.4 million for the second quarter and first six months of 2020, respectively. We began a process to convert our core data processing system to a new system hosted by a different vendor in early 2020 and completed this conversion in May 2021. These expenses represent costs incurred for assistance from our existing vendor and fees from consultants who are assisting us in this conversion.

Legal and professional fees increased by approximately \$0.1 million and \$0.2 million in 2021 on both a comparative quarterly and year-to-date basis, respectively, as compared to 2020, due primarily to an increase in both internal (outsourced) and external audit fees and certain contract renewal consulting fees.

Advertising expense decreased by approximately \$0.2 million and \$0.4 million in 2021 on a comparative quarterly and year-to-date basis, respectively, as compared to 2020, due primarily to an increased reimbursement from our debit card provider for certain eligible marketing costs that we incurred and reduced levels of advertising in certain channels.

FDIC deposit insurance expense decreased in 2021 on both a comparative quarterly and year-to-date basis as compared to 2020, as a decrease in our assessment rate was only partially offset by growth in our total assets.

The amortization of intangible assets relates to the TCSB acquisition and prior branch acquisitions and the amortization of the deposit customer relationship value, including core deposit value, which was acquired in connection with those acquisitions. We had remaining unamortized intangible assets of \$3.8 million and \$4.3 million at June 30, 2021 and December 31, 2020, respectively. See note #7 to the Condensed Consolidated Financial Statements for a schedule of future amortization of intangible assets.

The provision for loss reimbursement on sold loans represents our estimate of incurred losses related to mortgage loans that we have sold to investors (primarily Fannie Mae, Freddie Mac, Ginnie Mae and the Federal Home Loan Bank of Indianapolis). The reserve for loss reimbursements on sold mortgage loans totaled \$1.1 million and \$1.0 million at June 30, 2021 and December 31, 2020, respectively. This reserve is included in accrued expenses and other liabilities in our Condensed Consolidated Statements of Financial Condition.

Branch closure costs totaled \$0.4 million for both the second quarter and first six months of 2020. We closed eight Bank branches (two on June 26, 2020 and six on July 31, 2020). These costs primarily represent write-downs of fixed assets (buildings, furniture and equipment) and lease assets.

The changes in cost related to unfunded lending commitments are primarily impacted by changes in the amounts of such commitments to originate portfolio loans as well as (for commercial loan commitments) the grade (pursuant to our loan rating system) of such commitments.

Net (gains) losses on other real estate and repossessed assets primarily represent the gain or loss on the sale or additional write downs on these assets subsequent to the transfer of the asset from our loan portfolio. This transfer occurs at the time we acquire the collateral that secured the loan. At the time of acquisition, the other real estate or repossessed asset is valued at fair value, less estimated costs to sell, which becomes the new basis for the asset. Any write-downs at the time of acquisition are charged to the allowance for credit losses.

Income tax expense. We recorded an income tax expense of \$2.7 million and \$7.8 million in the second quarter and the first six months of 2021, respectively. This compares to an income tax expense of \$3.5 million and \$4.5 million in the second quarter and the first six months of 2020, respectively.

Our actual income tax expense is different than the amount computed by applying our statutory income tax rate to our income before income tax primarily due to tax-exempt interest income, tax-exempt income from the increase in the cash surrender value on life insurance, and differences in the value of stock awards that vest and stock options that are exercised as compared to the initial fair values that were expensed.

We assess whether a valuation allowance should be established against our deferred tax assets based on the consideration of all available evidence using a “more likely than not” standard. The ultimate realization of this asset is primarily based on generating future income. We concluded at June 30, 2021 and 2020 and at December 31, 2020 that the realization of substantially all of our deferred tax assets continues to be more likely than not.

Financial Condition

Summary. Our total assets increased by \$257.3 million during the first six months of 2021. Loans, excluding loans held for sale, were \$2.81 billion at June 30, 2021, compared to \$2.73 billion at December 31, 2020. All loan categories have increased during the first half of 2021. (See "Portfolio Loans and asset quality.")

Deposits totaled \$3.86 billion at June 30, 2021, an increase of \$225.1 million from December 31, 2020. The increase in deposits is primarily due to growth in non-interest bearing deposits, savings and interest bearing checking deposits and reciprocal deposits that were partially offset by a decline in time and brokered deposits.

The increase in commercial loans in the first six months of 2021 is due primarily to loans extended under the Paycheck Protection Program ("PPP") administered by the U.S. Small Business Administration ("SBA"). The PPP (for new loans) ended on May 31, 2021. The increase in deposits is due in part to the significant liquidity that has been injected into the economy through government programs, such as the PPP, as well as by monetary actions by the Federal Reserve Bank, all in response to the COVID-19 pandemic.

As the various government stimulus programs in response to the COVID-19 pandemic end or taper, it is unclear what the impact will be on our levels of Portfolio Loans and deposits. However, our liquidity and funding contingency plans take into account the possibility of reductions in commercial loans and deposits during 2021.

Securities. We maintain diversified securities portfolios, which include obligations of U.S. government-sponsored agencies, securities issued by states and political subdivisions, residential and commercial mortgage-backed securities, asset-backed securities, corporate securities, trust preferred securities and foreign government securities (that are denominated in U.S. dollars). We regularly evaluate asset/liability management needs and attempt to maintain a portfolio structure that provides sufficient liquidity and cash flow. Except as discussed below, we believe that the unrealized losses on securities available for sale are temporary in nature and are expected to be recovered within a reasonable time period. We believe that we have the ability to hold securities with unrealized losses to maturity or until such time as the unrealized losses reverse. (See "Asset/liability management.")

Securities

	Amortized	Unrealized		Fair
	Cost	Gains	Losses	Value
Securities available for sale		(in thousands)		
June 30, 2021	\$ 1,312,668	\$ 20,780	\$ 2,788	\$ 1,330,660
December 31, 2020	1,052,132	21,431	1,404	1,072,159

Securities available for sale in unrealized loss positions are evaluated quarterly for impairment related to credit losses. For securities available for sale in an unrealized loss position, we first assess whether we intend to sell, or it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For securities available for sale that do not meet this criteria, we evaluate whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, we consider the extent to which fair value is less than amortized cost, adverse conditions specifically related to the security and the issuer and the impact of changes in market interest rates on the market value of the security, among other factors. If this assessment indicates that a credit loss exists, we compare the present value of cash flows expected to be collected from the security with the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis for the security, a credit loss exists and an ACL is recorded, limited to the amount that the fair value of the security is less than its amortized cost basis. Any impairment that has not been recorded through an ACL is recognized in other comprehensive income (loss), net of applicable taxes. No ACL for securities available for sale was needed at June 30, 2021.

Sales of securities were as follows (See “Non-interest income.”):

Sales of Securities

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
	(in thousands)		(in thousands)	
Proceeds	\$ 3,000	\$ 14,850	\$ 81,178	\$ 36,593
Gross gains	2	-	1,466	253
Gross losses	2	-	50	-
Net impairment charges	-	-	-	-
Net gains	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,416</u>	<u>\$ 253</u>

Portfolio Loans and asset quality. In addition to the communities served by our Bank branch and loan production office network, our principal lending markets also include nearby communities and metropolitan areas. Subject to established underwriting criteria, we also may participate in commercial lending transactions with certain non-affiliated banks and make whole loan purchases from other financial institutions.

The senior management and board of directors of our Bank retain authority and responsibility for credit decisions and we have adopted uniform underwriting standards. Our loan committee structure and the loan review process attempt to provide requisite controls and promote compliance with such established underwriting standards. However, there can be no assurance that our lending procedures and the use of uniform underwriting standards will prevent us from incurring significant credit losses in our lending activities.

We generally retain loans that may be profitably funded within established risk parameters. (See “Asset/liability management.”) As a result, we may hold adjustable-rate conventional and fixed rate jumbo mortgage loans as Portfolio Loans, while 15- and 30-year fixed-rate non-jumbo mortgage loans are generally sold to mitigate exposure to changes in interest rates. (See “Non-interest income.”) Due primarily to the expansion of our mortgage-banking activities and a change in mix in our mortgage loan originations, we are now originating and putting into Portfolio Loans more fixed rate mortgage loans as compared to past periods. These fixed rate mortgage loans generally have terms from 15 to 30 years, do not have prepayment penalties and expose us to more interest rate risk. To date, our interest rate risk profile has not changed significantly. However, we are carefully monitoring this change in the composition of our Portfolio Loans and the impact of potential future changes in interest rates on our changes in market value of portfolio equity and changes in net interest income. (See “Asset/liability management.”) As a result, we may add some longer-term borrowings, may utilize derivatives (interest rate swaps and interest rate caps) to manage interest rate risk and may continue to sell some fixed rate jumbo and other portfolio mortgage loans in the future.

The PPP, is a short-term, forgivable loan program primarily intended to help businesses impacted by COVID-19 to continue paying their employees. Also see Part II, Item 1A. Risk Factors below regarding the PPP.

A summary of our participation in the PPP (which ended on May 31, 2021 for new loans) follows:

Paycheck Protection Program Activity

	June 30, 2021		June 30, 2020	
	Amount (#)	Amount	Amount (#)	Amount
	(Dollars in thousands)			
Closed and outstanding at quarter end	1,707	\$ 171,888	2,012	\$ 259,351
Cumulative forgiveness applications submitted to the SBA	2,048	240,558	-	-
Net fees accreted into interest income for the quarter	n/a	1,813	n/a	977
Net fees accreted into interest income year-to-date	n/a	3,895	n/a	977
Unaccreted net fees remaining at quarter end	n/a	5,810	n/a	7,736

Congress and the major bank regulatory agencies have encouraged banks to work with their borrowers to provide short-term loan payment relief during the COVID-19 national emergency. On March 22, 2020, an interagency statement was released by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the Consumer Financial Protection Bureau, the State Banking Regulators and the National Credit Union Administration that contained their interpretation as to which modifications would qualify for these exceptions. In general, to qualify for this exception:

- The modified loan must be current when the modification is made;
- The modification must be short term in nature (up to six months), and;
- Modifications may include payment deferrals, fee waivers, extensions of repayment terms or other delays in payment that are insignificant.

In addition, Section 4013 of the CARES Act provides temporary relief from the accounting and reporting requirements for TDRs regarding certain loan modifications for our customers. Section 4013 specified that COVID-19 related modifications on loans that were current as of December 31, 2019 are not TDRs. The provisions of Section 4013 were extended to the earlier of 60 days after the termination of the national emergency that was previously declared on March 13, 2020 or January 21, 2022 by the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act which was signed into law on December 27, 2020.

In response to our customers' needs during this time of economic uncertainty, we have initiated forbearance programs for our retail (mortgage and installment loans) and our commercial customers. We also have similar programs for mortgage loans that we service for others. Commercial loan accommodations are typically a three month interest-only period while retail loan (mortgage and installment) forbearances have primarily been payment suspensions for three months. To date, there have not been a significant number of requests for additional modifications. See note #4 to the Condensed Consolidated Financial Statements included within this report.

A summary of accommodations as of June 30, 2021 follows:

Commercial and Retail Loan COVID-19 Accommodations

Loan Category	Covid-19 Accommodations		Total Loans	% of Total Loans
	Loans (#)	Loans (\$)		
Commercial	-	\$ -	\$ 1,244,547	0.0%
Mortgage	82	12,416	1,045,108	1.2%
Installment	18	327	524,904	0.1%
Total	100	\$ 12,743	\$ 2,814,559	0.5%
Mortgage loans serviced for others(1)	150	\$ 20,231	\$ 3,142,812	0.6%

1) We have delegated authority from all investors to grant these deferrals on their behalf.

A summary of our Portfolio Loans follows:

	June 30, 2021	December 31, 2020
	(In thousands)	
Real estate(1)		
Residential first mortgages	\$ 818,540	\$ 792,762
Residential home equity and other junior mortgages	124,184	138,128
Construction and land development	234,181	232,693
Other(2)	675,207	669,150
Consumer	519,621	468,090
Commercial	438,463	429,011
Agricultural	4,363	3,844
Total loans	\$ 2,814,559	\$ 2,733,678

(1) Includes both residential and non-residential commercial loans secured by real estate.

(2) Includes loans secured by multi-family residential and non-farm, non-residential property.

Non-performing assets ⁽¹⁾

	June 30, 2021	December 31, 2020
(Dollars in thousands)		
Non-accrual loans	\$ 5,531	\$ 8,312
Loans 90 days or more past due and still accruing interest	14	-
Subtotal	5,545	8,312
Less: Government guaranteed loans	427	439
Total non-performing loans	5,118	7,873
Other real estate and repossessed assets	296	766
Total non-performing assets	\$ 5,414	\$ 8,639
As a percent of Portfolio Loans		
Non-performing loans	0.18%	0.29%
Allowance for credit losses	1.63	1.30
Non-performing assets to total assets	0.12	0.21
Allowance for credit losses as a percent of non-performing loans	897.34	450.01

(1) Excludes loans classified as "troubled debt restructured" that are not past due.

Troubled debt restructurings ("TDR")

	June 30, 2021		
	Commercial	Retail ⁽¹⁾	Total
(In thousands)			
Performing TDR's	\$ 4,948	\$ 34,561	\$ 39,509
Non-performing TDR's ⁽²⁾	-	1,165 ⁽³⁾	1,165
Total	\$ 4,948	\$ 35,726	\$ 40,674
	December 31, 2020		
	Commercial	Retail ⁽¹⁾	Total
(In thousands)			
Performing TDR's	\$ 7,956	\$ 36,385	\$ 44,341
Non-performing TDR's ⁽²⁾	1,148	1,584 ⁽³⁾	2,732
Total	\$ 9,104	\$ 37,969	\$ 47,073

(1) Retail loans include mortgage and installment loan portfolio segments.

(2) Included in non-performing assets table above.

(3) Also includes loans on non-accrual at the time of modification until six payments are received on a timely basis.

Non-performing loans decreased by \$2.8 million since year-end 2020 as all loan categories have declined, reflecting improving economic conditions and the Company's ongoing collection efforts. Our collection and resolution efforts have generally resulted in a positive trend in non-performing loans. Also see Part II, Item 1A. Risk Factors below regarding the COVID-19 pandemic and the potential negative impact on the level of non-performing loans and assets in the future.

Non-performing loans exclude performing loans that are classified as TDRs. Performing TDRs totaled \$39.5 million, or 1.4% of total Portfolio Loans, and \$44.3 million, or 1.6% of total Portfolio Loans, at June 30, 2021 and December 31, 2020, respectively. The decrease in the amount of performing TDRs in the first six months of 2021 reflects a decrease in both commercial and retail performing TDRs.

Other real estate and repossessed assets totaled \$0.3 million and \$0.8 million at June 30, 2021, and December 31, 2020, respectively.

We will place a loan that is 90 days or more past due on non-accrual, unless we believe the loan is both well secured and in the process of collection. Accordingly, we have determined that the collection of the accrued and unpaid interest on any loans that are 90 days or more past due and still accruing interest is probable.

The following tables reflect activity in our ACL on loans and ACL for unfunded lending commitments as well as the allocation of our ACL on loans.

Allowance for credit losses on loans and unfunded lending commitments

	Six months ended June 30,			
	2021		2020	
	Loans	Unfunded Commitments	Loans	Unfunded Commitments
	(Dollars in thousands)			
Balance at beginning of period	\$ 35,429	\$ 1,805	\$ 26,148	\$ 1,542
Additions (deductions)				
Impact of adoption of ASC 326	11,574	1,469	-	-
Provision for credit losses ⁽¹⁾	(1,899)	-	11,909	-
Initial allowance on loans purchased with credit deterioration	134	-	-	-
Recoveries credited to allowance	1,434	-	1,754	-
Loans charged against the allowance	(746)	-	(5,311)	-
Additions (recoveries) included in non-interest expense	-	(6)	-	230
Balance at end of period	<u>\$ 45,926</u>	<u>\$ 3,268</u>	<u>\$ 34,500</u>	<u>\$ 1,772</u>
Net loans charged (recovered) against the allowance to average Portfolio Loans	(0.08)%		0.26%	

(1) Beginning January 1, 2021, calculation is based on CECL methodology. Prior to January 1, 2021, calculation was based on the probable incurred loss methodology.

Allocation of the Allowance for Credit Losses (1)

	June 30, 2021	January 1, 2021
	(Dollars in thousands)	
Specific allocations	\$ 1,451	\$ 2,452
Pooled analysis allocations	30,277	30,796
Additional allocations based on subjective factors	14,198	13,889
Total	<u>\$ 45,926</u>	<u>\$ 47,137</u>

(1) January 1, 2021 includes impact of the adoption of CECL.

Beginning January 1, 2021, we calculated the ACL using the current expected credit losses methodology. As of January 1, 2021, we increased the ACL for loans by \$11.7 million and increased the ACL for unfunded loan commitments by \$1.5 million.

Some loans will not be repaid in full. Therefore, an ACL is maintained at a level which represents our best estimate of expected credit losses. Our ACL is comprised of three principal elements: (i) specific analysis of individual loans identified during the review of the loan portfolio, (ii) pooled analysis of loans with similar risk characteristics based on historical experience, adjusted for current conditions, reasonable and supportable forecasts, and expected prepayments, and (iii) additional allowances based on subjective factors, including local and general economic business factors and trends, portfolio concentrations and changes in the size and/or the general terms of the loan portfolios. See note #4 to the Condensed Consolidated Financial Statements included within this report for further discussion on the ACL.

While we use relevant information to recognize losses on loans, additional provisions for related losses may be necessary based on changes in economic conditions, customer circumstances and other credit risk factors.

The ACL decreased \$1.2 million to \$45.9 million at June 30, 2021 from \$47.1 million at January 1, 2021 (CECL adoption date) and was equal to 1.63% of total Portfolio Loans at June 30, 2021.

Two of the three components of the ACL outlined above decreased since our CECL adoption date. The ACL related to specific loans decreased \$1.0 million due primarily to a \$4.8 million decrease in the amount of such loans. The ACL related to pooled analysis of loans decreased \$0.5 million due primarily to slightly lower reserve allocations reflecting an improvement in economic forecasts (particularly for lower unemployment levels) that was partially offset by loan growth in 2021. The ACL related to subjective factors increased \$0.3 million due primarily loan growth in 2021.

Deposits and borrowings. Historically, the loyalty of our customer base has allowed us to price deposits competitively, contributing to a net interest margin that generally compares favorably to our peers. However, we still face a significant amount of competition for deposits within many of the markets served by our branch network, which limits our ability to materially increase deposits without adversely impacting the weighted-average cost of core deposits.

To attract new core deposits, we have implemented various account acquisition strategies as well as branch staff sales training. Account acquisition initiatives have historically generated increases in customer relationships. Over the past several years, we have also expanded our treasury management products and services for commercial businesses and municipalities or other governmental units and have also increased our sales calling efforts in order to attract additional deposit relationships from these sectors. We view long-term core deposit growth as an important objective. Core deposits generally provide a more stable and lower cost source of funds than alternative sources such as short-term borrowings. (See "Liquidity and capital resources.")

Deposits totaled \$3.86 billion and \$3.64 billion at June 30, 2021 and December 31, 2020, respectively. The increase in deposits is primarily due to growth in non-interest bearing deposits, savings and interest bearing checking deposits and reciprocal deposits that were partially offset by a decline in time and brokered deposits. Reciprocal deposits totaled \$589.5 million and \$556.2 million at June 30, 2021 and December 31, 2020, respectively. These deposits represent demand, money market and time deposits from our customers that have been placed through IntraFi Network. This service allows our customers to access multi-million dollar FDIC deposit insurance on deposit balances greater than the standard FDIC insurance maximum. The continued increase in reciprocal deposits is due in part to an automated sweep product that we introduced in mid-2018 as well as the marketing and sales efforts of our treasury management team.

We cannot be sure that we will be able to maintain our current level of core deposits. In particular, those deposits that are uninsured may be susceptible to outflow. At June 30, 2021, we had approximately \$831.9 million of uninsured deposits. A reduction in core deposits would likely increase our need to rely on wholesale funding sources.

We have also implemented strategies that incorporate using federal funds purchased, other borrowings and Brokered CDs to fund a portion of our interest-earning assets. The use of such alternate sources of funds supplements our core deposits and is also an integral part of our asset/liability management efforts.

Other borrowings, comprised primarily of advances from the FHLB, totaled \$30.0 million at both June 30, 2021 and December 31, 2020.

As described above, we utilize wholesale funding, including federal funds purchased, FHLB and FRB borrowings and Brokered CDs to augment our core deposits and fund a portion of our assets. At June 30, 2021, our use of such wholesale funding sources (including reciprocal deposits) amounted to approximately \$622.4 million, or 16.0% of total funding (deposits and all borrowings, excluding subordinated debt and debentures). Because wholesale funding sources are affected by general market conditions, the availability of such funding may be dependent on the confidence these sources have in our financial condition and operations. The continued availability to us of these funding sources is not certain, and Brokered CDs may be difficult for us to retain or replace at attractive rates as they mature. Our liquidity may be constrained if we are unable to renew our wholesale funding sources or if adequate financing is not available in the future at acceptable rates of interest or at all. Our financial performance could also be affected if we are unable to maintain our access to funding sources or if we are required to rely more heavily on more expensive funding sources. In such case, our net interest income and results of operations could be adversely affected.

We historically employed derivative financial instruments to manage our exposure to changes in interest rates. During the first six months of 2021 and 2020, we entered into \$15.6 million and \$10.6 million (aggregate notional amounts), respectively, of interest rate swaps with commercial loan customers, which were offset with interest rate swaps that the Bank entered into with a broker-dealer. We recorded \$0.3 million and \$0.2 million of fee income related to these transactions during the first six months of 2021 and 2020, respectively. See note #6 to the Condensed Consolidated Financial Statements included within this report for more information on our derivative financial instruments.

Liquidity and capital resources. Liquidity risk is the risk of being unable to timely meet obligations as they come due at a reasonable funding cost or without incurring unacceptable losses. Our liquidity management involves the measurement and monitoring of a variety of sources and uses of funds. Our Condensed Consolidated Statements of Cash Flows categorize these sources and uses into operating, investing and financing activities. We primarily focus our liquidity management on maintaining adequate levels of liquid assets (primarily funds on deposit with the FRB and certain securities available for sale) as well as developing access to a variety of borrowing sources to supplement our deposit gathering activities and provide funds for purchasing securities available for sale or originating Portfolio Loans as well as to be able to respond to unforeseen liquidity needs.

Our primary sources of funds include our deposit base, secured advances from the FHLB and FRB, federal funds purchased borrowing facilities with other banks, and access to the capital markets (for Brokered CDs).

At June 30, 2021, we had \$209.3 million of time deposits that mature in the next 12 months. Historically, a majority of these maturing time deposits are renewed by our customers. Additionally, \$3.55 billion of our deposits at June 30, 2021, were in account types from which the customer could withdraw the funds on demand. Changes in the balances of deposits that can be withdrawn upon demand are usually predictable and the total balances of these accounts have generally grown or have been stable over time as a result of our marketing and promotional activities. However, there can be no assurance that historical patterns of renewing time deposits or overall growth or stability in deposits will continue in the future.

We have developed contingency funding plans that stress test our liquidity needs that may arise from certain events such as an adverse change in our financial metrics (for example, credit quality or regulatory capital ratios). Our liquidity management also includes periodic monitoring that measures quick assets (defined generally as highly liquid or short-term assets) to total assets, short-term liability dependence and basic surplus (defined as quick assets less volatile liabilities to total assets). Policy limits have been established for our various liquidity measurements and are monitored on a quarterly basis. In addition, we also prepare cash flow forecasts that include a variety of different scenarios.

We believe that we currently have adequate liquidity at our Bank because of our cash and cash equivalents, our portfolio of securities available for sale, our access to secured advances from the FHLB and FRB and our ability to issue Brokered CDs.

We also believe that the available cash on hand at the parent company (including time deposits) of approximately \$48.6 million as of June 30, 2021 provides sufficient liquidity resources at the parent company to meet operating expenses, to make interest payments on the subordinated debt and debentures, and, along with dividends from the Bank, to pay projected cash dividends on our common stock.

Effective management of capital resources is critical to our mission to create value for our shareholders. In addition to common stock, our capital structure also currently includes subordinated debt and cumulative trust preferred securities.

Capitalization

	June 30, 2021	December 31, 2020
	(In thousands)	
Subordinated debt	\$ 39,319	\$ 39,281
Subordinated debentures	39,558	39,524
Amount not qualifying as regulatory capital	(543)	(505)
Amount qualifying as regulatory capital	78,334	78,300
Shareholders' equity		
Common stock	332,457	339,353
Retained earnings	55,101	40,145
Accumulated other comprehensive income	8,416	10,024
Total shareholders' equity	395,974	389,522
Total capitalization	\$ 474,308	\$ 467,822

In May 2020, we issued \$40.0 million of fixed to floating subordinated notes with a ten year maturity and a five year call option. The initial coupon rate is 5.95% fixed for five years and then floats at the Secured Overnight Financing Rate ("SOFR") plus 5.825%. These notes are presented in the Condensed Consolidated Statement of Financial Condition under the caption "Subordinated debt" and the June 30, 2021 balance of \$39.3 million is net of remaining unamortized deferred issuance costs of approximately \$0.3 million that are being amortized through the maturity date into interest expense on other borrowings and subordinated debt and debentures in our Condensed Consolidated Statements of Operations.

We currently have four special purpose entities with \$39.6 million of outstanding cumulative trust preferred securities as of June 30, 2021. These special purpose entities issued common securities and provided cash to our parent company that in turn issued subordinated debentures to these special purpose entities equal to the trust preferred securities and common securities. The subordinated debentures represent the sole asset of the special purpose entities. The common securities and subordinated debentures are included in our Condensed Consolidated Statements of Financial Condition.

The FRB has issued rules regarding trust preferred securities as a component of the Tier 1 capital of bank holding companies. The aggregate amount of trust preferred securities (and certain other capital elements) are limited to 25 percent of Tier 1 capital elements, net of goodwill (net of any associated deferred tax liability). The amount of trust preferred securities and certain other elements in excess of the limit can be included in Tier 2 capital, subject to restrictions. At the parent company, all of these securities qualified as Tier 1 capital at June 30, 2021 and December 31, 2020.

Common shareholders' equity increased to \$396.0 million at June 30, 2021, from \$389.5 million at December 31, 2020, due primarily to our net income that was partially offset by a \$10.3 million reduction in retained earnings related to the adoption of CECL, a \$1.6 million decrease in our accumulated other comprehensive income, by share repurchases and by cash dividend payments. Our tangible common equity ("TCE") totaled \$363.9 million and \$356.9 million, respectively, at those same dates. Our ratio of TCE to tangible assets was 8.21% and 8.56% at June 30, 2021, and December 31, 2020, respectively. TCE and the ratio of TCE to tangible assets are non-GAAP measures. TCE represents total common equity less goodwill and other intangible assets.

In December 2020, our Board of Directors authorized a 2021 share repurchase plan. Under the terms of the 2021 share repurchase plan, we are authorized to buy back up to 1,100,000, or approximately 5% of our outstanding common stock. During the first six months of 2021, the Company repurchased 344,005 shares at a weighted average purchase price of \$21.18 per share.

We pay a quarterly cash dividend on our common stock. These dividends totaled \$0.42 per share and \$0.40 per share in the first six months of 2021 and 2020, respectively. We generally favor a dividend payout ratio between 30% and 50% of net income.

As of June 30, 2021 and December 31, 2020, our Bank (and holding company) continued to meet the requirements to be considered “well-capitalized” under federal regulatory standards (also see note #10 to the Condensed Consolidated Financial Statements included within this report).

Asset/liability management. Interest-rate risk is created by differences in the cash flow characteristics of our assets and liabilities. Options embedded in certain financial instruments, including caps on adjustable-rate loans as well as borrowers’ rights to prepay fixed-rate loans, also create interest-rate risk.

Our asset/liability management efforts identify and evaluate opportunities to structure our assets and liabilities in a manner that is consistent with our mission to maintain profitable financial leverage within established risk parameters. We evaluate various opportunities and alternate asset/liability management strategies carefully and consider the likely impact on our risk profile as well as the anticipated contribution to earnings. The marginal cost of funds is a principal consideration in the implementation of our asset/liability management strategies, but such evaluations further consider interest-rate and liquidity risk as well as other pertinent factors. We have established parameters for interest-rate risk. We regularly monitor our interest-rate risk and report at least quarterly to our board of directors.

We employ simulation analyses to monitor our interest-rate risk profile and evaluate potential changes in our net interest income and market value of portfolio equity that result from changes in interest rates. The purpose of these simulations is to identify sources of interest-rate risk. The simulations do not anticipate any actions that we might initiate in response to changes in interest rates and, accordingly, the simulations do not provide a reliable forecast of anticipated results. The simulations are predicated on immediate, permanent and parallel shifts in interest rates and generally assume that current loan and deposit pricing relationships remain constant. The simulations further incorporate assumptions relating to changes in customer behavior, including changes in prepayment rates on certain assets and liabilities.

LITIGATION MATTERS

The aggregate amount we have accrued for losses we consider probable as a result of litigation matters is immaterial. However, because of the inherent uncertainty of outcomes from any litigation matter, we believe it is reasonably possible we may incur losses in addition to the amounts we have accrued. At this time, we estimate the maximum amount of additional losses that are reasonably possible is insignificant. However, because of a number of factors, including the fact that certain of these litigation matters are still in their early stages, this maximum amount may change in the future.

The litigation matters described in the preceding paragraph primarily include claims that have been brought against us for damages, but do not include litigation matters where we seek to collect amounts owed to us by third parties (such as litigation initiated to collect delinquent loans). These excluded, collection-related matters may involve claims or counterclaims by the opposing party or parties, but we have excluded such matters from the disclosure contained in the preceding paragraph in all cases where we believe the possibility of us paying damages to any opposing party is remote.

CRITICAL ACCOUNTING POLICIES

Our accounting and reporting policies are in accordance with accounting principles generally accepted in the United States of America and conform to general practices within the banking industry. Accounting and reporting policies for the ACL and capitalized mortgage loan servicing rights are deemed critical since they involve the use of estimates and require significant management judgments. Application of assumptions different than those that we have used could result in material changes in our consolidated financial position or results of operations. We adopted CECL on January 1, 2021 which changed the way we calculate our ACL. See notes #2 and #4 to the Condensed Consolidated Financial Statements included within this report for further discussion on CECL. There was no material change to our critical accounting policy on capitalized mortgage loan servicing rights as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2020.

Item 3.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See applicable disclosures set forth in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 2 under the caption “Asset/liability management.”

Item 4.

CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures.

With the participation of management, our chief executive officer and chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a – 15(e) and 15d – 15(e)) for the period ended June 30, 2021, have concluded that, as of such date, our disclosure controls and procedures were effective.

(b) Changes in Internal Controls.

During the quarter ended June 30, 2021, there were no changes in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 1A. Risk Factors

In addition to the risk factors disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2020, the following risk factors apply to the Company:

The ongoing COVID-19 pandemic and measures intended to prevent its spread could have a material adverse effect on our business, results of operations and financial condition, and such effects will depend on future developments, which are highly uncertain and are difficult to predict.

Global health concerns relating to the COVID-19 pandemic and related government actions have resulted in significant disruptions and increased economic uncertainty. Government restrictions and recommendations designed to contain the virus and limit its effects have substantially limited the activities of individuals and the operations of businesses in the markets we serve.

Since the U.S. Food and Drug Administration (FDA) issued its first emergency use authorization for a COVID-19 vaccine on December 11, 2020, more than two-thirds of the adult population in the U.S. has received at least one vaccination. As of July 12, 2021, 62.4% of Michigan residents ages 16 and older have had at least one vaccination. Widespread vaccinations have slowed the spread of the virus. Effective June 22, 2021, the State of Michigan rescinded the emergency orders it implemented in response to the pandemic, including the rescission of restrictions on restaurant capacities and other restrictions on the size of in-person gatherings. Despite these positive developments, the pandemic continues to cause a great deal of economic uncertainty and disruption to financial and other markets, including as a result of concerns relating to possible variants of the original virus.

As a result of the pandemic, the related governmental responses, and the ongoing uncertainty, our business, results of operations, and financial condition may be adversely affected by a number of factors that could impact us and our customers, including but not limited to:

- business closures and higher than normal levels of unemployment may cause increases in loan delinquencies, foreclosures and defaults;
- increases in our allowance for credit losses may be necessary;
- declines in collateral values may occur;
- third party disruptions may occur, including outages at network providers, on-line banking vendors and other suppliers;
- there is increased cyber and payment fraud risk, as cybercriminals attempt to profit from the disruption, given increased online and remote activity;
- we may experience operational failures due to changes in our normal business practices necessitated by the pandemic and related governmental actions; and/or
- our production and efficiency may suffer due to employee illnesses and/or employees having to work remotely.

Given the ongoing uncertainty with respect to the pandemic and potential governmental responses, these risk factors may continue to some degree for a significant period of time.

The risks presented by the pandemic have caused us to modify many of our business practices. Since the start of the pandemic, varying levels of our employee base have been working remotely. We have also expanded sick and vacation time for certain employees. Given the recent changes in workplace guidance as a result of the progress with vaccinations, we are moving to a hybrid work model. Depending on an employee's position and responsibilities, some employees may continue to function either fully or partially out of the office while others will return to the office on a full-time basis. We may take further actions as may be required or as we determine to be prudent. There is no certainty that such measures will be sufficient to mitigate the risks posed by COVID-19. Similarly, while we hope vaccinations will lessen the impact of the virus on our business, there is still a significant degree of uncertainty with respect to the potential impact of widespread vaccinations and the spread of possible virus variants.

The extent to which the COVID-19 pandemic may impact our business, results of operations and financial condition will depend on future developments, which are highly uncertain and difficult to predict. Those developments and factors are expected to include the evolution of the virus and possible virus variants, the number of people who become vaccinated, actions taken by governmental authorities to address the foregoing, and how quickly and to what extent normal economic and operating conditions can resume. We do not yet know the full extent of the impact. However, the effects could have a material adverse impact on our business, asset valuations, financial condition and results of operations. Material adverse impacts may include all or a combination of valuation impairments on our intangible assets, securities available for sale, loans, capitalized mortgage loan servicing rights or deferred tax assets.

As a participating lender in the U.S. Small Business Administration (“SBA”) Paycheck Protection Program (“PPP”), the Company and the Bank are subject to additional risks regarding the Bank’s processing of loans for the PPP and risks that the SBA may not fund some or all PPP loan guaranties.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”), was signed into law which included a \$349 billion loan program administered through the SBA referred to as the Paycheck Protection Program (“PPP”). Under the PPP, small businesses and other entities and individuals could apply for loans from existing SBA lenders and other approved regulated lenders that enrolled in the PPP, subject to numerous limitations and eligibility criteria (“First Draw Loans”). First Draw Loans are eligible for forgiveness, subject to numerous limitations. The Bank is participating as a lender in the PPP.

The PPP opened on April 3, 2020; however, because of the short timeframe between the enactment of the CARES Act and the opening of the PPP, there was and is some ambiguity in the laws, rules and guidance regarding the operation of the PPP, which exposes us to potential risks relating to noncompliance with the PPP. Since the enactment of the CARES Act, the SBA and U.S. Department of Treasury have provided additional guidance and clarity on the PPP through the issuance of approximately 30 interim final rules implementing the PPP.

Through various subsequent laws, including the Paycheck Protection Program and Health Care Enhancement Act and the Paycheck Protection Program Flexibility Act, the PPP was expanded to include an additional \$310 billion in funding and extended through August 8, 2020. Such laws also allowed more time to spend the funds and eased some of the limitations and restrictions to obtaining forgiveness of PPP loans.

On December 27, 2020, the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (“Economic Aid Act”) was signed into law which allocated an additional \$284 billion in funding for the PPP. The Economic Aid Act reopened First Draw Loans with generally the same terms and conditions as originally enacted under the CARES Act while clarifying eligibility and ineligibility for certain entities and expanding the permitted uses of PPP funds. In addition, the Economic Aid Act simplified the loan forgiveness process for PPP loans of \$150,000 or less. The Economic Aid Act also established second draw loans for entities that have already used their First Draw Loan proceeds, subject to numerous limitations and eligibility criteria (“Second Draw Loans”). Second Draw Loans are eligible for forgiveness similar to First Draw Loans, subject to limitations set forth in the Economic Aid Act.

As of June 30, 2021, we had 1,707 First Draw Loans and Second Draw Loans outstanding with a total balance of \$171.9 million, and the SBA had approved \$238.3 million in First Draw Loans and Second Draw Loans for forgiveness.

Since the initiation of the PPP, several larger banks have been subject to litigation regarding the protocols and procedures that they used in processing applications for the PPP. We may be exposed to the risk of similar litigation, from both customers and non-customers that approached us regarding PPP loans, regarding our policies and procedures used in processing applications for the PPP. If any such litigation is filed against the Company or the Bank and is not resolved in a manner favorable to us, it could result in financial liability or adversely affect our reputation. In addition, litigation can be costly, regardless of outcome. Any financial liability, litigation costs or reputational damage caused by PPP related litigation could have an adverse impact on our business, financial condition and results of operations.

We also have credit risk on PPP loans if a determination is made by the SBA that there is a deficiency in the manner in which the loan was originated, funded, or serviced by the Bank, such as an issue with the eligibility of a borrower to receive a PPP loan, which may or may not be related to the ambiguity in the laws, rules and guidance regarding the operation of the PPP. The SBA reserves the right to audit PPP loans for six years after the loan is paid or forgiven in full. In the event of a loss resulting from a default on a PPP loan and a determination by the SBA that there was a deficiency in the manner in which the PPP loan was originated, funded, or serviced by us, the SBA may deny its liability under the guaranty, reduce the amount of the guaranty, or, if it has already paid under the guaranty, seek recovery of any loss related to the deficiency from us.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The Company maintains a Deferred Compensation and Stock Purchase Plan for Non-Employee Directors (the "Plan") pursuant to which non-employee directors can elect to receive shares of the Company's common stock in lieu of fees otherwise payable to the director for his or her service as a director. A director can elect to receive shares on a current basis or to defer receipt of the shares, in which case the shares are issued to a trust to be held for the account of the director and then generally distributed to the director after his or her retirement from the Board. Pursuant to this Plan, during the second quarter of 2021, the Company issued 420 shares of common stock to non-employee directors on a current basis and 3,666 shares of common stock to the trust for distribution to directors on a deferred basis. These shares were issued on April 1, 2021 representing aggregate fees of \$0.09 million. The shares on a current basis were issued at a price of \$23.64 per share and the shares on a deferred basis were issued at a price of \$21.28 per share, representing 90% of the fair value of the shares on the credit date. The price per share was the consolidated closing bid price per share of the Company's common stock as of the date of issuance, as determined in accordance with NASDAQ Marketplace Rules. The Company issued the shares pursuant to an exemption from registration under Section 4(2) of the Securities Act of 1933 due to the fact that the issuance of the shares was made on a private basis pursuant to the Plan.

The following table shows certain information relating to repurchases of common stock for the three-months ended June 30, 2021:

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan	Remaining Number of Shares Authorized for Purchase Under the Plan
April 2021	4,521	\$ 23.74	-	919,333
May 2021	51,454	22.92	51,220	868,113
June 2021	112,118	22.40	112,118	755,995
Total	168,093	\$ 22.59	163,338	755,995

- (1) April and June include 4,521 shares and 234 shares, respectively, withheld from the shares that would otherwise have been issued to certain officers in order to satisfy tax withholding obligations resulting from the vesting of restricted stock as well as satisfy tax withholding obligations and stock option exercise price resulting from the exercise of stock options.

Item 6. Exhibits

(a) The following exhibits (listed by number corresponding to the Exhibit Table as Item 601 in Regulation S-K) are filed with this report:

31.1	Certificate of the Chief Executive Officer of Independent Bank Corporation pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).
31.2	Certificate of the Chief Financial Officer of Independent Bank Corporation pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).
32.1	Certificate of the Chief Executive Officer of Independent Bank Corporation pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).
32.2	Certificate of the Chief Financial Officer of Independent Bank Corporation pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).
101.	INS Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)
101.	SCH Inline XBRL Taxonomy Extension Schema Document
101.	CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.	DEF Inline XBRL Taxonomy Extension Definition Linkbase Document
101.	LAB Inline XBRL Taxonomy Extension Label Linkbase Document
101.	PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover page interactive data file (formatted as inline XBRL and contained in Exhibit 101)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date August 6, 2021

By /s/ Gavin A. Mohr
Gavin A. Mohr, Principal Financial Officer

Date August 6, 2021

By /s/ James J. Twarozynski
James J. Twarozynski, Principal Accounting Officer

CERTIFICATION

I, William B. Kessel, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Independent Bank Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

INDEPENDENT BANK CORPORATION

/s/ William B. Kessel
William B. Kessel
President and Chief Executive Officer

Date: August 6, 2021

CERTIFICATION

I, Gavin A. Mohr, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Independent Bank Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

INDEPENDENT BANK CORPORATION

Date: August 6, 2021

/s/ Gavin A. Mohr
Gavin A. Mohr
Chief Financial Officer

CERTIFICATE OF THE
CHIEF EXECUTIVE OFFICER OF
INDEPENDENT BANK CORPORATION

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350):

I, William B. Kessel, President and Chief Executive Officer of Independent Bank Corporation, certify, to the best of my knowledge and belief, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350) that:

(1) The quarterly report on Form 10-Q for the quarterly period ended June 30, 2021, which this statement accompanies, fully complies with requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and;

(2) The information contained in this quarterly report on Form 10-Q for the quarterly period ended June 30, 2021, fairly presents, in all material respects, the financial condition and results of operations of Independent Bank Corporation.

INDEPENDENT BANK CORPORATION

Date: August 6, 2021

/s/ William B. Kessel
William B. Kessel
President and Chief Executive Officer

The signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Independent Bank Corporation and will be retained by Independent Bank Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE OF THE
CHIEF FINANCIAL OFFICER OF
INDEPENDENT BANK CORPORATION

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350):

I, Gavin A. Mohr, Chief Financial Officer of Independent Bank Corporation, certify, to the best of my knowledge and belief, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350) that:

(1) The quarterly report on Form 10-Q for the quarterly period ended June 30, 2021, which this statement accompanies, fully complies with requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and;

(2) The information contained in this quarterly report on Form 10-Q for the quarterly period ended June 30, 2021, fairly presents, in all material respects, the financial condition and results of operations of Independent Bank Corporation.

INDEPENDENT BANK CORPORATION

Date: August 6, 2021

/s/ Gavin A. Mohr
Gavin A. Mohr
Chief Financial Officer

The signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Independent Bank Corporation and will be retained by Independent Bank Corporation and furnished to the Securities and Exchange Commission or its staff upon request.
