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CorEnergy Infrastructure Trust, Inc.
Form 8-K
March 29, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K

CURRENT REPORT PURSUANT TO
SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of report (Date of earliest event reported): March 29, 2017

CorEnergy Infrastructure Trust, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Maryland 1-33292 20-3431375
(State or Other Jurisdiction of Incorporation) (Commission File Number) (IRS Employer Identification No.)

1100 Walnut, Suite 3350, Kansas City, MO 64106
(Address of Principal Executive Offices) (Zip Code)

(816) 875-3705
(Registrant's Telephone Number, Including Area Code)

Not Applicable
(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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-

Item 7.01 Regulation FD Disclosure.

On March 29, 2017, MoGas Pipeline LLC, a wholly-owned subsidiary of CorEnergy Infrastructure Trust, Inc., announced a non-binding Open Season to solicit long term commitments from shippers for firm transportation capacity on the MoGas Pipeline in eastern Missouri. The press release concerning these matters is furnished as Exhibit 99.1 to this report and incorporated herein by reference.

Item 9.01 Financial Statements and Exhibits.

d) Exhibits

99.1 Press Release dated March 29, 2017

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 hereunto duly authorized.

COREENERGY
INFRASTRUCTURE
TRUST, INC.

Dated: March 29, 2017 By: /s/ Rebecca M. Sandring
Rebecca M. Sandring
Secretary

Exhibit Index

Exhibit No. Description

99.1 Press Release dated March 29, 2017

"group-p" style=" whitespace: nowrap; ">
Resort lending

—

1,411

1,411

Home equity - 1st lien

—

258

258

Home equity - 2nd lien

—

221

221

Purchased loans

—

—

—

Installment

Home equity - 1st lien

—

97

97

Home equity - 2nd lien

—

224

224

Boat lending

—

69

69

Recreational vehicle lending

—

25

25

Other

5

	—
	\$
	628
	\$
	628
Land, land development and construction - real estate	—
	105
	105
Commercial and industrial	—
	4,430
	4,430
Mortgage	
1-4 family	—
	5,248
	5,248
Resort lending	—
	7

	1,507
	1,507
Home equity - 1st lien	—
	222
	222
Home equity - 2nd lien	—
	317
	317
Purchased loans	—
	—
	—
Installment	—
	—
Home equity - 1st lien	—

	266
	266
Home equity - 2nd lien	—
	289
	289
Boat lending	—
	219
	219
Recreational vehicle lending	—
	21
	21
Other	—
	112
	112
Total recorded investment	\$ —
	\$
	9

13,364

\$

13,364

Accrued interest included in recorded investment

\$

—

\$

—

\$

—

F-15

TABLE OF CONTENTS**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)						
September 30, 2017						
Commercial						
Income producing - real estate	\$ 425	\$ —	\$ 30	\$ 455	\$ 271,747	\$ 272,202
Land, land development and construction - real estate	10	—	—	10	67,793	67,803
Commercial and industrial	120	149	65	334	498,991	499,325
Mortgage						
1-4 family	1,929	919	5,207	8,055	553,928	561,983
Resort lending	363	135	1,411	1,909	91,370	93,279
Home equity - 1st lien	460	—	258	718	35,826	36,544
Home equity - 2nd lien	597	195	221	1,013	56,677	57,690
Purchased loans	3	1	—	4	34,872	34,876
Installment						
Home equity - 1st lien	115	86	97	298	9,925	10,223
Home equity - 2nd lien	161	23	224	408	10,103	10,511
Boat lending	112	69	69	250	131,153	131,403
Recreational vehicle lending	52	4	25	81	93,687	93,768
Other	108	50	110	268	73,188	73,456
Total recorded investment	\$ 4,455	\$ 1,631	\$ 7,717	\$ 13,803	\$ 1,929,260	\$ 1,943,063
Accrued interest included in recorded investment	\$ 53	\$ 24	\$ —	\$ 77	\$ 5,892	\$ 5,969
December 31, 2016						
Commercial						
Income producing - real estate	\$ —	\$ —	\$ 383	\$ 383	\$ 287,255	\$ 287,638
Land, land development and construction - real estate	74	—	31	105	51,670	51,775
Commercial and industrial	100	1,385	66	1,551	465,031	466,582
Mortgage						
1-4 family	2,361	869	5,248	8,478	306,063	314,541
Resort lending	—	—	1,507	1,507	101,541	103,048
Home equity - 1st lien	149	—	222	371	28,645	29,016
Home equity - 2nd lien	470	218	317	1,005	54,232	55,237

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Purchased loans	13	2	—	15	39,122	39,137
Installment						
Home equity - 1st lien	311	48	266	625	12,025	12,650
Home equity - 2nd lien	238	41	289	568	13,390	13,958
Boat lending	184	33	219	436	102,489	102,925
Recreational vehicle lending	68	33	21	122	74,413	74,535
Other	289	30	112	431	61,888	62,319
Total recorded investment	\$ 4,257	\$ 2,659	\$ 8,681	\$ 15,597	\$ 1,597,764	\$ 1,613,361
Accrued interest included in recorded investment	\$ 45	\$ 19	\$ —	\$ 64	\$ 5,049	\$ 5,113

F-16

TABLE OF CONTENTS**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**
(unaudited)

Impaired loans are as follows:

	September 30, 2017	December 31, 2016
	(In thousands)	
Impaired loans with no allocated allowance		
TDR	\$ 349	\$ 1,782
Non - TDR	186	1,107
Impaired loans with an allocated allowance		
TDR - allowance based on collateral	2,320	3,527
TDR - allowance based on present value cash flow	65,449	72,613
Non - TDR - allowance based on collateral	202	491
Total impaired loans	\$ 68,506	\$ 79,520
Amount of allowance for loan losses allocated		
TDR - allowance based on collateral	\$ 641	\$ 1,868
TDR - allowance based on present value cash flow	6,329	7,146
Non - TDR - allowance based on collateral	91	138
Total amount of allowance for loan losses allocated	\$ 7,061	\$ 9,152

Impaired loans by class are as follows⁽¹⁾:

	September 30, 2017			December 31, 2016		
	Unpaid			Unpaid		
	Recorded	Principal	Related	Recorded	Principal	Related
	Investment	Balance	Allowance	Investment	Balance	Allowance
	(In thousands)					
With no related allowance recorded:						
Commercial						
Income producing - real estate	\$ —	\$ —	\$ —	\$ 517	\$ 768	\$ —
Land, land development & construction-real estate	—	—	—	31	709	—
Commercial and industrial	535	557	—	2,341	3,261	—
Mortgage						
1-4 family	2	472	—	2	387	—
Resort lending	—	—	—	—	—	—
Home equity - 1st lien	—	—	—	—	—	—
Home equity - 2nd lien	—	—	—	—	—	—
Installment						
Home equity - 1st lien	1	71	—	—	66	—

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Home equity - 2nd lien	—	—	—	—	—	—
Boat lending	—	—	—	—	—	—
Recreational vehicle lending	—	—	—	—	—	—
Other	—	—	—	—	—	—
	538	1,100	—	2,891	5,191	—

F-17

TABLE OF CONTENTS**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**
(unaudited)

	September 30, 2017			December 31, 2016		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
(In thousands)						
With an allowance recorded:						
Commercial						
Income producing - real estate	6,975	7,121	482	7,737	7,880	554
Land, land development & construction-real estate	169	197	10	239	244	36
Commercial and industrial	2,578	2,612	475	4,902	5,246	1,654
Mortgage						
1-4 family	37,872	39,393	3,517	41,701	43,479	4,100
Resort lending	16,098	16,169	2,264	16,898	16,931	2,453
Home equity - 1st lien	171	238	30	235	242	10
Home equity - 2nd lien	179	213	12	315	398	16
Installment						
Home equity - 1st lien	1,791	1,921	85	1,994	2,117	118
Home equity - 2nd lien	1,969	1,994	161	2,415	2,443	182
Boat lending	1	6	1	1	6	—
Recreational vehicle lending	93	93	5	109	108	6
Other	360	377	19	394	426	23
	68,256	70,334	7,061	76,940	79,520	9,152
Total						
Commercial						
Income producing - real estate	6,975	7,121	482	8,254	8,648	554
Land, land development & construction-real estate	169	197	10	270	953	36
Commercial and industrial	3,113	3,169	475	7,243	8,507	1,654
Mortgage						
1-4 family	37,874	39,865	3,517	41,703	43,866	4,100
Resort lending	16,098	16,169	2,264	16,898	16,931	2,453
Home equity - 1st lien	171	238	30	235	242	10
Home equity - 2nd lien	179	213	12	315	398	16
Installment						
Home equity - 1st lien	1,792	1,992	85	1,994	2,183	118
Home equity - 2nd lien	1,969	1,994	161	2,415	2,443	182
Boat lending	1	6	1	1	6	—

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Recreational vehicle lending	93	93	5	109	108	6
Other	360	377	19	394	426	23
Total	\$ 68,794	\$ 71,434	\$ 7,061	\$ 79,831	\$ 84,711	\$ 9,152

Accrued interest included in recorded investment

\$ 288 \$ 311

(1) There were no impaired purchased mortgage loans at September 30, 2017 or December 31, 2016.

F-18

TABLE OF CONTENTS**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**
(unaudited)

Average recorded investment in and interest income earned on impaired loans by class for the three month periods ending September 30, follows⁽¹⁾:

	2017		2016	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(In thousands)			
With no related allowance recorded				
Commercial				
Income producing - real estate	\$ —	\$ —	\$ 551	\$ —
Land, land development & construction-real estate	—	—	133	—
Commercial and industrial	445	8	—	—
Mortgage				
1-4 family	127	7	12	3
Resort lending	—	—	—	—
Home equity - 1st lien	—	—	—	—
Home equity - 2nd lien	—	—	—	—
Installment				
Home equity - 1st lien	1	1	—	3
Home equity - 2nd lien	—	—	—	—
Boat lending	—	—	—	—
Recreational vehicle lending	—	—	—	—
Other	—	1	—	—
	573	17	696	6
With an allowance recorded				
Commercial				
Income producing - real estate	7,311	91	8,000	111
Land, land development & construction-real estate	171	2	1,117	3
Commercial and industrial	2,878	26	7,145	69
Mortgage				
1-4 family	38,533	462	44,256	470
Resort lending	16,175	153	17,372	161
Home equity - 1st lien	201	1	241	2
Home equity - 2nd lien	180	2	280	6
Installment				
Home equity - 1st lien	1,808	40	2,140	34
Home equity - 2nd lien	2,058	26	2,585	37

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Boat lending	1	—	2	—
Recreational vehicle lending	98	1	114	2
Other	361	6	424	7
	69,775	810	83,676	902
Total				
Commercial				
Income producing - real estate	7,311	91	8,551	111
Land, land development & construction-real estate	171	2	1,250	3
Commercial and industrial	3,323	34	7,145	69
Mortgage				
1-4 family	38,660	469	44,268	473
Resort lending	16,175	153	17,372	161
Home equity - 1st lien	201	1	241	2
Home equity - 2nd lien	180	2	280	6
Installment				
Home equity - 1st lien	1,809	41	2,140	37
Home equity - 2nd lien	2,058	26	2,585	37
Boat lending	1	—	2	—
Recreational vehicle lending	98	1	114	2
Other	361	7	424	7
Total	\$ 70,348	\$ 827	\$ 84,372	\$ 908

(1) There were no impaired purchased mortgage loans during the three month periods ended September 30, 2017 and 2016, respectively.

TABLE OF CONTENTS**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**
(unaudited)

Average recorded investment in and interest income earned on impaired loans by class for the nine month periods ending September 30, follows⁽¹⁾:

	2017		2016	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(In thousands)			
With no related allowance recorded:				
Commercial				
Income producing - real estate	\$ 222	\$ —	\$ 632	\$ 2
Land, land development & construction-real estate	8	—	405	7
Commercial and industrial	808	16	616	21
Mortgage				
1-4 family	64	16	12	9
Resort lending	—	—	—	—
Home equity - 1st lien	—	—	—	—
Home equity - 2nd lien	—	—	—	—
Installment				
Home equity - 1st lien	1	4	—	4
Home equity - 2nd lien	—	—	4	—
Boat lending	—	—	—	—
Recreational vehicle lending	—	—	—	—
Other	—	1	—	—
	1,103	37	1,669	43
With an allowance recorded:				
Commercial				
Income producing - real estate	7,525	300	8,153	318
Land, land development & construction-real estate	187	6	1,352	29
Commercial and industrial	3,488	98	5,929	151
Mortgage				
1-4 family	39,716	1,420	45,728	1,447
Resort lending	16,485	464	17,705	480
Home equity - 1st lien	218	5	223	6
Home equity - 2nd lien	217	5	231	11
Installment				
Home equity - 1st lien	1,874	107	2,233	118
Home equity - 2nd lien	2,210	96	2,723	122

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Boat lending	1	—	2	—
Recreational vehicle lending	103	4	117	5
Other	373	19	443	23
	72,397	2,524	84,839	2,710
Total				
Commercial				
Income producing - real estate	7,747	300	8,785	320
Land, land development & construction-real estate	195	6	1,757	36
Commercial and industrial	4,296	114	6,545	172
Mortgage				
1-4 family	39,780	1,436	45,740	1,456
Resort lending	16,485	464	17,705	480
Home equity - 1st lien	218	5	223	6
Home equity - 2nd lien	217	5	231	11
Installment				
Home equity - 1st lien	1,875	111	2,233	122
Home equity - 2nd lien	2,210	96	2,727	122
Boat lending	1	—	2	—
Recreational vehicle lending	103	4	117	5
Other	373	20	443	23
Total	\$ 73,500	\$ 2,561	\$ 86,508	\$ 2,753

(1) There were no impaired purchased mortgage loans during the nine month periods ended September 30, 2017 and 2016, respectively.

TABLE OF CONTENTS**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.

Troubled debt restructurings follow:

	September 30, 2017		
	Commercial Retail⁽¹⁾	Total	
	(In thousands)		
Performing TDRs	\$ 9,431	\$ 53,755	\$ 63,186
Non-performing TDRs ⁽²⁾	401	4,531 ⁽³⁾	4,932
Total	\$ 9,832	\$ 58,286	\$ 68,118
	December 31, 2016		
	Commercial Retail⁽¹⁾	Total	
	(In thousands)		
Performing TDRs	\$ 10,560	\$ 59,726	\$ 70,286
Non-performing TDRs ⁽²⁾	3,565	4,071 ⁽³⁾	7,636
Total	\$ 14,125	\$ 63,797	\$ 77,922

(1) Retail loans include mortgage and installment 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 \$7.0 million and \$9.0 million of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of September 30, 2017 and December 31, 2016, respectively.

During the nine months ended September 30, 2017 and 2016, the terms of certain loans were modified as troubled debt restructurings. 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 new debt 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.

TABLE OF CONTENTS**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**
(unaudited)

Loans that have been classified as troubled debt restructurings during the three-month periods ended September 30 follow⁽¹⁾:

	Number of Contracts	Pre-modification Recorded Balance	Post-modification Recorded Balance
		(Dollars in thousands)	
2017			
Commercial			
Income producing - real estate	—	\$ —	\$ —
Land, land development & construction-real estate	—	—	—
Commercial and industrial	—	—	—
Mortgage			
1-4 family	1	93	95
Resort lending	—	—	—
Home equity - 1st lien	—	—	—
Home equity - 2nd lien	—	—	—
Installment			
Home equity - 1st lien	—	—	—
Home equity - 2nd lien	2	51	50
Boat lending	—	—	—
Recreational vehicle lending	—	—	—
Other	1	10	10
Total	4	\$ 154	\$ 155
2016			
Commercial			
Income producing - real estate	2	\$ 180	\$ 180
Land, land development & construction-real estate	—	—	—
Commercial and industrial	2	175	158
Mortgage			
1-4 family	2	204	207
Resort lending	—	—	—
Home equity - 1st lien	—	—	—
Home equity - 2nd lien	2	77	78
Installment			
Home equity - 1st lien	2	82	85
Home equity - 2nd lien	1	7	7
Boat lending	—	—	—

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Recreational vehicle lending	—	—	—
Other	1	34	34
Total	12	\$ 759	\$ 749

(1) There were no purchased mortgage loans classified as troubled debt restructurings during the three month periods ended September 30, 2017 and 2016, respectively.

F-22

TABLE OF CONTENTS**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**
(unaudited)

Loans that have been classified as troubled debt restructurings during the nine-month periods ended September 30 follow⁽¹⁾:

	Number of Contracts	Pre-modification Recorded Balance	Post-modification Recorded Balance
		(Dollars in thousands)	
2017			
Commercial			
Income producing - real estate	—	\$ —	\$ —
Land, land development & construction-real estate	—	—	—
Commercial and industrial	12	786	786
Mortgage			
1-4 family	3	142	144
Resort lending	1	189	189
Home equity - 1st lien	—	—	—
Home equity - 2nd lien	—	—	—
Installment			
Home equity - 1st lien	2	34	37
Home equity - 2nd lien	7	300	301
Boat lending	—	—	—
Recreational vehicle lending	—	—	—
Other	1	10	10
Total	26	\$ 1,461	\$ 1,467
2016			
Commercial			
Income producing - real estate	4	\$ 290	\$ 290
Land, land development & construction-real estate	—	—	—
Commercial and industrial	6	1,933	1,916
Mortgage			
1-4 family	5	396	470
Resort lending	1	116	117
Home equity - 1st lien	1	107	78
Home equity - 2nd lien	2	77	78
Installment			
Home equity - 1st lien	6	141	145
Home equity - 2nd lien	5	133	136
Boat lending	—	—	—

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Recreational vehicle lending	—	—	—
Other	2	46	46
Total	32	\$ 3,239	\$ 3,276

(1) There were no purchased mortgage loans classified as troubled debt restructurings during the nine month periods ended September 30, 2017 and 2016, respectively.

F-23

TABLE OF CONTENTS

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

The troubled debt restructurings described above for 2017 increased the allowance for loan losses by \$0.02 million and resulted in zero charge offs during the three months ended September 30, 2017, and increased the allowance by \$0.08 million and resulted in zero charge offs during the nine months ended September 30, 2017.

The troubled debt restructurings described above for 2016 increased the allowance for loan losses by \$0.34 million and resulted in charge offs of \$0.02 million during the three months ended September 30, 2016, and increased the allowance by \$0.69 million and resulted in charge offs of \$0.02 million during the nine months ended September 30, 2016.

Six commercial and industrial loans with a recorded balance of \$0.16 million that have been classified as troubled debt restructurings during the past twelve months subsequently defaulted during the three and nine month periods ended September 30, 2017. These subsequent defaults resulted in an increase in the allowance of \$0.02 million and \$0.04 million during the three and nine month periods ended September 30, 2017, respectively and resulted in charge-offs of \$0.05 million during both the three and nine month periods ended September 30, 2017. There were no troubled debt restructurings that subsequently defaulted within twelve months following the modification during the three and nine months ended September 30, 2017 for any other loan class.

There were no troubled debt restructurings that subsequently defaulted within twelve months following the modification during the three and nine months ended September 30, 2016.

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

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.

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) weighted-average 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, respectively. These ratings include loans to borrowers with weaknesses that make collection of debt 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.

F-24

TABLE OF CONTENTS**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**
(unaudited)

The following table summarizes loan ratings by loan class for our commercial loan segment:

	Non-watch 1-6	Watch 7-8	Commercial Substandard Accrual 9	Non- Accrual 10-11	Total
	(In thousands)				
September 30, 2017					
Income producing - real estate	\$ 268,781	\$ 3,037	\$ 312	\$ 72	\$ 272,202
Land, land development and construction - real estate	67,730	63	—	10	67,803
Commercial and industrial	474,022	22,217	2,380	706	499,325
Total	\$ 810,533	\$ 25,317	\$ 2,692	\$ 788	\$ 839,330
Accrued interest included in total	\$ 1,991	\$ 80	\$ 9	\$ —	\$ 2,080
December 31, 2016					
Income producing - real estate	\$ 282,886	\$ 3,787	\$ 337	\$ 628	\$ 287,638
Land, land development and construction - real estate	51,603	67	—	105	51,775
Commercial and industrial	449,365	9,788	2,998	4,431	466,582
Total	\$ 783,854	\$ 13,642	\$ 3,335	\$ 5,164	\$ 805,995
Accrued interest included in total	\$ 1,915	\$ 52	\$ 11	\$ —	\$ 1,978

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

The following tables summarize credit scores by loan class for our mortgage and installment loan segments:

	Mortgage⁽¹⁾					
	1-4 Family	Resort Lending	Home Equity 1st Lien	Home Equity 2nd Lien	Purchased Loans	Total
	(In thousands)					
September 30, 2017						
800 and above	\$ 62,145	\$ 11,336	\$ 8,491	\$ 8,896	\$ 7,790	\$ 98,658
750-799	227,676	33,287	15,619	21,092	18,559	316,233
700-749	130,480	25,629	6,583	13,819	7,978	184,489
650-699	77,357	12,441	3,304	7,970	429	101,501
600-649	26,947	4,648	1,090	2,439	—	35,124
550-599	15,547	2,777	365	1,507	—	20,196
500-549	8,766	1,404	540	1,319	—	12,029
Under 500	3,692	89	253	169	—	4,203
Unknown	9,373	1,668	299	479	120	11,939

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Total	\$ 561,983	\$ 93,279	\$ 36,544	\$ 57,690	\$ 34,876	\$ 784,372
Accrued interest included in total	\$ 2,134	\$ 374	\$ 165	\$ 260	\$ 93	\$ 3,026
December 31, 2016						
800 and above	\$ 36,534	\$ 10,484	\$ 6,048	\$ 8,392	\$ 8,462	\$ 69,920
750-799	102,382	41,999	10,006	20,113	20,984	195,484
700-749	69,337	24,727	5,706	12,360	9,115	121,245
650-699	50,621	13,798	4,106	8,167	437	77,129
600-649	25,270	5,769	1,674	3,067	—	35,780
550-599	13,747	3,030	455	1,699	—	18,931
500-549	9,215	1,438	486	981	—	12,120
Under 500	5,145	92	255	279	—	5,771
Unknown	2,290	1,711	280	179	139	4,599
Total	\$ 314,541	\$ 103,048	\$ 29,016	\$ 55,237	\$ 39,137	\$ 540,979
Accrued interest included in total	\$ 1,466	\$ 450	\$ 111	\$ 226	\$ 111	\$ 2,364

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

F-25

TABLE OF CONTENTS**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**
(unaudited)

	Installment⁽¹⁾					Total
	Home Equity 1st Lien	Home Equity 2nd Lien	Boat Lending	Recreational Vehicle Lending	Other	
	(In thousands)					
September 30, 2017						
800 and above	\$ 1,085	\$ 869	\$ 26,168	\$ 26,312	\$ 10,655	\$ 65,089
750-799	1,938	2,721	67,402	48,183	26,546	146,790
700-749	1,601	2,236	25,945	14,261	16,433	60,476
650-699	2,193	1,864	9,164	3,627	8,990	25,838
600-649	1,429	1,429	1,730	838	2,334	7,760
550-599	1,252	919	468	244	894	3,777
500-549	616	398	243	125	434	1,816
Under 500	92	56	64	11	130	353
Unknown	17	19	219	167	7,040	7,462
Total	\$ 10,223	\$ 10,511	\$ 131,403	\$ 93,768	\$ 73,456	\$ 319,361
Accrued interest included in total	\$ 42	\$ 44	\$ 322	\$ 236	\$ 219	\$ 863
December 31, 2016						
800 and above	\$ 1,354	\$ 1,626	\$ 21,422	\$ 23,034	\$ 8,911	\$ 56,347
750-799	2,478	3,334	50,508	35,827	21,918	114,065
700-749	1,920	2,686	20,045	11,049	13,183	48,883
650-699	2,852	2,541	7,559	3,205	8,913	25,070
600-649	1,691	1,775	1,846	821	2,269	8,402
550-599	1,231	1,063	882	280	833	4,289
500-549	981	692	440	189	511	2,813
Under 500	114	220	73	16	211	634
Unknown	29	21	150	114	5,570	5,884
Total	\$ 12,650	\$ 13,958	\$ 102,925	\$ 74,535	\$ 62,319	\$ 266,387
Accrued interest included in total	\$ 54	\$ 59	\$ 264	\$ 203	\$ 191	\$ 771

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

Foreclosed residential real estate properties included in other real estate and repossessed assets on our Condensed Consolidated Statements of Financial Condition totaled \$1.7 million and \$1.9 million at September 30, 2017 and December 31, 2016, respectively. Retail mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process according to local requirements totaled \$1.2 million and \$1.0 million at September 30, 2017 and December 31, 2016, respectively.

5. Shareholders' Equity and Earnings Per Common Share

On January 23, 2017, our Board of Directors authorized a share repurchase plan (the Repurchase Plan) to buy back up to 5% of our outstanding common stock through December 31, 2017. We expect to accomplish the repurchases through open market transactions, though we could affect 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. The Repurchase Plan does not obligate us to acquire any particular amount of common stock, and it may be modified or suspended at any time at our discretion. We expect to fund any repurchases from cash on hand. We did not repurchase any shares of common stock during the nine months ended September 30, 2017.

F-26

TABLE OF CONTENTS**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**
(unaudited)

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

	Three Months		Nine Months Ended	
	Ended		September 30,	
	September 30,		September 30,	
	2017	2016	2017	2016
	(In thousands, except per share amounts)			
Net income	\$ 6,859	\$ 6,373	\$ 18,764	\$ 16,911
Weighted average shares outstanding ⁽¹⁾	21,334	21,232	21,325	21,421
Effect of stock options	138	149	144	150
Stock units for deferred compensation plan for non-employee directors	121	116	120	115
Performance share units	59	52	57	42
Restricted stock units	—	—	—	46
Weighted average shares outstanding for calculation of diluted earnings per share	21,652	21,549	21,646	21,774
Net income per common share				
Basic ⁽¹⁾	\$ 0.32	\$ 0.30	\$ 0.88	\$ 0.79
Diluted	\$ 0.32	\$ 0.30	\$ 0.87	\$ 0.78

(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 share because they were anti-dilutive were zero for both the three and nine month periods ended September 30, 2017, and totaled 0.03 million for both the three and nine month periods ended September 30, 2016.

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.

Our derivative financial instruments according to the type of hedge in which they are designated follows:

	September 30, 2017		
	Notional	Average	Fair
	Amount	Maturity	Value
	(Dollars in thousands)		
Cash flow hedge - pay-fixed interest rate swap agreement	\$ 15,000	3.9	\$ 105
No hedge designation			
Rate-lock mortgage loan commitments	\$ 36,580	0.1	\$ 769
Mandatory commitments to sell mortgage loans	74,750	0.1	26
Pay-fixed interest rate swap agreements	52,586	7.1	52

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Pay-variable interest rate swap agreements	52,586	7.1	(52)
Purchased options	3,119	3.8	277
Written options	3,119	3.8	(277)
Total	\$ 222,740	3.5	\$ 795

F-27

TABLE OF CONTENTS**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**
(unaudited)

	December 31, 2016		
	Notional Amount	Average Maturity (years)	Fair Value
	(Dollars in thousands)		
No hedge designation			
Rate-lock mortgage loan commitments	\$ 26,658	0.1	\$ 646
Mandatory commitments to sell mortgage loans	61,954	0.1	630
Pay-fixed interest rate swap agreements	46,121	8.6	249
Pay-variable interest rate swap agreements	46,121	8.6	(249)
Purchased options	3,119	4.5	238
Written options	3,119	4.5	(238)
Total	\$ 187,092	4.4	\$ 1,276

We use variable-rate and short-term fixed-rate (less than 12 months) debt obligations to fund a portion of our balance sheet, which exposes 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). The Cash Flow Hedge is a pay-fixed interest-rate swap that converts variable-rate cash flows on debt obligations to fixed-rates.

We record the fair value of Cash Flow Hedges in accrued income and other assets and accrued expenses and other liabilities on our Condensed Consolidated Statements of Financial Condition. On an ongoing basis, we adjust our Condensed Consolidated Statements of Financial Condition to reflect the then current fair value of Cash Flow Hedges. The related gains or losses are reported in other comprehensive income or loss and are subsequently reclassified into earnings, as a yield adjustment in the same period in which the related interest on the hedged items (variable-rate debt obligations) affect earnings. It is anticipated that approximately \$0.03 million, of unrealized losses on Cash Flow Hedges at September 30, 2017 will be reclassified to earnings over the next twelve months. To the extent that the Cash Flow Hedges are not effective, the ineffective portion of the Cash Flow Hedges is immediately recognized in interest expense. The maximum term of the Cash Flow Hedge at September 30, 2017 is 3.9 years.

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 currently offer to our deposit customers an equity linked time deposit product (Altitude CD). The Altitude CD is 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

F-28

TABLE OF CONTENTS**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**
(unaudited)

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 in the table above with no hedge designation relate to this program.

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			
	September 30, 2017		December 31, 2016		September 30, 2017		December 31, 2016	
	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	\$ 105	Other assets	\$ —	Other liabilities	\$ —	Other liabilities	\$ —
Derivatives not designated as hedging instruments								
Rate-lock mortgage loan commitments	Other assets	769	Other assets	646	Other liabilities	—	Other liabilities	—
Mandatory commitments to sell mortgage loans	Other assets	26	Other assets	630	Other liabilities	—	Other liabilities	—
Pay-fixed interest rate swap agreements	Other assets	424	Other assets	493	Other liabilities	372	Other liabilities	244
Pay-variable interest rate swap agreements	Other assets	372	Other assets	244	Other liabilities	424	Other liabilities	493
Purchased options	Other assets	277	Other assets	238	Other liabilities	—	Other liabilities	—
Written options	Other assets	—	Other assets	—	Other liabilities	277	Other liabilities	238
Total		1,868		2,251		1,073		975
Total derivatives		\$ 1,973		\$ 2,251		\$ 1,073		\$ 975

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

Three Month Periods Ended September 30,				
Gain Recognized in	Location of Gain (Loss) Reclassified	Loss Reclassified from	Location of Gain (Loss) Recognized	Gain (Loss) Recognized in Income ⁽¹⁾

	Other Comprehensive Income (Effective Portion)		from Accumulated Other Comprehensive Loss into Income (Effective Portion)		Accumulated Other Comprehensive Loss into Income (Effective Portion)		in Income ⁽¹⁾	
	2017	2016	2017	2016	2017	2016	2017	2016
(In thousands)								
Cash Flow Hedges								
Pay-fixed interest rate swap agreements	\$ 95	\$ —	Interest expense	\$ (5)	\$ —		\$ 5	\$ —
Total	\$ 95	\$ —		\$ (5)	\$ —		\$ 5	\$ —
No hedge designation								
Rate-lock mortgage loan commitments						Net gains on on mortgage loans	\$ (313)	\$ 264
Mandatory commitments to sell mortgage loans						Net gains on on mortgage loans	2	94
Pay-fixed interest rate swap agreements						Interest income	52	196
Pay-variable interest rate swap agreements						Interest income	(52)	(196)
Purchased options						Interest expense	5	13
Written options						Interest expense	(5)	(13)
Total							\$ (311)	\$ 358

(1) For cash flow hedges, this location and amount refers to the ineffective portion.

TABLE OF CONTENTS**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**
(unaudited)

		Nine Month Periods Ended September 30,					
		Gain Recognized in Other Comprehensive Income (Effective Portion)	Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income (Effective Portion)	Loss Reclassified from Accumulated Other Comprehensive Loss into Income (Effective Portion)	Location of Gain (Loss) Recognized in Income⁽¹⁾	Gain (Loss) Recognized in Income⁽¹⁾	
2017	2016			2017	2016	2017	2016
(In thousands)							
Cash Flow Hedges							
Pay-fixed interest rate swap agreements							
\$ 95	\$ —	Interest expense	\$ (5)	\$ —		\$ 5	\$ —
Total	\$ 95	\$ —	\$ (5)	\$ —		\$ 5	\$ —
No hedge designation							
Rate-lock mortgage loan commitments							
				Net gains on on mortgage loans		\$ 123	\$ 613
Mandatory commitments to sell mortgage loans							
				Net gains on on mortgage loans		(604)	(352)
Pay-fixed interest rate swap agreements							
				Interest income		(197)	(1,512)
Pay-variable interest rate swap agreements							
				Interest income		197	1,512
Purchased options							
				Interest expense		39	94
Written options							
				Interest expense		(39)	(94)
Total						\$ (481)	\$ 261

(1) For cash flow hedges, this location and amount refers to the ineffective portion.

7. Intangible Assets

The following table summarizes intangible assets, net of amortization:

September 30, 2017		December 31, 2016	
Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization

(In thousands)

Amortized intangible assets - core deposits \$ 6,118 \$ 4,445 \$ 6,118 \$ 4,186
 Amortization of other intangibles has been estimated through 2022 in the following table.

**(In
thousands)**

Three months ending December 31, 2017	\$ 87
2018	346
2019	346
2020	346
2021	346
2022	202
Total	\$ 1,673

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

F-30

TABLE OF CONTENTS**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**
(unaudited)

additional share based awards for up to 0.5 million shares of common stock as of September 30, 2017. The non-employee director stock purchase plan permits the issuance of additional share based payments for up to 0.2 million shares of common stock as of September 30, 2017. 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.

During the three month periods ended March 31, 2017 and 2016, pursuant to our long-term incentive plan, we granted 0.05 million and 0.07 million shares of restricted stock, respectively and 0.02 million and 0.03 million performance stock units (PSU), respectively to certain officers. The shares of restricted stock and PSUs 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 a banking index of our peers. No long term incentive grants were made during the second or third quarters of 2017 or 2016.

Our directors may elect to receive a portion of their quarterly 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 are issued each quarter and vest immediately. We issued 0.006 million shares during each nine month period ended September 30, of 2017 and 2016 and expensed their value during those same periods.

Total compensation expense recognized for grants pursuant to our long-term incentive plan was \$0.4 million and \$1.2 million during the three and nine month periods ended September 30, 2017, respectively, and was \$0.3 million and \$1.1 million during the same periods in 2016, respectively. The corresponding tax benefit relating to this expense was \$0.1 million and \$0.4 million for the three and nine month periods ended September 30, 2017, respectively and \$0.1 million and \$0.4 million for the same periods in 2016. Total expense recognized for non-employee director share based payments was \$0.05 million and \$0.12 million during the three and nine month periods ended September 30, 2017, respectively, and was \$0.03 million and \$0.09 million during the same periods in 2016, respectively. The corresponding tax benefit relating to this expense was \$0.02 million and \$0.04 million for the three and nine month periods ended September 30, 2017, respectively and \$0.01 million and \$0.03 million during the same periods in 2016.

At September 30, 2017, the total expected compensation cost related to non-vested restricted stock and PSUs not yet recognized was \$2.3 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, 2017	211,018	\$ 5.05		
Granted	—			
Exercised	(28,963)	4.03		

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Forfeited		—			
Expired		—			
Outstanding at September 30, 2017	182,055	\$ 5.21	4.4	\$	3,175
Vested and expected to vest at September 30, 2017	182,055	\$ 5.21	4.4	\$	3,175
Exercisable at September 30, 2017	182,055	\$ 5.21	4.4	\$	3,175

F-31

TABLE OF CONTENTS**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, 2017	296,422	\$ 14.52
Granted	68,473	21.07
Vested	(63,799)	14.91
Forfeited	(8,510)	15.59
Outstanding at September 30, 2017	292,586	\$ 15.88

Certain information regarding options exercised during the periods follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
	(In thousands)			
Intrinsic value	\$ 39	\$ 9	\$ 513	\$ 186
Cash proceeds received	\$ 18	\$ 5	\$ 117	\$ 64
Tax benefit realized	\$ 14	\$ 3	\$ 180	\$ 65

9. Income Tax

Income tax expense was \$3.2 million and \$3.0 million during the three month periods ended September 30, 2017 and 2016, respectively and \$8.4 million and \$7.5 million during the nine months ended September 30, 2017 and 2016, 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 both September 30, 2017 and 2016, that the realization of substantially all of our deferred tax assets continues to be more likely than not.

We had maintained a valuation allowance against our deferred tax assets of approximately \$1.1 million at December 31, 2016. This valuation allowance on our deferred tax assets related to state income taxes at Mepco. In this instance, we determined that the future realization of these particular deferred tax assets was not more likely than not. That conclusion was based on the pending sale of Mepco's payment plan business. After accounting for the May 2017 sale of our payment plan business, all that remained of these deferred tax assets were loss carryforwards that we wrote off against the related valuation allowance during the second quarter of 2017 as we will no longer be doing business in those states.

At both September 30, 2017 and December 31, 2016, we had approximately \$0.8 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 2017.

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 September 30, 2017, the Bank had positive undivided profits of \$13.0 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 and 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,

F-32

TABLE OF CONTENTS**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**
(unaudited)

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 consolidated financial statements. 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 September 30, 2017 and December 31, 2016, 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.

On July 2, 2013, the Federal Reserve approved a final rule that establishes an integrated regulatory capital framework (the New Capital Rules). The rule implements in the United States the Basel III regulatory capital reforms from the Basel Committee on Banking Supervision and certain changes required by the Dodd-Frank Act. In general, under the New Capital Rules, minimum requirements have increased for both the quantity and quality of capital held by banking organizations. Consistent with the international Basel framework, the New Capital Rules include a new minimum ratio of common equity Tier 1 capital to risk-weighted assets of 4.5% and a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets that applies to all supervised financial institutions. The capital conservation buffer began to phase in on January 1, 2016 with 1.25% and 0.625% added to the minimum ratio for adequately capitalized institutions for 2017 and 2016, respectively and 0.625% will be added each subsequent year until fully phased in during 2019. This capital conservation buffer is not reflected in the table that follows. To avoid limits on capital distributions and certain discretionary bonus payments we must meet the minimum ratio for adequately capitalized institutions plus the phased in buffer. The rule also raises the minimum ratio of Tier 1 capital to risk-weighted assets from 4% to 6% and includes a minimum leverage ratio of 4% for all banking organizations. As to the quality of capital, the New Capital Rules emphasize common equity Tier 1 capital, the most loss-absorbing form of capital, and implement strict eligibility criteria for regulatory capital instruments. The New Capital Rules also change the methodology for calculating risk-weighted assets to enhance risk sensitivity.

Our actual capital amounts and ratios follow:

	Actual		Minimum for Adequately Capitalized Institutions		Minimum for Well-Capitalized Institutions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
September 30, 2017						
Total capital to risk-weighted assets						
Consolidated	\$ 307,278	15.14 %	\$ 162,315	8.00 %	NA	NA
Independent Bank	281,228	13.87	162,210	8.00	\$ 202,763	10.00 %
Tier 1 capital to risk-weighted assets						
Consolidated	\$ 284,818	14.04 %	\$ 121,737	6.00 %	NA	NA
Independent Bank	258,768	12.76	121,658	6.00	\$ 162,210	8.00 %

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Common equity tier 1 capital to risk-weighted assets

Consolidated	\$ 253,101	12.47 %	\$ 91,302	4.50 %	NA	NA
Independent Bank	258,768	12.76	91,243	4.50	\$ 131,796	6.50 %

Tier 1 capital to average assets

Consolidated	\$ 284,818	10.63 %	\$ 107,154	4.00 %	NA	NA
Independent Bank	258,768	9.67	107,022	4.00	\$ 133,778	5.00 %

F-33

TABLE OF CONTENTS**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**
(unaudited)

	Actual		Minimum for Adequately Capitalized Institutions		Minimum for Well-Capitalized Institutions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
December 31, 2016						
Total capital to risk-weighted assets						
Consolidated	\$ 286,289	15.86 %	\$ 144,413	8.00 %	NA	NA
Independent Bank	270,855	15.02	144,223	8.00	\$ 180,279	10.00 %
Tier 1 capital to risk-weighted assets						
Consolidated	\$ 265,405	14.70 %	\$ 108,309	6.00 %	NA	NA
Independent Bank	249,971	13.87	108,167	6.00	\$ 144,223	8.00 %
Common equity tier 1 capital to risk-weighted assets						
Consolidated	\$ 238,996	13.24 %	\$ 81,232	4.50 %	NA	NA
Independent Bank	249,971	13.87	81,126	4.50	\$ 117,181	6.50 %
Tier 1 capital to average assets						
Consolidated	\$ 265,405	10.50 %	\$ 101,112	4.00 %	NA	NA
Independent Bank	249,971	9.90	101,019	4.00	\$ 126,274	5.00 %
NA - Not applicable						

The components of our regulatory capital are as follows:

	Consolidated		Independent Bank	
	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
(In thousands)				
Total shareholders' equity	\$ 267,710	\$ 248,980	\$ 267,406	\$ 258,814
Add (deduct)				
Accumulated other comprehensive (gain) loss for regulatory purposes	(2,140)	3,310	(2,140)	3,310
Intangible assets	(1,338)	(1,159)	(1,338)	(1,159)
Disallowed deferred tax assets	(11,131)	(12,135)	(5,160)	(10,994)
Common equity tier 1 capital	253,101	238,996	258,768	249,971

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Qualifying trust preferred securities	34,500	34,500	—	—
Disallowed deferred tax assets	(2,783)	(8,091)	—	—
Tier 1 capital	284,818	265,405	258,768	249,971
Allowance for loan losses and allowance for unfunded lending commitments limited to 1.25% of total risk-weighted assets	22,460	20,884	22,460	20,884
Total risk-based capital	\$ 307,278	\$ 286,289	\$ 281,228	\$ 270,855

F-34

TABLE OF CONTENTS

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

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 (trading or available for sale) are classified as Level 1 of the valuation hierarchy. Level 1 securities include certain preferred stocks included in our trading portfolio for which there are quoted prices in active markets. 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 is based on mortgage backed security pricing for comparable assets (recurring Level 2).

Impaired loans with specific loss allocations based on collateral value: From time to time, certain loans are considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. We measure our investment in an impaired loan based on one of three methods: the loan's observable market price, the fair value of the collateral or the present value of expected future cash flows discounted at the loan's effective interest rate. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected

repayments or collateral exceed the recorded investments in such loans. At September 30, 2017 and December 31, 2016, all of our impaired loans were evaluated based on either the fair value of the collateral or the present value of expected future cash flows discounted at the loan's effective interest rate. When the fair value of the collateral is based on an appraised value or when an appraised value is not available we record the impaired 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.

F-35

TABLE OF CONTENTS**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)**

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 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 impaired 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 (for commercial properties over \$0.25 million) or a member of our Collateral Evaluation Department (for commercial properties under \$0.25 million) 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. Prior to January 1, 2017, capitalized mortgage loan servicing rights were accounted for using the amortization method of accounting and were measured at fair value on a non-recurring basis. During the first quarter of 2017, we adopted the fair value method of accounting for our capitalized mortgage loan servicing rights (see note #2) and are now measured at fair value on a recurring basis.

Derivatives: The fair value of rate-lock mortgage loan commitments and 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 agreements is based on a discounted cash flow analysis whose 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).

TABLE OF CONTENTS**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 Using			
	Quoted			
	Prices			
	in			
	Active			
	Markets			
	for		Significant	
	Identical		Other	
	Assets		Observable	
	Fair Value		Inputs	
	(Level		(Level 2)	
	1)		Significant	
	Measure-ments		Un-observable	
	(Level		Inputs	
	1)		(Level 3)	
	(In thousands)			
September 30, 2017:				
Measured at Fair Value on a Recurring Basis				
Assets				
Trading securities	\$ 347	\$ 347	\$ —	\$ —
Securities available for sale				
U.S. agency	26,626	—	26,626	—
U.S. agency residential mortgage-backed	136,109	—	136,109	—
U.S. agency commercial mortgage-backed	10,736	—	10,736	—
Private label mortgage-backed	26,990	—	26,990	—
Other asset backed	108,339	—	108,339	—
Obligations of states and political subdivisions	177,176	—	177,176	—
Corporate	58,000	—	58,000	—
Trust preferred	2,800	—	2,800	—
Foreign government	2,089	—	2,089	—
Loans held for sale	47,611	—	47,611	—
Capitalized mortgage loan servicing rights	14,675	—	—	14,675
Derivatives ⁽¹⁾	1,973	—	1,973	—
Liabilities				
Derivatives ⁽²⁾	1,073	—	1,073	—
Measured at Fair Value on a Non-recurring basis:				
Assets				
Impaired loans ⁽³⁾				
Commercial				

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Income producing - real estate	185	—	—	185
Land, land development & construction-real estate	11	—	—	11
Commercial and industrial	878	—	—	878
Mortgage 1-4 family	509	—	—	509
Resort lending	207	—	—	207
Other real estate ⁽⁴⁾				
Mortgage 1-4 family	44	—	—	44
Resort lending	5	—	—	5

(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.

F-37

TABLE OF CONTENTS**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**
(unaudited)

	Fair Value Measurements Using			
	Quoted			
	Prices			
	in			
	Active			
	Markets			
	for			
	Identical	Significant		Significant
	Assets	Other	Un-observable	
	Fair Value	Observable	Inputs	
	(Level	Inputs	(Level 3)	
	1)	(Level 2)	(Level 3)	
	Measure-ments	(In thousands)		
December 31, 2016:				
Measured at Fair Value on a Recurring Basis				
Assets				
Trading securities	\$ 410	\$ 410	\$ —	\$ —
Securities available for sale				
U.S. agency	28,988	—	28,988	—
U.S. agency residential mortgage-backed	156,289	—	156,289	—
U.S. agency commercial mortgage-backed	12,632	—	12,632	—
Private label mortgage-backed	34,727	—	34,727	—
Other asset backed	146,709	—	146,709	—
Obligations of states and political subdivisions	170,899	—	170,899	—
Corporate	56,180	—	56,180	—
Trust preferred	2,579	—	2,579	—
Foreign government	1,613	—	1,613	—
Loans held for sale	35,946	—	35,946	—
Derivatives ⁽¹⁾	2,251	—	2,251	—
Liabilities				
Derivatives ⁽²⁾	975	—	975	—
Measured at Fair Value on a Non-recurring basis:				
Assets				
Capitalized mortgage loan servicing rights ⁽³⁾	8,163	—	—	8,163
Impaired loans ⁽⁴⁾				
Commercial				
Income producing - real estate	255	—	—	255
Land, land development & construction-real estate	54	—	—	54
Commercial and industrial	1,342	—	—	1,342

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Mortgage 1-4 family	361	—	—	361
Other real estate ⁽⁵⁾				
Commercial				
Income producing - real estate ⁽⁶⁾	2,863	—	2,863	—
Land, land development & construction-real estate	176	—	—	176
Mortgage 1-4 family	98	—	—	98
Resort lending	133	—	—	133

(1) Included in accrued income and other assets

(2) Included in accrued expenses and other liabilities

(3) Only includes servicing rights that are carried at fair value due to recognition of a valuation allowance.

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

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

(6) Level 2 valuation is based on a signed purchase agreement.

F-38

TABLE OF CONTENTS**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**
(unaudited)

There were no transfers between Level 1 and Level 2 during the nine months ended September 30, 2017 and 2016.

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 Nine-Month Periods Ended September 30 for Items Measured at Fair Value Pursuant to Election of the Fair Value Option			
	2017		2016	
	Net Gains (Losses) on Assets		Total Change in Fair Values Included in Current Period Earnings	Net Gains (Losses) on Assets Included in Current Period Earnings
	Mortgage Securities	Loans	Mortgage Loan Servicing, net	Mortgage Securities Loans
	(In thousands)			
Trading securities	\$ (63)	\$ —	\$ —	\$ 4
Loans held for sale	—	713	—	612
Capitalized mortgage loan servicing rights	—	—	(2,585)	—

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 nine month periods ended September 30, 2017 and 2016 relating to assets measured at fair value on a non-recurring basis:

Capitalized mortgage loan servicing rights, whose individual strata are measured at fair value, had a carrying amount of \$8.2 million, which is net of a valuation allowance of \$2.3 million, at December 31, 2016. A recovery (charge) of \$0.6 million and \$(1.5) million was included in our results of operations for the three and nine month periods ending September 30, 2016.

Loans which are measured for impairment using the fair value of collateral for collateral dependent loans had a carrying amount of \$2.5 million, with a valuation allowance of \$0.7 million at September 30, 2017, and had a carrying amount of \$4.0 million, with a valuation allowance of \$2.0 million at December 31, 2016. The provision for loan losses included in our results of operations relating to impaired loans was a net expense of \$0.3 million and \$0.1 million for the three month periods ending September 30, 2017 and 2016, respectively, and a net expense of \$0.5 million and \$0.3 million for the nine month periods ending September 30, 2017 and 2016, respectively.

Other real estate, which is measured using the fair value of the property, had a carrying amount of \$0.05 million which is net of a valuation allowance of \$0.08 million at September 30, 2017, and a carrying amount of \$3.2 million, which is net of a valuation allowance of \$0.8 million, at December 31, 2016. An additional charge relating to other real estate measured at fair value of \$0.03 million and \$0.04 million was included in our results of operations during the three and nine month periods ended September 30, 2017, respectively and \$0.37 million and \$0.41 million during

the same periods in 2016.

F-39

TABLE OF CONTENTS**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**
(unaudited)

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

	Capitalized Mortgage Loan Servicing Rights			
	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
Beginning balance	\$ 14,515	\$ —	\$ —	\$ —
Change in accounting	—	—	14,213	—
Beginning balance, as adjusted	14,515	—	14,213	—
Total losses realized and unrealized:				
Included in results of operations	(1,090)	—	(2,585)	—
Included in other comprehensive income	—	—	—	—
Purchases, issuances, settlements, maturities and calls	1,250	—	3,047	—
Transfers in and/or out of Level 3	—	—	—	—
Ending balance	\$ 14,675	\$ —	\$ 14,675	\$ —
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 September 30	\$ (1,090)	\$ —	\$ (2,585)	\$ —

As discussed above we changed the accounting for capitalized mortgage loan servicing rights during the first quarter of 2017 (see note #2) and are now measuring valuation on a recurring basis. 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 and float rate. Significant changes in all four 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	Valuation Technique	Unobservable Inputs	Weighted Average
	(In thousands)			
September 30, 2017				
Capitalized mortgage loan servicing rights	\$ 14,675	Present value of net servicing revenue	Discount rate Cost to service Ancillary income Float rate	10.10 % \$ 81 23 2.00 %

TABLE OF CONTENTS**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	Weighted Average
September 30, 2017				
Impaired loans				
Commercial	\$ 1,074	Sales comparison approach	Adjustment for differences between comparable sales	(2.3)%
Mortgage	716	Sales comparison approach	Adjustment for differences between comparable sales	0.3
Other real estate				
Mortgage	49	Sales comparison approach	Adjustment for differences between comparable sales	5.8
December 31, 2016				
Capitalized mortgage loan servicing rights	\$ 8,163	Present value of net servicing revenue	Discount rate	10.07 %
			Cost to service	\$ 83
			Ancillary income	24
			Float rate	1.97 %
Impaired loans				
Commercial ⁽¹⁾	1,446	Sales comparison approach	Adjustment for differences between comparable sales	(1.5)%
Mortgage	361	Sales comparison approach	Adjustment for differences between comparable sales	(4.7)
Other real estate				
Commercial	176	Sales comparison approach	Adjustment for differences between comparable sales	(22.5)
Mortgage	231	Sales comparison approach	Adjustment for differences between comparable sales	(5.1)

In addition to the valuation techniques and unobservable inputs discussed above, at December 31, 2016, we had an impaired collateral dependent commercial relationship that totaled \$0.2 million that was primarily secured by collateral other than real estate. Collateral securing this relationship primarily included machinery and equipment and inventory. Valuation techniques included appraisals and discounting restructuring firm valuations based on estimates of value recovery of each particular asset type. Discount rates used ranged from 0% to 100% of stated values.

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	Contractual Principal
	(In thousands)		
Loans held for sale			
September 30, 2017	\$ 47,611	\$ 1,150	\$ 46,461
December 31, 2016	35,946	437	35,509

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.

F-41

TABLE OF CONTENTS

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)**

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. Fair value methodologies discussed below do not necessarily represent an exit price in the determination of the fair value of these financial instruments.

Cash and due from banks and interest bearing deposits: The recorded book balance of cash and due from banks and interest bearing deposits approximate fair value and are classified as Level 1.

Interest bearing deposits - time: Interest bearing deposits - time have been valued based on a model using a benchmark yield curve plus a base spread and are classified as Level 2.

Securities: Financial instrument assets actively traded in a secondary market have been valued using quoted market prices. Trading securities are classified as Level 1 while securities available for sale are classified as Level 2 as described in note #11.

Federal Home Loan Bank and Federal Reserve Bank stock: It is not practicable to determine the fair value of FHLB and FRB stock due to restrictions placed on transferability.

Net loans and loans held for sale: The fair value of loans is calculated by discounting estimated future cash flows using estimated market discount rates that reflect credit and interest-rate risk inherent in the loans and do not necessarily represent an exit price. Loans are classified as Level 3. Impaired loans are valued at the lower of cost or fair value as described in note #11. Loans held for sale are classified as Level 2 as described in note #11. Payment plan receivables held for sale are also classified as Level 2 based on a signed purchase agreement as described in note #15.

Accrued interest receivable and payable: The recorded book balance of accrued interest receivable and payable approximate fair value and are classified at the same Level as the asset and liability they are associated with.

Derivative financial instruments: The fair value of rate-lock mortgage loan commitments and mandatory commitments to sell mortgage loans is based on mortgage backed security pricing for comparable assets, the fair value of interest rate swap agreements is based on a discounted cash flow analysis whose significant fair value inputs can generally be observed in the market place and do not typically involve judgment by management and 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. Each of these instruments has been classified as Level 2 as described in note #11.

Deposits: Deposits without a stated maturity, including demand deposits, savings, NOW and money market accounts, have a fair value equal to the amount payable on demand. Each of these instruments is classified as Level 1. Deposits with a stated maturity, such as time deposits have generally been valued based on the discounted value of contractual cash flows using a discount rate approximating current market rates for liabilities with a similar maturity resulting in a Level 2 classification.

Federal funds purchased: The recorded book balance of federal funds purchased, which mature in one day, approximates fair value and is classified as Level 2.

Other borrowings: Other borrowings have been valued based on the discounted value of contractual cash flows using a discount rate approximating current market rates for liabilities with a similar maturity resulting in a Level 2 classification.

Subordinated debentures: Subordinated debentures have generally been valued based on a quoted market price of similar instruments resulting in a Level 2 classification.

F-42

TABLE OF CONTENTS**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)
September 30, 2017					
Assets					
Cash and due from banks	\$ 31,998	\$ 31,998	\$ 31,998	\$ —	—
Interest bearing deposits	15,605	15,605	15,605	—	—
Interest bearing deposits - time	3,489	3,493	—	3,493	—
Trading securities	347	347	347	—	—
Securities available for sale	548,865	548,865	—	548,865	—
Federal Home Loan Bank and Federal Reserve Bank Stock	15,543	NA	NA	NA	NA
Net loans and loans held for sale	1,963,227	1,909,662	—	47,611	1,862,051
Accrued interest receivable	8,740	8,740	—	2,850	5,890
Derivative financial instruments	1,973	1,973	—	1,973	—
Liabilities					
Deposits with no stated maturity ⁽¹⁾	\$ 1,808,071	\$ 1,808,071	\$ 1,808,071	\$ —	—
Deposits with stated maturity ⁽¹⁾	535,690	533,045	—	533,045	—
Federal funds purchased	3,000	3,000	—	3,000	—
Other borrowings	72,849	73,405	—	73,405	—
Subordinated debentures	35,569	28,634	—	28,634	—
Accrued interest payable	1,105	1,105	40	1,065	—
Derivative financial instruments	1,073	1,073	—	1,073	—
December 31, 2016					
Assets					
Cash and due from banks	\$ 35,238	\$ 35,238	\$ 35,238	\$ —	—
Interest bearing deposits	47,956	47,956	47,956	—	—
Interest bearing deposits - time	5,591	5,611	—	5,611	—
Trading securities	410	410	410	—	—

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Securities available for sale	610,616	610,616	—	610,616	—
Federal Home Loan Bank and Federal Reserve Bank Stock	15,543	NA	NA	NA	NA
Net loans and loans held for sale ⁽²⁾	1,655,335	1,629,587	—	67,321	1,562,266
Accrued interest receivable	7,316	7,316	5	2,364	4,947
Derivative financial instruments	2,251	2,251	—	2,251	—
Liabilities					
Deposits with no stated maturity ⁽¹⁾	\$ 1,740,601	\$ 1,740,601	\$ 1,740,601	\$ —	—
Deposits with stated maturity ⁽¹⁾	485,118	483,469	—	483,469	—
Other borrowings	9,433	10,371	—	10,371	—
Subordinated debentures	35,569	25,017	—	25,017	—
Accrued interest payable	932	932	21	911	—
Derivative financial instruments	975	975	—	975	—

Deposits with no stated maturity include reciprocal deposits with a recorded book balance of \$13.5 million and \$7.4 million at September 30, 2017 and December 31, 2016, respectively. Deposits with a stated maturity include reciprocal deposits with a recorded book balance of \$35.5 million and \$31.3 million September 30, 2017 and December 31, 2016, respectively.

⁽¹⁾ Net loans and loans held for sale include \$31.4 million of payment plan receivables and commercial loans held for sale at December 31, 2016.

TABLE OF CONTENTS

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)**

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.

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. Contingent Liabilities

In December 2016, we reached a tentative settlement regarding litigation initiated against us in Wayne County, Michigan Circuit Court. The Court issued a preliminary approval of this settlement in the first quarter of 2017. This litigation concerned checking account transaction sequencing during a period from February 2009 to June 2011. Under the terms of the settlement, we have agreed to pay \$2.2 million and are also responsible for class notification costs and certain other expenses which are estimated to total approximately \$0.1 million (these amounts were accrued for and expensed in the fourth quarter of 2016). We expect the settlement payment to occur in the fourth quarter of 2017 or first quarter of 2018. Although, we deny any liability associated with this matter and believe we have meritorious defenses to the allegations in the complaint, given the costs and uncertainty of litigation, it was determined that this settlement was in the best interests of the organization.

We are also involved in various other 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 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. Risks associated with the likelihood that we will not collect the full amount owed to us, net of reserves, are disclosed elsewhere in this report.

In connection with the sale of Mepco (see note #15), we agreed to contractually indemnify the purchaser from certain losses it may incur, including as a result of its failure to collect certain receivables it purchased as part of the business as well as breaches of representations and warranties we made in the sale agreement, subject to various limitations. We have not accrued any liability related to these indemnification requirements in our September 30, 2017 Condensed

Consolidated Statement of Financial Condition because we believe the likelihood of having to pay any amount as a result of these indemnification obligations is remote. However, if the purchaser is unable to collect the receivables it purchased from Mepco or otherwise encounters difficulties in operating the business, it is possible it could make one or more claims against us pursuant to the sale agreement. In that event, we may incur expenses in defending any such claims and/or amounts paid to such purchaser to resolve such claims. As of September 30, 2017 these receivables balances had declined to \$22.5 million and to date the purchaser has made no claims for indemnification.

The provision for loss reimbursement on sold loans was an expense of \$0.02 million and \$0.07 million in the third quarter and first nine months of 2017, respectively, compared to an expense of \$0.05 million and \$0.03 million in the third quarter and first nine months of 2016, respectively. This provision represents our estimate of incurred

F-44

TABLE OF CONTENTS**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**
(unaudited)

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 reserve for loss reimbursements on sold mortgage loans totaled \$0.6 million at both September 30, 2017 and December 31, 2016, respectively. This reserve is included in accrued expenses and other liabilities in our Condensed Consolidated Statements of Financial Condition.

14. Accumulated Other Comprehensive Loss (AOCL)

A summary of changes in AOCL follows:

	Unrealized Gains (Losses) on Securities Available for Sale	Disproportionate Tax Effects from Securities Available for Sale	Unrealized Gains on Cash Flow Hedges	Total
	(In thousands)			
For the three months ended September 30, 2017				
Balances at beginning of period	\$ 1,986	\$ (5,798)	\$ —	\$ (3,812)
Other comprehensive income before reclassifications	95	—	62	157
Amounts reclassified from AOCL	(5)	—	3	(2)
Net current period other comprehensive income	90	—	65	155
Balances at end of period	\$ 2,076	\$ (5,798)	\$ 65	\$ (3,657)
2016				
Balances at beginning of period	\$ 2,515	\$ (5,798)	\$ —	\$ (3,283)
Other comprehensive income before reclassifications	278	—	—	278
Amounts reclassified from AOCL	(10)	—	—	(10)
Net current period other comprehensive income	268	—	—	268
Balances at end of period	\$ 2,783	\$ (5,798)	\$ —	\$ (3,015)
For the Nine months ended September 30, 2017				
Balances at beginning of period	\$ (3,310)	\$ (5,798)	\$ —	\$ (9,108)
Cumulative effect of change in accounting	300	—	—	300
Balances at beginning of period, as adjusted	(3,010)	(5,798)	—	(8,808)
Other comprehensive income before reclassifications	5,167	—	62	5,229
Amounts reclassified from AOCL	(81)	—	3	(78)
Net current period other comprehensive income	5,086	—	65	5,151
Balances at end of period	\$ 2,076	\$ (5,798)	\$ 65	\$ (3,657)
2016				
Balances at beginning of period	\$ (238)	\$ (5,798)	\$ —	\$ (6,036)

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Other comprehensive income before reclassifications	3,215	—	—	3,215
Amounts reclassified from AOCL	(194)	—	—	(194)
Net current period other comprehensive income	3,021	—	—	3,021
Balances at end of period	\$ 2,783	\$ (5,798)	\$ —	\$ (3,015)

We adopted ASU 2017-08 during the first quarter of 2017 using a modified retrospective approach. As a result, accumulated other comprehensive loss as of January 1, 2017 was adjusted by \$0.30 million (see note #2).

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

F-45

TABLE OF CONTENTS**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**
(unaudited)

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.

A summary of reclassifications out of each component of AOCL for the three months ended September 30 follows:

AOCL Component	Amount Reclassified From AOCL (In thousands)	Affected Line Item in Condensed Consolidated Statements of Operations
2017		
Unrealized gains on securities available for sale	\$ 8	Net gains on securities
		— Net impairment loss recognized in earnings
	8	Total reclassifications before tax
	3	Income tax expense
	\$ 5	Reclassifications, net of tax
Unrealized gains on cash flow hedges	\$ (5)	Interest expense
	(2)	Income tax expense
	\$ (3)	Reclassification, net of tax
	\$ 2	Total reclassifications for the period, net of tax
2016		
Unrealized gains on securities available for sale	\$ 15	Net gains on securities
		— Net impairment loss recognized in earnings
	15	Total reclassifications before tax
	5	Income tax expense
	\$ 10	Reclassifications, net of tax

A summary of reclassifications out of each component of AOCL for the nine months ended September 30 follows:

AOCL Component	Amount Reclassified From AOCL (In thousands)	Affected Line Item in Condensed Consolidated Statements of Operations
-----------------------	---	--

2017

Unrealized gains on securities available for sale

\$	125	Net gains on securities
		— Net impairment loss recognized in earnings
	125	Total reclassifications before tax
	44	Income tax expense
\$	81	Reclassifications, net of tax

F-46

TABLE OF CONTENTS**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**
(unaudited)

AOCL Component	Amount Reclassified From AOCL (In thousands)	Affected Line Item in Condensed Consolidated Statements of Operations
Unrealized gains on cash flow hedges	\$ (5)	Interest expense
	(2)	Income tax expense
	\$ (3)	Reclassification, net of tax
	\$ 78	Total reclassifications for the period, net of tax
2016		
Unrealized gains on securities available for sale	\$ 298	Net gains on securities
	—	Net impairment loss recognized in earnings
	298	Total reclassifications before tax
	104	Income tax expense
	\$ 194	Reclassifications, net of tax

15. Payment Plan Receivables and Other Assets Held for Sale

On December 30, 2016 Mepco executed an Asset Purchase Agreement (the "APA") with Seabury Asset Management LLC ("Seabury"). Pursuant to the terms of the APA, Mepco sold its payment plan processing business to Seabury effective May 1, 2017. We received cash totaling \$33.4 million and recorded no gain or loss in 2017 as the assets were sold and the liabilities were assumed at book value.

Assets sold and liabilities assumed were as follows:

	May 1, 2017	December 31, 2016
	(In thousands)	
Assets sold		
Payment plan receivables	\$ 33,128	\$ 30,582
Commerical loans	525	794
Other assets	1,765	1,984
Total assets	\$ 35,418	\$ 33,360
Liabilities assumed	\$ 1,972	\$ 718

These assets and liabilities were categorized as "held for sale" in our December 31, 2016 Condensed Consolidated Statement of Financial Condition. These assets and corresponding liabilities held for sale were carried at the lower of

cost or fair value on an aggregate basis. Fair value adjustments, if any, were recorded in current earnings.

F-47

TABLE OF CONTENTS

INDEPENDENT BANK CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

CONTENTS

<u>Management's Annual Report on Internal Control Over Financial Reporting</u>	<u>F-49</u>
<u>Report of Independent Registered Public Accounting Firm</u>	<u>F-50</u>
<u>Consolidated Statements of Financial Condition</u>	<u>F-51</u>
<u>Consolidated Statements of Operations</u>	<u>F-52</u>
<u>Consolidated Statements of Comprehensive Income</u>	<u>F-53</u>
<u>Consolidated Statements of Shareholders' Equity</u>	<u>F-54</u>
<u>Consolidated Statements of Cash Flows</u>	<u>F-55</u>
<u>Notes to Consolidated Financial Statements</u>	<u>F-56</u>

F-48

TABLE OF CONTENTS

MANAGEMENT’S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Independent Bank Corporation is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system was designed to provide reasonable assurance to us and the board of directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

We assessed the effectiveness of our internal control over financial reporting as of December 31, 2016. In making this assessment, we used the criteria established in the 2013 Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our assessment, management has concluded that as of December 31, 2016, the Company’s internal control over financial reporting was effective 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.

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2016, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Our independent registered public accounting firm has issued an audit report on the effectiveness of the Company’s internal control over financial reporting as of December 31, 2016. Their report immediately follows our report.

William B. Kessel
President and
Chief Executive Officer

Robert N. Shuster
Executive Vice President
and Chief Financial Officer

Independent Bank Corporation
March 7, 2017

TABLE OF CONTENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Independent Bank Corporation
Grand Rapids, Michigan

We have audited the accompanying consolidated statements of financial condition of Independent Bank Corporation as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2016. We also have audited Independent Bank Corporation's internal control over financial reporting as of December 31, 2016, based on criteria established in the 2013 Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Independent Bank Corporation's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Independent Bank Corporation as of December 31, 2016 and 2015, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Independent Bank Corporation

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maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in the 2013 Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Grand Rapids, Michigan
March 7, 2017

F-50

TABLE OF CONTENTS**CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

	December 31,	
	2016	2015
	(In thousands, except share amounts)	
ASSETS		
Cash and due from banks	\$ 35,238	\$ 54,260
Interest bearing deposits	47,956	31,523
Cash and Cash Equivalents	83,194	85,783
Interest bearing deposits - time	5,591	11,866
Trading securities	410	148
Securities available for sale	610,616	585,484
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	15,543	15,471
Loans held for sale, carried at fair value	35,946	27,866
Payment plan receivables and other assets held for sale	33,360	—
Loans		
Commercial	804,017	748,398
Mortgage	538,615	498,036
Installment	265,616	234,017
Payment plan receivables	—	34,599
Total Loans	1,608,248	1,515,050
Allowance for loan losses	(20,234)	(22,570)
Net Loans	1,588,014	1,492,480
Other real estate and repossessed assets	5,004	7,150
Property and equipment, net	40,175	43,103
Bank-owned life insurance	54,033	54,402
Deferred tax assets, net	32,818	39,635
Capitalized mortgage loan servicing rights	13,671	12,436
Vehicle service contract counterparty receivables, net	2,271	7,229
Other intangibles	1,932	2,280
Accrued income and other assets	26,372	23,733
Total Assets	\$ 2,548,950	\$ 2,409,066

LIABILITIES AND SHAREHOLDERS' EQUITY

Deposits		
Non-interest bearing	\$ 717,472	\$ 659,793
Savings and interest-bearing checking	1,015,724	988,174
Reciprocal	38,657	50,207
Time	453,866	387,789

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Total Deposits	2,225,719	2,085,963
Other borrowings	9,433	11,954
Subordinated debentures	35,569	35,569
Other liabilities held for sale	718	—
Accrued expenses and other liabilities	28,531	24,488
Total Liabilities	2,299,970	2,157,974

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: 21,258,092 shares at December 31, 2016 and 22,251,373 shares at December 31, 2015	323,745	339,462
Accumulated deficit	(65,657)	(82,334)
Accumulated other comprehensive loss	(9,108)	(6,036)
Total Shareholders' Equity	248,980	251,092
Total Liabilities and Shareholders' Equity	\$ 2,548,950	\$ 2,409,066

See accompanying notes to consolidated financial statements

F-51

TABLE OF CONTENTS**CONSOLIDATED STATEMENTS OF OPERATIONS**

	Year Ended December 31,		
	2016	2015	2014
	(In thousands, except per share amounts)		
INTEREST INCOME			
Interest and fees on loans	\$ 74,157	\$ 70,930	\$ 71,823
Interest on securities			
Taxable	9,921	7,805	6,341
Tax-exempt	1,250	907	991
Other investments	1,195	1,200	1,400
Total Interest Income	86,523	80,842	80,555
INTEREST EXPENSE			
Deposits	4,941	4,009	4,967
Other borrowings	1,941	1,847	2,332
Total Interest Expense	6,882	5,856	7,299
Net Interest Income	79,641	74,986	73,256
Provision for loan losses	(1,309)	(2,714)	(3,136)
Net Interest Income After Provision for Loan Losses	80,950	77,700	76,392
NON-INTEREST INCOME			
Service charges on deposit accounts	12,406	12,389	13,446
Interchange income	7,938	8,481	8,164
Net gains (losses) on assets			
Mortgage loans	10,566	7,448	5,628
Securities	563	20	329
Other than temporary impairment loss on securities			
Total impairment loss	—	—	(9)
Loss recognized in other comprehensive income (loss)	—	—	—
Net impairment loss recognized in earnings	—	—	(9)
Mortgage loan servicing, net	2,222	1,751	791
Title insurance fees	1,187	1,156	995
Net gain on branch sale	—	1,193	—
Gain on extinguishment of debt	—	—	500
Other	7,416	7,692	8,931
Total Non-interest Income	42,298	40,130	38,775
NON-INTEREST EXPENSE			
Compensation and employee benefits	49,579	48,186	47,221
Occupancy, net	8,023	8,369	8,912
Data processing	7,952	7,944	7,532

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Furniture, fixtures and equipment	3,912	3,892	4,137
Communications	3,142	2,957	2,926
Loan and collection	2,512	3,609	5,392
Litigation settlement expense	2,300	—	—
Advertising	1,856	2,121	2,193
Legal and professional	1,742	2,013	1,969
Interchange expense	1,111	1,125	1,291
FDIC deposit insurance	1,049	1,366	1,567
Credit card and bank service fees	791	797	946
Loss on sale of payment plan business	320	—	—
Net (gains) losses on other real estate and repossessed assets	250	(180)	(500)
Provision for loss reimbursement on sold loans	30	(59)	(466)
Other	5,778	6,310	6,831
Total Non-interest Expense	90,347	88,450	89,951
Income Before Income Tax	32,901	29,380	25,216
Income tax expense	10,135	9,363	7,195
Net Income	\$ 22,766	\$ 20,017	\$ 18,021
Net income per common share			
Basic	\$ 1.06	\$ 0.88	\$ 0.79
Diluted	\$ 1.05	\$ 0.86	\$ 0.77
Cash dividends declared and paid per common share	\$ 0.34	\$ 0.26	\$ 0.18

See accompanying notes to consolidated financial statements

F-52

TABLE OF CONTENTS**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Year Ended December 31,		
	2016	2015	2014
	(In thousands)		
Net income	\$ 22,766	\$ 20,017	\$ 18,021
Other comprehensive income (loss)			
Securities available for sale			
Unrealized gain (loss) arising during period	(4,465)	(540)	5,095
Change in unrealized gains and losses for which a portion of other than temporary impairment has been recognized in earnings	40	—	398
Reclassification adjustment for other than temporary impairment included in earnings	—	—	9
Reclassification adjustments for gains included in earnings	(301)	(75)	(329)
Unrealized gains (losses) recognized in other comprehensive income (loss) on securities available for sale	(4,726)	(615)	5,173
Income tax expense (benefit)	(1,654)	(215)	1,811
Unrealized gains (losses) recognized in other comprehensive income (loss) on securities available for sale, net of tax	(3,072)	(400)	3,362
Derivative instruments			
Reclassification adjustment for accretion on settled derivatives	—	—	380
Unrealized gains recognized in other comprehensive income (loss) on derivative instruments	—	—	380
Income tax expense	—	—	133
Unrealized gains recognized in other comprehensive income (loss) on derivative instruments, net of tax	—	—	247
Other comprehensive income (loss)	(3,072)	(400)	3,609
Comprehensive income	\$ 19,694	\$ 19,617	\$ 21,630

See accompanying notes to consolidated financial statements

TABLE OF CONTENTS**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

	Common Stock	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balances at January 1, 2014	\$ 351,173	\$ (110,347)	\$ (9,245)	\$ 231,581
Net income for 2014	—	18,021	—	18,021
Cash dividends declared, \$.18 per share	—	(4,129)	—	(4,129)
Issuance of 30,828 shares of common stock	97	—	—	97
Share based compensation (issuance of 107,359 shares of common stock)	1,192	—	—	1,192
Other comprehensive income	—	—	3,609	3,609
Balances at December 31, 2014	352,462	(96,455)	(5,636)	250,371
Net income for 2015	—	20,017	—	20,017
Cash dividends declared, \$.26 per share	—	(5,896)	—	(5,896)
Repurchase of 967,199 shares of common stock	(13,498)	—	—	(13,498)
Issuance of 39,610 shares of common stock	112	—	—	112
Share based compensation (issuance of 299,263 shares of common stock)	1,477	—	—	1,477
Share based compensation withholding obligation (withholding of 77,624 shares of common stock)	(1,091)	—	—	(1,091)
Other comprehensive loss	—	—	(400)	(400)
Balances at December 31, 2015	339,462	(82,334)	(6,036)	251,092
Cumulative effect of change in accounting principle	62	1,185	—	1,247
Balances at December 31, 2015, as adjusted	339,524	(81,149)	(6,036)	252,339
Net income for 2016	—	22,766	—	22,766
Cash dividends declared, \$.34 per share	—	(7,274)	—	(7,274)
Repurchase of 1,153,136 shares of common stock	(16,854)	—	—	(16,854)
Issuance of 21,402 shares of common stock	82	—	—	82
Share based compensation (issuance of 180,380 shares of common stock)	1,620	—	—	1,620
Share based compensation withholding obligation (withholding of 41,927 shares of common stock)	(627)	—	—	(627)
Other comprehensive loss	—	—	(3,072)	(3,072)
Balances at December 31, 2016	\$ 323,745	\$ (65,657)	\$ (9,108)	\$ 248,980

See accompanying notes to consolidated financial statements

TABLE OF CONTENTS**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year Ended December 31,		
	2016	2015	2014
	(In thousands)		
Net Income	\$ 22,766	\$ 20,017	\$ 18,021
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH FROM OPERATING ACTIVITIES			
Proceeds from sales of loans held for sale	324,828	288,852	228,906
Disbursements for loans held for sale	(322,342)	(285,608)	(226,550)
Provision for loan losses	(1,309)	(2,714)	(3,136)
Deferred income tax expense	8,064	8,997	8,918
Deferred loan fees	(1,911)	(1,234)	(753)
Net depreciation, amortization of intangible assets and premiums and accretion of discounts on securities, loans and interest bearing deposits - time	5,216	4,553	3,014
Net gains on mortgage loans	(10,566)	(7,448)	(5,628)
Net gains on securities	(563)	(20)	(329)
Securities impairment recognized in earnings	—	—	9
Net (gains) losses on other real estate and repossessed assets	250	(180)	(500)
Vehicle service contract counterparty contingencies	(50)	119	199
Share based compensation	1,620	1,477	1,192
Litigation settlement expense	2,300	—	—
Loss on sale of payment plan business	320	—	—
Net gain on branch sale	—	(1,193)	—
Gain on extinguishment of debt	—	—	(500)
Increase in accrued income and other assets	(5,478)	(1,387)	(2,579)
Increase (decrease) in accrued expenses and other liabilities	838	(196)	(7,213)
Total Adjustments	1,217	4,018	(4,950)
Net Cash From Operating Activities	23,983	24,035	13,071
CASH FLOW USED IN INVESTING ACTIVITIES			
Proceeds from the sale of securities available for sale	64,103	12,037	14,633
Proceeds from the maturity of securities available for sale	40,530	36,808	58,220
Principal payments received on securities available for sale	162,499	130,232	84,487
Purchases of securities available for sale	(297,925)	(234,693)	(224,946)
Purchases of interest bearing deposits - time	—	(4,595)	(2,401)
Proceeds from the maturity of interest bearing deposits - time	6,253	6,222	6,719
Redemption of Federal Home Loan Bank and Federal Reserve Bank stock	371	4,906	3,814
Purchase of Federal Reserve Bank stock	(443)	(458)	(314)
Net increase in portfolio loans (loans originated, net of principal payments)	(107,472)	(74,343)	(37,195)

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Purchase of portfolio loans	(15,000)	(32,872)	—
Net cash paid for branch sale	—	(7,229)	—
Proceeds from the collection of vehicle service contract counterparty receivables	4,786	1,092	385
Proceeds from the sale of other real estate and repossessed assets	4,251	6,179	18,471
Proceeds from bank-owned life insurance	2,235	—	—
Proceeds from the sale of property and equipment	416	555	309
Capital expenditures	(3,459)	(4,354)	(4,298)
Net Cash Used in Investing Activities	(138,855)	(160,513)	(82,116)
CASH FLOW FROM FINANCING ACTIVITIES			
Net increase in total deposits	139,756	170,314	39,496
Net decrease in other borrowings	—	(1)	(1)
Proceeds from Federal Home Loan Bank advances	—	100	100
Payments of Federal Home Loan Bank advances	(2,521)	(615)	(4,817)
Net decrease in vehicle service contract counterparty payables	(279)	(1,180)	(2,112)
Dividends paid	(7,274)	(5,896)	(4,129)
Proceeds from issuance of common stock	82	112	97
Repurchase of common stock	(16,854)	(13,498)	—
Share based compensation withholding obligation	(627)	(1,091)	—
Redemption of subordinated debt	—	—	(4,654)
Net Cash From Financing Activities	112,283	148,245	23,980
Net Increase (Decrease) in Cash and Cash Equivalents	(2,589)	11,767	(45,065)
Cash and Cash Equivalents at Beginning of Year	85,783	74,016	119,081
Cash and Cash Equivalents at End of Year	\$ 83,194	\$ 85,783	\$ 74,016
Cash paid during the year for			
Interest	\$ 6,416	\$ 5,769	\$ 7,365
Income taxes	563	295	216
Transfers to other real estate and repossessed assets	2,355	6,694	6,143
Transfer of payment plan receivables to vehicle service contract counterparty receivables	200	1,203	180
Purchase of securities available for sale and interest bearing deposits - time not yet settled	1,582	—	265
Transfers to payment plan receivables and other assets held for sale	33,360	—	—
Transfers to other liabilities held for sale	718	—	—

See accompanying notes to consolidated financial statements

TABLE OF CONTENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ACCOUNTING POLICIES

The accounting and reporting policies and practices of Independent Bank Corporation and subsidiaries conform to accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. Our critical accounting policies include the determination of the AFLL, the valuation of originated mortgage loan servicing rights and the valuation of deferred tax assets. We are required to make material estimates and assumptions that are particularly susceptible to changes in the near term as we prepare the consolidated financial statements and report amounts for each of these items. Actual results may vary from these estimates.

Our subsidiary Independent Bank (Bank) transacts business in the single industry of commercial banking. Our Bank s activities cover traditional phases of commercial banking, including checking and savings accounts, commercial lending, direct and indirect consumer financing and mortgage lending. Our principal markets are the rural and suburban communities across Lower Michigan and Ohio that are served by our Bank s branches and loan production offices. We also purchase payment plans from companies (which we refer to as counterparties) that provide vehicle service contracts and similar products to consumers, through our wholly owned subsidiary, Mepco Finance Corporation (Mepco). At December 31, 2016, 72.2% of our Bank s loan portfolio was secured by real estate.

PRINCIPLES OF CONSOLIDATION — The consolidated financial statements include the accounts of Independent Bank Corporation and its subsidiaries. The income, expenses, assets and liabilities of the subsidiaries are included in the respective accounts of the consolidated financial statements, after elimination of all material intercompany accounts and transactions.

STATEMENTS OF CASH FLOWS — For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, interest bearing deposits and federal funds sold. Generally, federal funds are sold for one-day periods. We report net cash flows for customer loan and deposit transactions, for short-term borrowings and for vehicle service contract counterparty payables.

INTEREST BEARING DEPOSITS — Interest bearing deposits consist of overnight deposits with the Federal Reserve Bank.

INTEREST BEARING DEPOSITS - TIME — Interest bearing deposits - time consist of deposits with original maturities of 3 months or more.

LOANS HELD FOR SALE — Mortgage loans originated and intended for sale in the secondary market are carried at fair value. Fair value adjustments, as well as realized gains and losses, are recorded in current earnings.

PAYMENT PLAN RECEIVABLES AND OTHER ASSETS HELD FOR SALE — On December 30, 2016 Mepco executed an Asset Purchase Agreement (the APA) with Seabury Asset Management LLC (Seabury). Pursuant to the terms of the APA, Mepco is selling its payment plan processing business, payment plan receivables (\$30.6 million), commercial loans (\$0.8 million) and certain other assets (\$2.0 million) to Seabury, who also is assuming certain liabilities (\$0.7 million) of Mepco. These assets and liabilities are categorized as held for sale in our December 31, 2016 Consolidated Statement of Financial Condition. This transaction is expected to close during the first half of 2017. These assets and corresponding liabilities held for sale are carried at the lower of cost or fair value on an aggregate basis. Fair value adjustments, if any, are recorded in current earnings.

OPERATING SEGMENTS — While chief decision-makers monitor the revenue streams of our various products and services, operations are managed and financial performance is evaluated as one single unit. Discrete financial

information is not available other than on a consolidated basis for material lines of business. Prior to 2016, we reported on two segments: Independent Bank and Mepco. However, given the significant reduction in the size of Mepco's business and its relative immateriality, we have now eliminated any separate segment reporting on Mepco.

CAPITALIZED MORTGAGE LOAN SERVICING RIGHTS — We recognize as separate assets the rights to service mortgage loans for others. The fair value of originated mortgage loan servicing rights has been determined based upon fair value indications for similar servicing. The mortgage loan servicing rights are amortized in proportion to and over the period of estimated net loan servicing income. We assess mortgage loan servicing rights for impairment based on the fair value of those rights. For purposes of measuring impairment, the characteristics used include interest rate, term and type. Amortization of and changes in the impairment reserve on originated mortgage loan servicing rights are included in mortgage loan servicing, net in the Consolidated Statements of Operations. The

F-56

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

fair values of mortgage loan servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses. Mortgage loan servicing income is recorded for fees earned for servicing loans previously sold. The fees are generally based on a contractual percentage of the outstanding principal and are recorded as income when earned. Mortgage loan servicing fees, excluding amortization of and changes in the impairment reserve on originated mortgage loan servicing rights, totaled \$4.1 million, \$4.1 million and \$4.2 million for the years ended December 31, 2016, 2015 and 2014, respectively. Late fees and ancillary fees related to loan servicing are not material. As of January 1, 2017, we elected the fair value measurement method for our mortgage loan servicing rights (in lieu of the amortization method). We expect the cumulative effective of this accounting change to decrease January 1, 2017 retained deficit by \$0.4 million, net of tax. We will no longer record amortization of or impairment against capitalized mortgage loan servicing rights, rather we will now record capitalized mortgage loan servicing rights at fair value with subsequent changes in fair value recorded as an increase or decrease to mortgage loan servicing, net, in our Consolidated Statements of Operations.

TRANSFERS OF FINANCIAL ASSETS — Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from us, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and we do not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

SECURITIES — We classify our securities as trading, held to maturity or available for sale. Trading securities are bought and held principally for the purpose of selling them in the near term and are reported at fair value with realized and unrealized gains and losses included in earnings. Securities held to maturity represent those securities for which we have the positive intent and ability to hold until maturity and are reported at cost, adjusted for amortization of premiums and accretion of discounts computed on the level-yield method. We did not have any securities held to maturity at December 31, 2016 and 2015. Securities available for sale represent those securities not classified as trading or held to maturity and are reported at fair value with unrealized gains and losses, net of applicable income taxes reported in other comprehensive income (loss).

We evaluate securities for other than temporary impairment (OTTI) at least on a quarterly basis and more frequently when economic or market conditions warrant such an evaluation. In performing this evaluation, management considers (1) the length of time and extent that fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, (3) the impact of changes in market interest rates on the market value of the security and (4) an assessment of whether we intend to sell, or it is more likely than not that we will be required to sell a security in an unrealized loss position before recovery of its amortized cost basis. For securities that do not meet the aforementioned recovery criteria, the amount of impairment recognized in earnings is limited to the amount related to credit losses, while impairment related to other factors is recognized in other comprehensive income (loss). The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

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.

FEDERAL HOME LOAN BANK (FHLB) STOCK — Our Bank subsidiary is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income in interest income-other investments on the Consolidated Statements of Operations.

FEDERAL RESERVE BANK (FRB) STOCK — Our Bank subsidiary is a member of its regional Federal Reserve Bank. FRB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income in interest income-other investments on the Consolidated Statements of Operations.

LOAN REVENUE RECOGNITION — Interest on loans is accrued based on the principal amounts outstanding. In general, the accrual of interest income is discontinued when a loan becomes 90 days past due for commercial loans and installment loans and when a loan misses four consecutive payments for mortgage loans and the borrower's capacity to repay the loan and collateral values appear insufficient for each loan class. However, loans may be placed

F-57

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

on non-accrual status regardless of whether or not such loans are considered past due if, in management's opinion, the borrower is unable to meet payment obligations as they become due or as required by regulatory provisions. All interest accrued but not received for all loans placed on non-accrual is reversed from interest income. Payments on such loans are generally applied to the principal balance until qualifying to be returned to accrual status. A non-accrual loan may be restored to accrual status when interest and principal payments are current and the loan appears otherwise collectible. Delinquency status for all classes in the commercial and installment loan segments is based on the actual number of days past due as required by the contractual terms of the loan agreement while delinquency status for mortgage loan segment classes is based on the number of payments past due.

Certain loan fees and direct loan origination costs are deferred and recognized as an adjustment of yield generally over the contractual life of the related loan. Fees received in connection with loan commitments are deferred until the loan is advanced and are then recognized generally over the contractual life of the loan as an adjustment of yield. Fees on commitments that expire unused are recognized at expiration. Fees received for letters of credit are recognized as revenue over the life of the commitment.

PAYMENT PLAN RECEIVABLE REVENUE RECOGNITION — Payment plan receivables are acquired by Mepco at a discount and reported net of this discount in the Consolidated Statements of Financial Condition. This discount is accreted into interest and fees on loans in the Consolidated Statements of Operations over the life of the receivable computed on a level-yield method. All classes of payment plan receivables that have been canceled and are 90 days or more past due as required by the contractual terms of the payment plan are classified as non-accrual.

ALLOWANCE FOR LOAN LOSSES — Portfolios are disaggregated into segments for purposes of determining the allowance for loan losses (AFLL) which include commercial, mortgage and installment loans and prior to December 31, 2016, payment plan receivables. These segments are further disaggregated into classes for purposes of monitoring and assessing credit quality based on certain risk characteristics. Classes within the commercial loan segment include (i) income producing – real estate, (ii) land, land development and construction – real estate and (iii) commercial and industrial. Classes within the mortgage loan segment include (i) 1-4 family, (ii) resort lending, (iii) home equity – 1st lien, (iv) home equity – 2nd lien and beginning in 2015 (v) purchased loans. Classes within the installment loan segment include (i) home equity – 1st lien, (ii) home equity – 2nd lien, (iii) loans not secured by real estate and (iv) other. Classes within the payment plan receivables segment include (i) full refund, (ii) partial refund and (iii) other. Commercial loans are subject to adverse market conditions which may impact the borrower's ability to make repayment on the loan or could cause a decline in the value of the collateral that secures the loan. Mortgage and installment loans and payment plan receivables are subject to adverse employment conditions in the local economy which could increase default rates. In addition, mortgage loans and real estate based installment loans are subject to adverse market conditions which could cause a decline in the value of collateral that secures the loan. For an analysis of the AFLL by portfolio segment and credit quality information by class, see note #4.

Some loans will not be repaid in full. Therefore, an AFLL is maintained at a level which represents our best estimate of losses incurred. In determining the AFLL and the related provision for loan losses, we consider four principal elements: (i) specific allocations based upon probable losses identified during the review of the loan portfolio, (ii) allocations established for other adversely rated commercial loans, (iii) allocations based principally on historical loan loss experience, and (iv) additional allocations 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 AFLL element (specific allocations) reflects our estimate of probable incurred losses based upon our systematic review of specific loans. These estimates are based upon a number of objective factors, such as payment

history, financial condition of the borrower, discounted collateral exposure and discounted cash flow analysis. Impaired commercial, mortgage and installment loans are allocated allowance amounts using this first element. The second AFLL element (other adversely rated commercial loans) reflects the application of our loan rating system. This rating system is similar to those employed by state and federal banking regulators. Commercial loans that are rated below a certain predetermined classification are assigned a loss allocation factor for each loan classification category that is based upon a historical analysis of both the probability of default and the expected loss rate (loss given default). The lower the rating assigned to a loan or category, the greater the allocation percentage that is applied. The third AFLL element (historical loss allocations) is determined by assigning allocations to higher rated (non-watch credit) commercial loans using a probability of default and loss given default similar to the second

F-58

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

AFL element and to homogenous mortgage and installment loan groups based upon borrower credit score and portfolio segment. For homogenous mortgage and installment loans a probability of default for each homogenous pool is calculated by way of credit score migration. Historical loss data for each homogenous pool coupled with the associated probability of default is utilized to calculate an expected loss allocation rate. The fourth AFL 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 reasonably ensure that the overall AFL appropriately reflects a margin for the imprecision necessarily inherent in the estimates of expected credit losses. We consider a number of subjective factors when determining this fourth element, including local and general economic business factors and trends, portfolio concentrations and changes in the size, mix and the general terms of the overall loan portfolio.

Increases in the AFL are recorded by a provision for loan losses charged to expense. Although we periodically allocate portions of the AFL to specific loans and loan portfolios, the entire AFL is available for incurred losses.

We generally charge-off commercial, homogenous residential mortgage and installment loans and payment plan receivables when they are deemed uncollectible or reach a predetermined number of days past due based on loan product, industry practice and other factors. Collection efforts may continue and recoveries may occur after a loan is charged against the AFL.

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.

A loan is impaired when full payment under the loan terms is not expected. Generally, those loans included in each commercial loan class that are rated substandard, classified as non-performing or were classified as non-performing in the preceding quarter, are evaluated for impairment. Those loans included in each mortgage loan or installment loan class whose terms have been modified and considered a troubled debt restructuring are also impaired. Loans which have been modified resulting in a concession, and which the borrower is experiencing financial difficulties, are considered troubled debt restructurings (TDR) and classified as impaired. We measure our investment in an impaired loan based on one of three methods: the loan's observable market price, the fair value of the collateral or the present value of expected future cash flows discounted at the loan's effective interest rate. Large groups of smaller balance homogeneous loans, such as those loans included in each installment and mortgage loan class and each payment plan receivable class, are collectively evaluated for impairment and accordingly, they are not separately identified for impairment disclosures. TDR loans are measured at the present value of estimated future cash flows using the loan's effective interest rate at inception of the loan. If a TDR is considered to be a collateral dependent loan, the loan is reported net, at the fair value of collateral. A loan can be removed from TDR status if it is subsequently restructured and the borrower is no longer experiencing financial difficulties and the newly restructured agreement does not contain any concessions to the borrower. The new agreement must specify market terms, including a contractual interest rate not less than a market interest rate for new debt with similar credit risk characteristics, and other terms no less favorable to us than those we would offer for similar new debt.

PROPERTY AND EQUIPMENT — Property and equipment is stated at cost less accumulated depreciation and amortization. Depreciation and amortization is computed using both straight-line and accelerated methods over the estimated useful lives of the related assets. Buildings are generally depreciated over a period not exceeding 39 years and equipment is generally depreciated over periods not exceeding 7 years. Leasehold improvements are depreciated over the shorter of their estimated useful life or lease period.

BANK OWNED LIFE INSURANCE — We have purchased a group flexible premium non-participating variable life insurance contract on approximately 267 lives (who were salaried employees at the time we purchased the contract) in

order to recover the cost of providing certain employee benefits. Bank owned life insurance is recorded at its cash surrender value or the amount that can be currently realized.

OTHER REAL ESTATE AND REPOSSESSED ASSETS — Other real estate at the time of acquisition is recorded at fair value, less estimated costs to sell, which becomes the property's new basis. Fair value is typically determined by a third party appraisal of the property. Any write-downs at date of acquisition are charged to the AFL. Expense incurred in maintaining other real estate and subsequent write-downs to reflect declines in value and gains or losses on the sale of other real estate are recorded in the Consolidated Statements of Operations. Non-real estate repossessed assets are treated in a similar manner.

F-59

TABLE OF CONTENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

OTHER INTANGIBLES — Other intangible assets consist of core deposits. They are initially measured at fair value and then are amortized on both straight-line and accelerated methods over their estimated useful lives, which range from 10 to 15 years.

VEHICLE SERVICE CONTRACT COUNTERPARTY RECEIVABLES, NET — These amounts represent funds due to Mepco from its counterparties for cancelled service contracts. Upon the cancellation of a service contract and the completion of the billing process to the counterparties for amounts due to Mepco, there is a decrease in the amount of payment plan receivables and an increase in the amount of vehicle service contract counterparty receivables until such time as the amount due from the counterparty is collected.

INCOME TAXES — We employ the asset and liability method of accounting for income taxes. This method establishes deferred tax assets and liabilities for the temporary differences between the financial reporting basis and the tax basis of our assets and liabilities at tax rates expected to be in effect when such amounts are realized or settled. Under this method, the effect of a change in tax rates is recognized in the period that includes the enactment date. The deferred tax asset is subject to a valuation allowance for that portion of the asset for which it is more likely than not that it will not be realized.

A tax position is recognized as a benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination.

We recognize interest and/or penalties related to income tax matters in income tax expense.

We file a consolidated federal income tax return. Intercompany tax liabilities are settled as if each subsidiary filed a separate return.

COMMITMENTS TO EXTEND CREDIT AND RELATED FINANCIAL INSTRUMENTS — Financial instruments may include commitments to extend credit and standby letters of credit. Financial instruments involve varying degrees of credit and interest-rate risk in excess of amounts reflected in the Consolidated Statements of Financial Condition. Exposure to credit risk in the event of non-performance by the counterparties to the financial instruments for loan commitments to extend credit and letters of credit is represented by the contractual amounts of those instruments. In general, we use a similar methodology to estimate our liability for these off-balance sheet credit exposures as we do for our AFL. For commercial related commitments, we estimate liability using our loan rating system and for mortgage and installment commitments we estimate liability principally upon historical loss experience. Our estimated liability for off balance sheet commitments is included in accrued expenses and other liabilities in our Consolidated Statements of Financial Condition and any charge or recovery is recorded in non-interest expense - other in our Consolidated Statements of Operations.

DERIVATIVE FINANCIAL INSTRUMENTS — We record derivatives on our 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.

At the inception of the derivative we designate the derivative as one of three types based on our intention and belief as to likely effectiveness as a hedge. These three types are (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (Fair Value Hedge), (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (Cash Flow Hedge), or (3) an instrument with no hedging designation. For a Fair Value Hedge, the gain or loss on the derivative, as well as the offsetting loss

or gain on the hedged item, are recognized in current earnings as fair values change. For a Cash Flow Hedge, the gain or loss on the derivative is reported in other comprehensive income (loss) and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. We did not have any Fair Value Hedges or Cash Flow Hedges at December 31, 2016 or 2015. For both types of hedges, changes in the fair value of derivatives that are not highly effective in hedging the changes in fair value or expected cash flows of the hedged item are recognized immediately in current earnings. For instruments with no hedging designation, the gain or loss on the derivative is reported in earnings. These free standing instruments currently consist of (i) mortgage banking related derivatives and include rate-lock loan commitments to fund mortgage loans (interest rate locks) to be sold into the secondary market and mandatory forward commitments for the future delivery of these mortgage loans, (ii) certain pay-fixed and pay-variable interest rate swap agreements related to commercial loan customers and

F-60

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

(iii) certain purchased and written options related to a time deposit product. Fair values of the mortgage derivatives are estimated based on mortgage backed security pricing for comparable assets. We enter into mandatory forward commitments for the future delivery of mortgage loans generally when interest rate locks are entered into in order to hedge the change in interest rates resulting from our commitments to fund the loans. Changes in the fair values of these derivatives are included in net gains on mortgage loans in the Consolidated Statements of Operations. Fair values of the pay-fixed and pay-variable interest rate swap agreements are based on discounted cash flow analyses and are included in net interest income in the Consolidated Statements of Operations. Fair values of the purchased and written options are based on prices of financial instruments with similar characteristics and are included in net interest income in the Consolidated Statements of Operations.

Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest expense. Net cash settlements on derivatives that do not qualify for hedge accounting are reported in non-interest income (mortgage banking related derivatives) or net interest income (interest rate swap agreements and options). Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged.

We formally document the relationship between derivatives and hedged items, as well as the risk- management objective and the strategy for undertaking hedge transactions, at the inception of the hedging relationship. This documentation includes linking Fair Value or Cash Flow Hedges to specific assets and liabilities on the Consolidated Statements of Financial Condition or to specific firm commitments or forecasted transactions. We also assess, both at the hedge s inception and on an ongoing basis, whether the derivative instruments that are used are highly effective in offsetting changes in fair values or cash flows of the hedged items. We discontinue hedge accounting when it is determined that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative is settled or terminates, a hedged forecasted transaction is no longer probable, a hedged firm commitment is no longer firm, or treatment of the derivative as a hedge is no longer appropriate or intended.

When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded in earnings. When a fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis adjustment is amortized or accreted over the remaining life of the asset or liability. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, gains or losses that were accumulated in other comprehensive loss are amortized into earnings over the same periods which the hedged transactions will affect earnings.

COMPREHENSIVE INCOME — Comprehensive income consists of net income, unrealized gains and losses on securities available for sale and derivative instruments classified as cash flow hedges.

NET INCOME PER COMMON SHARE — Basic net income per common share is computed by dividing net income by the weighted average number of common shares outstanding during the period and participating share awards. All outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends are considered participating securities for this calculation. For diluted net income per common share, net income is divided by the weighted average number of common shares outstanding during the period plus the assumed exercise of stock options, restricted stock units, performance share units and stock units for a deferred compensation plan for non-employee directors.

SHARE BASED COMPENSATION — Cost is recognized for non-vested share awards issued to employees based on the fair value of these awards at the date of grant. A simulation analysis which considers potential outcomes for a large number of independent scenarios is utilized to estimate the fair value of performance share units and the market price of our common stock at the date of grant is used for other non-vested share awards. Cost is recognized over the

required service period, generally defined as the vesting period. Cost is also recognized for stock issued to non-employee directors. These shares vest immediately and cost is recognized during the period they are issued.

COMMON STOCK — At December 31, 2016, 0.1 million shares of common stock were reserved for issuance under the dividend reinvestment plan and 0.4 million shares of common stock were reserved for issuance under our long-term incentive plans.

RECLASSIFICATION — Certain amounts in the 2015 and 2014 consolidated financial statements have been reclassified to conform to the 2016 presentation.

F-61

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

ADOPTION OF NEW ACCOUNTING STANDARDS — In June 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-12, Compensation – Stock Compensation (Topic 718) – Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved After the Requisite Service Period . This ASU amends existing guidance related to the accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. These amendments require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. This amended guidance became effective for us on January 1, 2016, and did not have a material impact on our consolidated operating results or financial condition.

In March 2016, the FASB issued ASU 2016-09, Compensation – Stock Compensation (718) Improvements to Employee Share-Based Payment Accounting . This ASU amends existing guidance in an effort to simplify certain aspects of accounting for share-based payments. The areas for simplification in this ASU include income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. This amended guidance is effective for us on January 1, 2017, with early adoption permitted. We adopted this amended guidance during the second quarter of 2016 using a modified retrospective approach. The impact of this adoption was to adjust our January 1, 2016 Consolidated Statement of Financial Position to reflect cumulative effect adjustments as follows:

	January 1, 2016 Originally Presented	Cumulative Retrospective Adjustments	January 1, 2016 Adjusted
	(Dollars in thousands)		
Deferred tax assets	\$ 39,635	\$ 1,247	\$ 40,882
Total assets	\$ 2,409,066	\$ 1,247	\$ 2,410,313
Common stock	\$ 339,462	\$ 62	\$ 339,524
Accumulated deficit	\$ (82,334)	\$ 1,185	\$ (81,149)
Total Shareholders' Equity	\$ 251,092	\$ 1,247	\$ 252,339
Total Liabilities and Shareholders' Equity	\$ 2,409,066	\$ 1,247	\$ 2,410,313

The adjustments above reflect the recording of \$1.23 million of unrealized excess benefits on share based compensation and \$0.06 million (impact to equity of \$0.02 million after consideration of deferred taxes) for the impact of making an accounting policy election to account for forfeitures as they occur. After January 1, 2016, excess tax benefits or deficiencies resulting from share-based payments will be recognized as tax benefit or expense when they occur. Tax benefits of \$0.3 million were recorded during the year ended December 31, 2016, as a result of share awards vesting and stock option exercises. In addition, we have elected to apply the amendments related to the presentation of excess tax benefits in the statement of cash flows on a prospective basis.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) . This ASU supersedes and replaces nearly all existing revenue recognition guidance, including industry-specific guidance, establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time, provides new and more detailed guidance on specific topics and expands and improves

disclosures about revenue. In addition, this ASU specifies the accounting for some costs to obtain or fulfill a contract with a customer. This amended guidance is effective for us on January 1, 2018, and is not expected to have a material impact on our consolidated operating results or financial condition. Financial instruments for the most part and related contractual rights and obligations which are the sources of the majority of our operating revenue are excluded from the scope of this amended guidance. In addition, for those operating revenue streams that are included in the scope of this amended guidance, based upon our review of these sources of income we do not believe they will be materially impacted by this amended guidance.

F-62

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

In January 2016, the FASB issued ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10) – Recognition and Measurement of Financial Assets and Financial Liabilities . This ASU amends existing guidance related to the accounting for certain financial assets and liabilities. These amendments, among other things, requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income, requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset and eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. This amended guidance is effective for us on January 1, 2018. We have reviewed the types of financial instruments impacted by this amended guidance, including certain equity investments and liabilities measured under the fair value election, and have determined that we do not currently own any such instruments. The balance of this amended guidance is expected to impact certain disclosure items but is not expected to have any impact on our consolidated operating results or financial condition.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) . This ASU amends existing guidance related to the accounting for leases. These amendments, among other things, requires lessees to account for most leases on the balance sheet while recognizing expense on the income statement in a manner similar to existing guidance. For lessors the guidance modifies the classification criteria and the accounting for sales-type and direct finance leases. This amended guidance is effective for us on January 1, 2019 and is not expected to have a material impact on our consolidated operating results or financial condition. Based on a review of our operating leases that we currently have in place (see note #18) we do not expect a material change in the recognition, measurement and presentation of lease expense or impact on cash flow. While the primary impact will be the recognition of certain operating leases on our Consolidated Statements of Financial Condition, this impact is not expected to be material.

In June 2016, the FASB issued 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 will replace today s incurred loss approach with an expected loss model for instruments measured at amortized cost. For securities available for sale, allowances will be recorded rather than reducing the carrying amount as is done under the current other-than-temporary impairment model. This ASU also simplifies the accounting model for purchased credit-impaired debt securities and loans. This amended guidance is effective for us on January 1, 2020. We began evaluating this ASU in 2016 and have formed a committee that includes personnel from various areas of the Bank that meets regularly to discuss the implementation of this ASU. We are in the process of gathering data and reviewing loss methodologies as well as reviewing certain software applications that would assist us in the implementation of this ASU. While we have not yet determined what the impact will be on our consolidated operating results or financial condition by the nature of the implementation of an expected loss model compared to an incurred loss approach, we would expect our AFLL to increase under this ASU.

NOTE 2 – RESTRICTIONS ON CASH AND DUE FROM BANKS

Our Bank is required to maintain reserve balances in the form of vault cash and non-interest earning balances with the FRB. The average reserve balances to be maintained during 2016 and 2015 were \$4.0 million and \$3.2 million, respectively. We do not maintain compensating balances with correspondent banks. We are also required to maintain reserve balances related primarily to our merchant payment processing operations and for certain investment security transactions. These balances are held at unrelated financial institutions and totaled \$2.4 million and \$2.5 million at December 31, 2016 and 2015, respectively.

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)****NOTE 3 – SECURITIES**

Securities available for sale consist of the following at December 31:

	Amortized Cost	Unrealized Gains Losses		Fair Value
		(In thousands)		
2016				
U.S. agency	\$ 28,909	\$ 159	\$ 80	\$ 28,988
U.S. agency residential mortgage-backed	156,053	1,173	937	156,289
U.S. agency commercial mortgage-backed	12,799	28	195	12,632
Private label mortgage-backed	35,035	216	524	34,727
Other asset backed	146,829	271	391	146,709
Obligations of states and political subdivisions	175,180	478	4,759	170,899
Corporate	56,356	223	399	56,180
Trust preferred	2,922	—	343	2,579
Foreign government	1,626	—	13	1,613
Total	\$ 615,709	\$ 2,548	\$ 7,641	\$ 610,616
2015				
U.S. agency	\$ 47,283	\$ 309	\$ 80	\$ 47,512
U.S. agency residential mortgage-backed	195,055	1,584	583	196,056
U.S. agency commercial mortgage-backed	34,017	94	83	34,028
Private label mortgage-backed	5,061	161	319	4,903
Other asset backed	117,431	54	581	116,904
Obligations of states and political subdivisions	145,193	941	1,150	144,984
Corporate	38,895	9	290	38,614
Trust preferred	2,916	—	433	2,483
Total	\$ 585,851	\$ 3,152	\$ 3,519	\$ 585,484

Total OTTI recognized in accumulated other comprehensive loss for securities available for sale was zero at both December 31, 2016 and 2015, respectively.

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, at December 31 follows:

Less Than Twelve Months		Twelve Months or More		Total	
Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(In thousands)					

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2016

U.S. agency	\$ 4,179	\$ 41	\$ 8,217	\$ 39	\$ 12,396	\$ 80
U.S. agency residential mortgage-backed	62,524	732	20,857	205	83,381	937
U.S. agency commercial mortgage-backed	6,079	194	143	1	6,222	195
Private label mortgage-backed	20,545	281	1,413	243	21,958	524
Other asset backed	52,958	172	17,763	219	70,721	391
Obligations of states and political subdivisions	113,078	4,014	14,623	745	127,701	4,759
Corporate	25,546	292	2,810	107	28,356	399
Trust preferred	—	—	2,579	343	2,579	343
Foreign government	1,613	13	—	—	1,613	13
Total	\$ 286,522	\$ 5,739	\$ 68,405	\$ 1,902	\$ 354,927	\$ 7,641

F-64

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

	Less Than Twelve Months		Twelve Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
2015						
U.S. agency	\$ 12,164	\$ 47	\$ 6,746	\$ 33	\$ 18,910	\$ 80
U.S. agency residential mortgage-backed	57,538	316	23,340	267	80,878	583
U.S. agency commercial mortgage-backed	16,747	60	2,247	23	18,994	83
Private label mortgage-backed	—	—	3,393	319	3,393	319
Other asset backed	102,660	434	5,189	147	107,849	581
Obligations of states and political subdivisions	52,493	597	12,240	553	64,733	1,150
Corporate	30,550	290	—	—	30,550	290
Trust preferred	—	—	2,483	433	2,483	433
Total	\$ 272,152	\$ 1,744	\$ 55,638	\$ 1,775	\$ 327,790	\$ 3,519

Our portfolio of securities available for sale is reviewed quarterly for impairment in value. In performing this review, management considers (1) the length of time and extent that fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, (3) the impact of changes in market interest rates on the market value of the security and (4) an assessment of whether we intend to sell, or it is more likely than not that we will be required to sell a security in an unrealized loss position before recovery of its amortized cost basis. For securities that do not meet the aforementioned recovery criteria, the amount of impairment recognized in earnings is limited to the amount related to credit losses, while impairment related to other factors is recognized in other comprehensive income (loss).

U.S. agency, U.S. agency residential mortgage-backed securities and U.S. agency commercial mortgage backed securities — at December 31, 2016, we had 25 U.S. agency, 118 U.S. agency residential mortgage-backed and nine U.S. agency commercial mortgage-backed securities whose fair market value is less than amortized cost. The unrealized losses are largely attributed to increases in interest rates since acquisition and widening spreads to Treasury bonds. As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no declines are deemed to be other than temporary.

Private label residential mortgage backed securities — at December 31, 2016, we had 34 of this type of security whose fair value is less than amortized cost. The unrealized losses are centered in four securities purchased prior to 2016. Two of these four securities have an impairment in excess of 10% and all four of these holdings have been impaired for more than 12 months. The unrealized losses are largely attributable to credit spread widening on these four securities since their acquisition.

These four securities are receiving principal and interest payments. Most of these transactions are pass-through structures, receiving pro rata principal and interest payments from a dedicated collateral pool. The nonreceipt of interest cash flows is not expected and thus not presently considered in our discounted cash flow methodology discussed below.

These four private label mortgage-backed securities are reviewed for OTTI utilizing a cash flow projection. The cash flow analysis forecasts cash flow from the underlying loans in each transaction and then applies these cash flows to the bonds in the securitization. Our cash flow analysis forecasts complete recovery of our cost basis for all four of these securities whose fair value is less than amortized cost.

As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no other declines discussed above are deemed to be other than temporary.

F-65

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Other asset backed — at December 31, 2016, we had 111 other asset backed securities whose fair value is less than amortized cost. The unrealized losses are primarily due to credit spread widening and increases in interest rates since acquisition. As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no declines are deemed to be other than temporary.

Obligations of states and political subdivisions — at December 31, 2016, we had 329 municipal securities whose fair value is less than amortized cost. The unrealized losses are primarily due to increases in interest rates since acquisition. Fifty-one of these securities have an impairment in excess of 10%. The larger relative impairments on obligations of states and political subdivisions is due primarily to the longer maturities of many of the securities in this portfolio and interest rate spread widening relative to treasury securities in late 2016, due in part, to market reaction to the potential for a future reduction in corporate income tax rates, which would reduce the tax benefit of owning tax-exempt securities. As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no declines are deemed to be other than temporary.

Corporate — at December 31, 2016, we had 30 corporate securities whose fair value is less than amortized cost. The unrealized losses are primarily due to credit spread widening and increases in interest rates since acquisition. As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no declines are deemed to be other than temporary.

Trust preferred securities — at December 31, 2016, we had three trust preferred securities whose fair value is less than amortized cost. All 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 three securities is rated by two major rating agencies as investment grade, while one (a Bank of America issuance) is rated below investment grade by two major rating agencies and 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 \$0.8 million as of December 31, 2016, continues to have satisfactory credit metrics and make interest payments.

The following table breaks out our trust preferred securities in further detail as of December 31:

	2016		2015	
	Fair Value	Net Unrealized Loss	Fair Value	Net Unrealized Loss
	(In thousands)			
Trust preferred securities				
Rated issues	\$ 1,800	\$ (123)	\$ 1,690	\$ (226)
Unrated issues	779	(220)	793	(207)

As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no declines are deemed to be other than temporary.

Foreign government — at December 31, 2016, we had one foreign government security whose fair value is less than amortized cost. The unrealized loss is primarily due to increases in interest rates since acquisition. As management does not intend to liquidate this security and it is more likely than not that we will not be required to sell this security prior to recovery of this unrealized loss, this decline is not deemed to be other than temporary.

We recorded zero credit related OTTI charges in the Consolidated Statements of Operations on securities available for sale during 2016 and 2015 and \$0.01 million during 2014.

F-66

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

At December 31, 2016, three private label residential mortgage-backed securities had credit related OTTI and are summarized as follows:

	Senior Security	Super Senior Security	Senior Support Security	Total
	(In thousands)			
As of December 31, 2016				
Fair value	\$ 1,226	\$ 1,096	\$ 74	\$ 2,396
Amortized cost	1,184	1,029	—	2,213
Non-credit unrealized loss	—	—	—	—
Unrealized gain	42	67	74	183
Cumulative credit related OTTI	757	457	380	1,594

Credit related OTTI recognized in our Consolidated Statements of Operations

For the years ended December 31,

2016	\$ —	\$ —	\$ —	\$ —
2015	—	—	—	—
2014	9	—	—	9

Each of these securities is receiving principal and interest payments similar to principal reductions in the underlying collateral. All three of these securities have unrealized gains at December 31, 2016. The original amortized cost for each of these securities has been permanently adjusted downward for previously recorded credit related OTTI. The unrealized loss (based on original amortized cost) for these securities is now less than previously recorded credit related OTTI amounts.

A roll forward of credit losses recognized in earnings on securities available for sale for the years ending December 31 follow:

	2016	2015	2014
	(In thousands)		
Balance at beginning of year	\$ 1,844	\$ 1,844	\$ 1,835
Additions to credit losses on securities for which no previous OTTI was recognized	—	—	—
Increases to credit losses on securities for which OTTI was previously recognized	—	—	9
Total	\$ 1,844	\$ 1,844	\$ 1,844

The amortized cost and fair value of securities available for sale at December 31, 2016, by contractual maturity, follow:

Amortized Cost	Fair Value
(In thousands)	

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Maturing within one year	\$ 18,728	\$ 18,751
Maturing after one year but within five years	102,330	101,846
Maturing after five years but within ten years	79,798	78,140
Maturing after ten years	64,137	61,522
	264,993	260,259
U.S. agency residential mortgage-backed	156,053	156,289
U.S. agency commercial mortgage-backed	12,799	12,632
Private label mortgage-backed	35,035	34,727
Other asset backed	146,829	146,709
Total	\$ 615,709	\$ 610,616

F-67

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

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.

A summary of proceeds from the sale of securities available for sale and gains and losses for the years ended December 31 follow:

	Realized		
	Proceeds	Gains⁽¹⁾	Losses⁽²⁾
	(In thousands)		
2016	\$ 64,103	\$ 354	\$ 53
2015	12,037	75	—
2014	14,633	329	—

(1)Gains in 2014 exclude \$0.3 million of realized gain related to a U.S. Treasury short position.

(2)Losses in 2014 exclude \$0.01 million of credit related OTTI recognized in earnings.

During 2016, 2015 and 2014, our trading securities consisted of various preferred stocks. During each of those years, we recognized gains (losses) on trading securities of \$0.26 million, \$(0.06) million and \$(0.30) million, respectively, that are included in net gains on securities in the Consolidated Statements of Operations. All of these amounts relate to gains (losses) recognized on trading securities still held at December 31, 2016 and 2015.

Securities available for sale with a book value of \$2.4 million and \$1.1 million at December 31, 2016 and 2015, respectively, were pledged to secure borrowings, derivatives, public deposits and for other purposes as required by law. There were no investment obligations of state and political subdivisions that were payable from or secured by the same source of revenue or taxing authority that exceeded 10% of consolidated shareholders' equity at December 31, 2016 or 2015.

NOTE 4 – LOANS AND PAYMENT PLAN RECEIVABLES

Our loan portfolios at December 31 follow:

	2016	2015
	(In thousands)	
Real estate ⁽¹⁾		
Residential first mortgages	\$ 453,348	\$ 432,215
Residential home equity and other junior mortgages	105,550	106,297
Construction and land development	77,287	62,629
Other ⁽²⁾	525,748	498,706
Consumer	234,632	193,350
Commercial	206,607	180,424
Agricultural	5,076	6,830
Payment plan receivables ⁽³⁾	—	34,599
Total loans	\$ 1,608,248	\$ 1,515,050

(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.

(3) Payment plan receivables were reclassified to held for sale at December 31, 2016. See note #1. Loans include net deferred loan costs of \$4.1 million and \$2.2 million at December 31, 2016 and 2015, respectively. Payment plan receivables totaling \$36.9 million at December 31, 2015, are presented net of unamortized discount of \$2.3 million at December 31, 2015. These payment plan receivables had effective yields of 13% at December 31, 2015.

F-68

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

In August 2016 and December 2015, we purchased \$15.0 million and \$32.6 million, respectively of single-family residential fixed rate jumbo mortgage loans from two separate Michigan-based financial institutions. These mortgage loans were all on properties located in Michigan, had weighted average interest rates (after a 0.25% servicing fee) of 3.65% and 3.94%, respectively and weighted average remaining contractual maturities of 332 months and 344 months, respectively.

An analysis of the allowance for loan losses by portfolio segment for the years ended December 31 follows:

	Commercial Mortgage		Installment	Payment Plan Receivables	Subjective Allocation	Total
	(In thousands)					
2016						
Balance at beginning of period	\$ 5,670	\$ 10,391	\$ 1,181	\$ 56	\$ 5,272	\$ 22,570
Additions (deductions)						
Provision for loan losses	(1,945)	(158)	401	(4)	397	(1,309)
Recoveries credited to allowance	2,472	1,047	1,100	—	—	4,619
Loans charged against the allowance	(1,317)	(2,599)	(1,671)	—	—	(5,587)
Reclassification to loans held for sale	—	—	—	(52)	(7)	(59)
Balance at end of period	\$ 4,880	\$ 8,681	\$ 1,011	\$ —	\$ 5,662	\$ 20,234
2015						
Balance at beginning of period	\$ 5,445	\$ 13,444	\$ 1,814	\$ 64	\$ 5,223	\$ 25,990
Additions (deductions)						
Provision for loan losses	(737)	(1,744)	(274)	(8)	49	(2,714)
Recoveries credited to allowance	2,656	1,258	1,108	—	—	5,022
Loans charged against the allowance	(1,694)	(2,567)	(1,467)	—	—	(5,728)
Balance at end of period	\$ 5,670	\$ 10,391	\$ 1,181	\$ 56	\$ 5,272	\$ 22,570
2014						
Balance at beginning of period	\$ 6,827	\$ 17,195	\$ 2,246	\$ 97	\$ 5,960	\$ 32,325
Additions (deductions)						
Provision for loan losses	(1,683)	(1,029)	349	(36)	(737)	(3,136)
Recoveries credited to allowance	4,914	1,397	1,104	5	—	7,420
Loans charged against the allowance	(4,613)	(4,119)	(1,885)	(2)	—	(10,619)
Balance at end of period	\$ 5,445	\$ 13,444	\$ 1,814	\$ 64	\$ 5,223	\$ 25,990

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Allowance for loan losses and recorded investment in loans by portfolio segment follows:

	Commercial Mortgage		Installment	Payment Plan Receivables	Subjective Allocation	Total
	(In thousands)					
2016						
Allowance for loan losses:						
Individually evaluated for impairment	\$ 2,244	\$ 6,579	\$ 329	\$ —	\$ —	9,152
Collectively evaluated for impairment	2,636	2,102	682	—	5,662	11,082
Total ending allowance balance	\$ 4,880	\$ 8,681	\$ 1,011	\$ —	\$ 5,662	\$ 20,234
Loans						
Individually evaluated for impairment	\$ 15,767	\$ 59,151	\$ 4,913	\$ —		\$ 79,831
Collectively evaluated for impairment	790,228	481,828	261,474	—		1,533,530
Total loans recorded investment	805,995	540,979	266,387	—		1,613,361
Accrued interest included in recorded investment	1,978	2,364	771	—		5,113
Total loans	\$ 804,017	\$ 538,615	\$ 265,616	\$ —		\$ 1,608,248
2015						
Allowance for loan losses:						
Individually evaluated for impairment	\$ 2,708	\$ 7,818	\$ 457	\$ —	\$ —	10,983
Collectively evaluated for impairment	2,962	2,573	724	56	5,272	11,587
Total ending allowance balance	\$ 5,670	\$ 10,391	\$ 1,181	\$ 56	\$ 5,272	\$ 22,570
Loans						
Individually evaluated for impairment	\$ 16,868	\$ 66,375	\$ 5,888	\$ —		\$ 89,131
Collectively evaluated for impairment	733,399	433,931	228,827	34,599		1,430,756
Total loans recorded investment	750,267	500,306	234,715	34,599		1,519,887
Accrued interest included in recorded investment	1,869	2,270	698	—		4,837

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Total loans	\$ 748,398	\$ 498,036	\$ 234,017	\$ 34,599	\$ 1,515,050
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Non-performing loans include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. If these loans had continued to accrue interest in accordance with their original terms, approximately \$0.5 million, \$0.6 million and \$0.8 million of interest income would have been recognized in 2016, 2015 and 2014, respectively. Interest income recorded on these loans was approximately zero during the years ended 2016, 2015 and 2014.

F-70

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Loans on non-accrual status and past due more than 90 days (Non-performing Loans) at December 31 follow:

	90+ and Still Accruing	Non- Accrual	Total Non- Performing Loans
	(In thousands)		
2016			
Commercial			
Income producing - real estate	\$ —	\$ 628	\$ 628
Land, land development and construction - real estate	—	105	105
Commercial and industrial	—	4,430	4,430
Mortgage			
1-4 family	—	5,248	5,248
Resort lending	—	1,507	1,507
Home equity - 1st lien	—	222	222
Home equity - 2nd lien	—	317	317
Purchased loans	—	—	—
Installment			
Home equity - 1st lien	—	266	266
Home equity - 2nd lien	—	289	289
Loans not secured by real estate	—	351	351
Other	—	1	1
Total recorded investment	\$ —	\$ 13,364	\$ 13,364
Accrued interest included in recorded investment	\$ —	\$ —	\$ —
2015			
Commercial			
Income producing - real estate	\$ —	\$ 1,027	\$ 1,027
Land, land development and construction - real estate	49	401	450
Commercial and industrial	69	2,028	2,097
Mortgage			
1-4 family	—	4,744	4,744
Resort lending	—	1,094	1,094
Home equity - 1st lien	—	187	187
Home equity - 2nd lien	—	147	147
Purchased loans	—	2	2
Installment			
Home equity - 1st lien	—	106	106
Home equity - 2nd lien	—	443	443

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Loans not secured by real estate	—	421	421
Other	—	2	2
Payment plan receivables			
Full refund	—	2	2
Partial refund	—	2	2
Other	—	1	1
Total recorded investment	\$ 118	\$ 10,607	\$ 10,725
Accrued interest included in recorded investment	\$ 2	\$ —	\$ 2

F-71

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

An aging analysis of loans by class at December 31 follows:

	Loans Past Due				Loans not Past Due	Total Loans
	30-59 days	60-89 days	90+ days	Total		
	(In thousands)					
2016						
Commercial						
Income producing - real estate	\$ —	\$ —	\$ 383	\$ 383	\$ 287,255	\$ 287,638
Land, land development and construction - real estate	74	—	31	105	51,670	51,775
Commercial and industrial	100	1,385	66	1,551	465,031	466,582
Mortgage						
1-4 family	2,361	869	5,248	8,478	306,063	314,541
Resort lending	—	—	1,507	1,507	101,541	103,048
Home equity - 1st lien	149	—	222	371	28,645	29,016
Home equity - 2nd lien	470	218	317	1,005	54,232	55,237
Purchased loans	13	2	—	15	39,122	39,137
Installment						
Home equity - 1st lien	311	48	266	625	12,025	12,650
Home equity - 2nd lien	238	41	289	568	13,390	13,958
Loans not secured by real estate	533	95	351	979	236,022	237,001
Other	8	1	1	10	2,768	2,778
Total recorded investment	\$ 4,257	\$ 2,659	\$ 8,681	\$ 15,597	\$ 1,597,764	\$ 1,613,361
Accrued interest included in recorded investment	\$ 45	\$ 19	\$ —	\$ 64	\$ 5,049	\$ 5,113
2015						
Commercial						
Income producing - real estate	\$ 203	\$ 209	\$ 647	\$ 1,059	\$ 305,155	\$ 306,214
Land, land development and construction - real estate	—	—	252	252	44,231	44,483
Commercial and industrial	785	16	151	952	398,618	399,570
Mortgage						
1-4 family	1,943	640	4,744	7,327	269,880	277,207
Resort lending	307	—	1,094	1,401	114,619	116,020
Home equity - 1st lien	50	—	187	237	22,327	22,564
Home equity - 2nd lien	439	54	147	640	50,618	51,258
Purchased loans	9	1	2	12	33,245	33,257

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Installment						
Home equity - 1st lien	315	107	106	528	16,707	17,235
Home equity - 2nd lien	231	149	443	823	19,727	20,550
Loans not secured by real estate	567	83	421	1,071	193,680	194,751
Other	15	3	2	20	2,159	2,179
Payment plan receivables						
Full refund	492	62	2	556	21,294	21,850
Partial refund	415	228	2	645	5,834	6,479
Other	110	3	1	114	6,156	6,270
Total recorded investment	\$ 5,881	\$ 1,555	\$ 8,201	\$ 15,637	\$ 1,504,250	\$ 1,519,887
Accrued interest included in recorded investment	\$ 53	\$ 17	\$ 2	\$ 72	\$ 4,765	\$ 4,837

F-72

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Impaired loans are as follows:

	December 31,	
	2016	2015
	(In thousands)	
Impaired loans with no allocated allowance		
TDR	\$ 1,782	\$ 2,518
Non - TDR	1,107	203
Impaired loans with an allocated allowance		
TDR - allowance based on collateral	3,527	4,810
TDR - allowance based on present value cash flow	72,613	81,002
Non - TDR - allowance based on collateral	491	260
Non - TDR - allowance based on present value cash flow	—	—
Total impaired loans	\$ 79,520	\$ 88,793
Amount of allowance for loan losses allocated		
TDR - allowance based on collateral	\$ 1,868	\$ 2,436
TDR - allowance based on present value cash flow	7,146	8,471
Non - TDR - allowance based on collateral	138	76
Non - TDR - allowance based on present value cash flow	—	—
Total amount of allowance for loan losses allocated	\$ 9,152	\$ 10,983

Impaired loans by class as of December 31 are as follows⁽¹⁾:

	2016		2015		
	Unpaid		Unpaid		
	Recorded	Principal	Related	Recorded	Principal
	Investment	Balance	Allowance	Investment	Balance
			Investment		
			Balance		
			Related		Allowance
			Allowance		
			(In thousands)		
With no related allowance recorded:					
Commercial					
Income producing - real estate	\$ 517	\$ 768	\$ —	\$ 641	\$ 851
Land, land development & construction-real estate	31	709	—	818	1,393
Commercial and industrial	2,341	3,261	—	1,245	1,241
Mortgage					
1-4 family	2	387	—	23	183
Resort lending	—	—	—	—	—
Home equity - 1st lien	—	—	—	—	—
Home equity - 2nd lien	—	—	—	—	—

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Installment

Home equity - 1st lien	—	66	—	—	76	—
Home equity - 2nd lien	—	—	—	—	—	—
Loans not secured by real estate	—	—	—	—	—	—
Other	—	—	—	—	—	—
	2,891	5,191	—	2,727	3,744	—

F-73

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

	2016			2015		
	Recorded	Unpaid	Related	Recorded	Unpaid	Related
	Investment	Principal	Allowance	Investment	Principal	Allowance
	(In thousands)					
With an allowance recorded:						
Commercial						
Income producing - real estate	7,737	7,880	554	8,377	9,232	516
Land, land development & construction-real estate	239	244	36	1,690	1,778	296
Commercial and industrial	4,902	5,246	1,654	4,097	4,439	1,896
Mortgage						
1-4 family	41,701	43,479	4,100	47,792	49,808	5,132
Resort lending	16,898	16,931	2,453	18,148	18,319	2,662
Home equity - 1st lien	235	242	10	168	172	9
Home equity - 2nd lien	315	398	16	244	325	15
Installment						
Home equity - 1st lien	1,994	2,117	118	2,364	2,492	143
Home equity - 2nd lien	2,415	2,443	182	2,929	2,951	271
Loans not secured by real estate	504	540	29	587	658	42
Other	—	—	—	8	8	1
	76,940	79,520	9,152	86,404	90,182	10,983
Total						
Commercial						
Income producing - real estate	8,254	8,648	554	9,018	10,083	516
Land, land development & construction-real estate	270	953	36	2,508	3,171	296
Commercial and industrial	7,243	8,507	1,654	5,342	5,680	1,896
Mortgage						
1-4 family	41,703	43,866	4,100	47,815	49,991	5,132
Resort lending	16,898	16,931	2,453	18,148	18,319	2,662
Home equity - 1st lien	235	242	10	168	172	9
Home equity - 2nd lien	315	398	16	244	325	15
Installment						
Home equity - 1st lien	1,994	2,183	118	2,364	2,568	143
Home equity - 2nd lien	2,415	2,443	182	2,929	2,951	271
Loans not secured by real estate	504	540	29	587	658	42
Other	—	—	—	8	8	1
Total	\$ 79,831	\$ 84,711	\$ 9,152	\$ 89,131	\$ 93,926	\$ 10,983

Accrued interest included in recorded investment	\$ 311	\$ 338
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(1) There were no impaired payment plan receivables or purchased mortgage loans at December 31, 2016 or 2015.

F-74

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Average recorded investment in and interest income earned on impaired loans by class for the years ended December 31 follows⁽¹⁾:

	2016		2015		2014	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
(In thousands)						
With no related allowance recorded:						
Commercial						
Income producing - real estate	\$ 609	\$ 2	\$ 4,520	\$ 387	\$ 7,660	\$ 250
Land, land development & construction-real estate	330	7	952	79	1,145	64
Commercial and industrial	961	54	2,125	257	3,351	152
Mortgage						
1-4 family	10	16	19	11	29	—
Resort lending	—	—	12	—	40	1
Home equity - 1st lien	—	—	—	—	—	—
Home equity - 2nd lien	—	—	—	—	—	—
Installment						
Home equity - 1st lien	—	5	—	5	—	2
Home equity - 2nd lien	3	—	—	—	—	—
Loans not secured by real estate	—	—	—	—	—	—
Other	—	—	—	—	—	—
	1,913	84	7,628	739	12,225	469
With an allowance recorded:						
Commercial						
Income producing - real estate	8,069	427	12,677	439	12,772	677
Land, land development & construction-real estate	1,129	31	2,219	54	3,939	149
Commercial and industrial	5,723	189	6,663	104	8,500	294
Mortgage						
1-4 family	44,923	1,918	50,421	2,140	55,877	2,286
Resort lending	17,544	619	18,448	670	19,458	753
Home equity - 1st lien	226	10	161	8	160	6
Home equity - 2nd lien	248	14	172	13	57	2
Installment						
Home equity - 1st lien	2,185	147	2,539	176	2,837	174
Home equity - 2nd lien	2,661	162	3,055	193	3,359	188

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Loans not secured by real estate	546	35	653	37	719	35
Other	4	—	10	1	14	1
	83,258	3,552	97,018	3,835	107,692	4,565

F-75

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

	2016		2015		2014	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Total						
Commercial						
Income producing - real estate	8,678	429	17,197	826	20,432	927
Land, land development & construction-real estate	1,459	38	3,171	133	5,084	213
Commercial and industrial	6,684	243	8,788	361	11,851	446
Mortgage						
1-4 family	44,933	1,934	50,440	2,151	55,906	2,286
Resort lending	17,544	619	18,460	670	19,498	754
Home equity - 1st lien	226	10	161	8	160	6
Home equity - 2nd lien	248	14	172	13	57	2
Installment						
Home equity - 1st lien	2,185	152	2,539	181	2,837	176
Home equity - 2nd lien	2,664	162	3,055	193	3,359	188
Loans not secured by real estate	546	35	653	37	719	35
Other	4	—	10	1	14	1
Total	\$ 85,171	\$ 3,636	\$ 104,646	\$ 4,574	\$ 119,917	\$ 5,034

(1) There were no impaired payment plan receivables or purchased mortgage loans during the years ending December 31, 2016, 2015 and 2014.

Our average investment in impaired loans was approximately \$85.2 million, \$104.6 million and \$119.9 million in 2016, 2015 and 2014, respectively. Cash receipts on impaired loans on non-accrual status are generally applied to the principal balance. Interest income recognized on impaired loans was approximately \$3.6 million, \$4.6 million and \$5.0 million in 2016, 2015 and 2014, respectively, of which the majority of these amounts were received in cash and related primarily to performing TDR s.

Troubled debt restructurings at December 31 follow:

	2016		
	Commercial	Retail ⁽¹⁾	Total
	(In thousands)		
Performing TDR's	\$ 10,560	\$ 59,726	\$ 70,286
Non-performing TDR's ⁽²⁾	3,565	4,071 ⁽³⁾	7,636
Total	\$ 14,125	\$ 63,797	\$ 77,922
	2015		
	Commercial	Retail ⁽¹⁾	Total

(In thousands)

Performing TDR's	\$ 13,318	\$ 68,194	\$ 81,512
Non-performing TDR's ⁽²⁾	3,041	3,777 ⁽³⁾	6,818
Total	\$ 16,359	\$ 71,971	\$ 88,330

(1) Retail loans include mortgage and installment loan 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.

F-76

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

We have allocated \$9.0 million and \$10.9 million of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2016 and 2015, respectively. We have committed to lend additional amounts totaling up to \$0.04 million at both December 31, 2016 and 2015, respectively, to customers with outstanding loans that are classified as troubled debt restructurings.

The terms of certain loans were modified as troubled debt restructurings and 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 new debt 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.

Loans that have been classified as troubled debt restructurings during the years ended December 31 follow⁽¹⁾:

	Number of Contracts	Pre-modification Recorded Balance	Post-modification Recorded Balance
	(Dollars in thousands)		
2016			
Commercial			
Income producing - real estate	4	\$ 290	\$ 290
Land, land development & construction-real estate	—	—	—
Commercial and industrial	9	2,044	2,027
Mortgage			
1-4 family	9	927	1,004
Resort lending	1	116	117
Home equity - 1st lien	1	107	78
Home equity - 2nd lien	2	77	78
Installment			
Home equity - 1st lien	6	141	145
Home equity - 2nd lien	6	154	157
Loans not secured by real estate	2	46	46
Other	—	—	—
Total	40	\$ 3,902	\$ 3,942
2015			
Commercial			
Income producing - real estate	2	\$ 229	\$ 227

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Land, land development & construction-real estate	—	—	—
Commercial and industrial	17	3,188	2,960
Mortgage			
1-4 family	8	1,345	1,128
Resort lending	1	313	307
Home equity - 1st lien	1	20	20
Home equity - 2nd lien	1	27	27
Installment			
Home equity - 1st lien	6	220	186
Home equity - 2nd lien	8	228	217
Loans not secured by real estate	2	19	25
Other	—	—	—
Total	46	\$ 5,589	\$ 5,097

F-77

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

	Number of Contracts	Pre-modification Recorded Balance	Post-modification Recorded Balance
	(Dollars in thousands)		
2014			
Commercial			
Income producing - real estate	4	\$ 426	\$ 389
Land, land development & construction-real estate	2	55	44
Commercial and industrial	13	2,236	1,606
Mortgage			
1-4 family	15	1,576	1,570
Resort lending	6	1,583	1,572
Home equity - 1st lien	1	17	14
Home equity - 2nd lien	1	85	84
Installment			
Home equity - 1st lien	13	631	523
Home equity - 2nd lien	9	400	400
Loans not secured by real estate	6	114	106
Other	—	—	—
Total	70	\$ 7,123	\$ 6,308

(1) There were no payment plan receivables or purchased mortgage loans classified as troubled debt restructurings during the years ending 2016, 2015 and 2014.

The troubled debt restructurings described above increased (decreased) the AFLL by \$(0.1) million, \$0.4 million and \$0.2 million during the years ended December 31, 2016, 2015 and 2014, respectively and resulted in charge offs of \$0.53 million, \$0.16 million and \$0.04 million during the years ended December 31, 2016, 2015 and 2014, respectively.

Loans that have been classified as troubled debt restructured during the past twelve months and that have subsequently defaulted during the years ended December 31 follows:

	Number of Contracts	Recorded Balance
	(Dollars in thousands)	
2016		
Commercial		
Income producing - real estate	—	\$ —
Land, land development & construction-real estate	—	—
Commercial and industrial	1	1,767
Mortgage		

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1-4 family	—	—
Resort lending	—	—
Home equity - 1st lien	—	—
Home equity - 2nd lien	—	—
Installment		
Home equity - 1st lien	—	—
Home equity - 2nd lien	—	—
Loans not secured by real estate	—	—
Other	—	—
Total	1	\$ 1,767

F-78

TABLE OF CONTENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Number of Recorded Contracts	Balance (Dollars in thousands)
2015		
Commercial		
Income producing - real estate	—	\$ —
Land, land development & construction-real estate	—	—
Commercial and industrial	2	157
Mortgage		
1-4 family	2	73
Resort lending	—	—
Home equity - 1st lien	—	—
Home equity - 2nd lien	—	—
Installment		
Home equity - 1st lien	—	—
Home equity - 2nd lien	—	—
Loans not secured by real estate	1	4
Other	—	—
Total	5	\$ 234
2014		
Commercial		
Income producing - real estate	—	\$ —
Land, land development & construction-real estate	—	—
Commercial and industrial	2	319
Mortgage		
1-4 family	1	125
Resort lending	—	—
Home equity - 1st lien	—	—
Home equity - 2nd lien	—	—
Installment		
Home equity - 1st lien	—	—
Home equity - 2nd lien	—	—
Loans not secured by real estate	—	—
Other	—	—
Total	3	\$ 444

A loan is generally considered to be in payment default once it is 90 days contractually past due under the modified terms for commercial loans and installment loans and when four consecutive payments are missed for mortgage loans.

The troubled debt restructurings that subsequently defaulted described above increased (decreased) the AFLL by \$(0.17) million, \$(0.03) million and \$0.02 million during the years ended December 31, 2016, 2015 and 2014, respectively and resulted in charge offs of \$0.51 million, zero and zero during the years ended December 31, 2016, 2015 and 2014, respectively.

The terms of certain other loans were modified during the years ending December 31, 2016, 2015 and 2014 that did not meet the definition of a troubled debt restructuring. The modification of these loans could have included modification of the terms of a loan to borrowers who were not experiencing financial difficulties or a delay in a payment that was considered to be insignificant.

F-79

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

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.

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) weighted-average risk grade of commercial loans, (b) the level of classified commercial loans, (c) credit scores of mortgage and installment loan borrowers, (d) financial performance of certain counterparties for payment plan receivables and (e) 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. This rating includes 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. This rating includes loans to borrowers with weaknesses that make collection of debt 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.

The following table summarizes loan ratings by loan class for our commercial loan segment at December 31:

	Non-watch 1-6	Watch 7-8	Commercial Substandard Accrual 9	Non- Accrual 10-11	Total
	(In thousands)				
2016					
Income producing - real estate	\$ 282,886	\$ 3,787	\$ 337	\$ 628	\$ 287,638
Land, land development and construction - real estate	51,603	67	—	105	51,775
Commercial and industrial	449,365	9,788	2,998	4,431	466,582
Total	\$ 783,854	\$ 13,642	\$ 3,335	\$ 5,164	\$ 805,995

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Accrued interest included in total	\$ 1,915	\$ 52	\$ 11	\$ —	\$ 1,978
2015					
Income producing - real estate	\$ 296,898	\$ 6,866	\$ 1,423	\$ 1,027	\$ 306,214
Land, land development and construction - real estate	40,844	2,995	243	401	44,483
Commercial and industrial	371,357	19,502	6,683	2,028	399,570
Total	\$ 709,099	\$ 29,363	\$ 8,349	\$ 3,456	\$ 750,267
Accrued interest included in total	\$ 1,729	\$ 108	\$ 32	\$ —	\$ 1,869

F-80

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

For each of our mortgage and installment segment classes we generally monitor credit quality based on the credit scores of the borrowers. These credit scores are generally updated semi-annually. The following tables summarize credit scores by loan class for our mortgage and installment loan segments at December 31:

	Mortgage⁽¹⁾					Total
	1-4	Resort	Home	Home	Purchased	
	Family	Lending	Equity	Equity	Loans	
			1st Lien	2nd Lien		
			(In thousands)			
2016						
800 and above	\$ 36,534	\$ 10,484	\$ 6,048	\$ 8,392	\$ 8,462	\$ 69,920
750-799	102,382	41,999	10,006	20,113	20,984	195,484
700-749	69,337	24,727	5,706	12,360	9,115	121,245
650-699	50,621	13,798	4,106	8,167	437	77,129
600-649	25,270	5,769	1,674	3,067	—	35,780
550-599	13,747	3,030	455	1,699	—	18,931
500-549	9,215	1,438	486	981	—	12,120
Under 500	5,145	92	255	279	—	5,771
Unknown	2,290	1,711	280	179	139	4,599
Total	\$ 314,541	\$ 103,048	\$ 29,016	\$ 55,237	\$ 39,137	\$ 540,979
Accrued interest included in total	\$ 1,466	\$ 450	\$ 111	\$ 226	\$ 111	\$ 2,364
2015						
800 and above	\$ 28,760	\$ 13,943	\$ 4,374	\$ 7,696	\$ 2,310	\$ 57,083
750-799	78,802	40,888	7,137	17,405	23,283	167,515
700-749	56,519	31,980	4,341	11,022	6,940	110,802
650-699	51,813	17,433	3,203	7,691	—	80,140
600-649	27,966	4,991	1,467	3,684	—	38,108
550-599	16,714	3,070	1,027	1,918	—	22,729
500-549	10,610	1,051	572	1,295	—	13,528
Under 500	4,708	554	244	265	—	5,771
Unknown	1,315	2,110	199	282	724	4,630
Total	\$ 277,207	\$ 116,020	\$ 22,564	\$ 51,258	\$ 33,257	\$ 500,306
Accrued interest included in total	\$ 1,396	\$ 477	\$ 87	\$ 196	\$ 114	\$ 2,270

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

	Installment⁽¹⁾				Total
	Home	Home	Loans not		
	Equity	Equity	Secured by		
	1st Lien	2nd Lien	Real	Other	
			Estate		

(In thousands)

2016					
800 and above	\$ 1,354	\$ 1,626	\$ 53,281	\$ 86	\$ 56,347
750-799	2,478	3,334	107,460	793	114,065
700-749	1,920	2,686	43,456	821	48,883
650-699	2,852	2,541	19,053	624	25,070
600-649	1,691	1,775	4,638	298	8,402
550-599	1,231	1,063	1,942	53	4,289
500-549	981	692	1,095	45	2,813
Under 500	114	220	276	24	634
Unknown	29	21	5,800	34	5,884
Total	\$ 12,650	\$ 13,958	\$ 237,001	\$ 2,778	\$ 266,387
Accrued interest included in total	\$ 54	\$ 59	\$ 638	\$ 20	\$ 771

F-81

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

	Installment⁽¹⁾				Total
	Home Equity 1st Lien	Home Equity 2nd Lien	Loans not Secured by Real Estate	Other	
	(In thousands)				
2015					
800 and above	\$ 1,792	\$ 1,782	\$ 44,254	\$ 58	\$ 47,886
750-799	4,117	5,931	86,800	531	97,379
700-749	2,507	3,899	34,789	694	41,889
650-699	3,508	4,182	16,456	499	24,645
600-649	2,173	2,153	4,979	200	9,505
550-599	1,800	1,346	1,997	109	5,252
500-549	1,056	855	1,170	61	3,142
Under 500	223	370	385	23	1,001
Unknown	59	32	3,921	4	4,016
Total	\$ 17,235	\$ 20,550	\$ 194,751	\$ 2,179	\$ 234,715
Accrued interest included in total	\$ 78	\$ 83	\$ 520	\$ 17	\$ 698

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

Mepco is a wholly-owned subsidiary of our Bank that operates a vehicle service contract payment plan business throughout the United States. As discussed in note #1 all payment plan receivables have been reclassified to held for sale at December 31, 2016. In addition, see note #11 for more information about Mepco's business. As of December 31, 2015, approximately 63.2% of Mepco's outstanding payment plan receivables related to programs in which a third party insurer or risk retention group was obligated to pay Mepco the full refund owing upon cancellation of the related service contract (including with respect to both the portion funded to the service contract seller and the portion funded to the administrator). These receivables are shown as **Full Refund** in the table below. Another approximately 18.7% of Mepco's outstanding payment plan receivables as of December 31, 2015, related to programs in which a third party insurer or risk retention group is obligated to pay Mepco the refund owing upon cancellation only with respect to the unearned portion previously funded by Mepco to the administrator (but not to the service contract seller). These receivables are shown as **Partial Refund** in the table below. The balance of Mepco's outstanding payment plan receivables related to programs in which there was no insurer or risk retention group that had any contractual liability to Mepco for any portion of the refund amount. These receivables are shown as **Other** in the table below. For each class of our payment plan receivables we monitored financial information on the counterparties as we evaluated the credit quality of this portfolio.

The following table summarizes credit ratings of insurer or risk retention group counterparties by class of payment plan receivable at December 31:

Payment Plan Receivables			
Full Refund	Partial Refund	Other	Total
(In thousands)			

2015

AM Best rating

A+	\$	—	\$	6	\$	—	\$	6
A		2,712		5,203		—		7,915
A-		3,418		1,177		6,265		10,860
Not rated		15,720		93		5		15,818
Total	\$	21,850	\$	6,479	\$	6,270	\$	34,599

Although Mepco has contractual recourse against various counterparties for refunds owing upon cancellation of vehicle service contracts, see note #11 below regarding certain risks and difficulties associated with collecting these refunds.

F-82

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Mortgage loans serviced for others are not reported as assets on the Consolidated Statements of Financial Condition. The principal balances of these loans at December 31 follow:

	2016	2015
	(In thousands)	
Mortgage loans serviced for:		
Fannie Mae	\$ 944,703	\$ 898,443
Freddie Mac	622,885	707,891
Ginnie Mae	85,290	37,884
Other	6,115	107
Total	\$ 1,658,993	\$ 1,644,325

Custodial deposit accounts maintained in connection with mortgage loans serviced for others totaled \$18.9 million and \$21.8 million, at December 31, 2016 and 2015, respectively.

If we do not remain well capitalized for regulatory purposes (see note #20), meet certain minimum capital levels or certain profitability requirements or if we incur a rapid decline in net worth, we could lose our ability to sell and/or service loans to these investors. This could impact our ability to generate gains on the sale of loans and generate servicing income. A forced liquidation of our servicing portfolio could also impact the value that could be recovered on this asset. Fannie Mae has the most stringent eligibility requirements covering capital levels, profitability and decline in net worth. Fannie Mae requires seller/servicers to be well capitalized for regulatory purposes. For the profitability requirement, we cannot record four or more consecutive quarterly losses and experience a 30% decline in net worth over the same period. Finally, our net worth cannot decline by more than 25% in one quarter or more than 40% over two consecutive quarters. The highest level of capital we are required to maintain is at least \$2.5 million plus 0.25% of loans serviced for Freddie Mac.

An analysis of capitalized mortgage loan servicing rights for the years ended December 31 follows:

	2016	2015	2014
	(In thousands)		
Balance at beginning of year	\$ 12,436	\$ 12,106	\$ 13,710
Originated servicing rights capitalized	3,119	2,697	1,823
Amortization	(2,850)	(2,868)	(2,509)
Change in valuation allowance	966	501	(918)
Balance at end of year	\$ 13,671	\$ 12,436	\$ 12,106
Valuation allowance	\$ 2,306	\$ 3,272	\$ 3,773
Loans sold and serviced that have had servicing rights capitalized	\$ 1,657,996	\$ 1,643,086	\$ 1,661,269

The fair value of capitalized mortgage loan servicing rights was \$14.2 million and \$12.9 million at December 31, 2016 and 2015, respectively. Fair value was determined using an average coupon rate of 4.20%, average servicing fee of 0.256%, average discount rate of 10.07% and an average Public Securities Association (PSA) prepayment rate of 175 for December 31, 2016; and an average coupon rate of 4.32%, average servicing fee of 0.254%, average discount rate of 10.04% and an average PSA prepayment rate of 203 for December 31, 2015.

NOTE 5 – OTHER REAL ESTATE

A summary of other real estate activity for the years ended December 31 follows⁽¹⁾:

	2016	2015	2014
	(In thousands)		
Balance at beginning of year, net of valuation allowance	\$ 7,070	\$ 6,370	\$ 18,088
Loans transferred to other real estate	2,355	6,694	6,143
Sales of other real estate	(3,596)	(5,502)	(17,198)
Additions to valuation allowance charged to expense	(873)	(492)	(663)
Balance at end of year, net of valuation allowance	\$ 4,956	\$ 7,070	\$ 6,370

(1) Table excludes other repossessed assets totaling \$0.05 and \$0.08 million at December 31, 2016 and 2015, respectively.

F-83

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

We periodically review our real estate properties and establish valuation allowances on these properties if values have declined since the date of acquisition. An analysis of our valuation allowance for other real estate follows:

	2016	2015	2014
	(In thousands)		
Balance at beginning of year	\$ 1,692	\$ 2,511	\$ 4,047
Additions charged to expense	873	492	663
Direct write-downs upon sale	(1,772)	(1,311)	(2,199)
Balance at end of year	\$ 793	\$ 1,692	\$ 2,511

At December 31, 2016 and 2015, the balance of other real estate includes \$1.9 million and \$2.8 million of foreclosed residential real estate properties. Retail mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process according to local requirements totaled \$1.0 million and \$1.1 million at December 31, 2016 and 2015, respectively.

Other real estate and repossessed assets totaling \$5.0 million and \$7.2 million at December 31, 2016 and 2015, respectively, are presented net of the valuation allowance on the Consolidated Statements of Financial Condition.

NOTE 6 – PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31 follows:

	2016	2015
	(In thousands)	
Land	\$ 15,486	\$ 15,152
Buildings	54,656	57,638
Equipment	72,090	79,842
	142,232	152,632
Accumulated depreciation and amortization	(102,057)	(109,529)
Property and equipment, net	\$ 40,175	\$ 43,103

Depreciation expense was \$5.8 million, \$6.6 million and \$6.7 million in 2016, 2015 and 2014, respectively.

NOTE 7 – INTANGIBLE ASSETS

Intangible assets, net of amortization, at December 31 follows:

	2016		2015	
	Gross		Gross	
	Carrying	Accumulated	Carrying	Accumulated
	Amount	Amortization	Amount	Amortization
	(In thousands)			
Amortized intangible assets - core deposits	\$ 6,118	\$ 4,186	\$ 6,118	\$ 3,838

Intangible amortization expense was \$0.3 million, \$0.3 million and \$0.5 million in 2016, 2015 and 2014, respectively.

A summary of estimated core deposit intangible amortization at December 31, 2016, follows:

	(In thousands)
2017	\$ 346
2018	346
2019	346
2020	346
2021	346
2022 and thereafter	202
Total	\$ 1,932

F-84

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)****NOTE 8 – DEPOSITS**

A summary of interest expense on deposits for the years ended December 31 follows:

	2016	2015	2014
	(In thousands)		
Savings and interest bearing checking	\$ 1,115	\$ 1,056	\$ 1,064
Time deposits under \$100,000	1,628	1,586	2,467
Time deposits of \$100,000 or more	2,198	1,367	1,436
Total	\$ 4,941	\$ 4,009	\$ 4,967

Aggregate time deposits in denominations of \$250,000 or more amounted to \$174.6 million and \$110.4 million at December 31, 2016 and 2015, respectively.

A summary of the maturity of time deposits at December 31, 2016, follows:

	(In thousands)
2017	\$ 363,382
2018	74,019
2019	19,838
2020	11,341
2021	15,685
2022 and thereafter	853
Total	\$ 485,118

Reciprocal deposits totaled \$38.7 million and \$50.2 million at December 31, 2016 and 2015, respectively. These deposits represent demand, money market and time deposits from our customers that have been placed through Promontory Interfinancial Network's Insured Cash Sweep® service and Certificate of Deposit Account Registry Service®. These services allow our customers to access multi-million dollar FDIC deposit insurance on deposit balances greater than the standard FDIC insurance maximum.

A summary of reciprocal deposits at December 31 follows:

	2016	2015
	(In thousands)	
Demand	\$ 3,055	\$ 3,436
Money market	4,350	8,340
Time	31,252	38,431
Total	\$ 38,657	\$ 50,207

NOTE 9 – OTHER BORROWINGS

A summary of other borrowings at December 31 follows:

	2016	2015
	(In thousands)	
Advances from the FHLB	\$ 9,428	\$ 11,949
Other	5	5
Total	\$ 9,433	\$ 11,954

Advances from the FHLB are secured by unencumbered qualifying mortgage and home equity loans with a market value equal to at least 135% to 174%, respectively, of outstanding advances. Advances are also secured by FHLB stock that we own, which totaled \$7.8 million at December 31, 2016. Unused borrowing capacity with the

F-85

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

FHLB (subject to the FHLB's credit requirements and policies) was \$205.3 million at December 31, 2016. Interest expense on advances amounted to \$0.8 million, \$0.8 million and \$0.9 million for the years ended December 31, 2016, 2015 and 2014, respectively. No FHLB advances were terminated during 2016, 2015 or 2014.

As a member of the FHLB, we must own FHLB stock equal to the greater of 1.0% of the unpaid principal balance of residential mortgage loans or 5.0% of our outstanding advances. At December 31, 2016, we were in compliance with the FHLB stock ownership requirements.

The maturity dates and weighted average interest rates of FHLB advances at December 31 follow:

	2016		2015	
	Amount	Rate	Amount	Rate
	(Dollars in thousands)			
Fixed-rate advances				
2016			\$ 2,089	6.55 %
2017	\$ 1,192	7.04 %	1,258	7.04
2018	5,183	5.99	5,437	5.99
2019	—		—	
2020	3,053	7.49	3,165	7.49
Total advances	\$ 9,428	6.61 %	\$ 11,949	6.59 %

A summary of contractually required repayments of FHLB advances at December 31, 2016 follow:

	(In thousands)
2017	\$ 1,587
2018	5,042
2019	143
2020	2,656
Total	\$ 9,428

We had no borrowings outstanding with the FRB during the years ended or at December 31, 2016, 2015 or 2014. We had unused borrowing capacity with the FRB (subject to the FRB's credit requirements and policies) of \$391.2 million at December 31, 2016. Collateral for FRB borrowings are certain commercial loans.

Assets, consisting of FHLB stock and loans, pledged to secure other borrowings and unused borrowing capacity totaled \$904.6 million at December 31, 2016.

NOTE 10 – SUBORDINATED DEBENTURES

We have formed various special purpose entities (the trusts) for the purpose of issuing trust preferred securities in either public or pooled offerings or in private placements. Independent Bank Corporation owns all of the common stock of each trust and has issued subordinated debentures to each trust in exchange for all of the proceeds from the issuance of the common stock and the trust preferred securities. Trust preferred securities totaling \$34.5 million at both December 31, 2016 and 2015, respectively, qualified as Tier 1 regulatory capital.

These trusts are not consolidated with Independent Bank Corporation and accordingly, we report the common securities of the trusts held by us in accrued income and other assets and the subordinated debentures that we have issued to the trusts in the liability section of our Consolidated Statements of Financial Condition.

F-86

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Summary information regarding subordinated debentures as of December 31 follows:

Entity Name	Issue Date	Subordinated Debentures	2016 and 2015	
			Trust Preferred Securities Issued	Common Stock Issued
			(In thousands)	
IBC Capital Finance III	May 2007	\$ 12,372	\$ 12,000	\$ 372
IBC Capital Finance IV	September 2007	15,465	15,000	465
Midwest Guaranty Trust I	November 2002	7,732	7,500	232
		\$ 35,569	\$ 34,500	\$ 1,069

Other key terms for the subordinated debentures and trust preferred securities that were outstanding at December 31, 2016 and 2015 follow:

Entity Name	Maturity Date	Interest Rate	First Permitted Redemption Date
IBC Capital Finance III	July 30, 2037	3 month LIBOR plus 1.60%	July 30, 2012
IBC Capital Finance IV	September 15, 2037	3 month LIBOR plus 2.85%	September 15, 2012
Midwest Guaranty Trust I	November 7, 2032	3 month LIBOR plus 3.45%	November 7, 2007

The subordinated debentures and trust preferred securities are cumulative and have a feature that permits us to defer distributions (payment of interest) from time to time for a period not to exceed 20 consecutive quarters. Interest is payable quarterly on each of the subordinated debentures and trust preferred securities and no distributions were deferred at December 31, 2016 and 2015.

We have the right to redeem the subordinated debentures and trust preferred securities (at par) in whole or in part from time to time on or after the first permitted redemption date specified above or upon the occurrence of specific events defined within the trust indenture agreements. During 2014, we redeemed trust preferred securities issued by IBC Capital Finance IV with a par value of \$5.0 million. These trust preferred securities were redeemed at a discount of \$0.5 million and we recognized a gain on extinguishment of debt in our Consolidated Statements of Operations for this same amount.

Issuance costs have been capitalized and are being amortized on a straight-line basis over a period not exceeding 30 years and are included in interest expense in the Consolidated Statements of Operations. Distributions (payment of interest) on the trust preferred securities are also included in interest expense – other borrowings in the Consolidated Statements of Operations.

NOTE 11 – COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of business, we enter into financial instruments with off-balance sheet risk to meet the financing needs of customers or to reduce exposure to fluctuations in interest rates. These financial instruments may include commitments to extend credit and standby letters of credit. Financial instruments involve varying degrees of credit and interest-rate risk in excess of amounts reflected in the Consolidated Statements of Financial Condition. Exposure to credit risk in the event of non-performance by the counterparties to the financial instruments for loan commitments

to extend credit and standby letters of credit is represented by the contractual amounts of those instruments. We do not, however, anticipate material losses as a result of these financial instruments.

A summary of financial instruments with off-balance sheet risk at December 31 follows:

	2016	2015
	(In thousands)	
Financial instruments whose risk is represented by contract amounts		
Commitments to extend credit	\$ 364,270	\$ 243,458
Standby letters of credit	3,140	3,582

F-87

TABLE OF CONTENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and generally require payment of a fee. Since commitments may expire without being drawn upon, the commitment amounts do not represent future cash requirements. Commitments are issued subject to similar underwriting standards, including collateral requirements, as are generally involved in the extension of credit facilities.

Standby letters of credit are written conditional commitments issued to guarantee the performance of a customer to a third party. The credit risk involved in such transactions is essentially the same as that involved in extending loan facilities and, accordingly, standby letters of credit are issued subject to similar underwriting standards, including collateral requirements, as are generally involved in the extension of credit facilities. The majority of the standby letters of credit are to corporations, have variable rates that range from 0.60% to 8.25% and mature through 2018.

In December 2016, we reached a tentative settlement regarding litigation initiated against us in Wayne County, Michigan Circuit Court. This litigation concerned checking account transaction sequencing during a period from February 2009 to June 2011. Under the terms of the settlement, we have agreed to pay \$2.2 million and are also responsible for class notification costs and certain other expenses which are estimated to total approximately \$0.1 million. Although, we deny any liability associated with this matter and believe we have meritorious defenses to the allegations in the complaint, given the costs and uncertainty of litigation, it was determined that this settlement was in the best interests of the organization.

We are also involved in various other litigation matters in the ordinary course of business. At the present time, we do not believe any of these other matters will have a significant impact on our consolidated financial position or results of operations. The aggregate amount we have accrued for losses we consider probable as a result of these other 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 approximately \$0.3 million. However, because of a number of factors, including the fact that certain of these other 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. Risks associated with the likelihood that we will not collect the full amount owed to us, net of reserves, are disclosed elsewhere in this report.

Mepco conducts its payment plan business activities across the United States. Mepco acquires the payment plans from companies (which we refer to as Mepco's counterparties) at a discount from the face amount of the payment plan. Each payment plan (which are classified as payment plan receivables in our Consolidated Statements of Financial Condition) permits a consumer to purchase a vehicle service contract by making installment payments, generally for a term of 12 to 30 months, to the sellers of those contracts (one of the counterparties). Mepco thereafter collects the payments from consumers. In acquiring the payment plan, Mepco generally funds a portion of the cost to the seller of the service contract and a portion of the cost to the administrator of the service contract. The administrator, in turn, pays the necessary contractual liability insurance policy (CLIP) premium to the insurer or risk retention group.

Consumers are allowed to voluntarily cancel the service contract at any time and are generally entitled to receive a refund from the administrator of the unearned portion of the service contract at the time of cancellation. As a result, while Mepco does not owe any refund to the consumer, it also does not have any recourse against the consumer for nonpayment of a payment plan and therefore does not evaluate the creditworthiness of the individual consumer. If a consumer stops making payments on a payment plan or exercises the right to voluntarily cancel the service contract, the service contract seller and administrator are each obligated to refund to Mepco the amount necessary to make Mepco whole as a result of its funding of the service contract. In addition, the insurer or risk retention group that issued the CLIP for the service contract often guarantees all or a portion of the refund to Mepco.

F-88

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Upon the cancellation of a service contract and the completion of the billing process to the counterparties for amounts due to Mepco, there is a decrease in the amount of payment plan receivables and an increase in the amount of vehicle service contract counterparty receivables until such time as the amount due from the counterparty is collected. These amounts represent funds actually due to Mepco from its counterparties for cancelled service contracts. Mepco is currently in the process of working to recover these receivables, primarily through negotiated settlements with the counterparties. In some cases, Mepco requires collateral or guaranties by the principals of the counterparties to secure these refund obligations; however, this is generally only the case when no insurance company is involved to guarantee the repayment obligation of the seller and administrator counterparties. In most cases, there is no collateral to secure the counterparties' refund obligations to Mepco, but Mepco has the contractual right to offset unpaid refund obligations against amounts Mepco would otherwise be obligated to fund to the counterparties. In addition, even when collateral is involved, the refund obligations of these counterparties are not fully secured. Mepco incurs losses when it is unable to fully recover funds owed to it by counterparties upon cancellation of the underlying service contracts. The sudden failure of one of Mepco's major counterparties (an insurance company, administrator, or seller/dealer) could expose us to significant losses.

When counterparties do not honor their contractual obligations to Mepco to repay funds, we recognize estimated losses. Mepco pursues collection (including commencing legal action if necessary) of funds due to it under its various contracts with counterparties. Mepco has had to initiate litigation against certain counterparties, including third party insurers, to collect amounts owed to Mepco as a result of those parties' dispute of their contractual obligations to Mepco. During the first quarter of 2016, we settled our last significant remaining litigation matter with certain of Mepco's counterparties. This settlement resulted in our receipt of a cash payment of \$4.0 million on March 31, 2016. This settlement also resulted in our receipt of an interest-bearing promissory note from one of Mepco's counterparties for \$1.5 million with monthly payments scheduled over a five-year period beginning in May 2016. Due to the lack of any payment history and limited financial information on this counterparty, we established a full reserve on this promissory note as of March 31, 2016. A full reserve on the remaining balance (\$1.3 million) on this note was maintained at December 31, 2016. Thus far, this counterparty has made all required monthly payments on the note. As a longer-term payment history is developed on this note, we will continue to evaluate the need for all or any part of a reserve. Vehicle service contract counterparty receivables, net totaled \$2.3 million as of December 31, 2016 compared to \$7.2 million as of December 31, 2015. For 2016, 2015 and 2014, non-interest expenses include \$(0.1) million, \$0.1 million and \$0.2 million, respectively, of (recoveries) charges related to vehicle service contract counterparty contingencies. These (recoveries) charges are being classified in non-interest expense – other in the Consolidated Statements of Operations because they are associated with a default or potential default of a contractual obligation under our counterparty contracts as opposed to loss on the administration of the payment plan itself.

Our estimate of probable incurred losses from vehicle service contract counterparty contingencies requires a significant amount of judgment because a number of factors can influence the amount of loss that we may ultimately incur. These factors include our estimate of future cancellations of vehicle service contracts, our evaluation of collateral that may be available to recover funds due from our counterparties, and our assessment of the amount that may ultimately be collected from counterparties in connection with their contractual obligations. We apply a rigorous process, based upon historical payment plan activity and past experience, to estimate probable incurred losses and quantify the necessary reserves for our vehicle service contract counterparty contingencies, but there can be no assurance that our modeling process will successfully identify all such losses.

We believe our assumptions regarding the collection of vehicle service contract counterparty receivables are reasonable, and we based them on our good faith judgments using data currently available. We also believe the current amount of reserves we have established and the vehicle service contract counterparty contingencies expense that we have recorded are appropriate given our estimate of probable incurred losses at the applicable Consolidated Statement

of Financial Condition date. However, because of the uncertainty surrounding the numerous and complex assumptions made, actual losses could exceed the charges we have taken to date.

F-89

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

An analysis of our vehicle service contract counterparty receivable, net follows:

	2016	2015	2014
	(In thousands)		
Balance at beginning of year, net of reserve	\$ 7,229	\$ 7,237	\$ 7,716
Transfers in from payment plan receivables	200	1,203	180
Reserves (established) reversed and charge-offs recorded to expense	88	(119)	(199)
Recovery of previously charged-off receivable	1,500	—	—
Reserve established on previously charged-off receivable	(1,500)	—	—
Transferred from contingency reserves	(38)	—	(75)
Transfer to held for sale	(422)	—	—
Cash received	(4,786)	(1,092)	(385)
Balance at end of year, net of reserve	\$ 2,271	\$ 7,229	\$ 7,237
Reserve at end of year	\$ 1,437	\$ 56	\$ 1,370

An analysis of our vehicle service contract counterparty reserve follows:

	2016	2015	2014
	(In thousands)		
Balance at beginning of year	\$ 56	\$ 1,370	\$ 1,375
Additions (recoveries) recorded to expense	(88)	119	199
Reserve established on previously charged-off receivable	1,500	—	—
Charge-offs, net	(31)	(1,433)	(204)
Balance at end of year	\$ 1,437	\$ 56	\$ 1,370

In connection with our pending sale of Mepco (see note #1), we agreed to contractually indemnify the purchaser from certain losses it may incur, including as a result of its failure to collect certain receivables it purchased as part of the business as well as breaches of representations and warranties we made in the sale agreement, subject to various limitations. We have not accrued any liability related to these indemnification requirements in our December 31, 2016 Consolidated Statement of Financial Condition because we believe the likelihood of having to pay any amount as a result of these indemnification obligations is remote. However, if the purchaser is unable to collect the receivables it purchased from Mepco or otherwise encounters difficulties in operating the business, it is possible it could make one or more claims against us pursuant to the sale agreement. In that event, we may incur expenses in defending any such claims and/or amounts paid to such purchaser to resolve such claims.

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 and Ginnie Mae). 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 (credit) of \$0.03 million, \$(0.06) million and \$(0.47) million for the years ended December 31, 2016, 2015 and 2014, respectively. The small expense in 2016 is primarily due to establishing specific reserves for pending loss reimbursement claims. The credit provisions in 2015 and 2014 are due primarily to the settlements of certain loss reimbursement claims at lower amounts than what had been specifically reserved for at the end of the respective previous period. The reserve for loss reimbursements on sold mortgage loans totaled \$0.6 million and \$0.5 million at

December 31, 2016 and 2015, respectively. This reserve is included in accrued expenses and other liabilities in our 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. The reserve levels at December 31, 2016 and 2015 also reflect the resolution of the mortgage loan origination years of 2000 to 2008 with Fannie Mae and Freddie Mac. 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.

F-90

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)****NOTE 12 – SHAREHOLDERS EQUITY AND INCOME PER COMMON SHARE**

On January 21, 2016 and 2015, our Board of Directors authorized share repurchase plans to buy back up to 5% of our outstanding common stock through the end of each respective year. On April 26, 2016 our Board of Directors authorized a \$5.0 million expansion of the 2016 repurchase plan. During 2016 and 2015 repurchases were made through open market transactions and totaled 1,153,136 and 967,199 shares of common stock, respectively for an aggregate purchase price of \$16.9 million and \$13.5 million, respectively.

On November 15, 2011, we entered into a Tax Benefits Preservation Plan (the Preservation Plan) with our stock transfer agent, American Stock Transfer & Trust Company. Our Board of Directors adopted the Preservation Plan in an effort to protect the value to our shareholders of our ability to use deferred tax assets, such as net operating loss carry forwards, to reduce potential future federal income tax obligations. Under federal tax rules, this value could be lost in the event we experienced an ownership change, as defined in Section 382 of the federal Internal Revenue Code. The Preservation Plan attempted to protect this value by reducing the likelihood that we would experience such an ownership change by discouraging any person who is not already a 5% shareholder from becoming a 5% shareholder (with certain limited exceptions).

On October 25, 2016, the Board of Directors took affirmative action to not renew the Preservation Plan, which expired on November 15, 2016. None of the Rights had been exercised or had become exercisable because no unpermitted 4.99% or more change in the beneficial ownership of the outstanding common stock had occurred.

A reconciliation of basic and diluted net income per common share for the years ended December 31 follows:

	2016	2015	2014
	(In thousands, except per share amounts)		
Net income	\$ 22,766	\$ 20,017	\$ 18,021
Weighted average shares outstanding ⁽¹⁾	21,378	22,716	22,927
Effect of stock options	151	119	124
Stock units for deferred compensation plan for non-employee directors	115	112	114
Performance share units	48	—	—
Restricted stock units	35	233	306
Weighted average shares outstanding for calculation of diluted earnings per share	21,727	23,180	23,471
Net income per common share			
Basic ⁽¹⁾	\$ 1.06	\$ 0.88	\$ 0.79
Diluted	\$ 1.05	\$ 0.86	\$ 0.77

(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 totaled zero, 0.03 million and 0.03 million for 2016, 2015 and 2014, respectively.

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)****NOTE 13 – INCOME TAX**

The composition of income tax expense for the years ended December 31 follows:

	2016	2015	2014
	(In thousands)		
Current expense (benefit)	\$ 362	\$ 200	\$ (359)
Deferred expense	9,756	9,128	7,672
Valuation allowance - change in estimate	17	35	(118)
Income tax expense	\$ 10,135	\$ 9,363	\$ 7,195

Income tax expense includes income taxes in a variety of other states due primarily to Mepeco's operations. The amounts of such state income taxes were an expense (benefit) of \$(0.1) million, \$(0.1) million and zero in 2016, 2015 and 2014, respectively.

The deferred income tax expense of \$9.8 million, \$9.1 million and \$7.7 million during 2016, 2015 and 2014 can be primarily attributed to the utilization of our net operating loss (NOL) carryforward and decrease in our AFLL.

A reconciliation of income tax expense to the amount computed by applying the statutory federal income tax rate of 35% in each year presented to the income before income tax for the years ended December 31 follows:

	2016	2015	2014
	(In thousands)		
Statutory rate applied to income before income tax	\$ 11,515	\$ 10,283	\$ 8,826
Tax-exempt income	(534)	(434)	(522)
Bank owned life insurance	(477)	(449)	(480)
Share-based compensation	(348)	—	—
Unrecognized tax benefit	(155)	(135)	(595)
Non-deductible meals, entertainment and memberships	46	43	53
Net change in valuation allowance	17	35	(118)
Other, net	71	20	31
Income tax expense	\$ 10,135	\$ 9,363	\$ 7,195

As described in Note #1, we adopted ASU 2016-09, Compensation – Stock Compensation (718) Improvements to Employee Share-Based Payment Accounting during the second quarter of 2016 which now requires us to recognize for book purposes either income tax expense or benefit on deficiencies / excess benefits relating to share-based compensation. Included in income tax expense for the year ended December 31, 2016 are tax benefits of \$0.3 million due to the vesting of certain share-based compensation grants and the exercise of stock options during the period.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31 follow:

2016	2015
(In thousands)	

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Deferred tax assets		
Loss carryforwards	\$ 17,131	\$ 25,516
Allowance for loan losses	7,104	7,901
Alternative minimum tax credit carry forward	4,064	3,427
Property and equipment	3,143	3,369
Unrealized loss on securities available for sale	1,782	128
Purchase premiums, net	1,460	1,755
Share based payments	1,011	786
Litigation settlement	805	—

F-92

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

	2016	2015
	(In thousands)	
Vehicle service contract counterparty contingency reserve	500	21
Unrealized loss on trading securities	486	578
Other than temporary impairment charge on securities available for sale	400	382
Deferred compensation	375	404
Valuation allowance on other real estate	277	592
Non accrual loan interest income	246	232
Reserve for unfunded lending commitments	228	228
Loss reimbursement on sold loans reserve	196	186
Other	1	—
Gross deferred tax assets	39,209	45,505
Valuation allowance	(1,071)	(1,054)
Gross deferred tax assets, net of valuation allowance	38,138	44,451
Deferred tax liabilities		
Capitalized mortgage loan servicing rights	4,785	4,353
Deferred loan fees	490	256
Federal Home Loan Bank stock	45	45
Other	—	162
Gross deferred tax liabilities	5,320	4,816
Deferred tax assets, net	\$ 32,818	\$ 39,635

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 both December 31, 2016 and 2015, that the realization of substantially all of our deferred tax assets continues to be more likely than not.

The valuation allowance against our deferred tax assets totaled \$1.1 million at both December 31, 2016 and 2015. The valuation allowance against our deferred tax assets at December 31, 2016 primarily relates to state income taxes from Mepco. In this instance, we determined that the future realization of these particular deferred tax assets was not more likely than not. This conclusion in 2016 was based on the pending sale of Mepco's payment plan business and in 2015 was primarily based on the uncertainty of Mepco's future earnings attributable to particular states (given the various apportionment criteria) and the significant reduction in the size of Mepco's business.

Because of our NOL and tax credit carryforwards, we are still subject to the rules of Section 382 of the Internal Revenue Code of 1986, as amended. An ownership change, as defined by these rules, would negatively affect our ability to utilize our NOL carryforwards and other deferred tax assets in the future. If such an ownership change were to occur, we may suffer higher-than-anticipated tax expense, and consequently lower net income and cash flow, in those future years.

At December 31, 2016, we had federal NOL carryforwards of approximately \$46.0 million which, if not used against taxable income, will expire as follows:

	(In thousands)
2031	\$ 8,301
2032	37,739
Total	\$ 46,040

In addition to the amounts in the table above we also had a minor amount of state NOL carryforwards in certain states where Mepco operates. In addition, we had \$4.1 million of alternative minimum tax credit carryforwards with indefinite lives at December 31, 2016.

F-93

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Changes in unrecognized tax benefits for the years ended December 31 follow:

	2016	2015	2014
	(In thousands)		
Balance at beginning of year	\$ 976	\$ 1,091	\$ 1,672
Additions based on tax positions related to the current year	19	20	18
Reductions due to the statute of limitations	(155)	(135)	(595)
Reductions due to settlements	—	—	(4)
Balance at end of year	\$ 840	\$ 976	\$ 1,091

If recognized, the entire amount of unrecognized tax benefits, net of \$0.3 million of federal tax on state benefits, would affect our effective tax rate. We do not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next twelve months. No amounts were expensed for interest and penalties for the years ended December 31, 2016, 2015 and 2014. No amounts were accrued for interest and penalties at December 31, 2016, 2015 or 2014. At December 31, 2016, U.S. Federal tax years 2013 through the present remain open to examination.

NOTE 14 – SHARE BASED COMPENSATION AND BENEFIT PLANS

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 0.2 million shares of common stock as of December 31, 2016. The non-employee director stock purchase plan permits the grant of additional share based payments for up to 0.2 million shares of common stock as of December 31, 2016. 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.

During 2016, 2015 and 2014 pursuant to our long-term incentive plan, we granted 0.10 million, 0.07 million and 0.07 million shares, respectively of restricted stock and 0.05 million, 0.03 million and 0.03 million performance stock units (PSUs), respectively to certain officers. The shares of restricted stock issued during 2016 cliff vest after periods ranging from one to four years, the shares of restricted stock issued during 2015 cliff vest after a period of three years and the shares of restricted stock issued during 2014 vest ratably over three years. The PSUs issued during 2016 cliff vest after periods ranging from three to five years and the PSUs issued during 2015 and 2014 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 a banking index of our peers.

Our directors may elect to receive at least a portion of their quarterly 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 are issued each quarter and vest immediately. We issued 0.01 million shares to directors during each of the years ending 2016, 2015 and 2014 and expensed their value during those same periods.

Total compensation expense recognized for grants pursuant to our long-term incentive plan was \$1.5 million, \$1.4 million and \$1.0 million in 2016, 2015 and 2014, respectively. The corresponding tax benefit relating to this expense was \$0.5 million, \$0.5 million and \$0.4 million in 2016, 2015 and 2014, respectively. Total expense recognized for

non-employee director share based payments was \$0.1 million, \$0.1 million and \$0.2 million in 2016, 2015 and 2014, respectively. The corresponding tax benefit relating to this expense was \$0.04 million, \$0.03 million and \$0.1million in 2016, 2015 and 2014, respectively.

At December 31, 2016, the total expected compensation cost related to non-vested restricted stock and PSUs not yet recognized was \$2.2 million. The weighted-average period over which this amount will be recognized is 2.4 years.

F-94

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

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, 2016	235,596	\$ 4.94		
Granted	—			
Exercised	(21,614)	3.93		
Forfeited	(664)	6.42		
Expired	(2,300)	3.54		
Outstanding at December 31, 2016	211,018	\$ 5.05	5.09	\$ 3,514
Vested and expected to vest at December 31, 2016	211,018	\$ 5.05	5.09	\$ 3,514
Exercisable at December 31, 2016	211,018	\$ 5.05	5.09	\$ 3,514

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

	Number of Shares	Weighted- Average Grant Date Fair Value
Outstanding at January 1, 2016	261,981	\$ 11.29
Granted	147,160	15.39
Vested	(107,795)	7.92
Forfeited	(4,924)	13.24
Outstanding at December 31, 2016	296,422	\$ 14.52

Certain information regarding options exercised during the periods ending December 31 follows:

	2016	2015	2014
	(In thousands)		
Intrinsic value	\$ 254	\$ 444	\$ 321
Cash proceeds received	\$ 85	\$ 137	\$ 96
Tax benefit realized	\$ 89	\$ 155	\$ 112

We maintain 401(k) and employee stock ownership plans covering substantially all of our full-time employees. During 2016 and 2015 we matched 50% of employee contributions to the 401(k) plan up to a maximum of 6% and 4% of participating employees' eligible wages, respectively. During 2014 we matched 100% of employee contributions up to a maximum of 2% of participating employees' eligible wages. Contributions to the employee stock ownership plan are determined annually and require approval of our Board of Directors. The maximum contribution is 6% of employees' eligible wages. Contributions to the employee stock ownership plan were 2% for 2016, 2015 and 2014. Amounts expensed for these retirement plans were \$1.4 million, \$1.2 million, and \$1.0 million in 2016, 2015 and

2014, respectively.

Our employees participate in various performance-based compensation plans. Amounts expensed for all incentive plans totaled \$6.2 million, \$5.7 million and \$4.2 million, in 2016, 2015 and 2014, respectively.

We also provide certain health care and life insurance programs to substantially all full-time employees. Amounts expensed for these programs totaled \$3.5 million, \$3.6 million and \$3.9 million in 2016, 2015 and 2014 respectively. These insurance programs are also available to retired employees at their own expense.

F-95

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)****NOTE 15 – OTHER NON-INTEREST INCOME**

Other non-interest income for the years ended December 31 follows:

	2016	2015	2014
	(In thousands)		
Investment and insurance commissions	\$ 1,647	\$ 1,827	\$ 1,814
ATM fees	1,496	1,551	1,599
Bank owned life insurance	1,124	1,282	1,371
Other real estate rental income	58	128	1,295
Other	3,091	2,904	2,852
Total other non-interest income	\$ 7,416	\$ 7,692	\$ 8,931

NOTE 16 – DERIVATIVE FINANCIAL INSTRUMENTS

We are required to record derivatives on our 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.

Our derivative financial instruments according to the type of hedge in which they are designated at December 31 follow:

	2016		
	Notional	Average	Fair
	Amount	Maturity	Value
	(Dollars in thousands)		
No hedge designation			
Rate-lock mortgage loan commitments	\$ 26,658	0.1	\$ 646
Mandatory commitments to sell mortgage loans	61,954	0.1	630
Pay-fixed interest rate swap agreements	46,121	8.6	249
Pay-variable interest rate swap agreements	46,121	8.6	(249)
Purchased options	3,119	4.5	238
Written options	3,119	4.5	(238)
Total	\$ 187,092	4.4	\$ 1,276
	2015		
	Notional	Average	Fair
	Amount	Maturity	Value
	(Dollars in thousands)		
No hedge designation			
Rate-lock mortgage loan commitments	\$ 20,581	0.1	\$ 550

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Mandatory commitments to sell mortgage loans	46,320	0.1	69
Pay-fixed interest rate swap agreements	27,587	8.0	(497)
Pay-variable interest rate swap agreements	27,587	8.0	497
Purchased options	2,098	5.7	122
Written options	2,098	5.7	(122)
Total	\$ 126,271	3.7	\$ 619

We have established management objectives and strategies that include interest-rate risk parameters for maximum fluctuations in net interest income and market value of portfolio equity. We monitor our interest rate risk position via simulation modeling reports. The goal of our asset/liability management efforts is to maintain profitable financial leverage within established risk parameters.

F-96

TABLE OF CONTENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 included certain pay-fixed interest rate swaps which converted the variable-rate cash flows on debt obligations to fixed-rates. In 2013 we terminated our last Cash Flow Hedge pay-fixed interest rate swap and paid a termination fee of \$0.6 million. The remaining unrealized loss on the terminated pay-fixed interest rate swap which was equal to this termination fee was included as a component of accumulated other comprehensive loss and was amortized into earnings through December 31, 2014, the original remaining life of the pay-fixed interest rate swap.

Certain derivative financial instruments have not been designated as hedges. The fair value of these derivative financial instruments has been recorded on our 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 earnings.

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 the 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.

During 2015, we began offering to our deposit customers an equity linked time deposit product (Altitude CD). The Altitude CD is 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 Consolidated Statements of Operations. All of the written and purchased options in the table above relate to this Altitude CD product.

During 2014, we began 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 Consolidated Statements of Operations. All of the interest rate swap agreements in the table above relate to this program.

During the second quarter of 2014, we completed a securities trade in which we shorted a \$13 million UST security. This UST short was terminated during the fourth quarter of 2014 and the change in the fair value of the short position from the inception date to the termination date has been recorded in net gains on securities in our Consolidated Statements of Operations.

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

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

Fair Values of Derivative Instruments

	Asset Derivatives		Liability Derivatives	
	December 31,		December 31,	
	2016	2015	2016	2015
	Balance	Balance	Balance	Balance
	Sheet	Sheet	Sheet	Sheet
	Fair Value	Fair Value	Fair Value	Fair Value
	Location	Location	Location	Location
(In thousands)				
Derivatives not designated as hedging instruments				
Rate-lock mortgage loan commitments	Other assets	Other assets	Other liabilities	Other liabilities
	\$ 646	\$ 550	\$ —	\$ —
Mandatory commitments to sell mortgage loans	Other assets	Other assets	Other liabilities	Other liabilities
	630	69	—	—
Pay-fixed interest rate swap agreements	Other assets	Other assets	Other liabilities	Other liabilities
	493	—	244	497
Pay-variable interest rate swap agreements	Other assets	Other assets	Other liabilities	Other liabilities
	244	497	493	—
Purchased options	Other assets	Other assets	Other liabilities	Other liabilities
	238	122	—	—
Written options	Other assets	Other assets	Other liabilities	Other liabilities
	—	—	238	22
Total derivatives	\$ 2,251	\$ 1,238	\$ 975	\$ 619

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

Year Ended December 31,											
Loss Recognized in Other Comprehensive Income (Loss) (Effective Portion)			Location of Loss Reclassified from Accumulated Other Comprehensive Income (Effective Portion)		Loss Reclassified from Accumulated Other Comprehensive Income (Effective Portion)			Location of Gain (Loss) Recognized in Income ⁽¹⁾			
2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014
(In thousands)											

Cash Flow Hedges

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Pay-fixed interest rate swap agreements	\$ —	\$ —	\$ —	Interest expense	\$ —	\$ —	\$ (380)	Interest expense	\$ —	\$ —	\$ —
Total	\$ —	\$ —	\$ —		\$ —	\$ —	\$ (380)		\$ —	\$ —	\$ —

No hedge designation

Rate-lock mortgage loan commitments								Net gains on mortgage loans	\$ 96	\$ 113	\$ 71
Mandatory commitments to sell mortgage loans								Net gains on mortgage loans	561	253	(312)
Pay-fixed interest rate swap agreements								Interest income	746	(315)	(182)
Pay-variable interest rate swap agreements								Interest income	(746)	315	182
Purchased options								Interest expense	116	122	—
Written options								Interest expense	(116)	(122)	—
UST short position								Net gains on securities	—	—	295
Total									\$ 657	\$ 366	\$ 54

(1) For cash flow hedges, this location and amount refers to the ineffective portion.

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)****NOTE 17 – RELATED PARTY TRANSACTIONS**

Certain of our directors and executive officers, including companies in which they are officers or have significant ownership, were loan and deposit customers during 2016 and 2015.

A summary of loans to our directors and executive officers whose borrowing relationship (which includes loans to entities in which the individual owns a 10% or more voting interest) exceeds \$60,000 for the years ended December 31 follows:

	2016	2015
	(In thousands)	
Balance at beginning of year	\$ 190	\$ 216
New loans and advances	594	—
Repayments	(369)	(26)
Balance at end of year	\$ 415	\$ 190

Deposits held by us for directors and executive officers totaled \$1.0 million and \$1.3 million at December 31, 2016 and 2015, respectively.

NOTE 18 – LEASES

We have non-cancelable operating leases for certain office facilities, some of which include renewal options and escalation clauses.

A summary of future minimum lease payments under non-cancelable operating leases at December 31, 2016, follows:

	(In thousands)
2017	\$ 1,444
2018	1,313
2019	994
2020	927
2021	460
2022 and thereafter	499
Total	\$ 5,637

Rental expense on operating leases totaled \$1.2 million, \$1.2 million and \$1.3 million in 2016, 2015 and 2014, respectively.

NOTE 19 – CONCENTRATIONS OF CREDIT RISK

Credit risk is the risk to earnings and capital arising from an obligor's failure to meet the terms of any contract with our organization or otherwise fail to perform as agreed. Credit risk can occur outside of our traditional lending activities and can exist in any activity where success depends on counterparty, issuer or borrower performance. Concentrations of credit risk (whether on- or off-balance sheet) arising from financial instruments can exist in relation to individual

borrowers or groups of borrowers, certain types of collateral, certain types of industries or certain geographic regions. Credit risk associated with these concentrations could arise when a significant amount of loans or other financial instruments, related by similar characteristics, are simultaneously impacted by changes in economic or other conditions that cause their probability of repayment or other type of settlement to be adversely affected. Our major concentrations of credit risk arise by collateral type and by industry. The significant concentrations by collateral type at December 31, 2016, include \$558.9 million of loans secured by residential real estate and \$77.3 million of construction and development loans.

Additionally, within our commercial real estate and commercial loan portfolio, we had significant standard industry classification concentrations in the following categories as of December 31, 2016: Lessors of Nonresidential Real Estate (\$247.1 million); Lessors of Residential Real Estate (\$98.5 million); Health Care and Social Assistance

F-99

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

(\$70.1 million) and Construction General Contractors and Land Development (\$62.5 million). A geographic concentration arises because we primarily conduct our lending activities in the State of Michigan.

NOTE 20 – 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 December 31, 2016, the Bank had positive undivided profits of \$9.9 million. We can request regulatory approval for a return of capital from the Bank to the parent company. During the first quarters of 2016, 2015 and 2014, we requested regulatory approval for returns of capital from the Bank to the parent company for \$18.0 million, \$18.5 million and \$15.0 million. These return of capital requests were approved by our banking regulators on February 24, 2016, February 13, 2015 and March 28, 2014, respectively and the Bank returned these amounts to the parent company on February 25, 2016, February 17, 2015 and April 9, 2014, respectively. 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 and 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 consolidated financial statements. 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 December 31, 2016 and 2015, 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.

On July 2, 2013, the Federal Reserve approved a final rule that establishes an integrated regulatory capital framework (the New Capital Rules). The rule implements in the United States the Basel III regulatory capital reforms from the Basel Committee on Banking Supervision and certain changes required by the Dodd-Frank Act. In general, under the New Capital Rules, minimum requirements have increased for both the quantity and quality of capital held by banking organizations. Consistent with the international Basel framework, the New Capital Rules include a new minimum ratio of common equity Tier 1 capital to risk-weighted assets of 4.5% and a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets that applies to all supervised financial institutions. The capital conservation buffer began to phase in on January 1, 2016 with 0.625% added to the minimum ratio for adequately capitalized institutions for 2016 and 0.625% will be added each subsequent year until fully phased in during 2019. This capital conservation buffer is not reflected in the table that follows. To avoid limits on capital distributions and certain discretionary bonus payments we must meet the minimum ratio for adequately capitalized institutions plus the phased in buffer. The rule also raises the minimum ratio of Tier 1 capital to risk-weighted assets from 4% to 6% and includes a minimum leverage ratio of 4% for all banking organizations. As to the quality of capital, the New Capital Rules emphasize common equity Tier 1 capital, the most loss-absorbing form of capital, and implement strict eligibility criteria for regulatory capital instruments. The New Capital Rules also change the methodology for calculating risk-weighted assets to enhance risk sensitivity. The New Capital Rules became effective for us on January 1, 2015

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Our actual capital amounts and ratios at December 31 follow:

	Actual		Minimum for Adequately Capitalized Institutions		Minimum for Well-Capitalized Institutions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
2016						
Total capital to risk-weighted assets						
Consolidated	\$ 286,289	15.86 %	\$ 144,413	8.00 %	NA	NA
Independent Bank	270,855	15.02	144,223	8.00	\$ 180,279	10.00 %
Tier 1 capital to risk-weighted assets						
Consolidated	\$ 265,405	14.70 %	\$ 108,309	6.00 %	NA	NA
Independent Bank	249,971	13.87	108,167	6.00	\$ 144,223	8.00 %
Common equity tier 1 capital to risk-weighted assets						
Consolidated	\$ 238,996	13.24 %	\$ 81,232	4.50 %	NA	NA
Independent Bank	249,971	13.87	81,126	4.50	\$ 117,181	6.50 %
Tier 1 capital to average assets						
Consolidated	\$ 265,405	10.50 %	\$ 101,112	4.00 %	NA	NA
Independent Bank	249,971	9.90	101,019	4.00	\$ 126,274	5.00 %
2015						
Total capital to risk-weighted assets						
Consolidated	\$ 278,170	16.65 %	\$ 133,668	8.00 %	NA	NA
Independent Bank	261,894	15.69	133,514	8.00	\$ 166,893	10.00 %
Tier 1 capital to risk-weighted assets						
Consolidated	\$ 257,050	15.38 %	\$ 100,251	6.00 %	NA	NA
Independent Bank	240,867	14.43	100,136	6.00	\$ 133,514	8.00 %
Common equity tier 1 capital to risk-weighted assets						
Consolidated	\$ 239,271	14.32 %	\$ 75,188	4.50 %	NA	NA
Independent Bank	240,867	14.43	75,102	4.50	\$ 108,480	6.50 %

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Tier 1 capital to average assets

Consolidated	\$ 257,050	10.91 %	\$ 94,217	4.00 %	NA	NA
Independent Bank	240,867	10.23	94,145	4.00	\$ 117,682	5.00 %
NA - Not applicable						

F-101

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The components of our regulatory capital are as follows:

	Consolidated		Independent Bank	
	December 31,		December 31,	
	2016	2015	2016	2015
	(In thousands)			
Total shareholders' equity	\$ 248,980	\$ 251,092	\$ 258,814	\$ 259,947
Add (deduct)				
Accumulated other comprehensive loss for regulatory purposes	3,310	238	3,310	238
Intangible assets	(1,159)	(912)	(1,159)	(912)
Disallowed deferred tax assets	(12,135)	(11,147)	(10,994)	(18,406)
Common equity tier 1 capital	238,996	239,271	249,971	240,867
Qualifying trust preferred securities	34,500	34,500	—	—
Disallowed deferred tax assets	(8,091)	(16,721)	—	—
Tier 1 capital	265,405	257,050	249,971	240,867
Allowance for loan losses and allowance for unfunded lending commitments limited to 1.25% of total risk-weighted assets	20,884	21,120	20,884	21,027
Total risk-based capital	\$ 286,289	\$ 278,170	\$ 270,855	\$ 261,894

NOTE 21 – 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 (trading or available for sale) are classified as Level 1 of the valuation hierarchy. Level 1 securities include certain preferred stocks included in our trading portfolio for which there are quoted prices in active markets. 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

F-102

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

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 is based on mortgage backed security pricing for comparable assets (recurring Level 2).

Impaired loans with specific loss allocations based on collateral value: From time to time, certain loans are considered impaired and an AFLL is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. We measure our investment in an impaired loan based on one of three methods: the loan's observable market price, the fair value of the collateral or the present value of expected future cash flows discounted at the loan's effective interest rate. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At December 31, 2016 and 2015, all of our total impaired loans were evaluated based on either the fair value of the collateral or the present value of expected future cash flows discounted at the loan's effective interest rate. When the fair value of the collateral is based on an appraised value or when an appraised value is not available we record the impaired 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 in the 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 impaired 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 (for commercial properties over \$0.25 million) or a member of our Collateral Evaluation Department (for commercial properties under \$0.25 million) or a member of our Special Assets Group (for retail 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 retail 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 nonrecurring 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 and 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 agreements is based on a discounted cash flow analysis whose significant fair value inputs can

F-103

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

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).

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 Using		
	Quoted Prices in Active Markets for Identical Assets		
	Fair Value	Significant Other Observable Inputs	Significant Un-observable Inputs
	(Level 1)	(Level 2)	(Level 3)
	(In thousands)		
December 31, 2016:			
Measured at Fair Value on a Recurring Basis:			
Assets			
Trading securities	\$ 410	\$ 410	\$ —
Securities available for sale			
U.S. agency	28,988	—	28,988
U.S. agency residential mortgage-backed	156,289	—	156,289
U.S. agency commercial mortgage-backed	12,632	—	12,632
Private label mortgage-backed	34,727	—	34,727
Other asset backed	146,709	—	146,709
Obligations of states and political subdivisions	170,899	—	170,899
Corporate	56,180	—	56,180
Trust preferred	2,579	—	2,579
Foreign government	1,613	—	1,613
Loans held for sale	35,946	—	35,946
Derivatives ⁽¹⁾	2,251	—	2,251
Liabilities			
Derivatives ⁽²⁾	975	—	975
Measured at Fair Value on a Non-recurring basis:			
Assets			
Capitalized mortgage loan servicing rights ⁽³⁾	8,163	—	8,163

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Impaired loans⁽⁴⁾

Commercial

Income producing - real estate	255	—	—	255
Land, land development & construction-real estate	54	—	—	54
Commercial and industrial	1,342	—	—	1,342

Mortgage

1-4 family	361	—	—	361
------------	-----	---	---	-----

Other real estate⁽⁵⁾

Commercial

Income producing - real estate ⁽⁶⁾	2,863	—	2,863	—
Land, land development & construction-real estate	176	—	—	176

Mortgage

1-4 family	98	—	—	98
Resort lending	133	—	—	133

(1) Included in accrued income and other assets.

(2) Included in accrued expenses and other liabilities.

(3) Only includes servicing rights that are carried at fair value due to recognition of a valuation allowance.

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

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

(6) Level 2 valuation is based on a signed purchase agreement.

F-104

TABLE OF CONTENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Fair Value Measurements Using			
	Quoted			
	Prices			
	in			
	Active			
	Markets			
	for		Significant	
	Identical		Other	
	Assets		Observable	
	Fair Value		Significant	
	(Level		Un-observable	
	1)		Inputs	
	Measure-ments		(Level 2)	
	1)		(Level 3)	
	(In thousands)			
December 31, 2015:				
Measured at Fair Value on a Recurring Basis:				
Assets				
Trading securities	\$ 148	\$ 148	\$ —	\$ —
Securities available for sale				
U.S. agency	47,512	—	47,512	—
U.S. agency residential mortgage-backed	196,056	—	196,056	—
U.S. agency commercial mortgage-backed	34,028	—	34,028	—
Private label mortgage-backed	4,903	—	4,903	—
Other asset backed	116,904	—	116,904	—
Obligations of states and political subdivisions	144,984	—	144,984	—
Corporate	38,614	—	38,614	—
Trust preferred	2,483	—	2,483	—
Loans held for sale	27,866	—	27,866	—
Derivatives ⁽¹⁾	1,238	—	1,238	—
Liabilities				
Derivatives ⁽²⁾	619	—	619	—
Measured at Fair Value on a Non-recurring basis:				
Assets				
Capitalized mortgage loan servicing rights ⁽³⁾	8,481	—	—	8,481
Impaired loans ⁽⁴⁾				
Commercial				
Income producing - real estate	711	—	—	711
Land, land development & construction-real estate	40	—	—	40
Commercial and industrial	1,257	—	—	1,257
Mortgage				

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1-4 family	421	—	—	421
Resort lending	129	—	—	129
Other real estate ⁽⁵⁾				
Commercial				
Land, land development & construction-real estate	639	—	—	639
Commercial and industrial	165	—	—	165
Mortgage				
1-4 family	26	—	—	26
Resort lending	107	—	—	107
Home equity - 1st lien	14	—	—	14
Installment				
Home equity - 1st lien	36	—	—	36

(1) Included in accrued income and other assets.

(2) Included in accrued expenses and other liabilities.

(3) Only includes servicing rights that are carried at fair value due to recognition of a valuation allowance.

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

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

There were no transfers between Level 1 and Level 2 during the years ended December 31, 2016 and 2015.

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Changes in fair values of financial assets for which we have elected the fair value option for the years ended December 31 were as follows:

	Net Gains (Losses) on Assets		Total Change in Fair Values Included in Current Period Earnings	
	Securities	Loans	(In thousands)	
2016				
Trading securities	\$ 262	\$ —	\$	262
Loans held for sale	—	(277)	(277)	
2015				
Trading securities	\$ (55)	\$ —	\$	(55)
Loans held for sale	—	90	90	
2014				
Trading securities	\$ (295)	\$ —	\$	(295)
Loans held for sale	—	258	258	

For those items measured at fair value pursuant to our election of the fair value option, interest income is recorded within the 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 years ended December 31, 2016, 2015 and 2014 relating to assets measured at fair value on a non-recurring basis:

Capitalized mortgage loan servicing rights, whose individual strata are measured at fair value, had a carrying amount of \$8.2 million, which is net of a valuation allowance of \$2.3 million, at December 31, 2016, and had a carrying amount of \$8.5 million, which is net of a valuation allowance of \$3.3 million, at December 31, 2015. A recovery (charge) of \$1.0 million, \$0.5 million and \$(0.9) million was included in our results of operations for the years ending December 31, 2016, 2015 and 2014, respectively.

Loans which are measured for impairment using the fair value of collateral for collateral dependent loans had a carrying amount of \$4.0 million, with a valuation allowance of \$2.0 million at December 31, 2016, and had a carrying amount of \$5.1 million, with a valuation allowance of \$2.5 million at December 31, 2015. An additional provision for loan losses relating to impaired loans of \$0.2 million, \$1.1 million and \$2.1 million was included in our results of operations for the years ending December 31, 2016, 2015 and 2014, respectively.

Other real estate, which is measured using the fair value of the property, had a carrying amount of \$3.2 million which is net of a valuation allowance of \$0.8 million at December 31, 2016, and a carrying amount of \$1.0 million, which is net of a valuation allowance of \$1.7 million, at December 31, 2015. An additional charge relating to other real estate

measured at fair value of \$0.6 million, \$0.3 million and \$0.3 million was included in our results of operations during the years ended December 31, 2016, 2015 and 2014, respectively.

We had no assets or liabilities measured at fair value on a recurring basis that used significant unobservable inputs (Level 3) during the years ended December 31, 2016 and 2015.

F-106

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

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

	Asset Valuation Fair Value Technique (In thousands)	Unobservable Inputs	Weighted Average
2016			
Capitalized mortgage loan servicing rights	\$ 8,163	Present value of net Discount rate servicing revenue Cost to service Ancillary income Float rate	10.07 % \$ 83 24 1.97 %
Impaired loans			
Commercial ⁽¹⁾	1,446	Sales Adjustment for completeness differences between comparable approach	(1.5)%
Mortgage	361	Sales Adjustment for completeness differences between comparable approach	(4.7)
Other real estate			
Commercial	176	Sales Adjustment for completeness differences between comparable approach	(22.5)
Mortgage and installment	231	Sales Adjustment for completeness differences between comparable approach	(5.1)
2015			
Capitalized mortgage loan servicing rights	\$ 8,481	Present Discount rate value	10.04 %

		of net servicing revenue	Cost to service	\$	80
			Ancillary income		24
			Float rate		1.73 %
Impaired loans					
Commercial ⁽¹⁾	1,605	Sales comparison between comparable approaches	Adjustment for differences		(2.1)%
			Income capitalization approach		9.3
Mortgage	550	Sales comparison between comparable approaches	Adjustment for differences		0.7
Other real estate					
Commercial	804	Sales comparison between comparable approaches	Adjustment for differences		(3.9)
Mortgage and installment	183	Sales comparison between comparable approaches	Adjustment for differences		75.6

In addition to the valuation techniques and unobservable inputs discussed above, at December 31, 2016 and 2015, we had an impaired collateral dependent commercial relationship that totaled \$0.2 million and \$0.4 million, respectively that was primarily secured by collateral other than real estate. Collateral securing this relationship primarily included machinery and equipment and inventory at December 31, 2016 and 2015. Valuation techniques at December 31, 2016 and 2015, included appraisals and discounting restructuring firm valuations based on estimates of value recovery of each particular asset type. Discount rates used ranged from 0% to 100% of stated values.

(1)

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

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 at December 31.

	Aggregate Fair Value	Difference	Contractual Principal
	(In thousands)		
Loans held for sale			
2016	\$ 35,946	\$ 437	\$ 35,509
2015	27,866	714	27,152
2014	23,662	624	23,038

NOTE 22 – 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. Fair value methodologies discussed below do not necessarily represent an exit price in the determination of the fair value of these financial instruments.

Cash and due from banks and interest bearing deposits: The recorded book balance of cash and due from banks and interest bearing deposits approximate fair value and are classified as Level 1.

Interest bearing deposits - time: Interest bearing deposits - time have been valued based on a model using a benchmark yield curve plus a base spread and are classified as Level 2.

Securities: Financial instrument assets actively traded in a secondary market have been valued using quoted market prices. Trading securities are classified as Level 1 while securities available for sale are classified as Level 2 as described in note #21.

Federal Home Loan Bank and Federal Reserve Bank Stock: It is not practicable to determine the fair value of FHLB and FRB Stock due to restrictions placed on transferability.

Net loans and loans held for sale: The fair value of loans is calculated by discounting estimated future cash flows using estimated market discount rates that reflect credit and interest-rate risk inherent in the loans and do not necessarily represent an exit price. Loans are classified as Level 3. Impaired loans are valued at the lower of cost or fair value as described in Note #21. Loans held for sale are classified as Level 2 as described in Note #21. Payment plan receivables held for sale are also classified as Level 2 based on a signed APA as described in Note #1.

Accrued interest receivable and payable: The recorded book balance of accrued interest receivable and payable approximate fair value and are classified at the same Level as the asset and liability they are associated with.

Derivative financial instruments: The fair value of rate-lock mortgage loan commitments and mandatory commitments to sell mortgage loans is based on mortgage backed security pricing for comparable assets, the fair value of interest rate swap agreements is based on a discounted cash flow analysis whose significant fair value inputs can generally be observed in the market place and do not typically involve judgment by management and 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. Each of these instruments has been classified as Level 2 as described in note #21.

Deposits: Deposits without a stated maturity, including demand deposits, savings, NOW and money market accounts, have a fair value equal to the amount payable on demand. Each of these instruments is classified as Level 1. Deposits with a stated maturity, such as time deposits, have generally been valued based on the discounted value of contractual cash flows using a discount rate approximating current market rates for liabilities with a similar maturity resulting in a Level 2 classification.

F-108

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Other borrowings: Other borrowings have been valued based on the discounted value of contractual cash flows using a discount rate approximating current market rates for liabilities with a similar maturity resulting in a Level 2 classification.

Subordinated debentures: Subordinated debentures have generally been valued based on a quoted market price of similar instruments resulting in a Level 2 classification.

The estimated recorded book balances and fair values at December 31 follow:

	Recorded Book Balance	Fair Value	Fair Value Using		
			Quoted Prices in Active Markets for Identical Assets (Level 1) (In thousands)	Significant Other Observable Inputs (Level 2)	Significant Un-observable Inputs (Level 3)
2016					
Assets					
Cash and due from banks	\$ 35,238	\$ 35,238	\$ 35,238	\$ —	\$ —
Interest bearing deposits	47,956	47,956	47,956	—	—
Interest bearing deposits - time	5,591	5,611	—	5,611	—
Trading securities	410	410	410	—	—
Securities available for sale	610,616	610,616	—	610,616	—
Federal Home Loan Bank and Federal					
Reserve Bank Stock	15,543	NA	NA	NA	NA
Net loans and loans held for sale ⁽¹⁾	1,655,335	1,629,587	—	67,321	1,562,266
Accrued interest receivable	7,316	7,316	5	2,364	4,947
Derivative financial instruments	2,251	2,251	—	2,251	—
Liabilities					
Deposits with no stated maturity ⁽²⁾	\$ 1,740,601	\$ 1,740,601	\$ 1,740,601	\$ —	\$ —
Deposits with stated maturity ⁽²⁾	485,118	483,469	—	483,469	—
Other borrowings	9,433	10,371	—	10,371	—
Subordinated debentures	35,569	25,017	—	25,017	—
Accrued interest payable	932	932	21	911	—
Derivative financial instruments	975	975	—	975	—
2015					
Assets					
Cash and due from banks	\$ 54,260	\$ 54,260	\$ 54,260	\$ —	\$ —
Interest bearing deposits	31,523	31,523	31,523	—	—

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Interest bearing deposits - time	11,866	11,858	—	11,858	—
Trading securities	148	148	148	—	—
Securities available for sale	585,484	585,484	—	585,484	—
Federal Home Loan Bank and Federal Reserve Bank Stock	15,471	NA	NA	NA	NA
Net loans and loans held for sale	1,520,346	1,472,613	—	27,866	1,444,747
Accrued interest receivable	6,565	6,565	5	1,969	4,591
Derivative financial instruments	1,238	1,238	—	1,238	—
Liabilities					
Deposits with no stated maturity ⁽²⁾	\$ 1,659,743	\$ 1,659,743	\$ 1,659,743	\$ —	—
Deposits with stated maturity ⁽²⁾	426,220	423,776	—	423,776	—
Other borrowings	11,954	13,448	—	13,448	—
Subordinated debentures	35,569	23,069	—	23,069	—
Accrued interest payable	466	466	21	445	—
Derivative financial instruments	619	619	—	619	—

(1) Net loans and loans held for sale at December 31, 2016 include \$31.4 million of payment plan receivables and commercial loans held for sale.

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Deposits with no stated maturity include reciprocal deposits with a recorded book balance of \$7.4 million and \$11.8 million at December 31, 2016 and 2015, respectively. Deposits with a stated maturity include reciprocal (2) deposits with a recorded book balance of \$31.3 million and \$38.4 million at December 31, 2016 and 2015, 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.

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.

NOTE 23 – ACCUMULATED OTHER COMPREHENSIVE LOSS

A summary of changes in accumulated other comprehensive loss (AOCL), net of tax during the years ended December 31 follows:

	Unrealized Gains (Losses) on Securities Available for Sale	Dispropor- tionate Tax Effects from Securities Available for Sale	Unrealized Losses on Settled Derivatives	Total
2016				
Balances at beginning of period	\$ (238)	\$ (5,798)	\$ —	\$ (6,036)
Other comprehensive loss before reclassifications	(2,876)	—	—	(2,876)
Amounts reclassified from AOCL	(196)	—	—	(196)
Net current period other comprehensive loss	(3,072)	—	—	(3,072)
Balances at end of period	\$ (3,310)	\$ (5,798)	\$ —	\$ (9,108)
2015				
Balances at beginning of period	\$ 162	\$ (5,798)	\$ —	\$ (5,636)
Other comprehensive loss before reclassifications	(351)	—	—	(351)
Amounts reclassified from AOCL	(49)	—	—	(49)
Net current period other comprehensive loss	(400)	—	—	(400)
Balances at end of period	\$ (238)	\$ (5,798)	\$ —	\$ (6,036)
2014				

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Balances at beginning of period	\$ (3,200)	\$ (5,798)	\$ (247)	\$ (9,245)
Other comprehensive income before reclassifications	3,570	—	—	3,570
Amounts reclassified from AOCL	(208)	—	247	39
Net current period other comprehensive income	3,362	—	247	3,609
Balances at end of period	\$ 162	\$ (5,798)	\$ —	\$ (5,636)

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.

F-110

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

A summary of reclassifications out of each component of AOCL for the years ended December 31 follows:

AOCL Component	Reclassified From AOCL (In thousands)	Affected Line Item in Consolidated Statements of Operations
2016		
Unrealized gains (losses) on securities available for sale	\$ 301	Net gains on securities
		— Net impairment loss recognized in earnings
	301	Total reclassifications before tax
	105	Income tax expense
	\$ 196	Reclassifications, net of tax
2015		
Unrealized gains (losses) on securities available for sale	\$ 75	Net gains on securities
		— Net impairment loss recognized in earnings
	75	Total reclassifications before tax
	26	Income tax expense
	\$ 49	Reclassifications, net of tax
2014		
Unrealized gains (losses) on securities available for sale	\$ 329	Net gains on securities
	(9)	Net impairment loss recognized in earnings
	320	Total reclassifications before tax
	112	Income tax expense
	\$ 208	Reclassifications, net of tax
Unrealized losses on settled derivatives	\$ (380)	Interest expense
	(133)	Income tax benefit
	\$ (247)	Reclassification, net of tax
	\$ (39)	Total reclassifications for the period, net of tax

F-111

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)****NOTE 24 – INDEPENDENT BANK CORPORATION (PARENT COMPANY ONLY) FINANCIAL INFORMATION**

Presented below are condensed financial statements for our parent company.

CONDENSED STATEMENTS OF FINANCIAL CONDITION

	December 31,	
	2016	2015
	(In thousands)	
ASSETS		
Cash and due from banks	\$ 9,515	\$ 10,800
Interest bearing deposits - time	5,000	5,000
Investment in subsidiaries	259,883	261,016
Accrued income and other assets	10,489	10,120
Total Assets	\$ 284,887	\$ 286,936
LIABILITIES AND SHAREHOLDERS' EQUITY		
Subordinated debentures	\$ 35,569	\$ 35,569
Accrued expenses and other liabilities	379	378
Shareholders' equity	248,939	250,989
Total Liabilities and Shareholders' Equity	\$ 284,887	\$ 286,936

CONDENSED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2016	2015	2014
	(In thousands)		
OPERATING INCOME			
Dividends from subsidiary	\$ 5,000	\$ —	\$ —
Interest income	27	72	64
Gain on extinguishment of debt	—	—	500
Gain on securities	—	—	295
Other income	153	31	35
Total Operating Income	5,180	103	894
OPERATING EXPENSES			
Interest expense	1,167	1,021	1,462
Administrative and other expenses	554	560	527
Total Operating Expenses	1,721	1,581	1,989

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Income (Loss) Before Income Tax and Equity in Undistributed Net Income of Subsidiaries	3,459	(1,478)	(1,095)
Income tax benefit	(615)	(542)	(383)
Income (Loss) Before Equity in Undistributed Net Income of Subsidiaries	4,074	(936)	(712)
Equity in undistributed net income of subsidiaries	18,692	20,953	18,733
Net Income	\$ 22,766	\$ 20,017	\$ 18,021

F-112

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)****CONDENSED STATEMENTS OF CASH FLOWS**

	Year Ended December 31,		
	2016	2015	2014
	(In thousands)		
Net Income	\$ 22,766	\$ 20,017	\$ 18,021
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH FROM (USED) IN OPERATING ACTIVITIES			
Deferred income tax benefit	(615)	(542)	(383)
Share based compensation	29	21	46
Gain on extinguishment of debt	—	—	(500)
Net gains on securities	—	—	(295)
Decrease in accrued income and other assets	246	5	118
Increase (decrease) in accrued expenses and other liabilities	1	(6)	287
Equity in undistributed net income of subsidiaries	(18,692)	(20,953)	(18,733)
Total Adjustments	(19,031)	(21,475)	(19,460)
Net Cash From (Used) in Operating Activities	3,735	(1,458)	(1,439)
CASH FLOW FROM INVESTING ACTIVITIES			
Purchases of interest bearing deposits - time	(7,500)	(5,000)	(17,500)
Maturity of interest bearing deposits - time	7,500	12,500	5,000
Return of capital from subsidiary	18,000	18,500	15,000
Net Cash From Investing Activities	18,000	26,000	2,500
CASH FLOW USED IN FINANCING ACTIVITIES			
Repurchase of common stock	(16,854)	(13,498)	—
Dividends paid	(7,274)	(5,896)	(4,129)
Proceeds from issuance of common stock	1,735	1,569	1,242
Share based compensation withholding obligation	(627)	(1,091)	—
Redemption of subordinated debt	—	—	(4,654)
Net Cash Used in Financing Activities	(23,020)	(18,916)	(7,541)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,285)	5,626	(6,480)
Cash and Cash Equivalents at Beginning of Year	10,800	5,174	11,654
Cash and Cash Equivalents at End of Year	\$ 9,515	\$ 10,800	\$ 5,174

NOTE 25 – BRANCH SALE

On April 29, 2015 we entered into a Purchase and Assumption Agreement (PAA) with Isabella Bank (based in Mt. Pleasant, Michigan). Pursuant to the PAA, on August 28, 2015, we sold the fixed assets, real property and certain other assets of our bank branch located in Midland, Michigan (the Midland Branch) to Isabella Bank. The deposit

liabilities of the Midland Branch were assumed by Isabella Bank which totaled \$8.7 million on the date of sale. Under the terms of the PAA, Isabella Bank paid a premium of \$0.6 million (which was equal to 6.0% of the average deposit liabilities of \$9.7 million based on the 20-day average ending two business days prior to the closing date of August 28, 2015) and \$0.85 million for the real property and fixed assets (including the ATM). The real property and the fixed assets had a net book value of approximately \$0.2 million as of August 28, 2015. We recorded a net gain of \$1.2 million in the third quarter of 2015 on the sale of the Midland Branch.

F-113

TABLE OF CONTENTS

Appendix A

EXECUTION VERSION

AGREEMENT AND PLAN OF MERGER
BY AND BETWEEN
INDEPENDENT BANK CORPORATION
AND
TCSB BANCORP, INC.
Dated as of December 4, 2017

TABLE OF CONTENTS

EXECUTION VERSION

TABLE OF CONTENTS

ARTICLE I THE MERGER A-1

<u>1.1</u>	<u>Merger</u>	<u>A-1</u>
<u>1.2</u>	<u>The Closing</u>	<u>A-1</u>
<u>1.3</u>	<u>Effective Time of Merger</u>	<u>A-1</u>
<u>1.4</u>	<u>Additional Actions</u>	<u>A-2</u>
<u>1.5</u>	<u>Surviving Corporation</u>	<u>A-2</u>
<u>1.6</u>	<u>Reservation of Right to Revise Structure</u>	<u>A-2</u>

ARTICLE II EFFECT OF MERGER ON CAPITAL STOCK A-2

<u>2.1</u>	<u>Conversion of Securities</u>	<u>A-2</u>
<u>2.2</u>	<u>Stock Plans</u>	<u>A-3</u>
<u>2.3</u>	<u>Surrender of Shares</u>	<u>A-3</u>
<u>2.4</u>	<u>Distributions with Respect to Unexchanged Shares</u>	<u>A-4</u>
<u>2.5</u>	<u>Termination of Exchange Fund</u>	<u>A-4</u>
<u>2.6</u>	<u>No Further Ownership Rights in Company Common Stock</u>	<u>A-5</u>
<u>2.7</u>	<u>No Fractional Shares</u>	<u>A-5</u>
<u>2.8</u>	<u>No Liability</u>	<u>A-5</u>
<u>2.9</u>	<u>Lost, Stolen or Destroyed Certificates</u>	<u>A-5</u>

	<u>Withholding</u>	
<u>2.10</u>	<u>Rights</u>	<u>A-5</u>
	<u>Investment of</u>	
<u>2.11</u>	<u>Exchange Fund</u>	<u>A-5</u>
<u>2.12</u>	<u>Adjustments</u>	<u>A-5</u>
<u>2.13</u>	<u>Upset Provision</u>	<u>A-6</u>
	<u>Adjustment to</u>	
<u>2.14</u>	<u>Exchange Ratio</u>	<u>A-7</u>

**ARTICLE III COMPANY'S
REPRESENTATIONS AND
WARRANTIES** A-7

	<u>Authorization, No</u>	
<u>3.1</u>	<u>Conflicts, Etc.</u>	<u>A-7</u>
	<u>Organization and</u>	
<u>3.2</u>	<u>Good Standing</u>	<u>A-8</u>
<u>3.3</u>	<u>Subsidiaries</u>	<u>A-8</u>
<u>3.4</u>	<u>Capital Stock</u>	<u>A-8</u>
	<u>Financial</u>	
<u>3.5</u>	<u>Statements</u>	<u>A-9</u>
	<u>Absence of</u>	
	<u>Undisclosed</u>	
<u>3.6</u>	<u>Liabilities</u>	<u>A-10</u>
	<u>Absence of</u>	
	<u>Certain Changes</u>	
<u>3.7</u>	<u>or Events</u>	<u>A-10</u>
	<u>Legal</u>	
<u>3.8</u>	<u>Proceedings</u>	<u>A-10</u>
	<u>Regulatory</u>	
<u>3.9</u>	<u>Filings</u>	<u>A-10</u>
	<u>No</u>	
	<u>Indemnification</u>	
<u>3.10</u>	<u>Claims</u>	<u>A-10</u>
	<u>Conduct of</u>	
<u>3.11</u>	<u>Business</u>	<u>A-10</u>
	<u>Transaction</u>	
<u>3.12</u>	<u>Documents</u>	<u>A-11</u>
	<u>Agreements with</u>	
<u>3.13</u>	<u>Bank Regulators</u>	<u>A-11</u>
<u>3.14</u>	<u>Tax Matters</u>	<u>A-11</u>
<u>3.15</u>	<u>Properties</u>	<u>A-12</u>
	<u>Intellectual</u>	
<u>3.16</u>	<u>Property</u>	<u>A-14</u>
<u>3.17</u>		<u>A-14</u>

	<u>Required Licenses, Permits, Etc.</u>	
	<u>Material Contracts and Change of Control</u>	<u>A-14</u>
<u>3.18</u>	<u>Labor and Employment Matters</u>	<u>A-16</u>
<u>3.19</u>	<u>Employee Benefits</u>	<u>A-17</u>
<u>3.20</u>	<u>Environmental Matters</u>	<u>A-20</u>
<u>3.21</u>		

TABLE OF CONTENTS

<u>3.22 Investment Bankers and Brokers</u>	<u>A-20</u>
<u>3.23 Fairness Opinion</u>	<u>A-20</u>
<u>3.24 Insurance</u>	<u>A-20</u>
<u>3.25 Allowance for Loan and Lease Losses</u>	<u>A-21</u>
<u>3.26 Loans and Investments</u>	<u>A-21</u>
<u>3.27 Securities Laws Matters</u>	<u>A-21</u>
<u>3.28 Books and Records</u>	<u>A-21</u>
<u>3.29 Community Reinvestment Act</u>	<u>A-21</u>
<u>3.30 Joint Ventures; Strategic Alliances</u>	<u>A-21</u>
<u>3.31 Shareholder Rights Plan</u>	<u>A-21</u>
<u>3.32 Organizational Documents</u>	<u>A-22</u>
<u>3.33 Bank Secrecy Act</u>	<u>A-22</u>
<u>3.34 Company-Related Persons</u>	<u>A-22</u>
<u>3.35 Change in Business Relationships</u>	<u>A-22</u>
<u>3.36 Loan Origination and Servicing</u>	<u>A-22</u>
<u>3.37 Loan Guarantees</u>	<u>A-22</u>
<u>3.38 Data Security and Customer Privacy</u>	<u>A-22</u>
<u>3.39 Policies and Procedures</u>	<u>A-22</u>
<u>3.40 No Other Representations or Warranties</u>	<u>A-22</u>

**ARTICLE IV PURCHASER'S REPRESENTATIONS AND
WARRANTIES**

A-23

<u>4.1 Authorization, No Conflicts, Etc.</u>	<u>A-23</u>
<u>4.2 Organization and Good Standing</u>	<u>A-24</u>
<u>4.3 Subsidiaries</u>	<u>A-24</u>
<u>4.4 Capital Stock</u>	<u>A-24</u>
<u>4.5 Financial Statements</u>	<u>A-25</u>
<u>4.6 Absence of Undisclosed Liabilities</u>	<u>A-25</u>
<u>4.7 Absence of Certain Changes or Events</u>	<u>A-26</u>
<u>4.8 Legal Proceedings</u>	<u>A-26</u>
<u>4.9 Regulatory Filings</u>	<u>A-52</u>
<u>4.10 Conduct of Business</u>	<u>A-26</u>
<u>4.11 Transaction Documents</u>	<u>A-26</u>
<u>4.12 Agreements with Bank Regulators</u>	<u>A-26</u>
<u>4.13 Investment Bankers and Brokers</u>	<u>A-26</u>
<u>4.14 Securities Laws Matters</u>	<u>A-26</u>
<u>4.15 Books and Records</u>	<u>A-27</u>
<u>4.16 Community Reinvestment Act</u>	<u>A-27</u>

<u>4.17 Organizational Documents</u>	<u>A-27</u>
<u>4.18 Bank Secrecy Act</u>	<u>A-27</u>
<u>4.19 No Other Representations or Warranties</u>	<u>A-27</u>

ARTICLE V COVENANTS A-27

<u>5.1 Conduct of Business by Company</u>	<u>A-27</u>
<u>5.2 Conduct of Business by Purchaser</u>	<u>A-30</u>
<u>5.3 No Solicitation by Company</u>	<u>A-31</u>
<u>5.4 Preparation of the Registration Statement; Shareholder Meeting</u>	<u>A-33</u>
<u>5.5 Stock Exchange Listing</u>	<u>A-34</u>
<u>5.6 Regulatory Matters and Approvals</u>	<u>A-34</u>
<u>5.7 Employee Matters</u>	<u>A-35</u>

TABLE OF CONTENTS

<u>5.8</u>	<u>Press Releases and Public Announcement</u>	<u>A-36</u>
<u>5.9</u>	<u>Access to Information</u>	<u>A-36</u>
<u>5.10</u>	<u>Indemnification and Insurance</u>	<u>A-37</u>
<u>5.11</u>	<u>Takeover Laws</u>	<u>A-38</u>
<u>5.12</u>	<u>Section 16 Matters</u>	<u>A-38</u>
<u>5.13</u>	<u>Securityholder Litigation</u>	<u>A-38</u>
<u>5.14</u>	<u>Tax-Free Reorganization Treatment</u>	<u>A-38</u>
<u>5.15</u>	<u>Expenses</u>	<u>A-39</u>
<u>5.16</u>	<u>Bank Consolidation</u>	<u>A-39</u>
<u>5.17</u>	<u>Fairness Opinion</u>	<u>A-39</u>
<u>5.18</u>	<u>Environmental Investigation</u>	<u>A-39</u>
<u>5.19</u>	<u>Data Conversion</u>	<u>A-40</u>
<u>5.20</u>	<u>Trust Preferred Securities</u>	<u>A-40</u>
<u>5.21</u>	<u>Technology-Related Contracts</u>	<u>A-40</u>
<u>5.22</u>	<u>Miscellaneous Agreements and Consents</u>	<u>A-40</u>
<u>5.23</u>	<u>Exchange of Financial Information</u>	<u>A-40</u>
<u>5.24</u>	<u>Estoppels</u>	<u>A-41</u>
<u>5.25</u>	<u>Notification of Change in Business Relationships</u>	<u>A-41</u>
<u>5.26</u>	<u>Company Consolidated Shareholders' Equity</u>	<u>A-41</u>
<u>5.27</u>	<u>Special Dividend</u>	<u>A-41</u>
<u>5.28</u>	<u>Addition of Company Director to Purchaser Board</u>	<u>A-42</u>
	 <u>ARTICLE VI CLOSING CONDITIONS</u>	 <u>A-42</u>
<u>6.1</u>	<u>Conditions to Each Party's Obligation to Effect the Merger</u>	<u>A-42</u>
<u>6.2</u>	<u>Conditions to Company's Obligation to Effect the Merger</u>	<u>A-42</u>
<u>6.3</u>	<u>Conditions to Purchaser's Obligation to Effect the Merger</u>	<u>A-43</u>
	 <u>ARTICLE VII TERMINATION</u>	 <u>A-44</u>
<u>7.1</u>	<u>Termination of Plan of Merger</u>	<u>A-44</u>
<u>7.2</u>	<u>Effect of Termination</u>	<u>A-45</u>
	 <u>ARTICLE VIII CERTAIN DEFINITIONS</u>	 <u>A-46</u>
<u>8.1</u>	<u>Definitions</u>	<u>A-46</u>
<u>8.2</u>	<u>Construction and Interpretation</u>	<u>A-50</u>
<u>8.3</u>	<u>Defined Terms</u>	<u>A-50</u>

<u>ARTICLE IX MISCELLANEOUS</u>	<u>A-52</u>
<u>9.1 No Third-Party Beneficiaries</u>	<u>A-52</u>
<u>9.2 Specific Performance</u>	<u>A-52</u>
<u>9.3 Entire Agreement</u>	<u>A-53</u>
<u>9.4 Succession and Assignment</u>	<u>A-53</u>
<u>9.5 Construction</u>	<u>A-53</u>
<u>9.6 Exclusive Jurisdiction</u>	<u>A-53</u>
<u>9.7 Waiver of Jury Trial</u>	<u>A-53</u>
<u>9.8 Notices</u>	<u>A-53</u>
<u>9.9 Governing Law</u>	<u>A-54</u>
<u>9.10 Counterparts</u>	<u>A-54</u>

A-iii

TABLE OF CONTENTS

<u>9.11 Headings</u>	<u>A-54</u>
<u>9.12 Calculation of Dates and Deadlines</u>	<u>A-54</u>
<u>9.13 Severability</u>	<u>A-54</u>
<u>9.14 Non-Survival of Representations, Warranties and Agreements</u>	<u>A-54</u>
<u>9.15 Amendments</u>	<u>A-54</u>

A-iv

TABLE OF CONTENTS

EXECUTION VERSION

AGREEMENT AND PLAN OF MERGER

This Agreement and Plan of Merger (this *Plan of Merger*) is made as of December 4, 2017, by and between INDEPENDENT BANK CORPORATION, a Michigan corporation (*Purchaser*), and TCSB BANCORP, INC., a Michigan corporation (*Company*).

PRELIMINARY STATEMENT

1. The respective Boards of Directors of each of Company and Purchaser have determined to engage in a merger of Company with and into Purchaser (the *Merger*) in accordance with the terms of this Plan of Merger, the Michigan Business Corporation Act (the *MBCA*) and any other applicable Law.
2. The Company Board of Directors has, in light of and subject to the terms and conditions set forth in this Plan of Merger, (a) determined that the terms of this Plan of Merger are in substantial compliance with all applicable Laws and in the best interests of Company and the Company Shareholders, and (b) adopted this Plan of Merger, authorized the Merger and the other transactions contemplated by it and, subject to *Section 5.3.5*, resolved to recommend approval by the Company Shareholders of this Plan of Merger.
3. The Purchaser Board of Directors has, in light of and subject to the terms and conditions set forth in this Plan of Merger, (a) determined that the terms of this Plan of Merger are in the best interests of Purchaser and Purchaser's shareholders, and (b) adopted this Plan of Merger and authorized the Merger and the other transactions contemplated by it.
4. For federal income tax purposes, it is intended that the Merger shall qualify as a reorganization under the provisions of Section 368(a)(1)(A) of the Internal Revenue Code of 1986, as amended (the *Code*), the parties to this Plan of Merger are treated as parties to the reorganization and this Plan of Merger is intended to be and is adopted as a Plan of Reorganization for the purposes of Sections 354 and 361 of the Code.
5. All members of the Company Board of Directors have executed and delivered to Purchaser a voting agreement substantially in the form attached hereto as Exhibit A and a noncompetition agreement substantially in the form attached hereto as Exhibit B.

In consideration of the representations, warranties, mutual covenants and agreements contained in this Plan of Merger, Company and Purchaser agree:

ARTICLE I THE MERGER

1.1 *Merger*. Subject to the terms and conditions of this Plan of Merger, at the Effective Time, Company shall be merged with and into Purchaser and the separate corporate existence of Company shall cease. Company and Purchaser are each sometimes referred to as a *Constituent Corporation* prior to the Merger. At the Effective Time, the Constituent Corporations shall become a single corporation, which corporation shall be Purchaser (the *Surviving Corporation*). The effect of the Merger upon each of the Constituent Corporations and the Surviving Corporation shall be as provided in Chapter Seven of the MBCA with respect to the merger of domestic corporations. Without limiting the generality of the foregoing, and subject to the MBCA, at the Effective Time: (a) all the rights, privileges, powers, franchises, licenses, and interests in and to every type of property (whether real, personal, or mixed) of Company and Purchaser, shall vest in the Surviving Corporation, (b) all choses in action of Company and Purchaser shall continue

unaffected and uninterrupted by the Merger and shall accrue to the Surviving Corporation, and (c) all debts, liabilities and duties of Company and Purchaser shall become the debts, liabilities and duties of the Surviving Corporation.

1.2 *The Closing.* Company and Purchaser shall consummate the Merger (the **Closing**) (a) at the offices of Varnum LLP, at 10:00 a.m., local time, on a date to be agreed upon by Company and Purchaser, which will be no later than two Business Days following satisfaction or waiver of the last of the conditions to Closing contained in *Article VI* (other than any conditions that by their nature are to be satisfied at the Closing) or (b) at such other place and time or on such other date as Company and Purchaser may mutually determine (the date on which the Closing actually occurs is referred to as the **Closing Date**).

1.3 *Effective Time of Merger.* Upon completion of the Closing, Company and Purchaser shall each promptly execute and file a certificate of merger as required by the MBCA to effect the Merger (the **Certificate of Merger**).

A-1

TABLE OF CONTENTS

No party shall take any action to revoke the Certificate of Merger after its filing without the written consent of the other party. The *Effective Time* of the Merger shall be the time and date when the Merger becomes effective as set forth in the Certificate of Merger. Company and Purchaser agree that, if requested by Purchaser, the Effective Time shall occur on either the last day of the month in which, or the first day of the month after which, the Closing occurs.

1.4 *Additional Actions.* At any time after the Effective Time, the Surviving Corporation may determine that deeds, assignments, or assurances or any other acts are necessary or desirable to vest, perfect, or confirm, of record or otherwise, in the Surviving Corporation its rights, title, or interest in, to, or under any of the rights, properties, or assets of Company and Purchaser acquired or to be acquired by the Surviving Corporation as a result of, or in connection with, the Merger, or to otherwise carry out the purposes of this Plan of Merger. Company and Purchaser grant to the Surviving Corporation an irrevocable power of attorney to execute and deliver all such deeds, assignments, and assurances and to do all acts necessary, proper, or convenient to accomplish this purpose. This irrevocable power of attorney shall only be operative following the Effective Time and at such time the officers and directors of the Surviving Corporation shall be fully authorized in the name of Company and Purchaser to take any and all such actions contemplated by this Plan of Merger.

1.5 *Surviving Corporation.* At the Effective Time, the Surviving Corporation shall have the following attributes until they are subsequently changed in the manner provided by Law:

1.5.1 *Name.* The name of the Surviving Corporation shall be Independent Bank Corporation.

1.5.2 *Articles of Incorporation.* The articles of incorporation of the Surviving Corporation shall be the articles of incorporation of Purchaser as in effect immediately prior to the Effective Time, without change.

1.5.3 *Bylaws.* The bylaws of the Surviving Corporation shall be the bylaws of Purchaser as in effect immediately prior to the Effective Time, without change.

1.5.4 *Officers.* The officers of the Surviving Corporation shall be the officers of Purchaser immediately before the Effective Time.

1.5.5 *Directors.* The directors of the Surviving Corporation shall be the directors of Purchaser immediately before the Effective Time.

1.6 *Reservation of Right to Revise Structure.* At Purchaser's election, the Merger may alternatively be structured so that (a) Company is merged with and into any other direct or indirect wholly-owned Subsidiary of Purchaser or (b) any direct or indirect wholly-owned Subsidiary of Purchaser is merged with and into Company; *provided, however*, that no such change shall (i) alter or change the amount or kind of the Merger Consideration or the treatment of the holders of Company Common Stock or Company Stock Options, (ii) prevent the parties from obtaining the opinions of counsel referred to in *Section 6.2.5* and *Section 6.3.5* or otherwise cause the transaction to fail to qualify for the Intended Tax Treatment, or (iii) materially impede or delay consummation of the transactions contemplated by this Plan of Merger. In the event of such an election, the parties agree to execute an appropriate amendment to this Plan of Merger (to the extent such amendment only changes the method of effecting the business combination and does not substantively affect this Plan of Merger or the rights and obligations of the parties or their respective shareholders) in order to reflect such election.

ARTICLE II

EFFECT OF MERGER ON CAPITAL STOCK

2.1 *Conversion of Securities.* At the Effective Time, by virtue of the Merger and without any action on the part of Company, Purchaser or any other Person:

2.1.1 *Cancellation of Excluded Shares.* Each share of Company Common Stock that is owned by Company (or by any of its wholly-owned Subsidiaries) or Purchaser (or by any of its wholly-owned Subsidiaries) (collectively, the **Excluded Shares**), provided, however, that Excluded Shares shall not include Trust Account Shares or DPC Shares as defined in this Plan of Merger) immediately before the Effective Time will automatically be canceled and cease to exist without delivery of any consideration in exchange for or in respect of any Excluded Share.

2.1.2 *Conversion of Common Stock.* Each share of Company Common Stock issued and outstanding immediately prior to the Effective Time (other than the Excluded Shares) shall be converted into the right to receive 1.1166 (the **Exchange Ratio**) fully paid and nonassessable shares of Purchaser Common Stock (the

A-2

TABLE OF CONTENTS

Merger Consideration), whereupon such shares of Company Common Stock will no longer be outstanding and all rights with respect to such shares of Company Common Stock will cease to exist, except the right to receive the Merger Consideration, any cash in lieu of fractional shares payable pursuant to *Section 2.7*, and any dividends or other distributions payable pursuant to *Section 2.4*, upon surrender of Certificates or Book-Entry Shares, in accordance with *Section 2.3*. No interest shall be paid or will accrue on any payment to holders of Certificates or Book-Entry Shares pursuant to the provisions of this *Article II*.

2.1.3 Purchaser Common Stock Remains Outstanding. Each share of Purchaser Common Stock issued and outstanding immediately prior to the Effective Time shall remain outstanding and represent one share of common stock of the Surviving Corporation.

2.2 Stock Plans.

2.2.1 Company and Purchaser shall take all requisite action so that, as of the Effective Time, each option to acquire shares of Company Common Stock (each, a **Company Stock Option**), whether vested or unvested, that is outstanding immediately prior to the Effective Time shall cease to represent a Company Stock Option, and shall be converted, by virtue of the Merger and without any action on the part of the holder of that Company Stock Option, or of Company, Purchaser, or any other Person, into a fully-vested and exercisable option (as converted, a **Converted Stock Option**) with respect to a number of shares of Purchaser Common Stock equal to the product of (a) the aggregate number of shares of Company Common Stock subject to such Company Stock Option, multiplied by (b) the Exchange Ratio. The value of any fractional shares related to any Converted Stock Option shall be paid in cash at the time such Converted Stock Option is otherwise settled pursuant to its terms. As of the Effective Time, Purchaser will assume the Company Stock Plan.

2.2.2 All Converted Stock Options shall continue to have, and be subject to, the same terms and conditions set forth in the Company Stock Plan and agreement to which such Converted Stock Option was subject immediately prior to the Effective Time, except as otherwise provided in this Plan of Merger. For the avoidance of doubt, each holder of Converted Stock Options immediately following the Effective Time shall be permitted to effect a cashless exercise of such Converted Stock Options at any time during the term of such Converted Stock Options. The exercise price (if any) per share of Purchaser Common Stock applicable to any Converted Stock Option shall be equal to (a) the per share exercise price of such Company Stock Option immediately prior to the Effective Time divided by (b) the Exchange Ratio. Prior to the Effective Time, Company shall make such amendments and take such other actions with respect to the Company Stock Plan as shall be necessary to effect the adjustment referred to in this *Section 2.2*, including, if required, notifying all participants in the Company Stock Plan of such adjustment.

2.2.3 Purchaser shall take all corporate action necessary to reserve for issuance a sufficient number of shares of Purchaser Common Stock for delivery upon exercise or settlement of the Converted Stock Options in accordance with this *Section 2.2*. As soon as reasonably practicable after the Effective Time, if and to the extent necessary to cause a sufficient number of shares of Purchaser Common Stock to be registered and issuable under Converted Stock Options, Purchaser shall file a post-effective amendment to the Registration Statement or one or more registration statements on Form S-8 (or any successor or other appropriate form) with respect to the shares of Purchaser Common Stock subject to Converted Stock Options and shall use its commercially reasonable efforts to maintain the effectiveness of such registration statement or registration statements (and maintain the current status of the prospectus or prospectuses contained therein) for so long as such Converted Stock Options remain outstanding.

2.3 Surrender of Shares.

2.3.1 Exchange Agent; Exchange Fund. Prior to or at the Effective Time, Purchaser shall deposit with Broadridge Corporate Issuer Solutions, Inc. or another bank or trust company designated by Purchaser and reasonably satisfactory

to Company (the *Exchange Agent*), for the benefit of the holders of Company Common Stock as of immediately prior to the Effective Time, whether represented by Certificates or held as Book-Entry Shares, shares of Purchaser Common Stock, in the aggregate amount equal to the number of shares of Purchaser Common Stock to which holders of Company Common Stock are entitled based on the Exchange Ratio pursuant to *Section 2.1.2*. In addition, Purchaser shall deposit with the Exchange Agent, prior to or at the Effective Time and as necessary from time to time after the Effective Time, cash in an amount sufficient to make

A-3

TABLE OF CONTENTS

payment of cash in lieu of any fractional shares pursuant to *Section 2.7*, and payment of any dividends or other distributions payable pursuant to *Section 2.4*. All such shares of Purchaser Common Stock and cash deposited with the Exchange Agent pursuant to this *Section 2.3.1* is referred to as the *Exchange Fund*.

2.3.2 Exchange Procedure. As soon as reasonably practicable and, in any event within five Business Days after the Effective Time, Purchaser shall cause the Exchange Agent to mail to each holder of record of shares of Company Common Stock (other than the Excluded Shares), as of the Effective Time, a form of letter of transmittal (which shall be in customary form and reasonably acceptable to Company and shall specify that delivery will be effected, and risk of loss and title to Certificates or Book-Entry Shares will pass, only upon proper delivery of such Certificates or Book-Entry Shares to the Exchange Agent upon adherence to the procedures set forth in the letter of transmittal) and instructions for use in effecting the surrender of Certificates or Book-Entry Shares in exchange for the Merger Consideration, any cash in lieu of fractional shares payable pursuant to *Section 2.7* and any dividends or other distributions payable pursuant to *Section 2.4*.

Upon surrender of a Certificate or of Book-Entry Shares for cancellation to the Exchange Agent, together with such letter of transmittal, duly completed and validly executed in accordance with the instructions thereto, and such other documents as may reasonably be required by the Exchange Agent, each holder of a Certificate or of Book-Entry Shares shall be entitled to receive in exchange therefor (a) book-entry shares representing the number of whole shares of Purchaser Common Stock to which such holder is entitled pursuant to *Section 2.1.2*, (b) cash in lieu of any fractional shares payable pursuant to *Section 2.7*, and (c) any dividends or distributions payable pursuant to *Section 2.4*, and such Certificates and Book-Entry Shares so surrendered shall forthwith be canceled. Purchaser shall mail, or cause to be mailed, a statement of ownership relating to the shares of Purchaser Common Stock and a check for payment of the cash owing within 30 days after such a surrender of a Certificate or of Book-Entry Shares.

In the event of a transfer of ownership of Company Common Stock that is not registered in the transfer records of Company, payment of the Merger Consideration may be made to a Person other than the Person in whose name the Certificates or Book-Entry Shares so surrendered are registered if properly endorsed or otherwise in proper form for transfer and the Person requesting such payment shall pay any transfer or other Taxes required by reason of the transfer or establish, to the reasonable satisfaction of Purchaser or the Exchange Agent, that such Taxes have been paid or are not applicable. Until surrendered as contemplated by this *Section 2.3.2*, each Certificate and Book-Entry Share shall be deemed at any time after the Effective Time to represent only the right to receive upon such surrender the Merger Consideration, any cash in lieu of fractional shares payable pursuant to *Section 2.7* and any dividends or other distributions payable pursuant to *Section 2.4*.

2.4 Distributions with Respect to Unexchanged Shares. No dividends or other distributions with respect to Purchaser Common Stock with a record date on or after the Effective Time shall be paid to the holder of any unsurrendered Certificate or Book-Entry Share with respect to the shares of Purchaser Common Stock that the holder of such unsurrendered Certificate or Book-Entry Share has the right to receive upon the surrender of such unsurrendered Certificate or Book-Entry Share, and no cash payment in lieu of fractional shares of Purchaser Common Stock shall be paid to any such holder pursuant to *Section 2.7*, until the holder of such Certificate or Book-Entry Share shall have surrendered such Certificate or Book-Entry Share in accordance with this *Article II*. Subject to escheat or other applicable Law, following the surrender of any Certificate or Book-Entry Share, there shall be paid to the record holder of whole shares of Purchaser Common Stock issued in exchange therefor, without interest, with respect to such whole shares of Purchaser Common Stock (a) at the time of such surrender, the amount of dividends or other distributions with a record date and a payment date on or after the Effective Time and on or prior to the date of such surrender and the amount of any cash payable in lieu of a fractional share of Purchaser Common Stock to which such holder is entitled pursuant to *Section 2.7* and (b) at the appropriate payment date, the amount of dividends or other distributions with a record date on or after the Effective Time but prior to such surrender and a payment date subsequent to such surrender payable with respect to such whole shares of Purchaser Common Stock.

2.5 Termination of Exchange Fund. Any portion of the Exchange Fund that remains undistributed to holders of Certificates or Book-Entry Shares for one year after the Effective Time shall be delivered to Purchaser, upon demand, and any holders of Certificates or Book-Entry Shares who have not then complied with this *Article II* shall thereafter look only to Purchaser for, and Purchaser shall remain liable for, payment of their claims for the Merger Consideration, any cash in lieu of any fractional shares payable pursuant to *Section 2.7*, and any dividends or other distributions payable pursuant to *Section 2.4*, in accordance with this *Article II*.

A-4

TABLE OF CONTENTS

2.6 No Further Ownership Rights in Company Common Stock. The Merger Consideration, any cash in lieu of any fractional shares payable pursuant to *Section 2.7*, and any dividends or other distributions payable pursuant to *Section 2.4* upon the surrender of Certificates or Book-Entry Shares in accordance with the terms of this *Article II* shall be deemed to have been in full satisfaction of all rights pertaining to the Company Common Stock formerly represented by such Certificates or Book-Entry Shares. At the close of business on the Closing Date, the share transfer books of Company shall be closed, and there shall be no further registration of transfers on the share transfer books of Company of shares of Company Common Stock that were outstanding immediately prior to the Effective Time. From and after the Effective Time, the holders of Certificates or Book-Entry Shares shall cease to have any rights with respect to shares of Company Common Stock, except as otherwise provided in this Plan of Merger or by applicable Law.

2.7 No Fractional Shares. No certificates or scrip representing fractional shares of Purchaser Common Stock shall be issued upon the surrender for exchange of Certificates or Book-Entry Shares, no dividends or other distributions of Purchaser shall be paid with respect to such fractional share interests, and such fractional share interests will not entitle the owner to vote or to have any rights of a holder of shares of Purchaser Common Stock. Notwithstanding any other provision of this Plan of Merger, each holder of Certificates or Book-Entry Shares who would otherwise have been entitled to receive a fraction of a share of Purchaser Common Stock (determined after taking into account all Certificates and Book-Entry Shares delivered by such holder) shall receive, in lieu of such fractional part of a share of Purchaser Common Stock, cash (without interest) in an amount equal to the product of (a) such fractional part of a share of Purchaser Common Stock multiplied by (b) the Final Purchaser Price.

2.8 No Liability. To the fullest extent permitted by applicable Law, none of Company, Purchaser, the Surviving Corporation nor the Exchange Agent will be liable to any Company Shareholder or any other Person in respect of any cash properly delivered to a Governmental Entity pursuant to any applicable abandoned property, escheat or similar Laws. Any portion of the Exchange Fund remaining unclaimed by the Company Shareholders as of a date that is immediately prior to such time as such amounts would otherwise escheat to or become property of any Governmental Entity will, to the extent permitted by applicable Law, become the property of Purchaser free and clear of any claims or interest of any Person previously entitled thereto.

2.9 Lost, Stolen or Destroyed Certificates. In the event that any Certificate has been lost, stolen or destroyed, Purchaser or the Exchange Agent will, upon the receipt of an affidavit of that fact by the holder of such Certificate in form and substance reasonably satisfactory to Purchaser or the Exchange Agent, issue and pay in exchange for such lost, stolen or destroyed Certificate, the Merger Consideration, any cash in lieu of fractional shares payable pursuant to *Section 2.7* and any dividends or other distributions payable pursuant to *Section 2.4* payable in respect of the shares of Company Common Stock previously evidenced by such lost, stolen or destroyed Certificate. Purchaser or the Exchange Agent may, in its discretion and as a condition precedent to the payment of the Merger Consideration, any cash in lieu of fractional shares payable pursuant to *Section 2.7* and any dividends or other distributions payable pursuant to *Section 2.4*, require the owner of such lost, stolen or destroyed Certificate to deliver a bond in such sum as Purchaser or the Exchange Agent may reasonably direct (which amount shall be consistent with Purchaser's or the Exchange Agent's customary procedure for Purchaser's existing shareholders) as indemnity against any claim that may be made against Purchaser or the Exchange Agent with respect to such Certificate.

2.10 Withholding Rights. Purchaser shall be entitled to deduct and withhold, or cause to be deducted or withheld, from the consideration otherwise payable pursuant to this Plan of Merger such amounts as it is required to deduct and withhold with respect to the making of such payment under the Code, or any provision of state, local or foreign Tax Law. To the extent that amounts are so withheld or paid over to or deposited with the relevant Governmental Entity by Purchaser, such withheld amounts shall be treated for all purposes of this Plan of Merger as having been paid to the Person in respect of which such deduction and withholding was made by Purchaser.

2.11 *Investment of Exchange Fund.* The Exchange Agent shall invest any cash included in the Exchange Fund as directed by Purchaser from time to time provided that no gain or loss thereon shall affect the amounts payable or the timing of the amounts payable to Company Shareholders pursuant to this *Article II*. The Exchange Fund shall not be used for any purpose except as set forth herein. Any interest and other income resulting from such investments shall be for Purchaser's account.

2.12 *Adjustments.* Notwithstanding anything to the contrary in this *Article II*, if, between the date of this Plan of Merger and the Effective Time, there is declared (with an effective time prior to the Effective Time) or effected a reorganization, reclassification, recapitalization, stock split (including a reverse stock split), split-up, stock dividend

A-5

TABLE OF CONTENTS

or stock distribution (including any dividend or distribution of securities convertible into Purchaser Common Stock or Company Common Stock), combination, exchange, or readjustment of shares with respect to, or rights issued in respect of, Purchaser Common Stock or Company Common Stock, the Exchange Ratio shall be proportionately adjusted accordingly to provide to the holders of Company Common Stock the same economic effect as contemplated by this Plan of Merger prior to such event. Notwithstanding any other provisions of this *Section 2.12*, no adjustment shall be made in the event of the issuance of additional shares of Purchaser Common Stock pursuant to any dividend reinvestment plan or direct investment plan of Purchaser, pursuant to the exercise of stock options awarded under any director, employee or Affiliate stock option plans of Purchaser or its Subsidiaries, or upon the grant or sale of shares or rights to receive shares to or for the account of any director, employee, or Affiliate of Purchaser or any of its Subsidiaries pursuant to any stock option or other compensation or benefit plans of Purchaser, or in connection with the issuance of shares as merger consideration in a transaction where Purchaser is the surviving corporation, or in connection with any offering or issuance of shares pursuant to which Purchaser receives cash or other consideration in exchange for the shares issued.

2.13 *Upset Provision.*

2.13.1 The ***Upset Condition*** shall have occurred if both of the following conditions exist as of the last day of the Pricing Period: (a) the Final Purchaser Price is less than \$19.07 (the ***Floor Purchaser Price***); and (b) the number determined by dividing the Final Purchaser Price by \$22.44 is less than the number obtained by subtracting (i) 15% from (ii) the quotient obtained by dividing the Final Index Price by the Initial Index Price. The ***Final Purchaser Price*** means the 15-day volume weighted average price of Purchaser Common Stock ending on the sixth Business Day prior to the date of Closing in transactions reported on The Nasdaq Global Select Market (the ***Pricing Period***). The ***Initial Index Price*** means the closing price of the KBW Regional Banking Index (KRX), a sector index maintained by the Nasdaq Stock Market (***Bank Index***) on December 1, 2017. The ***Final Index Price*** means the closing price of the Bank Index on the last day of the Pricing Period.

2.13.2 If the Upset Condition exists as of the last day of the Pricing Period, Company shall have the right, exercisable at any time prior to 5:00 p.m., Michigan time on the second Business Day after the last day of the Pricing Period (the ***Exercise Period***) to (a) proceed with the Merger on the basis of the Exchange Ratio set forth in *Section 2.1.2*, subject to applicable adjustments as provided in *Section 2.12* and *Section 2.14*, by delivering to Purchaser within the Exercise Period written notice of its decision to do so or by failing to deliver any notice to Purchaser; or (b) request Purchaser to adjust the Exchange Ratio by delivering to Purchaser within the Exercise Period written notice to such effect (an ***Increase Notice***) to a ratio computed by multiplying the Exchange Ratio by a fraction that has as its numerator the Floor Purchaser Price and that has as its denominator the Final Purchaser Price (the ***Adjusted Exchange Ratio***).

2.13.3 If the Upset Condition occurs and Purchaser receives an Increase Notice, Purchaser shall either accept or decline the Adjusted Exchange Ratio by delivering written notice of its decision to Company at or before 5:00 p.m., Michigan time on the second Business Day after receipt of the Increase Notice (the ***Acceptance Period***). If Purchaser accepts the Adjusted Exchange Ratio within the Acceptance Period, this Plan of Merger shall remain in effect in accordance with its terms except the Exchange Ratio shall be equal to the Adjusted Exchange Ratio. If Purchaser declines the Adjusted Exchange Ratio or fails to deliver written notice of its decision to accept or decline the Adjusted Exchange Ratio within the Acceptance Period, the Merger shall be abandoned and this Plan of Merger shall thereupon terminate without further action by Company or Purchaser effective as of 5:00 p.m., Michigan time on the Business Day following the expiration of the Acceptance Period; *provided*, that if Purchaser so declines the Adjusted Exchange Ratio or fails to deliver written notice of its decision to accept or decline the Adjusted Exchange Ratio within the Acceptance Period, Company may, by written notice delivered to Purchaser at or before 5:00 p.m., Michigan time on the Business Day following the expiration of the Acceptance Period, elect to proceed with the Merger on the basis of the Exchange Ratio set forth in *Section 2.1.2*, subject to applicable adjustments as provided in *Section 2.12* and

Section 2.14, and, upon such election, no abandonment of the Merger or termination of the Plan of Merger shall be deemed to have occurred, this Plan of Merger shall remain in effect in accordance with its terms, and the Closing shall thereafter occur, in accordance with the terms of this Plan of Merger.

A-6

TABLE OF CONTENTS

2.14 *Adjustment to Exchange Ratio.* At the Effective Time, the Exchange Ratio shall be adjusted, if applicable, as follows (which exchange ratio, as adjusted as provided below and in *Sections 2.12* and *2.13*, if applicable, shall become the Exchange Ratio for purposes of this Plan of Merger) :

2.14.1 *Shareholders Equity.* If, as of the Final Statement Date, the Company Consolidated Shareholders Equity is less than \$34,500,000, the Stock Purchase Value shall be reduced by an amount equal to (a) \$34,500,000 minus (b) the Company Consolidated Shareholders Equity as of the Final Statement Date (the *Shareholders Equity Price Adjustment*).

2.14.2 *Exchange Ratio Adjustment.* Subject to the satisfaction of *Section 2.14.1*, the Exchange Ratio shall be decreased to an amount determined by multiplying (a) the quotient determined by dividing the Adjusted Stock Purchase Value by the Stock Purchase Value, and (b) the Exchange Ratio.

2.14.3 *Definitions.* As used in this *Article II*, the following terms shall have the meanings indicated below:

Adjusted Stock Purchase Value shall be equal to (a) the Stock Purchase Value minus (b) the Shareholders Equity Price Adjustment, if applicable.

Stock Purchase Value shall be equal to the Exchange Ratio in effect at the time of adjustment multiplied by the total number of shares of Company Common Stock outstanding as of the Effective Time multiplied by the Final Purchaser Price.

ARTICLE III COMPANY'S REPRESENTATIONS AND WARRANTIES

On or prior to the date hereof, Company has delivered to Purchaser a schedule (the *Company Disclosure Letter*) setting forth, among other things, items the disclosure of which is necessary or appropriate either in response to an express disclosure requirement contained in a provision hereof or as an exception to one or more representations or warranties contained in this *Article III* or to one or more of its covenants contained in *Article V*. Accordingly, Company hereby represents and warrants to Purchaser as follows, except as set forth on the Company Disclosure Letter or as otherwise permitted by this Plan of Merger:

3.1 *Authorization, No Conflicts, Etc.*

3.1.1 *Authorization of Plan of Merger.* Company has the requisite corporate power and authority to execute and deliver this Plan of Merger and, subject to the affirmative vote of the holders of at least a majority of the outstanding shares of Company Common Stock entitled to vote to approve the Plan of Merger (the *Company Shareholder Approval*), to consummate the transactions contemplated by this Plan of Merger. The Company Board of Directors has unanimously (a) determined that the terms of this Plan of Merger are in substantial compliance with all applicable Laws and in the best interests of Company and the Company Shareholders, and (b) adopted this Plan of Merger, authorized the transactions contemplated by this Plan of Merger and, subject to *Section 5.3.5*, resolved to recommend approval by the Company Shareholders of this Plan of Merger by an affirmative vote of at least two-thirds of the entire Company Board of Directors, including at least one director of each class of the Company Board of Directors (such recommendation, the *Company Board Recommendation*). Except for the Company Shareholder Approval, no other corporate proceedings on the part of Company are necessary to authorize this Plan of Merger or to consummate the Merger. This Plan of Merger has been duly executed and delivered by, and (assuming due authorization, execution and delivery by Purchaser) constitutes valid and binding obligations of, Company and is enforceable against Company in accordance with its terms, except to the extent that (i) such enforcement may be subject to applicable bankruptcy, insolvency, reorganization, moratorium or other similar Laws, now or hereafter in effect, relating to creditors rights

generally and (ii) equitable remedies of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought.

3.1.2 *No Conflict, Breach, Violation, Etc.* The execution, delivery, and performance of this Plan of Merger by Company and the consummation of the Merger, do not and will not violate, conflict with, or result in a breach of: (a) any provision of the articles of incorporation or bylaws (or similar organizational documents) of Company or any Subsidiary of Company (each a ***Company Subsidiary*** and collectively, the ***Company Subsidiaries***); or (b) any Law or Order applicable to Company or any Company Subsidiary, assuming the timely receipt of each of the approvals referred to in *Section 3.1.4*.

A-7

TABLE OF CONTENTS

3.1.3 *Regulatory Restrictions.* The execution, delivery, and performance of this Plan of Merger by Company and the consummation of the Merger do not and will not violate, conflict with, result in a breach of, constitute a default under, or require any consent, approval, waiver, extension, amendment, authorization, notice, or filing under, any cease and desist order, written agreement, memorandum of understanding, board resolutions or other regulatory agreement or commitment with or from a Governmental Entity to which Company or any Company Subsidiary is a party or subject, or by which Company or any Company Subsidiary is bound or affected.

3.1.4 *Required Approvals.* No notice to, filing with, authorization of, exemption by, or consent or approval of, any Governmental Entity is necessary for the consummation of the transactions contemplated by this Plan of Merger by Company other than in connection or compliance with the provisions of the MBCA, compliance with federal and state securities Laws, and the consents, authorizations, approvals, or exemptions required under the Bank Holding Company Act, the FDI Act, and the Michigan Banking Code. Company has no Knowledge of any reason why the regulatory approvals referred to in this *Section 3.1.4* cannot be obtained or why the regulatory approval process would be materially impeded.

3.2 *Organization and Good Standing.* Company is a corporation duly organized, validly existing and in good standing under the Laws of the State of Michigan. Company has all requisite corporate power and authority to own, operate, and lease its properties and assets and to carry on its business as it is now being conducted in all material respects. Company is a bank holding company duly registered as such with the Federal Reserve Board under the Bank Holding Company Act. Company is not, and is not required to be, qualified or admitted to conduct business as a foreign corporation in any other state, except where such failure to be so qualified has not had, and would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect.

3.3 *Subsidiaries.*

3.3.1 *Ownership.* Section 3.3.1 of the Company Disclosure Letter sets forth a true and complete list of each Company Subsidiary as of the date of this Plan of Merger. Other than the Company Subsidiaries, Company does not have control (as defined in Section 2(a)(2) of the Bank Holding Company Act, using 5 percent rather than 25 percent), either directly or indirectly, of any Person engaged in an active trade or business or that holds any significant assets. Company or a Company Subsidiary owns all of the issued and outstanding capital stock or other equity interests of each of the Company Subsidiaries, free and clear of any claim or Lien of any kind. There is no legally binding and enforceable subscription, option, warrant, right to acquire, or any other similar agreement pertaining to the capital stock or other equity interests of any Company Subsidiary.

3.3.2 *Organization and Good Standing.* Each of the Company Subsidiaries (a) is duly organized, validly existing, and in good standing under the Laws of its jurisdiction of organization; (b) is duly qualified to do business and in good standing in all jurisdictions (whether federal, state, or local) where its ownership or leasing of property or the conduct of its business requires it to be so qualified; and (c) has all requisite corporate power and authority to own or lease its properties and assets and to carry on its business as now conducted, except in the case of each of (b) and (c) as has not had, and would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect.

3.3.3 *Deposit Insurance; Other Assessments.* The deposits of each Company Subsidiary that is a depository institution are insured by the FDIC to the fullest extent permitted by Law, and all premiums and assessments to be paid in connection therewith have been paid by each such Company Subsidiary when due. No proceeding for the revocation or termination of such deposit insurance is pending or, to the Knowledge of Company, threatened. Company and each Company Subsidiary has paid as and when due all material fees, charges, assessments, and the like as required by Law to each and every Governmental Entity having jurisdiction over Company or each Company Subsidiary.

3.4 *Capital Stock.*

3.4.1 *Classes and Shares.* The authorized capital stock of Company consists of 5,000,000 shares, divided into two classes, as follows (i) 4,000,000 shares of common stock, no par value (the ***Company Common Stock***), of which 2,427,801 shares are issued and outstanding as of the date of this Plan of Merger; and (ii) 1,000,000 shares of preferred stock, no par value (the ***Company Preferred Stock***), of which no shares are issued and outstanding as of the date of this Plan of Merger. Except for the Company Stock Options, as of the date of this Plan of Merger, there are not outstanding (a) any securities convertible into or exchangeable for

A-8

TABLE OF CONTENTS

shares of capital stock of Company or any of its Subsidiaries, (b) options, warrants, or other Contracts or commitments to acquire from Company or any of its Subsidiaries any shares of capital stock of Company or any of its Subsidiaries; or (c) any restricted shares, restricted share units, stock appreciation rights, performance shares, or similar securities or rights that are derivative of, or provide economic benefits based directly or indirectly on the value of any shares of capital stock of Company, that have been issued by Company or any of its Subsidiaries.

3.4.2 *Stock Options.* Section 3.4.2 of the Company Disclosure Letter sets forth, as of the date of this Plan of Merger, (i) the number of shares of Company Common Stock that are authorized and reserved for issuance under the Company Stock Plan, and (ii) all outstanding Company Stock Options, including for each Company Stock Option, the holder, issuance date, exercise price, and the number of shares of Company Common Stock issuable upon exercise of such Company Stock Option. All Company Stock Options have been awarded under the Company Stock Plan, on terms and conditions substantially identical to the form stock option agreement provided by Company to Purchaser, and there are no other compensatory awards outstanding pursuant to which Company Common Stock is issuable, or that relate to or are determined by reference to the value of Company Common Stock. All outstanding shares of Company Common Stock, and all shares of Company Common Stock reserved for issuance under the Company Stock Plan when issued in accordance with the terms of the Company Stock Plan, are or will be duly authorized, validly issued, fully paid and non-assessable and not issued in violation of any preemptive rights, purchase option, call or right of first refusal rights.

3.4.3 *Issuance of Shares.* After the date of this Plan of Merger, the number of issued and outstanding shares of Company Common Stock and Company Preferred Stock is not subject to any change before the Effective Time, other than the issuance of shares of Company Common Stock upon the exercise of any Company Stock Options granted pursuant to the Company Stock Plan prior to the date of this Plan of Merger.

3.4.4 *Voting Rights.* Other than the issued and outstanding shares of Company Common Stock described in *Section 3.4.1*, neither Company nor any Company Subsidiary has outstanding any security or issue of securities the holder or holders of which have the right to vote on the approval of the Merger or this Plan of Merger, or that entitle the holder or holders to consent to, or withhold consent on, the Merger or this Plan of Merger.

3.4.5 *Appraisal Rights.* No Company Shareholder will be entitled to any dissenters' or appraisal rights pursuant to the MBCA, Company's articles of incorporation, bylaws, or other charter documents, any Contract, or otherwise as a result of the consummation of the Merger.

3.5 *Financial Statements.*

3.5.1 *Financial Statements.* The consolidated financial statements of Company as of and for each of the three years ended December 31, 2016, 2015, and 2014, as audited by Company's independent accountants, and the interim unaudited consolidated financial statements of Company as of and for the quarters ended March 31, 2017, June 30, 2017, and September 30, 2017, including all schedules and notes, if any, relating to such statements, as previously delivered to Purchaser (collectively, ***Company Financial Statements***), fairly present, and the consolidated financial statements of Company as of and for any year-end or quarterly period ending after the date of this Plan of Merger until the Effective Time, including all schedules and notes, if any, relating to such statements, will fairly present, the financial condition and the results of operations, changes in shareholders' equity, and cash flows of Company as of the respective dates of and for the periods referred to in such financial statements, all in accordance with GAAP, consistently applied, subject, in the case of interim unaudited financial statements, to normal, recurring year-end adjustments (the effect of which has not had, and would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect) and the absence of notes (that, if presented, would not differ materially from those included in the Company Financial Statements). No financial statements of any entity or enterprise other than the Company Subsidiaries are required by GAAP to be included in the consolidated financial

statements of Company.

A-9

TABLE OF CONTENTS

3.5.2 *Call Reports.* The following reports (including all related schedules, notes, and exhibits) were prepared and filed in conformity with applicable regulatory requirements and were correct and complete in all material respects when filed (or when filed as amended, if applicable):

3.5.2.1 The Consolidated Reports of Condition and Income (Form FFIEC 041) of Bank (including any amendments) as of and for each of the fiscal years ended December 31, 2016, 2015, and 2014, and as of and for the quarters ended March 31, 2017, June 30, 2017 and September 30, 2017, as filed with the FDIC; and

3.5.2.2 The Parent Company Only Financial Statements for Small Holding Companies (Form FR Y-9SP) of Company (including any amendments) as of and for each of the fiscal years ended December 31, 2016, 2015, and 2014, and as of and for the six-month period ended June 30, 2017, as filed with the Federal Reserve Board.

All of such reports required to be filed after the date of this Plan of Merger and prior to the Effective Time by Company or any Company Subsidiary will be prepared and filed in conformity with applicable regulatory requirements applied consistently throughout their respective periods (except as otherwise noted in such reports) and will be correct and complete in all material respects when filed. All of the reports identified in this *Section 3.5.2* are collectively referred to as the ***Company Call Reports***.

3.6 *Absence of Undisclosed Liabilities.* There exist no Liabilities of Company or any of the Company Subsidiaries other than (i) Liabilities that are adequately reflected, reserved for or disclosed in the Company Financial Statements or the Company Call Reports, (ii) Liabilities incurred in the ordinary course of business of Company and the Company Subsidiaries, or (iii) Liabilities that would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect.

3.7 *Absence of Certain Changes or Events.* Since December 31, 2016, (a) Company and the Company Subsidiaries have conducted their respective businesses in the ordinary course consistent with past practice and (b) no event has occurred that has had, or would reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect.

3.8 *Legal Proceedings.* There is no Action pending or, to the Knowledge of Company, threatened against Company or any of the Company Subsidiaries that (a) as of the date of this Plan of Merger, challenges or seeks to enjoin, alter, prevent or materially delay the Merger or (b) has had, or would reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect. There is no material unsatisfied judgment, penalty or award against Company or any of the Company Subsidiaries. Neither Company nor any of the Company Subsidiaries, nor any of their respective properties or assets, is subject to any Order by a Governmental Entity that has had, or would reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect. No officer or director of Company or any of the Company Subsidiaries is a defendant in any Action commenced by any shareholder of Company or any of the Company Subsidiaries with respect to the performance of his or her duties as an officer or a director of Company or any of the Company Subsidiaries under any applicable Law, except for any Action arising out of or relating to the Merger and the transactions contemplated by this Plan of Merger.

3.9 *Regulatory Filings.* In the last three years:

3.9.1 *Regulatory Filings.* Company and each Company Subsidiary has filed in a timely manner all filings with Governmental Entities as required by applicable Law; and

3.9.2 *Complete and Accurate.* All such filings, as of their respective filing dates, complied in all material respects with all Laws, forms, and guidelines applicable to such filings.

3.10 *No Indemnification Claims.* To the Knowledge of Company, there has been no event, action, or omission by or with respect to any director, officer, employee, trustee, agent, or other Person who may be entitled to receive indemnification or reimbursement of any claim, loss, or expense under any Contract or arrangement providing for indemnification or reimbursement of any such Person by Company or any Company Subsidiary.

3.11 *Conduct of Business.* Company and each Company Subsidiary has conducted its business and used its properties in compliance with all applicable Orders and Laws, except for violations that have not had, and would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect.

A-10

TABLE OF CONTENTS

3.12 *Transaction Documents.* None of the written information supplied or to be supplied by Company for inclusion or incorporation by reference in any Transaction Document has or will contain any untrue statement of material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, (a) in the case of any Transaction Document (other than the Registration Statement and the Proxy Statement) at the time it is filed or at any time it is amended or supplemented, (b) in the case of the Registration Statement, at the time it is filed with the SEC, at any time it is amended or supplemented and at the time it becomes effective under the Securities Act, and (c) in the case of the Proxy Statement, at the date it is first mailed to the Company Shareholders and at the time of the Company Shareholder Meeting. The portions of the Proxy Statement relating to Company and the Company Subsidiaries will comply as to form in all material respects with the requirements of the Securities Act and the Exchange Act and the rules and regulations thereunder.

3.13 *Agreements with Bank Regulators.* Neither Company nor any Company Subsidiary is a party to a Regulatory Agreement, nor has Company nor any Company Subsidiary been advised by any Governmental Entity that a Governmental Entity is contemplating issuing or requesting (or is considering the appropriateness of issuing or requesting) a Regulatory Agreement. Neither Company nor any Company Subsidiary is required by Section 32 of the FDI Act or FDIC Regulation Part 359 or the Federal Reserve Board to give prior notice to a federal banking agency of the proposed addition of an individual to its board of directors or the employment of an individual as a senior executive officer or to limit golden parachute payments or indemnification.

3.14 *Tax Matters.*

3.14.1 All Tax Returns required by applicable Law to have been filed by Company and each Company Subsidiary have been filed when due (taking into account any extensions), and each such Tax Return was true and correct in all material respects when filed. Company and each Company Subsidiary has withheld and paid all material Taxes required to have been withheld and paid in connection with amounts paid or owing to any third party. All material Taxes that are due and payable by Company and each Company Subsidiary have been paid or properly accrued.

3.14.2 None of the Tax Returns of Company or the Company Subsidiaries filed for any Tax year beginning after December 31, 2010 have been audited by the IRS or any state or local taxing authority. There is no Tax audit or legal or administrative proceeding concerning Tax or information returns or the assessment or collection of Taxes pending or, to Company's Knowledge, threatened with respect to Company or any Company Subsidiary. No claim concerning the calculation, assessment or collection of Taxes has been asserted in writing with respect to Company or any Company Subsidiary except for any claim that has been fully resolved and the costs of such resolution are reflected in the Company Financial Statements. There are no material Liens on any of the assets of Company or any of the Company Subsidiaries that arose in connection with any failure (or alleged failure) to pay any Tax, other than Liens for Taxes not yet due and payable.

3.14.3 Neither Company nor any Company Subsidiary has waived any statute of limitations in respect of Taxes or agreed to any extension of time with respect to any Taxes, which waiver or extension is still open.

3.14.4 Neither Company nor any Company Subsidiary has been included in any consolidated, unitary or combined Tax Return for any taxable period for which the statute of limitations has not expired (other than a group of which Company and one or more Company Subsidiaries are the only members). Neither Company nor any Company Subsidiary is a general partner in any partnership.

3.14.5 Within the past three years, neither Company nor any Company Subsidiary has been a distributing corporation or a controlled corporation in a distribution intended to qualify for tax-free treatment under Section 355 of the Code.

3.14.6 The tax positions taken by Company and the Company Subsidiaries in connection with Tax Returns were reasonable. No listed or other reportable transaction within the meaning of Sections 6011, 6111 or 6112 of the Code or any comparable provision of any other applicable Tax Law has been engaged in by, or with respect to, Company or any Company Subsidiary. Company and the Company Subsidiaries have disclosed on their federal income Tax Returns all positions taken therein that could give rise to a substantial understatement of federal income tax within the meaning of Section 6662 of the Code.

A-11

TABLE OF CONTENTS

3.14.7 Neither Company nor any Company Subsidiary has participated in or been a party to a transaction that, as of the date of this Plan of Merger, constitutes a listed transaction for purposes of Section 6011 of the Code (or a similar provision of state Law).

3.14.8 Neither Company nor any Company Subsidiary has taken any action or has Knowledge of any fact that would reasonably be expected to prevent the Merger from qualifying for the Intended Tax Treatment.

3.14.9 There has been no disallowance of a deduction under Section 162(m) of the Code or excise tax imposed under Section 280G of the Code for any amount paid or payable by Company or any Company Subsidiary as employee compensation, whether under any contract, plan, program or arrangement, understanding or otherwise, and neither Company nor any Company Subsidiary has taken any action or has Knowledge of any fact that would reasonably be expected to cause any such disallowance or imposition of excise tax in the future.

3.14.10 Company and the Company Subsidiaries have each maintained all necessary and appropriate accounting records to support the positions taken on all filed Tax Returns and all exemptions from filing Tax Returns.

3.14.11 Each of Company and the Company Subsidiaries has withheld and paid over all material Taxes required to have been withheld and paid over, and has complied with all information reporting and backup withholding requirements, including maintenance of required records with respect thereto, in connection with amounts paid or owing to any employee, creditor, independent contractor or other third parties. The provisions made for Taxes on the Company Financial Statements as of December 31, 2016, December 31, 2015 and December 31, 2014, are sufficient for the payment of all accrued but unpaid Taxes as of the dates indicated, whether or not disputed, with respect to all periods through December 31, 2016.

3.14.12 Neither Company nor any Company Subsidiary will be required to include any item of income in, or exclude any item of deduction from, taxable income for any taxable period (or portion thereof) ending after the Closing Date as a result of any: (a) change in method of accounting for a taxable period ending on or prior to the Closing Date; (b) closing agreement as described in Section 7121 of the Code (or any corresponding or similar provision of state, local or foreign income Tax Law) executed on or prior to the Closing Date; (c) intercompany transactions or any excess loss account described in Treasury Regulations under Section 1502 of the Code (or any corresponding or similar provision of state, local or foreign income Tax Law); (d) installment sale or open transaction disposition made on or prior to the Closing Date; or (e) prepaid amounts received on or prior to the Closing Date. No property of Company or any Company Subsidiary is tax exempt use property within the meaning of Section 168(h) of the Code or directly or indirectly secures any debt the interest on which is exempt from tax under Section 103(a) of the Code. Any federal income tax liability related to bad debt deductions of Company or any Company Subsidiary are recorded in the Company Financial Statements.

3.14.13 Neither Company nor any Company Subsidiary is a party to a Tax sharing, indemnification or similar Contract, is or has been a member of an affiliated group filing consolidated or combined tax returns (other than a group over which Company is or was the common parent) or otherwise has any liability for the Taxes of any party (other than its Taxes and those of the Company Subsidiaries).

3.14.14 An ownership change as defined by Section 382 of the Code has not occurred with respect to Company since December 31, 2013. None of Company's tax attributes are subject to limitation under Section 382 of the Code and, for purposes of Adjusted Current Earnings (ACE), none of Company's assets have incurred an adjustment to tax basis due to an ownership change under Section 382.

3.14.15 Neither Company nor any Company Subsidiary (a) has failed to report any compensation as required by Section 409A of the Code; or (b) has taken any action or has Knowledge of any fact that could reasonably be expected

to result in any liability under Section 409A of the Code.

3.15 *Properties.* With respect to each parcel of real property owned by Company or any Company Subsidiary, excluding other real estate owned (***Company Real Property***), and also with respect to each parcel of real property leased or licensed by Company or any Company Subsidiary (***Company-Leased Real Property***):

3.15.1 *Title to and Interest in Properties.* Company and each Company Subsidiary has good and valid title to, or valid leasehold interests in, all of their respective personal and real properties and assets as used in their

A-12

TABLE OF CONTENTS

respective businesses as presently conducted, and all such personal and real properties and assets, other than personal and real properties and assets in which Company or any of the Company Subsidiaries has leasehold interests, are free and clear of all Liens, except for Permitted Liens.

3.15.2 *No Encroachments.* Except for encroachments that have been insured by a title insurance policy benefitting Company or a Company Subsidiary, no building or improvement to Company Real Property or, to the Knowledge of Company, Company-Leased Real Property encroaches on any easement or property owned by another Person. No building or property owned by another Person encroaches on Company Real Property or, to the Knowledge of Company, Company-Leased Real Property or on any easement benefiting Company Real Property or Company-Leased Real Property. No claim of encroachment has been asserted by any Person with respect to any of Company Real Property or, to the Knowledge of Company, Company-Leased Real Property.

3.15.3 *Buildings.* All buildings and improvements to Company Real Property and, to the Knowledge of Company, Company-Leased Real Property are in good condition (normal wear and tear excepted), are structurally sound and are not in need of material repairs, are fit for their intended purposes, and are adequately serviced by all utilities necessary for the effective operation of business as presently conducted at that location.

3.15.4 *No Condemnation.* None of Company Real Property or, to the Knowledge of Company, Company-Leased Real Property is the subject of any condemnation action. To the Knowledge of Company, there is no proposal under active consideration by any public or governmental authority or entity to acquire Company Real Property or Company-Leased Real Property for any governmental purpose.

3.15.5 *Validity.* Each premises comprising Company Real Property and, to the Knowledge of Company, Company-Leased Real Property is a lawfully existing parcel that is: (a) a valid platted parcel; (b) a valid condominium unit; or (c) a lawfully existing parcel within the meaning of the Land Division Act, Act No. 288 of the Public Acts of 1967, as amended.

3.15.6 *Access.* Each premises comprising Company Real Property and, to the Knowledge of Company, Company-Leased Real Property has both legal and practical pedestrian and vehicular access to a public street.

3.15.7 *Obligations.* Company and each Company Subsidiary, as applicable, has paid all amounts due and owing and performed in all material respects all obligations under each agreement that affects any of Company Real Property or Company-Leased Real Property.

3.15.8 *Additional Representations Regarding Real and Personal Property Leases.* With respect to each lease and license pursuant to which Company or any Company Subsidiary, as lessor, lessee, licensor or licensee, has possession or leases or licenses to others any real or personal property, excluding any personal property lease with payments of less than \$25,000 per year (each, a *Company Lease*):

(a) *Valid.* Each Company Lease is valid, effective, and enforceable against the lessor or licensor in accordance with its terms, except as limited by bankruptcy, insolvency, moratorium, reorganization or similar Laws affecting the rights of creditors generally and the availability of equitable remedies.

(b) *No Default.* There is no existing default under any Company Leases or any event that with notice or passage of time, or both, would constitute a default with respect to Company, any Company Subsidiary or, to the Knowledge of Company, any other party to the contract, which default is reasonably expected to have a Company Material Adverse Effect.

(c) *Assignment.* No Company Lease contains a prohibition against assignment by Company or any Company Subsidiary, by operation of Law or otherwise, or any provision that would materially interfere with the possession, use, or rights with respect to the property by Purchaser or its Subsidiaries for the same purposes and upon the same rental and other terms following consummation of the Merger.

(d) *Disputes.* To the Knowledge of Company, there are no disputes concerning the interpretation of any term, condition, or provision of any Company Leases.

3.15.9 *List of Properties and Leases.* Section 3.15.9 of the Company Disclosure Letter contains a true, complete and correct list of all Company Real Property, all Company-Leased Real Property, all Company Leases, and all parcels of other real estate owned by the Company or any Company Subsidiary as of the date of this Plan of Merger.

A-13

TABLE OF CONTENTS

3.16 *Intellectual Property.* Company and the Company Subsidiaries own, or have a valid license or other valid right to use, all material Intellectual Property as used in their business as presently conducted; it being understood that the foregoing shall not be construed to expand or diminish the scope of the non-infringement representations and warranties that follow in this *Section 3.16*. No Actions, suits or other proceedings are pending or, to the Knowledge of Company, threatened that Company or any of the Company Subsidiaries is infringing, misappropriating or otherwise violating the rights of any Person with regard to any Intellectual Property. To the Knowledge of Company, no Person is infringing, misappropriating or otherwise violating the rights of Company or any of the Company Subsidiaries with respect to any Intellectual Property owned or purported to be owned by Company or any of the Company Subsidiaries (collectively the ***Company-Owned Intellectual Property***). Except as have not had, and would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect: (a) no circumstances exist which could reasonably be expected to give rise to any (i) Action that challenges the rights of Company or any of the Company Subsidiaries with respect to the validity or enforceability of the Company-Owned Intellectual Property or (ii) claim of infringement, misappropriation, or violation of the Intellectual Property rights of any Person, and (b) the consummation of the transactions contemplated by this Plan of Merger will not give rise to any claim by any Person to a right to own, purchase, transfer, use, alter, impair, extinguish or restrict any Company-Owned Intellectual Property or Intellectual Property licensed to Company or any Company Subsidiary.

3.17 *Required Licenses, Permits, Etc.* Except as has not had, and would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect, Company and each Company Subsidiary hold all Permits and other rights from all appropriate Governmental Entities necessary for the conduct of its business substantially as presently conducted and all such material Permits and rights are in full force and effect. Bank is an approved seller-servicer for each mortgage investor with whom it conducts business, all of which are identified in Section 3.17 of the Company Disclosure Letter, and holds all necessary permits, authorizations, or approvals necessary to carry on a mortgage banking business.

3.18 *Material Contracts and Change of Control.*

3.18.1 *Material Contracts Defined.* For the purposes of this Plan of Merger, the term ***Company Material Contract*** means any of the following Contracts to which Company or any of the Company Subsidiaries is a party or bound as of the date of this Plan of Merger:

3.18.1.1 Each Contract, other than any Contracts contemplated by this Plan of Merger, that limits (or purports to limit) in any material respect the ability of Company or any of the Company Subsidiaries to engage or compete in any business (including geographic restrictions and exclusive or preferential arrangements);

3.18.1.2 Each Contract that would be required to be filed by Company as a material contract pursuant to Item 601(b)(10) of Regulation S-K on Form 10-K under the Exchange Act as if Company were required to file a Form 10-K as of the date of this Plan of Merger;

3.18.1.3 Each Contract that creates a partnership or joint venture to which Company or any of the Company Subsidiaries is a party;

3.18.1.4 Each Contract with a correspondent banker;

3.18.1.5 Each Contract relating to the borrowing of money by Company or any Company Subsidiary or guarantee by Company or any Company Subsidiary of such obligation (other than Contracts evidencing deposit liabilities, purchases of federal funds, fully-secured repurchase agreements, FHLB advances, trade payables and Contracts relating to borrowings or guarantees made in the ordinary course of business consistent with past practice) in excess of \$100,000;

3.18.1.6 Each Contract that relates to the acquisition or disposition of any material business (whether by merger, sale of stock, sale of assets or otherwise) or material asset, other than this Plan of Merger, pursuant to which Company or any of the Company Subsidiaries has any continuing obligations, contingent or otherwise;

3.18.1.7 Each Contract that grants any right of first refusal or right of first offer or similar right or that limits or purports to limit the ability of Company or any of the Company Subsidiaries to own, operate, sell, transfer, pledge or otherwise dispose of any material amount of assets or businesses;

A-14

TABLE OF CONTENTS

- 3.18.1.8 Each voting agreement or registration rights agreement with respect to the capital stock of Company to which the Company or any of the Company Subsidiaries is a party or of which the Company has Knowledge;
- 3.18.1.9 Each Contract granting Company or any Company Subsidiary the right to use, restricting Company's or any Company Subsidiary's right to use, or granting any other Person the right to use Intellectual Property that is material to the conduct of Company's or any Company Subsidiary's business (including any license, franchise agreement, co-existence agreement, concurrent-use agreement, settlement agreement or other similar type Contract);
- 3.18.1.10 Each Contract that limits the payment of dividends by Company or any Company Subsidiary;
- 3.18.1.11 Except Contracts made in accordance with Regulation O, and except Contracts entered into in the ordinary course of business consistent with past practice for compensation or indemnity, any Contract between Company or any Company Subsidiary, on the one hand, and, on the other hand (a) any officer or director of Company or a Company Subsidiary, or (b) to the Knowledge of Company, any (i) record or beneficial owner of 5% or more of the voting securities of Company, (ii) Affiliate or family member of any such officer, director, or record or beneficial owner, or (iii) other Affiliate of Company, except in each case those Contracts of a type available to employees of Company generally;
- 3.18.1.12 Each Contract for any one capital expenditure or a related series of capital expenditures, the aggregate amount of which is in excess of \$50,000;
- 3.18.1.13 Each Contract or commitment to make a loan not yet fully disbursed or funded to any Person, wherein the undisbursed or unfunded amount exceeds \$300,000, except for lines of credit and approved construction loan commitments existing as of the date of this Plan of Merger;
- 3.18.1.14 Each Contract or commitment for a loan participation agreement with any other Person in excess of \$200,000; and
- 3.18.1.15 Each employment Contract with an employee of Company or any Company Subsidiary (excluding Company Benefit Plans).
- 3.18.2 *Full Force and Effect.* Prior to the date of this Plan of Merger, Company has delivered or made available to Purchaser a true and complete copy of each Company Material Contract in effect as of the date of this Plan of Merger. Section 3.18.2 of the Company Disclosure Letter contains a true, correct, and complete list of all Company Material Contracts. Except for matters that have not had, and would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect, (a) all Company Material Contracts are in full force and effect as of the date of this Plan of Merger, (b) neither Company nor any of the Company Subsidiaries is in violation or breach of or default under (or with notice or lapse of time, or both, would be in violation or breach of or default under) the terms of any Company Material Contract, (c) to the Knowledge of Company, no other party to any Company Material Contract is in breach of or in default under any Company Material Contract, and (d) neither Company nor any Company Subsidiary has received written notice of breach or termination (or proposed breach or termination) of any Company Material Contract.
- 3.18.3 *Effect of Merger and Related Transactions.* There is no Company Material Contract under which (a) a consent or approval is required, (b) a prohibited assignment by operation of Law could occur, (c) a waiver or loss of any right could occur, or (d) an acceleration of any obligation could occur, in each case as a result of the execution and delivery of this Plan of Merger or the consummation of the transactions contemplated herein, where any such occurrence would reasonably be expected to (i) materially interfere with the ordinary course of business conducted by Company, any Company Subsidiary or the Surviving Corporation or (ii) have a Company Material Adverse Effect.

3.18.4 Neither Company nor any Company Subsidiary is a party to any Contract (other than ordinary and customary banking relationships) that would require any payment to another party upon termination in excess of \$50,000.

A-15

TABLE OF CONTENTS

3.19 *Labor and Employment Matters.*

3.19.1 *Compliance with Labor and Employment Laws.* (a) Except with such exceptions that have not had, and would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect, Company and all of the Company Subsidiaries are in compliance with all applicable Laws relating to labor and employment practices (including with respect to the classification of, or compensation or benefits provided to, any consultant or independent contractor); (b) there is no unfair labor practice charge or complaint pending before the NLRB or, to the Knowledge of Company, threatened against Company or any of the Company Subsidiaries; (c) during the past three years there has been no labor strike, slowdown, work stoppage or lockout, pending or, to the Knowledge of Company, threatened against or affecting Company or any of the Company Subsidiaries; (d) there is no representation claim or petition pending before the NLRB or any similar foreign agency relating to the employees of Company or any Company Subsidiary; (e) Company has not received written notice of charges with respect to or relating to Company or any Company Subsidiary pending before the Equal Employment Opportunity Commission or other Governmental Entity responsible for the prevention of unlawful employment practices; and (f) neither Company nor any Company Subsidiary has received any written notice from any Governmental Entity responsible for the enforcement of labor or employment Laws of an intention to conduct an investigation of Company or any Company Subsidiary and, to the Knowledge of Company, no such investigation has been threatened. To the Knowledge of Company, there is no factual basis for any valid claim or charge with regard to such employment-related matters that could result in a loss to Company or the Company Subsidiaries of more than \$50,000.

3.19.2 *Collective Bargaining Agreements.* Neither Company nor any Company Subsidiary is party to, bound by, or negotiating any Collective Bargaining Agreement or any other Contract with any labor organization, union, works council, employee representative or association relating to the employees of Company or any Company Subsidiary.

3.19.3 *At-Will Employment.* Except as set forth in Section 3.19.3 of Company Disclosure Letter, all salaried employees, hourly employees, and temporary employees of Company and any of its Subsidiaries are employed on an at-will basis by Company or the applicable Subsidiary and may be terminated at any time with or without cause and without any severance or other liabilities to Company or any Company Subsidiary, or have signed an agreement or acknowledged in writing that their employment is at will. There has been no written representation by Company or any Company Subsidiary made to any employees that commits Company, any Company Subsidiary, or the Surviving Corporation to retain them as employees for any period of time subsequent to the Closing.

3.19.4 *WARN Act.* Since January 1, 2013, neither Company nor any Company Subsidiary has effectuated a plant closing or a mass lay off (in each case, as defined in the WARN Act), in either case affecting any site of employment or facility of Company or any Company Subsidiary, except in compliance with the WARN Act.

3.19.5 *Occupational Health and Safety.* There is no audit, investigation, charge, or proceeding with respect to a material violation of any occupational health and safety standards that is pending or unremedied, or to the Knowledge of Company, threatened against Company or any Company Subsidiary. Company and all of the Company Subsidiaries are in compliance with all applicable occupational health and safety Laws, except for such failures to comply as have not had, and would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect.

3.19.6 *Certain Contracts.* Neither Company nor any Company Subsidiary is a party or subject to any Contract that restricts Company or any Company Subsidiary from relocating, closing or terminating any of its operations or facilities or any portion of its operations or facilities.

3.19.7 *Liabilities under Employment and Benefit Contracts.* The consummation of the transactions contemplated by this Plan of Merger will not create Liabilities for any act by Company or any Company Subsidiary on or prior to the

Closing under any Collective Bargaining Agreement, Contract or Company Benefit Plan.

A-16

TABLE OF CONTENTS

3.19.8 *Eligibility Verification.* Company has implemented commercially reasonable procedures to ensure that all employees who are performing services for Company or any Company Subsidiary in the United States are legally permitted to work in the United States and will be legally permitted to work in the United States for the Surviving Corporation or any of its Subsidiaries following the consummation of the transactions contemplated by this Plan of Merger.

3.19.9 *Employment Policies, Programs, and Procedures.* The policies, programs, and practices of Company and all Company Subsidiaries relating to equal opportunity and affirmative action, wages, employee classifications (including independent contractor versus employee and exempt versus non-exempt), hours of work, employee disabilities, employment termination, employment discrimination, employee safety, labor relations, and other terms and conditions of employment are in compliance in all material respects with applicable Law governing or relating to employment and employer practices and facilities.

3.19.10 *Record of Payments.* There is no existing or outstanding material obligation of Company or the Company Subsidiaries, whether arising by operation of Law, civil or common, by contract, or by past custom, for any Employment-Related Payment to any trust, fund, company, governmental agency, or any person that has not been duly recorded on the books and records of Company and/or the Company Subsidiaries and paid when due or duly accrued in the ordinary course of business in accordance with GAAP. For purposes of this Plan of Merger,

Employment-Related Payments include any payment to be made with respect to any contract for employment or severance agreement; unemployment compensation benefits; profit sharing, pension, employee stock ownership plan or retirement benefits; social security benefits; compensation; fringe benefits, including vacation or holiday pay, bonuses, and other forms of compensation; or for medical insurance or medical expenses; any of which are payable with respect to any present or former director, officer, employee, or agent, or his or her survivors, heirs, legatees, or legal representatives.

3.19.11 *Additional Employment Related Agreements.* Company and the Company Subsidiaries are not parties to, or bound by, any oral or written, express or implied, (a) plan, Contract, arrangement, understanding, or practice providing for bonuses, pensions, options, stock purchases, restricted stock, stock appreciation rights, stock awards, deferred compensation, retirement payments, retirement benefits of the type described in Statement of Financial Accounting Standard No. 106, or profit sharing; or (b) plan, Contract, arrangement, understanding or practice with respect to payment of medical expenses, insurance (except insurance continuation limited to that required under provisions of Consolidated Omnibus Budget Reconciliation Act), or other benefits for any former director, employee or any spouse, child, member of the same household, estate or survivor of any director or employee or former director or employee.

3.20 *Employee Benefits.*

3.20.1 Company has delivered or made available to Purchaser true and complete copies of all Company Benefit Plans. Each Company Benefit Plan is in compliance with all applicable requirements of ERISA, the Code and all other applicable Laws and has been administered in accordance with its terms and such Laws, except for such noncompliance that has not had, and would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect.

3.20.2 Each Company Benefit Plan intended to qualify under Section 401(a) of the Code or under Section 501(c)(9) of the Code is listed in Schedule 3.20.2 of the Company Disclosure Letter and has received a favorable determination, advisory, or opinion letter from the IRS that it is so qualified, and the related trusts have been determined to be exempt from taxation, or is established on a pre-approved form or prototype of plan document that has received or requested a favorable opinion or advisory letter from the IRS that such form or plan document is so qualified or exempt. A copy of the most recent determination, advisory, or opinion letter with respect to each such Company Benefit Plan has been

delivered to Purchaser, and no condition exists or existed and nothing has occurred prior to or since the date of such letter that would cause the loss of such qualification or exemption. Each such Company Benefit Plan has been operated in accordance with its terms in all material respects. All contributions, payments or premiums required to be made with respect to any Company Benefit Plan by Company have been timely made, and all benefits accrued under any unfunded Company Benefit Plan have been paid, accrued or otherwise adequately reserved in accordance with GAAP, and each of Company and the Company Subsidiaries have performed all material obligations required to be performed under all Company Benefit Plans with respect to which Company or any ERISA Affiliate of Company has an obligation to contribute.

A-17

TABLE OF CONTENTS

3.20.3 Neither Company nor any ERISA Affiliate of Company participates in nor since December 31, 1973 has ever participated in any Multiemployer Plan, and neither Company nor any ERISA Affiliate of Company maintains or contributes to, or is party to, and, at no time since January 1, 2012 maintained, contributed to, or was a party to, any plan, program, agreement or policy that (a) is a *defined benefit plan* within the meaning of Section 414(j) of the Code or Section 3(35) of ERISA, (b) is a *multiple employer plan* as defined in ERISA or the Code (whether or not subject thereto), (c) is described in Section 401(a)(1) of ERISA (whether or not subject thereto), (d) is a multiple employer welfare arrangement within the meaning of Section 3(40)(A) of the Code, (e) is a voluntary employees beneficiary association within the meaning of Code Section 501(c)(9), or (f) is primarily for the benefit of employees who reside outside of the United States.

3.20.4 Except as required by Part 6 of Subtitle B of Title I of ERISA or section 4980B of the Code or any state Laws requiring continuation of benefits coverage following termination of employment, neither Company nor any Company Subsidiary provides health or welfare benefits for any retired or former employee following such employee's retirement or other termination of service.

3.20.5 The execution, delivery of, and performance by Company of its obligations under the transactions contemplated by this Plan of Merger (either alone or upon the occurrence of any additional or subsequent event) will not (a) result in any payment (whether of severance pay or otherwise), acceleration, forgiveness of indebtedness, vesting, distribution, increase in benefits or obligation to fund benefits with respect to any current, former or retired employees, officers, consultants, independent contractors, agents or directors of Company or any of the Company Subsidiaries (except for payments due to Company directors upon a change in control under the Company Director Deferred Compensation Plan); (b) result in the triggering or imposition of any restrictions or limitations on the right of Company or any of the Company Subsidiaries to amend or terminate any Company Benefit Plan; or (c) result in any excess parachute payments within the meaning of Section 280G(b)(1) of the Code.

3.20.6 Company and the Company Subsidiaries may, subject to the limitations imposed by applicable Law and the terms of the applicable Company Benefit Plan, without the consent of any employee, beneficiary, or other Person, prospectively terminate, modify, or amend any such Company Benefit Plan effective as of any date on or after the date of this Plan of Merger.

3.20.7 With respect to each Company Benefit Plan that is a nonqualified deferred compensation plan (as defined under Section 409A(d)(1) of the Code) (a) such plan has been operated and administered in compliance with Section 409A of the Code in all material respects or (b) any payments under such plan have been earned and vested on or prior to December 31, 2004 and such plan has not been materially modified other than modifications to comply with Code Section 409A and the regulations promulgated thereunder. Neither Company nor any of the Company Subsidiaries have entered into any agreement or arrangement to, and do not otherwise have any obligation to, indemnify or hold harmless any Person for any Liability that results from the failure to comply with the requirements of Section 409A of the Code and the regulations promulgated thereunder.

3.20.8 No stock options, stock appreciation rights or other grants of stock-based awards by Company or any Company Subsidiaries were backdated, spring-loaded, or granted at less than fair market value.

3.20.9 There is no pending or, to the Knowledge of Company, threatened Action with respect to any Company Benefit Plans, other than ordinary and usual claims for benefits by participants and beneficiaries.

3.20.10 Since January 1, 2016, neither Company nor any of the Company Subsidiaries have agreed or otherwise committed to adopt any new plan, program, agreement or policy that would constitute a Company Benefit Plan or result in participation in a Multiemployer Plan or increase or improve the compensation, benefits, or terms and conditions of employment or service of any director, officer, employee, or consultant, except (a) in the ordinary course

of business consistent with past practice, or (b) as required by applicable Law or any applicable Company Benefit Plan.

3.20.11 Each of the Company Benefit Plans which is an employee welfare benefit plan within the meaning of Section 3(1) of ERISA is in compliance with the Patient Protection and Affordable Care Act and its companion bill, the Health Care and Education Reconciliation Act of 2010, to the extent applicable, except for such noncompliance that has not had, and would not reasonably be expected to have, individually or in the

A-18

TABLE OF CONTENTS

aggregate, a Company Material Adverse Effect. Neither Company nor any of the Company Subsidiaries have any liability in the nature of retroactive rate adjustment, loss sharing arrangement or other material Liability relating to any Company Benefit Plan arising wholly or partially out of events occurring on or before the Closing.

3.20.12 No Company Benefit Plan and no trust created thereunder has been involved in any nonexempt prohibited transaction as defined in Section 4975 of the Code or in Sections 406 and 408 of ERISA which has subjected, or would reasonably be expected to subject, a Company Benefit Plan or related trust or Company or any Company Subsidiary to any material Tax or penalty imposed under Section 4975 of the Code or Section 502 of ERISA.

3.20.13 No Company Benefit Plan that is a qualified plan under Section 401(a) of the Code and no trust created thereunder has been terminated, partially terminated, curtailed, discontinued or merged into another plan or trust after January 1, 2011, except in compliance with notice and disclosure to the IRS and the Pension Benefit Guaranty Corporation (*PBGC*), where applicable, as required by the Code and ERISA. With respect to each plan termination, all termination procedures have been completed and there is no pending or potential liability to the PBGC, to any plan, or to any participant under the terminated plan. Each plan termination, partial termination, curtailment, discontinuance, or consolidation has been accompanied by the issuance of a current favorable determination letter by the IRS to the extent required by the Code and, where applicable, has been accompanied by plan termination proceedings with and through the PBGC.

3.20.14 No payment that is owed or may become due to any director, officer, employee, or agent of Company or any Company Subsidiary will be non-deductible or subject to any penalty or excise tax; nor do any Company Benefit Plans require Company or a Company Subsidiary to gross up or otherwise compensate any such person because of the imposition of any excise tax on a payment to such person.

3.20.15 No Company Benefit Plan that is intended to be a qualified plan under Section 401(a) of the Code and no trust created thereunder has incurred, subsequent to January 1, 2011, an accumulated funding deficiency as defined in Section 412(a) of the Code and Section 302 of ERISA (whether or not waived).

3.20.16 All contributions and payments made or accrued with respect to all Company Benefit Plans and any related trusts, accounts or other funding vehicles that are intended or designed for favorable tax consequences or tax treatment have resulted in such consequences or treatment. Assets of any Company Benefit Plan or any related trust, account or other funding vehicle that is intended or designed to be free from taxation of its income are not subject to any such or similar tax. No event has occurred or circumstance exists that will or could give rise to loss of intended tax consequences of any such Company Benefit Plan or any related trust, account or other funding vehicle.

3.20.17 There is no payment that has become due from any Company Benefit Plan, any trust created thereunder, or from Company or any Company Subsidiary that has not been paid through normal administrative procedures to the plan participants or beneficiaries entitled thereto, except for claims for benefits for which administrative claims procedures under such plan have not been exhausted.

3.20.18 No statement, either written or oral, has been made by Company or any Company Subsidiary to any person with regard to any Company Benefit Plan that was not in accordance with the Company Benefit Plan and that could have a Company Material Adverse Effect.

3.20.19 Neither Company nor any Company Subsidiary provides health or welfare benefits that are self-insured. To the extent Company or a Company Subsidiary provides self-insured health or welfare benefits, all such benefits are covered by a stop-loss policy. To Company's Knowledge, no claim for benefits has been made or is expected under a self-funded health or welfare benefit plan that would trigger stop-loss insurance.

3.20.20 Neither Company nor any Company Subsidiary has any liability to any governmental or regulatory body with respect to any Company Benefit Plan or any related trust, account or other funding vehicle. Neither Company nor any Company Subsidiary owes premiums to the PBGC that are due but unpaid or has been determined by the PBGC to be liable for a funding deficiency with respect to a plan termination under Title IV of ERISA.

3.20.21 The assets and liabilities of each Company Benefit Plan have been reported on the Company Financial Statements in accordance with GAAP.

A-19

TABLE OF CONTENTS

3.20.22 Schedule 3.20.22 of the Company Disclosure Letter contains a true, correct and complete listing of all of the Liabilities, potential Liabilities, and obligations of Company and each Company Subsidiary, including the time periods over which such amounts are to be paid, to each participant, former participant, beneficiary, alternate payee or other party under any Company Benefit Plan that either (a) exists at the Closing Date and is sponsored, maintained, or contributed to by Company or any of its Subsidiaries, or (b) exists or existed at the Closing Date or prior thereto, in respect of which Company or any of its Subsidiaries has any Liability, other than Company's 401(k) Plan and Company's health plan.

3.21 *Environmental Matters.* Except for any matters that have not had, and would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect: (a) Company and each of the Company Subsidiaries is and has been in compliance with and has no Liability under applicable Environmental Laws; (b) Company and each of the Company Subsidiaries possesses, has possessed and is and has been in compliance with all required Environmental Permits; (c) there are no Environmental Claims pending or, to the Knowledge of Company, threatened against Company or any of the Company Subsidiaries, and, to the Knowledge of Company, there are no facts or circumstances which could reasonably be expected to form the basis for any Environmental Claim against Company or any of the Company Subsidiaries; (d) no Releases of Hazardous Materials have occurred and no Person has been exposed to any Hazardous Materials at, from, in, to, on, or under any Company Site and no Hazardous Materials are present in, on, about or migrating to or from any Company Site that could give rise to an Environmental Claim against Company or any of the Company Subsidiaries; (e) neither Company nor any of the Company Subsidiaries has entered into or is subject to, any judgment, decree, order or other similar requirement of or agreement with any Governmental Entity under any Environmental Laws; (f) neither Company nor any of the Company Subsidiaries has assumed responsibility for or agreed to indemnify or hold harmless any Person for any Liability, arising under or relating to Environmental Laws; and (g) neither Company nor any of the Company Subsidiaries, any predecessors of Company or any of the Company Subsidiaries, nor any entity previously owned by Company or any of the Company Subsidiaries, has transported or arranged for the treatment, storage, handling, disposal, containment, generation, manufacture, management, or transportation of any Hazardous Material to any off-site location which has or could result in an Environmental Claim against Company or any of the Company Subsidiaries.

3.21.1 Without limiting the generality of *Section 3.21*, to the Knowledge of Company, the Company Sites are free of asbestos except for asbestos that has been properly sealed and encapsulated to the extent required by all applicable Environmental Laws and all workplace safety and health Laws and regulations.

3.21.2 To the Knowledge of Company, no Company Site contains, or has ever contained, any underground tanks for the storage of Hazardous Materials. With respect to any underground storage tank that is listed in Section 3.21.2 of the Company Disclosure Letter as an exception to the foregoing, to the Knowledge of Company, each such underground storage tank presently or previously located on any Company Site has been operated, maintained and removed or closed in place, as applicable, in compliance with all applicable Environmental Laws, and has not been the source of any Release of a Hazardous Material to the environment that has not been fully remediated.

3.22 *Investment Bankers and Brokers.* Company has employed D.A. Davidson & Co. (*Company Investment Banker*) in connection with the Merger. Company, the Company Subsidiaries, and their respective Representatives have not employed or engaged any broker, finder, or investment banker other than Company Investment Banker in connection with this Plan of Merger or the Merger. Other than the fees and expenses payable by Company to Company Investment Banker in connection with the Merger, as described in Section 3.22 of the Company Disclosure Letter, there is no investment banking fee, financial advisory fee, brokerage fee, finder's fee, commission, or compensation of a similar type payable by Company or any Company Subsidiary to any Person with respect to the Plan of Merger or the consummation of the Merger.

3.23 *Fairness Opinion.* The Company Board of Directors has received the oral opinion of the Company Investment Banker, to the effect that, as of the date of this Plan of Merger and based on and subject to the assumptions, qualifications and limitations contained therein, the Exchange Ratio is fair to the Company Shareholders from a financial point of view.

3.24 *Insurance.* Company and the Company Subsidiaries maintain in full force and effect insurance on their respective assets, properties, premises, operations, and personnel in such amounts and against such risks and losses as are customary and adequate for comparable entities engaged in the same business and industry. There is no

A-20

TABLE OF CONTENTS

material unsatisfied claim under such insurance as to which the insurance carrier has denied liability. Since January 1, 2012, no insurance company has canceled or refused to renew a policy of insurance covering Company's or any Company Subsidiary's assets, properties, premises, operations, directors or personnel. Company and the Company Subsidiaries have given adequate and timely notice to each insurance carrier, and have complied in all material respects with all policy provisions, with respect to any material known claim for which a defense or indemnification or both may be available to Company or the Company Subsidiaries.

3.25 Allowance for Loan and Lease Losses. The allowance for loan and lease losses as reflected in Company's consolidated financial statements and the Company Call Reports as of December 31, 2016 and as of the quarters ended March 31, 2017, June 30, 2017 and September 30, 2017 was, in the reasonable opinion of Company's management, (a) adequate to meet all reasonably anticipated loan and lease losses, net of recoveries related to loans previously charged off as of those dates, (b) consistent with GAAP and safe and sound banking practices, and (c) conforms to recommendations and comments in reports of examination in all material respects.

3.26 Loans and Investments. All investments and, to the Knowledge of Company, all loans of Company and each Company Subsidiary are: (a) evidenced by notes, agreements or other evidences of indebtedness that are true, genuine and what they purport to be; (b) legal and enforceable in accordance with their terms, except as may be limited by any bankruptcy, insolvency, moratorium, or other Laws affecting the rights of creditors generally or by the exercise of judicial discretion; (c) authorized under all applicable Laws; and (d) to the extent secured, secured by valid Liens which have been perfected. Neither Company nor any of the Company Subsidiaries have entered into any interest rate swaps, caps, floors, option agreements, futures and forward contracts, or other similar risk management arrangements, whether entered into for their own account or for the account of one or more of their respective customers, except for contractual interest rate caps and floors in loans to customers made in the ordinary course of business and except for interest rate locks on real estate mortgage loans expected to be sold in the ordinary course of business.

3.27 Securities Laws Matters. None of Company or the Company Subsidiaries is or ever has been required to file periodic reports with the SEC. Since January 1, 2015, neither Company nor any of the Company Subsidiaries has Knowledge of any written complaint, allegation, assertion or claim regarding the accounting or auditing practices, procedures, methodologies or methods of Company or any Company Subsidiary or their respective internal accounting controls, including any written complaint, allegation, assertion or claim that Company or any Company Subsidiary has engaged in questionable accounting or auditing practices, which, if true, would constitute a significant deficiency or a material weakness.

3.28 Books and Records. The books and records of Company are, in all material respects, complete and accurately reflect the basis for the financial condition, results of operations, business, assets and capital of Company on a consolidated basis set forth in the Company Financial Statements, represent bona fide transactions, and have been maintained in accordance with sound business practices, including the maintenance of an adequate internal control system. The corporate minute books of Company and the Company Subsidiaries contain accurate and complete records of all meetings of, and corporate action taken by, their shareholders, boards, and committees in all material respects. All such minute books and related exhibits or attachments for all meetings since January 1, 2016 have been made available for Purchaser's review prior to the date of this Plan of Merger without material omission or redaction (other than with respect to the minutes relating to the Merger or recent and similarly proposed transactions).

3.29 Community Reinvestment Act. Each Company Subsidiary that is a depository institution received a rating of satisfactory or better in its most recent examination or interim review with respect to the Community Reinvestment Act.

3.30 Joint Ventures; Strategic Alliances. Neither Company nor any Company Subsidiary is, directly or indirectly, a party to or bound by any joint venture, partnership, limited partnership, limited liability company, or strategic alliance

agreement or arrangement with or through any unaffiliated Person providing for their joint or cooperative development, marketing, referrals, or sales of banking, securities, insurance, or other financial products or services, or their joint investment in and management of any active business enterprise.

3.31 *Shareholder Rights Plan.* Company does not have in effect any shareholder rights plan, poison pill, or similar plan or arrangement.

A-21

TABLE OF CONTENTS

3.32 *Organizational Documents.* The articles of incorporation and bylaws of Company and any similar governing documents for each of the Company Subsidiaries, representing true, accurate and complete copies of such corporate documents in effect as of the date of this Plan of Merger have been delivered to Purchaser.

3.33 *Bank Secrecy Act.* Neither Company nor any Company Subsidiary has been notified of any supervisory criticisms or charges alleging noncompliance with the Bank Secrecy Act (41 USC 5422, et seq.) or related state or federal anti-money laundering Laws, regulations and guidelines, including without limitation those provisions of federal regulations requiring (i) the filing of reports, such as Currency Transaction Reports and Suspicious Activity Reports, (ii) the maintenance of records and (iii) the exercise of due diligence in identifying customers.

3.34 *Company-Related Persons.* For purposes of this Plan of Merger, the term **Company-Related Person** shall mean any shareholder owning 5% or more of the Company Common Stock, any director or executive officer of Company or any Company Subsidiary, their spouses and any children or other persons who share the same household with such persons, and any corporation, limited liability company, partnership, proprietorship, trust, or other entity of which any such persons, alone or together, have control.

3.34.1 *Insider Loans.* No Company-Related Person has any loan, credit or other Contract outstanding with Company or any Company Subsidiary that does not conform to applicable rules and regulations of the FDIC, the Federal Reserve Board, or any other Governmental Entity with jurisdiction over Company or any Company Subsidiary.

3.34.2 *Control of Material Assets.* Other than in a capacity as a shareholder, director, or executive officer of Company or any Company Subsidiary, no Company-Related Person owns or controls any material assets or properties that are used in the business of Company or any Company Subsidiary.

3.34.3 *Contractual Relationships.* Other than ordinary and customary banking relationships, no Company-Related Person has any contractual relationship with Company or any Company Subsidiary.

3.34.4 *Loan Relationships.* No Company-Related Person has any outstanding loan or loan commitment from, or on whose behalf an irrevocable letter of credit has been issued by, Company or any Company Subsidiary in a principal amount of \$250,000 or more.

3.35 *Change in Business Relationships.* As of the date of this Plan of Merger, Company has no Knowledge, whether on account of the Merger or otherwise, that any customer, agent, representative, supplier of Company or any Company Subsidiary, or other person with whom Company or any Company Subsidiary has a contractual relationship, intends to discontinue, diminish, or change its relationship with Company or any Company Subsidiary, the effect of which would reasonably be expected to have a Company Material Adverse Effect.

3.36 *Loan Origination and Servicing.* In originating, underwriting, servicing, selling, transferring, and discharging loans, mortgages, land contracts, and other contractual obligations, either for its own account or for the account of others, Company and each Company Subsidiary has complied with all applicable terms and conditions of such obligations and with all applicable Laws, Contracts, rules, and procedures, except for incidents of noncompliance that have not had, and would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect.

3.37 *Loan Guarantees.* All guarantees of indebtedness owed to Company or any Company Subsidiary, including without limitation those of the Federal Housing Administration, the Small Business Administration, and any other Governmental Entity, are valid and enforceable, except as limited by bankruptcy, insolvency, moratorium, reorganization, or similar Laws affecting the rights of creditors generally and the availability of equitable remedies.

3.38 *Data Security and Customer Privacy.* Company and each Company Subsidiary is in compliance in all material respects with (a) all applicable Laws and applicable requirements of Governmental Entities regarding the security of each of their customers' data and the systems operated by Company and each Company Subsidiary, and (b) their respective privacy policies, including as relates to the use of individually identifiable personal information relating to identifiable or identified natural persons.

3.39 *Policies and Procedures.* Company and each Company Subsidiary have complied in all material respects with the policies and procedures as formally adopted and disclosed to Purchaser as applicable to the periods when those policies and procedures were in effect.

3.40 *No Other Representations or Warranties.* Except for the representations and warranties made by Company and the Company Subsidiaries in this *Article III*, neither Company nor any other Person makes or has made

A-22

TABLE OF CONTENTS

any representation or warranty with respect to Company or the Company Subsidiaries or their respective business, operations, assets, Liabilities, condition (financial or otherwise) or prospects, notwithstanding the delivery or disclosure to Purchaser or any of its Affiliates or Representatives of any documentation, projections, forecasts, estimates, budgets, prospect information or other information with respect to any one or more of the foregoing.

ARTICLE IV

PURCHASER'S REPRESENTATIONS AND WARRANTIES

On or prior to the date hereof, Purchaser has delivered to Company a schedule (the *Purchaser Disclosure Letter*) setting forth, among other things, items the disclosure of which is necessary or appropriate either in response to an express disclosure requirement contained in a provision hereof or as an exception to one or more representations or warranties contained in this *Article IV* or to one or more of its covenants contained in *Article V*. Accordingly, Purchaser hereby represents and warrants to Company as follows, except as set forth on the Purchaser Disclosure Letter or as otherwise permitted by this Plan of Merger:

4.1 Authorization, No Conflicts, Etc.

4.1.1 Authorization of Plan of Merger. Purchaser has the requisite corporate power and authority to execute and deliver this Plan of Merger and to consummate the transactions contemplated by this Plan of Merger. The Purchaser Board of Directors has (a) determined that the terms of this Plan of Merger are in the best interests of Purchaser and Purchaser's shareholders, and (b) adopted this Plan of Merger and authorized the transactions contemplated by this Plan of Merger. No other corporate proceedings on the part of Purchaser are necessary to authorize this Plan of Merger or to consummate the Merger. This Plan of Merger has been duly executed and delivered by, and (assuming due authorization, execution and delivery by Company) constitutes valid and binding obligations of, Purchaser and is enforceable against Purchaser in accordance with its terms, except to the extent that (i) such enforcement may be subject to applicable bankruptcy, insolvency, reorganization, moratorium or other similar Laws, now or hereafter in effect, relating to creditors' rights generally and (ii) equitable remedies of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought. The issuance of the shares of Purchaser Common Stock constituting the Merger Consideration has been duly authorized by the Purchaser Board of Directors and there are sufficient shares of Purchaser Common Stock authorized but unissued to complete the Merger, and when issued, the shares of Purchaser Common Stock constituting the Merger Consideration will be fully paid and non-assessable. Purchaser will have sufficient cash to pay the aggregate payment in lieu of any fractional shares pursuant to *Section 2.7* and payment of any dividends or other distributions payable pursuant to *Section 2.4* at the Effective Time.

4.1.2 No Conflict, Breach, Violation, Etc. The execution, delivery, and performance of this Plan of Merger by Purchaser, the issuance of shares of Purchaser Common Stock constituting the Merger Consideration, and the consummation of the Merger, do not and will not violate, conflict with, or result in a breach of: (a) any provision of the articles of incorporation or bylaws (or similar organizational documents) of Purchaser or any Subsidiary of Purchaser (each a *Purchaser Subsidiary* and collectively, the *Purchaser Subsidiaries*); or (b) any Law or Order applicable to Purchaser or any Purchaser Subsidiary, assuming the timely receipt of each of the approvals referred to in *Section 4.1.4*.

4.1.3 Regulatory Restrictions. The execution, delivery, and performance of this Plan of Merger by Purchaser, the issuance of shares of Purchaser Common Stock constituting the Merger Consideration, and the consummation of the Merger do not and will not violate, conflict with, result in a breach of, constitute a default under, or require any consent, approval, waiver, extension, amendment, authorization, notice, or filing under, any cease and desist order, written agreement, memorandum of understanding, board resolutions or other regulatory agreement or commitment with or from a Governmental Entity to which Purchaser or any Purchaser Subsidiary is a party or subject, or by which

Purchaser or any Purchaser Subsidiary is bound or affected.

4.1.4 *Required Approvals.* No notice to, filing with, authorization of, exemption by, or consent or approval of, any Governmental Entity is necessary for the consummation of the transactions contemplated by this Plan of Merger by Purchaser other than in connection or compliance with the provisions of the MBCA, compliance with federal and state securities Laws, and the consents, authorizations, approvals, or exemptions required under the Bank Holding Company Act, the FDI Act, and the Michigan Banking Code. Purchaser has no Knowledge of any reason why the regulatory approvals referred to in this *Section 4.1.4* cannot be obtained or why the regulatory approval process would be materially impeded.

A-23

TABLE OF CONTENTS

4.2 *Organization and Good Standing.* Purchaser is a corporation duly organized, validly existing, and in good standing under the Laws of the State of Michigan. Purchaser has all requisite corporate power and authority to own, operate, and lease its properties and assets and to carry on its business as it is now being conducted in all material respects. Purchaser is a bank holding company duly registered as such with the Federal Reserve Board under the Bank Holding Company Act. Purchaser is not, and is not required to be, qualified or admitted to conduct business as a foreign corporation in any other state, except where such failure to be so qualified has not had, and would not reasonably be expected to have, individually or in the aggregate, a Purchaser Material Adverse Effect.

4.3 *Subsidiaries.*

4.3.1 *Ownership.* Purchaser has provided to Company a true and complete list of each Purchaser Subsidiary as of the date of this Plan of Merger. Other than the Purchaser Subsidiaries, Purchaser does not have control (as defined in Section 2(a)(2) of the Bank Holding Company Act, using 5 percent rather than 25 percent), either directly or indirectly, of any Person engaged in an active trade or business or that holds any significant assets. Purchaser or a Purchaser Subsidiary owns all of the issued and outstanding capital stock or other equity interests of each of the Purchaser Subsidiaries, free and clear of any claim or Lien of any kind. There is no legally binding and enforceable subscription, option, warrant, right to acquire, or any other similar agreement pertaining to the capital stock or other equity interests of any Purchaser Subsidiary.

4.3.2 *Organization and Good Standing.* Each of the Purchaser Subsidiaries (a) is duly organized and validly existing under the Laws of its jurisdiction of organization; (b) is duly qualified to do business and in good standing in all jurisdictions (whether federal, state, or local) where its ownership or leasing of property or the conduct of its business requires it to be so qualified, and (c) has all requisite corporate power and authority to own or lease its properties and assets and to carry on its business as now conducted, except in the case of each of (b) and (c) as has not had, and would not reasonably be expected to have, individually or in the aggregate, a Purchaser Material Adverse Effect.

4.3.3 *Deposit Insurance; Other Assessments.* The deposits of each Purchaser Subsidiary that is a depository institution are insured by the FDIC to the fullest extent permitted by Law, and all premiums and assessments to be paid in connection therewith have been paid by each such Purchaser Subsidiary when due. No proceeding for the revocation or termination of such deposit insurance is pending or, to the Knowledge of Purchaser, threatened. Purchaser and each Purchaser Subsidiary has paid as and when due all material fees, charges, assessments, and the like as required by Law to each and every Governmental Entity having jurisdiction over Purchaser or each Purchaser Subsidiary.

4.4 *Capital Stock.*

4.4.1 *Classes and Shares.* The authorized capital stock of Purchaser consists of 500,200,000 shares, divided into two classes, as follows (a) 500,000,000 shares of common stock, no par value (the ***Purchaser Common Stock***), of which 21,333,869 shares were issued and outstanding as of the date of this Plan of Merger; and (b) 200,000 shares of preferred stock, no par value (the ***Purchaser Preferred Stock***), of which no shares were issued and outstanding as of the date of this Plan of Merger. Except for the Purchaser Share-Based Awards, as of the date of this Plan of Merger, there is no security or class of securities outstanding that represents or is convertible into capital stock of Purchaser.

4.4.2 *Share-Based Awards.* Section 4.4.2 of the Purchaser Disclosure Letter sets forth, as of the date of this Plan of Merger, the number of shares of Purchaser Common Stock that are authorized and reserved for issuance under each Purchaser Stock Plan, and the number of shares of Purchaser Common Stock that are subject to outstanding stock options, restricted stock, restricted stock units, stock appreciation rights, and other stock-based awards (collectively, ***Purchaser Share-Based Awards***).

4.4.3 *Purchaser Stock Plans.* All Purchaser Share-Based Awards have been awarded under one or more plans sponsored by Purchaser under which options, restricted stock, and other stock-based awards are granted, and the award agreements thereunder (collectively, ***Purchaser Stock Plans***). As of the date of this Plan of Merger, there are no other compensatory awards outstanding pursuant to which Purchaser Common Stock is issuable. All outstanding shares of Purchaser Common Stock, and all Purchaser Common Stock reserved for issuance under the Purchaser Stock Plans when issued in accordance with the respective terms of the Purchaser Stock Plans, are or will be duly authorized, validly issued, fully paid and non-assessable and not issued in violation of any preemptive rights, purchase option, call or right of first refusal rights.

A-24

TABLE OF CONTENTS

4.4.4 *Issuance of Shares.* After the date of this Plan of Merger, the number of issued and outstanding shares of Purchaser Common Stock and Purchaser Preferred Stock is not subject to any change before the Effective Time pursuant to any binding contracts, other than the issuance of shares of Purchaser Common Stock upon the exercise of any Purchaser Share-Based Awards granted pursuant to a Purchaser Stock Plan.

4.4.5 *Voting Rights.* Neither Purchaser nor any Purchaser Subsidiary has outstanding any security or issue of securities the holder or holders of which have the right to vote on the approval of the Merger, this Plan of Merger, or the issuance of Purchaser Common Stock that constitutes the Merger Consideration, or that entitle the holder or holders to consent to, or withhold consent on, the Merger, this Plan of Merger or the issuance of Purchaser Common Stock that constitutes the Merger Consideration. No vote or consent of the holders of Purchaser Common Stock is required, whether by Law, agreement or otherwise, in connection with this Plan of Merger, the transactions contemplated hereby, or the consummation of such transactions.

4.5 *Financial Statements.*

4.5.1 *Financial Statements.* The consolidated financial statements of Purchaser as of and for each of the three years ended December 31, 2016, 2015, and 2014, as audited by Purchaser's independent accountants, and the interim unaudited consolidated financial statements of Purchaser as of and for the quarters ended March 31, 2017, June 30, 2017, and September 30, 2017, including all schedules and notes, if any, relating to such statements, as previously delivered to Company (collectively, ***Purchaser Financial Statements***), fairly present, and the consolidated financial statements of Purchaser as of and for any year-end or quarterly period ending after the date of this Plan of Merger until the Effective Time, including all schedules and notes, if any, relating to such statements, will fairly present, the financial condition and the results of operations, changes in shareholders' equity, and cash flows of Purchaser as of the respective dates of and for the periods referred to in such financial statements, all in accordance with GAAP, consistently applied, subject, in the case of interim unaudited financial statements, to normal, recurring year-end adjustments (the effect of which has not had, and would not reasonably be expected to have, individually or in the aggregate, a Purchaser Material Adverse Effect) and the absence of notes (that, if presented, would not differ materially from those included in the Purchaser Financial Statements). No financial statements of any entity or enterprise other than the Purchaser Subsidiaries are required by GAAP to be included in the consolidated financial statements of Purchaser.

4.5.2 *Call Reports.* The following reports (including all related schedules, notes, and exhibits) were prepared and filed in conformity with applicable regulatory requirements and were correct and complete in all material respects when filed:

4.5.2.1 The Consolidated Reports of Condition and Income (Form FFIEC 041) of each Purchaser Subsidiary required to file such reports (including any amendments) as of and for each of the fiscal years ended December 31, 2016, 2015, and 2014 and as of and for the quarters ended March 31, 2017, June 30, 2017, and September 30, 2017 as filed with the FDIC; and

4.5.2.2 The Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9C) and Parent Company Only Financial Statements for Large Bank Holding Companies (Form FR Y-9LP) for Purchaser (including any amendments) as of and for each of the fiscal years ended December 31, 2016, 2015, and 2014 and as of and for the quarters ended March 31, 2017, June 30, 2017, and September 30, 2017 as filed with the Federal Reserve Board.

All of such reports required to be filed prior to the Effective Time by Purchaser or any Purchaser Subsidiary will be prepared and filed in conformity with applicable regulatory requirements applied consistently throughout their respective periods (except as otherwise noted in such reports) and will be correct and complete in all material respects when filed. All of the reports identified in this *Section 4.5.2* are collectively referred to as the ***Purchaser Call Reports***.

4.6 *Absence of Undisclosed Liabilities.* There exist no Liabilities of Purchaser or any of the Purchaser Subsidiaries other than (i) Liabilities that are adequately reflected, reserved for or disclosed in the Purchaser Financial Statements or the Purchaser Call Reports, (ii) Liabilities incurred in the ordinary course of business of Purchaser and the Purchaser Subsidiaries, or (iii) Liabilities that would not reasonably be expected to have, individually or in the aggregate, a Purchaser Material Adverse Effect.

A-25

TABLE OF CONTENTS

4.7 *Absence of Certain Changes or Events.* Since December 31, 2016, (a) Purchaser and the Purchaser Subsidiaries have conducted their respective businesses in the ordinary course consistent with past practice and (b) no event has occurred that has had, or would reasonably be expected to have, individually or in the aggregate, a Purchaser Material Adverse Effect.

4.8 *Legal Proceedings.* There is no Action pending or, to the Knowledge of Purchaser, threatened against Purchaser or any of the Purchaser Subsidiaries that (a) as of the date of this Plan of Merger, challenges or seeks to enjoin, alter, prevent or materially delay the Merger or (b) has had, or would reasonably be expected to have, individually or in the aggregate, a Purchaser Material Adverse Effect. There is no material unsatisfied judgment, penalty or award against Purchaser or any of the Purchaser Subsidiaries. Neither Purchaser nor any of the Purchaser Subsidiaries, nor any of their respective properties or assets, is subject to any Order or any investigation by a Governmental Entity that has had, or would reasonably be expected to have, individually or in the aggregate, a Purchaser Material Adverse Effect.

4.9 *Regulatory Filings.* In the last three years:

4.9.1 *Regulatory Filings.* Purchaser and each Purchaser Subsidiary has filed in a timely manner all filings with Governmental Entities as required by applicable Law; and

4.9.2 *Complete and Accurate.* All such filings, as of their respective filing dates, complied in all material respects with all Laws, forms, and guidelines applicable to such filings.

4.10 *Conduct of Business.* Purchaser and each Purchaser Subsidiary has conducted its business and used its properties in compliance with all applicable Orders and Laws, except for violations that have not had, and would not reasonably be expected to have, individually or in the aggregate, a Purchaser Material Adverse Effect.

4.11 *Transaction Documents.* None of the information supplied or to be supplied by Purchaser for inclusion or incorporation by reference in any Transaction Document has or will contain any untrue statement of material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, (a) in the case of any Transaction Document (other than the Registration Statement and the Proxy Statement) at the time it is filed or at any time it is amended or supplemented, (b) in the case of the Registration Statement, at the time it is filed with the SEC, at any time it is amended or supplemented and at the time it becomes effective under the Securities Act, and (c) in the case of the Proxy Statement, at the date it is first mailed to the Company Shareholders and at the time of the Company Shareholder Meeting. The portions of the Proxy Statement relating to Purchaser and the Purchaser Subsidiaries will comply as to form in all material respects with the requirements of the Securities Act and the Exchange Act and the rules and regulations thereunder.

4.12 *Agreements with Bank Regulators.* Neither Purchaser nor any Purchaser Subsidiary is a party to any Regulatory Agreement, nor has Purchaser nor any Purchaser Subsidiary been advised by any Governmental Entity that a Governmental Entity is contemplating issuing or requesting (or is considering the appropriateness of issuing or requesting) a Regulatory Agreement. Neither Purchaser nor any Purchaser Subsidiary is required by Section 32 of the FDI Act or FDIC Regulation Part 359 or the Federal Reserve Board to give prior notice to a federal banking agency of the proposed addition of an individual to its board of directors or the employment of an individual as a senior executive officer or to limit golden parachute payments or indemnification.

4.13 *Investment Bankers and Brokers.* Purchaser has employed ProBank Austin (*Purchaser Investment Banker*) in connection with the Merger. Purchaser, the Purchaser Subsidiaries, and their respective Representatives have not employed or engaged any broker, finder, or investment banker other than Purchaser Investment Banker in connection with this Plan of Merger or the Merger. Other than the fees and expenses payable by Purchaser to Purchaser

Investment Banker in connection with the Merger, there is no investment banking fee, financial advisory fee, brokerage fee, finder's fee, commission, or compensation of a similar type payable by Purchaser or any Purchaser Subsidiary to any Person with respect to the Plan of Merger or the consummation of the Merger.

4.14 *Securities Laws Matters.*

4.14.1 Purchaser has filed each registration statement, report, proxy statement, information statement or schedule, together with all amendments thereto, that were required to be filed with the SEC by Purchaser since January 1, 2012 (the ***Purchaser SEC Documents***). As of their respective dates, the Purchaser SEC Documents complied in all material respects with the applicable requirements of the Securities Act and the

A-26

TABLE OF CONTENTS

Exchange Act, as the case may be, and none of such Purchaser SEC Documents contained at the time they were filed (or if amended or superseded by a filing prior to the date of this Plan of Merger, then on the date of such filing) any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

4.14.2 Each of the principal executive officer of Purchaser and the principal financial officer of Purchaser (or each former principal executive officer of Purchaser and each former principal financial officer of Purchaser, as applicable) has made all applicable certifications required by Rule 13a-14 or 15d-14 under the Exchange Act and Sections 302 and 906 of SOX with respect to the SEC Documents, and the statements contained in such certifications are in material compliance with the requirements of the Exchange Act and SOX. For purposes of this Plan of Merger, principal executive officer and principal financial officer have the meanings ascribed to such terms in SOX. Neither Purchaser nor any of the Purchaser Subsidiaries has outstanding, or has since the effective date of Section 402 of SOX, arranged any outstanding extensions of credit to or for directors or executive officers of Purchaser in violation of Section 402 of SOX.

4.14.3 Purchaser maintains a system of internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act, and such system is maintained in compliance with such rules.

4.14.4 Purchaser has not received any written notification from its outside auditors of any (a) significant deficiency or (b) material weakness in Purchaser's internal controls over financial reporting since January 1, 2012. To the Knowledge of Purchaser, there is no outstanding significant deficiency or material weakness that has not been appropriately and adequately remedied by Purchaser. For purposes of this Plan of Merger, the terms significant deficiency and material weakness have the meanings assigned to them in Auditing Standard No. 5 of the Public Company Accounting Oversight Board, as in effect on the date hereof.

4.15 *Books and Records.* The books and records of Purchaser are, in all material respects, complete and accurately reflect the basis for the financial condition, results of operations, business, assets and capital of Purchaser on a consolidated basis set forth in the Purchaser Financial Statements.

4.16 *Community Reinvestment Act.* Each Purchaser Subsidiary that is a depository institution received a rating of satisfactory or better in its most recent examination or interim review with respect to the Community Reinvestment Act.

4.17 *Organizational Documents.* The articles of incorporation and bylaws of Purchaser and any similar governing documents for each of the Purchaser Subsidiaries, representing true, accurate and complete copies of such corporate documents in effect as of the date of this Plan of Merger have been delivered to Company.

4.18 *Bank Secrecy Act.* Neither Purchaser nor any Purchaser Subsidiary has been notified of any supervisory charges alleging noncompliance with the Bank Secrecy Act (41 USC 5422, et seq.) or related state or federal anti-money laundering Laws, regulations and guidelines, including without limitation those provisions of federal regulations requiring (a) the filing of reports, such as Currency Transaction Reports and Suspicious Activity Reports, (b) the maintenance of records and (c) the exercise of due diligence in identifying customers.

4.19 *No Other Representations or Warranties.* Except for the representations and warranties made by Purchaser and the Purchaser Subsidiaries in this *Article IV*, neither Purchaser nor any other Person makes or has made any representation or warranty with respect to Purchaser or the Purchaser Subsidiaries or their respective business, operations, assets, Liabilities, condition (financial or otherwise) or prospects, notwithstanding the delivery or disclosure to Company or any of its Affiliates or Representatives of any documentation, projections, forecasts, estimates, budgets, prospect information or other information with respect to any one or more of the foregoing.

**ARTICLE V
COVENANTS**

5.1 *Conduct of Business by Company.* Company shall, and shall cause each of the Company Subsidiaries to, during the period from the date of this Plan of Merger and ending at the earlier of the Effective Time and the termination of this Plan of Merger in accordance with *Article VII*, except as permitted by this Plan of Merger, as required by applicable Law or with the prior written consent of Purchaser (which consent shall not be unreasonably withheld, conditioned or delayed), conduct its business in the ordinary course of business generally consistent with past practice in all material respects, and, to the extent consistent therewith, Company shall, and shall cause each of the Company Subsidiaries to, use its commercially reasonable efforts to preserve substantially intact its and the

A-27

TABLE OF CONTENTS

Company Subsidiaries business organization and advantageous customer and business relationships and keep available the services of the present officers and employees. Without limiting the generality of the foregoing, between the date of this Plan of Merger and ending at the earlier of the Effective Time and the termination of this Plan of Merger in accordance with *Article VII*, except as otherwise permitted by this Plan of Merger or as set forth in Section 5.1 of the Company Disclosure Letter or as required by applicable Law, Company shall not, nor shall it permit any of the Company Subsidiaries to, without the prior written consent of Purchaser (which consent shall not be unreasonably withheld, conditioned or delayed):

5.1.1 amend its articles of incorporation or bylaws (or other comparable organizational documents);

5.1.2 (a) split, combine or reclassify any securities issued by Company or any of the Company Subsidiaries, (b) repurchase, redeem or otherwise acquire, or offer to repurchase, redeem or otherwise acquire, any securities issued by Company or any of the Company Subsidiaries, except for the acceptance of shares of Company Common Stock delivered in satisfaction of the exercise price or tax withholding obligations by holders of Company Stock Options that are outstanding as of the date of this Plan of Merger who exercise such Company Stock Options and except for shares redeemed pursuant to Company's 401(k) Plan, or (c) declare, set aside or pay any dividend or distribution (whether in cash, stock, property or otherwise) in respect of, or enter into any Contract with respect to the voting of, any shares of its capital stock, except for (i) distributions to or from the Company Subsidiaries and (ii) the special dividend contemplated by *Section 5.27*;

5.1.3 issue, sell, pledge, dispose of or encumber any securities issued by Company or any of the Company Subsidiaries, other than the issuance of shares of Company Common Stock upon the exercise of any Company Stock Options granted pursuant to the Company Stock Plan prior to the date of this Plan of Merger;

5.1.4 except in the ordinary course of business consistent with past practice or except as required by applicable Law or the express terms of any Company Benefit Plan or Contract in effect as of the date of this Plan of Merger, (a) increase the compensation (including bonus opportunities) payable or that could become payable by Company or any of the Company Subsidiaries to directors, officers, or to any employees; (b) enter into any new or amend in any material respect any existing employment, consulting, severance, termination, retention or change in control agreement with any of its past or present officers, directors, or employees, (c) establish, adopt, enter into, amend, terminate, or take any action to accelerate rights under any Company Benefit Plan; (d) grant any severance or termination pay unless provided under any Company Benefit Plan; (e) grant any compensatory awards that are payable in, relate to, or are determined by reference to the value of, Company Common Stock; or (f) fund or in any other way secure any payment of compensation or benefit under any Company Benefit Plan;

5.1.5 promote any officer or promote any non-officer employee to an officer position or hire or terminate employment of any officer except for termination for cause and promotions or hires to replace;

5.1.6 acquire, by merger, consolidation, acquisition of stock or assets, or otherwise, any business or division of a business or, except for transactions with or among wholly-owned Subsidiaries, make any capital contributions to any Person, other than (a) incident to foreclosures in connection with debts previously contracted in good faith, or (b) acquisitions of personal property in the ordinary course of business generally consistent with past practice;

5.1.7 (a) except in the ordinary course of business consistent with past practice, transfer, license, sell, lease or otherwise dispose of any material assets, including the capital stock or other equity interests in any Company Subsidiary, however the foregoing shall not apply to dealings with financial assets or investment securities nor prohibit Company and the Company Subsidiaries from transferring, licensing, selling, leasing or disposing of obsolete or unused equipment, fixtures or assets, in each case in the ordinary course of business consistent with past practice; or (b) adopt or effect a plan of complete or partial liquidation, dissolution, restructuring, recapitalization or other

reorganization;

5.1.8 except in the ordinary course of business consistent with past practice, repurchase, prepay or incur any indebtedness for borrowed money or guarantee any such indebtedness of another Person;

5.1.9 make any application for the opening, relocation, or closing of any branch office, loan production office or other material office or facility, or open, relocate or close any branch office, loan production office or other material office or facility;

A-28

TABLE OF CONTENTS

- 5.1.10 enter into or amend or modify in any material respect, or consent to the termination of (other than at its stated expiration date), any Company Material Contract, other than in the ordinary course of business consistent with past practice;
- 5.1.11 institute, settle or compromise any Actions pending or threatened before any arbitrator, court or other Governmental Entity (a) involving the payment of monetary damages or an admission of liability by Company or any Company Subsidiary of any amount exceeding \$100,000 or (b) involving injunctive or similar relief or (c) having a material impact on Company's business;
- 5.1.12 make any material change in any method of financial accounting principles or practices, in each case except for any such change required or to be required by a change in GAAP or applicable Law;
- 5.1.13 (a) settle or compromise any material Tax claims, audits or assessments in excess of the amount reserved for such claims, audits or assessments as set forth on the books and records of Company, (b) make or change any material Tax election, change any annual Tax accounting period, adopt or change any method of Tax accounting or (c) enter into any material closing agreement, surrender in writing any right to claim a material Tax refund, offset or other reduction in Tax liability or consent to any extension or waiver of the limitation period applicable to any material Tax claim or assessment relating to Company or the Company Subsidiaries;
- 5.1.14 enter into any material new line of business or change in any material respect its lending, investment, underwriting, risk and asset liability management, interest rate or fee pricing with respect to depository accounts, hedging and other material banking or operating policies or practices, except in the ordinary course of business consistent with past practice or as required by Law or any regulatory agency having jurisdiction over Company or any of the Company Subsidiaries;
- 5.1.15 except as required by Law or any regulatory agency having jurisdiction over Company or any of the Company Subsidiaries, make any material changes in its policies and practices with respect to underwriting, pricing, originating, acquiring, selling, servicing, or buying or selling rights to service loans;
- 5.1.16 restructure or materially change the nature of the composition of its investment securities portfolio through purchases, sales or otherwise, or its policies with respect to the classification or reporting of such portfolios;
- 5.1.17 fail to maintain its books, accounts, and records in the usual and regular manner, and in material compliance with applicable Law, governmental policy issuances, GAAP and accounting standards, and formally adopted internal policies and procedures;
- 5.1.18 fail to use commercially reasonable efforts to maintain its material property and assets in their present state of repair, order, and condition, reasonable wear and tear and damage by fire or other casualty covered by insurance excepted;
- 5.1.19 fail to use commercially reasonable efforts to maintain and keep in full force and effect insurance coverage, so long as such insurance is reasonably available, on its material assets, properties, premises, operations, directors, and personnel in such amounts, against such risks and losses, and with such self-insurance requirements as are presently in force;
- 5.1.20 fail to promptly notify Purchaser of the threat or commencement of any material Action against, relating to, or affecting: (a) Company or any Company Subsidiary; (b) Company's or any Company Subsidiary's directors, officers, or employees in their capacities as such; (c) Company's or any Company Subsidiary's assets, liabilities, businesses, or operations; or (d) the Merger or this Plan of Merger;

5.1.21 take, or omit to take, any action that would, or could reasonably be expected to, prevent or impede the Merger from qualifying for the Intended Tax Treatment, or, except as and to the extent required by applicable Law or regulatory agencies having jurisdiction over Company or any of the Company Subsidiaries, (a) take any action that would reasonably be expected to prevent, materially impede or materially delay the consummation of the transactions contemplated by this Plan of Merger, or (b) take, or knowingly fail to take, any action that is reasonably likely to result in any of the conditions to the Merger set forth in *Article VI* not being satisfied;

5.1.22 take any action to pay any Liability, absolute or contingent, in excess of \$50,000, except Liabilities reflected on the Company Financial Statements, except in the ordinary course of business consistent with past practice, or except in connection with the transactions contemplated by this Plan of Merger;

A-29

TABLE OF CONTENTS

5.1.23 change in any material respects its underwriting, investment or risk management or other similar policies of Company or any of the Company Subsidiaries except as required by Law or except changes reasonably intended to reduce risk which changes are made after consultation with Purchaser;

5.1.24 fail to comply in all material respects with applicable Law and formally adopted internal policies and procedures applicable to the conduct of its business, except to the extent that the application of any Law is being contested in good faith and Purchaser has been notified of such contest;

5.1.25 fail to charge off loans and maintain its allowance for loan and lease losses, in each case in a manner in conformity with the prior respective practices of Company and the Company Subsidiaries and applicable industry, regulatory, and GAAP standards;

5.1.26 enter into or amend any Contract or other transaction with any Company-Related Person, except as contemplated or permitted by this Plan of Merger and except for banking transactions in the ordinary course of business consistent with past practice and on terms available to Company's customers generally;

5.1.27 make or renew any charitable contributions, gifts, commitments, or pledges of cash or other assets in an aggregate amount in excess of \$15,000 except for commitments disclosed in Section 5.1.27 of the Company Disclosure Letter;

5.1.28 take any action to enter into, or commit to enter into, any Contract for consulting, professional, or other services to Company or any Company Subsidiary that is not terminable by Company without penalty upon 30 days or less notice, except for contracts for services under which the aggregate required payments do not exceed \$50,000, and except for legal, accounting, and other ordinary expenses (not including expenses of financial advisors) related to this Plan of Merger;

5.1.29 take any action to enter into, or commit to enter into, any joint venture, strategic alliance, or material relationship with any person to jointly develop, market, or offer any product or service; or disclose any customer names, addresses, telephone numbers, lists, or any other nonpublic information concerning customers or other consumers to any person not employed by Company or a Company Subsidiary in connection with their employment other than marketing firms and other vendors in the ordinary course of business and in compliance with applicable Law;

5.1.30 foreclose upon or otherwise take title to, or possession or control of, any real property without first obtaining a Phase I environmental report with respect to such property, prepared by a reliable and qualified Person, which indicates that there are no recognized environmental conditions with respect to such property, provided, however, that no such report shall be required with respect to single-family, non-agricultural residential property to be foreclosed upon unless Company has Knowledge that such property might contain any Hazardous Materials; or

5.1.31 agree or commit to do any of the foregoing.

For the purposes of this *Section 5.1*, prior written consent of Purchaser shall be deemed to have been given with respect to any matter for which Company has requested consent, in writing and delivered to the chief executive officer or chief financial officer of Purchaser but Purchaser has not responded in writing within five Business Days of such request.

5.2 Conduct of Business by Purchaser. Between the date of this Plan of Merger and ending at the earlier of the Effective Time and the termination of this Plan of Merger in accordance with *Article VII*, except as otherwise permitted by this Plan of Merger as required by applicable Law, Purchaser shall conduct its business in the ordinary

course of business consistent with past practice in all material respects and, to the extent consistent therewith, Purchaser shall and shall cause each of the Purchaser Subsidiaries to, use its commercially reasonable efforts to preserve substantially intact its and the Purchaser Subsidiaries' business organization and advantageous business relationships, and Purchaser shall not, nor shall it permit any of the Purchaser Subsidiaries to, without the prior written consent of Company (which consent shall not be unreasonably withheld, conditioned or delayed):

5.2.1 amend Purchaser's articles of incorporation or bylaws in a manner that would materially and adversely affect the holders of Company Common Stock relative to the holders of Purchaser Common Stock;

5.2.2 take, or omit to take, any action that would, or could reasonably be expected to, prevent or impede the Merger from qualifying for the Intended Tax Treatment, or, except as and to the extent required by applicable

A-30

TABLE OF CONTENTS

Law or regulatory agencies having jurisdiction over Purchaser or any of the Purchaser Subsidiaries, (a) take any action that would reasonably be expected to prevent, materially impede or materially delay the consummation of the transactions contemplated by this Plan of Merger, or (b) take, or knowingly fail to take, any action that is reasonably likely to result in any of the conditions to the Merger set forth in *Article VI* not being satisfied; or

5.2.3 agree or commit to do any of the foregoing.

For the purposes of this *Section 5.2*, prior written consent of Company shall be deemed to have been given with respect to any matter for which Purchaser has requested consent, in writing and delivered to the President and Chief Financial Officer of Company but Company has not responded in writing within five Business Days of such request.

5.3 *No Solicitation by Company.*

5.3.1 Except as specifically permitted by this *Section 5.3*, Company shall not and shall cause each of its Subsidiaries and Representatives not to, during the period from the date of this Plan of Merger until the earlier of the Effective Time and the termination of this Plan of Merger in accordance with *Article VII*, directly or indirectly, (a) solicit, initiate, encourage or knowingly facilitate (including by way of furnishing non-public information) any inquiries regarding, or the making of any proposal or offer that constitutes, or could reasonably be expected to lead to, a Company Takeover Proposal, or (b) engage or enter into, continue or otherwise participate in any discussions or negotiations regarding, or furnish to any other Person material non-public information in connection with any Company Takeover Proposal, or otherwise cooperate with or assist or participate in, or encourage or knowingly facilitate any such inquiries, proposals, discussions or negotiations or any effort or attempt to make a Company Takeover Proposal. Company shall, and shall cause each of the Company Subsidiaries and each of its and the Company Subsidiaries Representatives to (i) immediately upon execution of this Plan of Merger, cease any solicitation, encouragement, discussions or negotiations with any Person that may be ongoing with respect to a Company Takeover Proposal as of the date of this Plan of Merger, (ii) request promptly thereafter that such Person promptly return or destroy all confidential information concerning Company and the Company Subsidiaries delivered or made available to such Person or its Representatives by Company, the Company Subsidiaries or any Representatives thereof, in connection with its consideration of a Company Takeover Proposal and any summaries, analyses or extracts thereof or based thereon, and any files, copies or records containing such information in any computer or electronic media, and (iii) immediately upon execution of this Plan of Merger, terminate all physical and electronic data room access previously granted to any such Person or its Representatives.

5.3.2 Notwithstanding anything to the contrary contained herein, if at any time prior to obtaining the Company Shareholder Approval, Company or any of its Representatives receives a Company Takeover Proposal from any Person or group of Persons, which Company Takeover Proposal did not result from any breach of this *Section 5.3*, then Company and its Representatives may (a) contact such Person or group of Persons and their Representatives to request that such Person or group of Persons provide clarification of any term or condition of such Company Takeover Proposal that the Company Board of Directors determines in good faith to be ambiguous or unclear, and (b) if the Company Board of Directors determines in good faith, after consultation with its independent financial advisors and outside legal counsel, that such Company Takeover Proposal constitutes, or is reasonably expected to lead to, a Company Superior Proposal, (i) furnish, pursuant to an Acceptable Company Confidentiality Agreement, information (including non-public information) with respect to Company and the Company Subsidiaries to the Person or group of Persons who has made such Company Takeover Proposal and their respective Representatives; *provided that* Company shall (subject to the terms of the Confidentiality Agreement) promptly make available to Purchaser (through an electronic data room or otherwise), and concurrently provide express written notification, via electronic mail notification to Purchaser in accordance with the applicable provisions of *Section 9.8*, of the availability of, any written material non-public information that is provided to any such Person or group of Persons or their respective Representatives, if such information was not previously provided to Purchaser or its Representatives, and (ii) engage

in or otherwise participate in discussions or negotiations with the Person or group of Persons making such Company Takeover Proposal and their respective Representatives; *provided, further* that Company shall promptly provide to Purchaser (A) a copy of any Company Takeover Proposal made in writing by any such Person or group of Persons to Company, any of the Company Subsidiaries, or any of their respective Representatives, and the identity of the Person making the Company Takeover Proposal, and (B) a written

A-31

TABLE OF CONTENTS

summary of the material terms of any such Company Takeover Proposal not made in writing. For the purposes of this Plan of Merger, **Acceptable Company Confidentiality Agreement** means any confidentiality agreement that contains terms that are no less favorable to Company than those contained in the Confidentiality Agreement.

5.3.3 Company shall keep Purchaser reasonably informed of any material developments, discussions or negotiations regarding any Company Takeover Proposal on a reasonably current basis and shall notify Purchaser of the status of such Company Takeover Proposal. Company agrees that it and the Company Subsidiaries will not enter into any confidentiality or other agreements with any Person subsequent to the date of this Plan of Merger which prohibits Company from providing any information to Purchaser in accordance with this *Section 5.3*.

5.3.4 Except as permitted by *Section 5.3.5*, the Company Board of Directors shall not (a) (i) fail to recommend to the Company Shareholders that the Company Shareholder Approval be given or fail to include the Company Board Recommendation in the Proxy Statement, (ii) change, qualify, withhold, withdraw or modify, or publicly propose to change, qualify, withhold, withdraw or modify, in a manner adverse to Purchaser, the Company Board Recommendation, (iii) take any formal action or make any recommendation or public statement in connection with a tender offer or exchange offer other than a recommendation of rejection of such offer, taking no position with respect to such offer, or a temporary **stop, look and listen** communication by the Company Board of Directors consistent with Rule 14d-9(f) of the Exchange Act (as if such provisions are applicable to Company), or (iv) adopt, approve or recommend, or publicly propose to approve or recommend to the Company Shareholders, a Company Takeover Proposal (actions described in this clause (a) being referred to as a **Company Adverse Recommendation Change**) or (b) cause or permit Company or any of the Company Subsidiaries to enter into any letter of intent, agreement or agreement in principle with respect to any Company Takeover Proposal (other than an Acceptable Company Confidentiality Agreement) (each, a **Company Acquisition Agreement**).

5.3.5 Notwithstanding anything to the contrary herein, prior to the time the Company Shareholder Approval is obtained, the Company Board of Directors may, in connection with a bona fide written Company Takeover Proposal made after the date of this Plan of Merger (or that was made prior to the date of this Plan of Merger and remade after the date of this Plan of Merger) that did not result from any breach of this *Section 5.3*, make a Company Adverse Recommendation Change or terminate this Plan of Merger pursuant to *Section 7.1.8* to enter into a definitive merger agreement or other definitive purchase or acquisition agreement with respect to such Company Takeover Proposal, if and only if, prior to taking such action, Company has complied with its obligations under this *Section 5.3* and the Company Board of Directors has determined in good faith, after consultation with its independent financial advisors and outside legal counsel, that such Company Takeover Proposal constitutes a Company Superior Proposal; *provided, however*, that prior to taking any such action (a) Company has given Purchaser at least five Business Days prior written notice of its intention to take such action (which notice shall specify the material terms and conditions of any such Company Superior Proposal, including the identity of the party making such Company Superior Proposal) and has contemporaneously provided a copy to Purchaser of all written materials (including all transaction agreements and related documents) with or from the party making such Company Superior Proposal, (b) Company has negotiated, and has caused its Representatives to negotiate, in good faith with Purchaser during such notice period to the extent Purchaser wishes to negotiate, to enable Purchaser to revise the terms of this Plan of Merger such that it would cause such Company Superior Proposal to no longer constitute a Company Superior Proposal and (c) following the end of such notice period, the Company Board of Directors shall have considered in good faith any changes to this Plan of Merger proposed in writing by Purchaser, and shall have determined that the Company Superior Proposal would continue to constitute a Company Superior Proposal if such revisions were to be given effect. In the event of any material revisions to a Company Takeover Proposal that could have an impact, influence or other effect on the Company Board of Directors' decision or discussion with respect to whether such proposal is a Company Superior Proposal, Company shall deliver a new written notice to Purchaser pursuant to the foregoing clause (a) and again comply with the requirements of this *Section 5.3.5* with respect to such new written notice; *provided, however*, that references herein to the five Business Day period shall be deemed to be references to a three Business Day period with

respect thereto.

5.3.6 Provided that Company has complied with its obligations under *Section 5.3.5*, nothing in this *Section 5.3* shall prohibit the Company Board of Directors from (a) taking and disclosing to the Company

A-32

TABLE OF CONTENTS

Shareholders a position contemplated by Rule 14e-2(a), Rule 14d-9 or Item 1012(a) of Regulation M-A promulgated under the Exchange Act (as if such provisions are applicable to Company), (b) making any stop-look-and-listen communications to Company Shareholders pursuant to Section 14d-9(f) promulgated under the Exchange Act (or any similar communications to the Company Shareholders) (as if such provisions are applicable to Company), or (c) making any disclosure to the Company Shareholders if the Company Board of Directors determines in good faith, after consultation with its outside legal counsel, that failure to take such action would be reasonably likely to be inconsistent with the Company Board of Directors fiduciary duties under applicable Law; *provided, however*, that the taking of any action pursuant to any of the preceding clauses (a), (b) or (c) shall in no way limit or modify the effect of this Plan of Merger with respect to any such action taken.

5.3.7 As used in this Plan of Merger, ***Company Takeover Proposal*** shall mean any inquiry, proposal or offer from any Person (other than Purchaser and the Purchaser Subsidiaries) or group, within the meaning of Section 13(d) of the Exchange Act, relating to, in a single transaction or series of related transactions, any (a) acquisition of assets of Company and its Subsidiaries equal to more than 10% of Company's consolidated assets or to which more than 10% of Company's net income on a consolidated basis are attributable, (b) acquisition of more than 10% of the outstanding Company Common Stock or the capital stock of any Subsidiary of Company, (c) tender offer or exchange offer that if consummated would result in any Person beneficially owning more than 10% of the outstanding Company Common Stock, (d) merger, consolidation, share exchange, business combination, recapitalization, liquidation, dissolution or similar transaction involving Company or any of its Subsidiaries or (e) any combination of the foregoing types of transactions if the sum of the percentage of consolidated assets, consolidated net income and Company Common Stock involved is more than 10%; in each case, other than the Merger.

5.3.8 As used in this Plan of Merger, ***Company Superior Proposal*** shall mean any bona fide written Company Takeover Proposal that the Company Board of Directors has determined in its good faith judgment, after consultation with its independent financial advisors and outside legal counsel, is reasonably likely to be consummated in accordance with its terms and that is reasonably likely to result in the consummation of a transaction more favorable to the Company Shareholders from a financial point of view than the Merger, taking into account (a) all legal, regulatory and financial aspects of the proposal (including availability of financing and certainty of closing) and the Person making the proposal; and (b) any changes to the terms of this Plan of Merger proposed by Purchaser in response to such proposal or otherwise. For purposes of the definition of ***Company Superior Proposal***, the references to 10% in the definition of ***Company Takeover Proposal*** shall be deemed to be references to 50%.

5.3.9 For purposes of this *Section 5.3*, any breach of this *Section 5.3* by any of Company's Representatives in his or her individual capacity shall be deemed to be a breach by Company.

5.4 *Preparation of the Registration Statement; Shareholder Meeting.*

5.4.1 Purchaser shall use commercially reasonable efforts to prepare and cause to be filed with the SEC a Registration Statement on Form S-4 (the ***Registration Statement***), in which a proxy statement to be sent to the Company Shareholders relating to the Company Shareholder Meeting will be included as a prospectus (the ***Proxy Statement***), as promptly as practicable following the date of this Plan of Merger (and in any event no later than 45 days). Purchaser shall use commercially reasonable efforts to have the Registration Statement declared effective under the Securities Act as promptly as practicable after such filing and shall use all commercially reasonable efforts to keep the Registration Statement effective as long as reasonably necessary to consummate the Merger. Prior to the filing of the Registration Statement, Purchaser shall consult with Company with respect to such filing and shall afford Company and its Representatives reasonable opportunity to review and comment thereon. The Registration Statement and the Proxy Statement shall include all information reasonably requested by Company to be included. If at any time prior to the Company Shareholder Meeting any event with respect to Purchaser or Company or any of their respective officers and directors or Subsidiaries should occur which is required to be described in an amendment of, or a

supplement to, the Proxy Statement or the Registration Statement, Purchaser or Company, as applicable, shall promptly inform the other party so that such event may be so described, and such amendment or supplement shall be promptly filed with the SEC and, as required by Law, disseminated to the shareholders of Company.

A-33

TABLE OF CONTENTS

5.4.2 Purchaser shall take all action (other than qualifying to do business in any jurisdiction in which it is not now so qualified) required to be taken under the Securities Act, the Exchange Act, any applicable foreign or state securities or blue sky Laws and the rules and regulations thereunder in connection with the Merger and the issuance of Purchaser Common Stock as Merger Consideration and under the Company Stock Plan.

5.4.3 Company shall, as soon as is reasonably practicable following the date on which the Registration Statement is declared effective or the effective date can be predicted with reasonable certainty, duly call, give proper notice of, convene and hold a special meeting of the Company Shareholders for the purpose of seeking the Company Shareholder Approval (**Company Shareholder Meeting**). Company shall use its commercially reasonable efforts to (a) cause the Proxy Statement to be mailed to the Company Shareholders and to hold the Company Shareholder Meeting as promptly as practicable after the Registration Statement is declared effective under the Securities Act, (b) solicit from the Company Shareholders proxies to vote on the proposal to approve this Plan of Merger and to secure a quorum at the Company Shareholder Meeting, and (c) except if the Company Board of Directors shall have made a Company Adverse Recommendation Change as permitted by *Section 5.3*, solicit the Company Shareholder Approval. Company shall, through the Company Board of Directors, recommend to the Company Shareholders that they vote for the Company Shareholder Approval and shall include such recommendation in the Proxy Statement, except to the extent that the Company Board of Directors shall have made a Company Adverse Recommendation Change as permitted by *Section 5.3*.

5.5 *Stock Exchange Listing.* Purchaser shall use its commercially reasonable efforts to cause (a) the shares of Purchaser Common Stock to be issued as Merger Consideration and (b) the shares of Purchaser Common Stock to be reserved for issuance upon the exercise, vesting or payment under any Converted Stock Option, in each case to be approved for listing on The Nasdaq Global Select Market, subject to official notice of issuance, prior to the Effective Time.

5.6 *Regulatory Matters and Approvals.*

5.6.1 Subject to the terms and conditions of this Plan of Merger, each of the parties shall use all commercially reasonable efforts to take, or cause to be taken, all actions, and to do, or cause to be done, all things necessary, proper, or advisable under applicable Laws and regulations to consummate and make effective the Merger. Subject to the terms and conditions of this Plan of Merger, the parties will use all commercially reasonable efforts to obtain consents of all third parties and governmental bodies necessary or desirable for the consummation of the Merger.

5.6.2 As soon as practicable after the date of this Plan of Merger (but in no event more than 45 days after the date hereof), Purchaser shall prepare and file with the Federal Reserve Board and each other Governmental Entity having jurisdiction all applications and documents required to obtain, and shall use its commercially reasonable efforts to obtain, upon terms and conditions reasonably acceptable to Purchaser, each necessary approval of or consent to consummate the Merger. Purchaser shall provide Company with reasonable opportunities to review and comment upon such documents before filing and to make such amendments and file such supplements thereto as Company may reasonably request. Purchaser shall provide Company with copies of all material correspondence received from these agencies and all material responsive correspondence sent to these agencies.

5.6.3 From the date of this Plan of Merger until the Effective Time, each of Company and Purchaser shall promptly notify the other party in writing of any pending or, to the Knowledge of Company or Purchaser (as the case may be), threatened Action or Order by any Governmental Entity or any other Person (a) challenging or seeking material damages in connection with the Merger or the other transactions contemplated by this Plan of Merger or (b) seeking to restrain or prohibit the consummation of the Merger or the other transactions contemplated by this Plan of Merger. If any Action or Order is instituted (or threatened to be instituted) challenging any of the transactions contemplated by this Plan of Merger as violative of any Law, each of Company and Purchaser shall, and shall cause their respective

Representatives to, cooperate and use their commercially reasonable efforts to contest and resist, except insofar as Company and Purchaser may otherwise agree, any such Action or Order, including any Action or Order that seeks a temporary restraining order or preliminary injunction that would prohibit, prevent or restrict consummation of the Merger or the other transactions contemplated by this Plan of Merger.

5.6.4 Nothing contained in this Plan of Merger shall give Company, directly or indirectly, the right to control or direct the operations of Purchaser or give Purchaser, directly or indirectly, the right to control or direct

A-34

TABLE OF CONTENTS

the operations of Company prior to the Effective Time. Prior to the Effective Time, subject to *Sections 5.1* and *5.2*, as applicable, Company and Purchaser each shall exercise, consistent with the terms and conditions of this Plan of Merger, complete control and supervision over their respective business operations.

5.6.5 Each of Company and Purchaser shall, and shall cause their respective Subsidiaries to, take all commercially reasonable and lawful actions as may be necessary or appropriate to transfer, or to allow for the Surviving Corporation to utilize after the Effective Time, or obtain, as permitted by Law, all Permits appropriate or necessary to continue the business of Company and Purchaser and their respective Subsidiaries as currently conducted.

5.7 Employee Matters.

5.7.1 *Employment Continuation.* All individuals employed by, or on authorized leave of absence from, Company or any Company Subsidiary immediately before the Effective Time shall automatically become employees of Purchaser or a Purchaser Subsidiary as of the Effective Time.

5.7.2 *Benefit Continuation.* Purchaser covenants and agrees to provide to each employee of Company or any Company Subsidiary who becomes employed by Purchaser or any of its Affiliates as a result of the Merger (each, a ***Continuing Employee***) with the same employee benefits then provided to similarly situated employees at Purchaser.

5.7.3 *Employee Terminations; Employee Severance.* Company shall cooperate, and shall cause each Company Subsidiary to cooperate, with Purchaser by (a) terminating the employment of those employees of Company or any Company Subsidiary identified by Purchaser as employees whose positions will be eliminated as a result of the Merger and who will not be a Continuing Employee, with such terminations to occur immediately prior to the Effective Time or at such other time as mutually agreeable to Purchaser and Company, and (b) causing a final payroll of Company and each Company Subsidiary to take place on the Business Day immediately preceding the date on which the Effective Time occurs or such other date as mutually agreeable to Purchaser and Company. Purchaser covenants and agrees to pay severance payments to each employee of Company, other than those executives listed in Section 5.7.3(a) of the Company Disclosure Letter, whose job is eliminated as a result of the Merger, either concurrently with the Effective Time or within one year after the Effective Time, and who is not offered reasonably comparable employment with Purchaser or any Purchaser Subsidiary (with the determination of whether an offer of employment is reasonably comparable to be made by mutual agreement of Purchaser and Company), in accordance with the severance plan as set forth in Section 5.7.3(b) of the Company Disclosure Letter. At the request of Purchaser, any or all severance payments to be made to persons terminated pursuant to clause (a) above and entitled to severance payments shall be made by Company or a Company Subsidiary on the Business Day immediately preceding the date on which the Effective Time occurs or such other date as mutually agreeable to Company and Purchaser. Continuation of certain benefits is subject to elective continuation through COBRA in accordance with applicable Laws and regulations.

5.7.4 *Years of Service Credit.* Purchaser covenants and agrees that each Continuing Employee shall receive credit for years of service at Company or the Company Subsidiaries for all purposes, including, without limitation, for purposes of eligibility to participate, vesting credit, entitlement to benefits, and levels of benefits of any Purchaser employee benefit plan (including, but not limited to, Purchaser's 401(k) plan) or any other employee benefit plan of the Surviving Corporation commencing after the Effective Time, and for purposes of determining seniority in connection with employment with the Surviving Corporation and its Affiliates.

5.7.5 *Deferred Compensation Plan.* On and after the date of the Plan of Merger, Company shall not make or cause to be made any discretionary contributions to participants, and shall prohibit any new participant elections to defer compensation, under the Company Director Deferred Compensation Plan. Any preexisting deferral elections that are irrevocable as of the date of the Plan of Merger shall remain in effect for compensation paid during the remainder of

the calendar year in which the Plan of Merger is dated. The Company Director Deferred Compensation Plan shall otherwise remain in full force and effect and payments of any benefits to participants shall be made in accordance with the terms of the Company Director Deferred Compensation Plan.

5.7.6 Non-Equity Incentive and Bonus Plans. Immediately on or prior to the Effective Time, Company and each Company Subsidiary shall, subject to the occurrence of the Effective Time, terminate all non-equity incentive and/or bonus plans, and the accrued benefits as of the Effective Time shall be paid on a prorated basis

A-35

TABLE OF CONTENTS

based on the portion of the plan year completed before the Effective Time and in a lump sum on the Business Day immediately preceding the date on which the Effective Time occurs or such other date as mutually agreeable to Purchaser and Company. The amount of each such bonus shall be calculated based on Company's actual performance for the portion of the plan year completed before the Effective Time (with respect to all Company performance goals) and the individual's actual performance for such portion of the plan year (with respect to individual performance goals).

5.7.7 Severance/Employment Agreements. If the Effective Time occurs, Purchaser will honor all of Company's obligations and assume all its defenses under existing severance, change of control or employment agreements to which Company or any Company Subsidiary is a party and which are listed on Section 5.7.7 of the Company Disclosure Letter in accordance with the terms thereof. Simultaneously with the execution and delivery of this Plan of Merger, Purchaser is entering into a letter agreement with each individual subject to such severance, change of control or employment agreements.

5.7.8 Termination of 401(k) Plan. The Company Board of Directors shall, prior to the Effective Time, adopt resolutions terminating Company's 401(k) Plan effective as of immediately prior to the Effective Time. The accounts of all participants and beneficiaries in Company's 401(k) Plan shall become fully vested upon termination of Company's 401(k) Plan. As soon as practicable following the Effective Time, all account balances in Company's 401(k) Plan shall be either distributed to participants and beneficiaries or rolled over to an eligible tax-qualified retirement plan or individual retirement account as a participant or beneficiary may direct. Purchaser agrees to permit participants in Company's 401(k) Plan who become employees of Purchaser to roll over their 401(k) account balances in Company's 401(k) Plan to Purchaser's 401(k) plan. Notwithstanding the foregoing, no shares of Purchaser Common Stock may be rolled over into Purchaser's 401(k) plan.

5.7.9 Employer Contributions to Company's 401(k) Plan. Company shall be permitted to make matching contributions to Company's 401(k) Plan based on participants' elective contributions to Company's 401(k) Plan, in each case in accordance with Section 5.7.9 of the Company Disclosure Letter.

5.7.10 Retention Bonuses. If requested by Purchaser, Company will cooperate with Purchaser in its efforts to cause certain employees of Company and/or its Subsidiaries identified by Purchaser, if any, to enter into retention or stay bonus agreements (in a form mutually agreed to by Purchaser and the employee) prior to the Effective Time. All retention and stay bonuses, if any, to be paid to employees of Company or any Company Subsidiary are subject to the mutual agreement of Company and Purchaser.

5.7.11 Annual Compensation Cycle. In connection with its annual compensation cycle, Company shall be permitted (a) to pay bonuses under Company's 2017 bonus plan consistent with the terms of the 2017 bonus plan and past practice; (b) to increase employee compensation consistent with past practice and, in any event, by no more than 3.5% in the aggregate, and (c) to establish a 2018 bonus plan consistent with past practice and after consultation with Purchaser.

5.7.12 Expense Reimbursement. Company shall be permitted to reimburse employees for expenses in accordance with Company's applicable reimbursement policies and consistent with past practice.

5.8 Press Releases and Public Announcement. Neither Company nor Purchaser will issue any press release or make any public announcement relating to this Plan of Merger, the Merger or the other transactions contemplated by this Plan of Merger without the prior written approval of, in the case of Company, Purchaser, and in the case of Purchaser, Company. However, each party may issue any such press release or make such public announcement, including with respect to actions contemplated by *Sections 5.1 and 5.2*, as applicable, it believes in good faith is required to be made by applicable Law or any applicable rule or regulation promulgated by any applicable securities exchange after

consultation with outside legal counsel, in which case the disclosing party will use its commercially reasonable efforts to advise and consult with the other party regarding any such press release or other announcement prior to making any such disclosure.

5.9 *Access to Information.*

5.9.1 Subject to applicable Law, during the period commencing on the date of this Plan of Merger and ending at the earlier of the Effective Time and the termination of this Plan of Merger in accordance with *Article VII*, (a) Company will, and will cause each of the Company Subsidiaries to, upon reasonable prior written notice, permit Purchaser and its respective Representatives to have reasonable access at all reasonable times, and in a manner so as not to interfere with the normal business operations of Company and the Company

A-36

TABLE OF CONTENTS

Subsidiaries, to the officers and senior management, premises, agents, books, records, and Contracts of or pertaining to Company and the Company Subsidiaries as may be reasonably requested in writing; and (b) upon the reasonable request of Company, Purchaser shall furnish such reasonable information about it and its business as is relevant to Company and its shareholders in connection with the transactions contemplated by this Plan of Merger; *provided, however*, that such access or disclosure of information will (i) comply with all applicable Laws, (ii) not result in, or reasonably be expected to result in, the waiver of the attorney-client privilege, or (iii) not result in, or reasonably be expected to result in, a material breach of any material Contract. No such access shall affect the representations, warranties, covenants or agreements of the parties (or the remedies with respect thereto) or the conditions to the obligations of the parties under this Plan of Merger.

5.9.2 All Information (as defined in the Confidentiality Agreement) provided pursuant to this Plan of Merger shall be subject to the provisions of the letter agreement, dated July 31, 2017, between Company and Purchaser (*Confidentiality Agreement*), which shall remain in full force and effect in accordance with its terms.

5.10 *Indemnification and Insurance.*

5.10.1 All rights to exculpation, indemnification and advancement of expenses now existing in favor of the current or former directors and officers, as the case may be, of Company or the Company Subsidiaries as provided in their respective articles of incorporation or bylaws or other organization documents or in the existing indemnity agreements with Company or any of the Company Subsidiaries shall survive the Merger and, except as otherwise expressly provided in this *Section 5.10*, shall continue in full force and effect in accordance with their terms.

5.10.2 From and after the Effective Time and until the sixth anniversary of the Effective Time, the Surviving Corporation shall indemnify and hold harmless to the fullest extent permitted under applicable Law, each current or former director or officer of Company or any of the Company Subsidiaries (each, together with such person's heirs, executors or administrators, an *Indemnified Party*) against any costs or expenses (including advancing attorneys' fees and expenses in advance of the final disposition of any claim, suit, proceeding or investigation to each Indemnified Party to the fullest extent permitted by Law and following receipt of any undertaking required by applicable Law), judgments, fines, losses, claims, damages, liabilities and amounts paid in settlement in connection with any actual or threatened Actions, arising out of, relating to or in connection with any action or omission occurring or alleged to have occurred at or before the Effective Time in such Indemnified Party's capacity as a director or officer of Company or any of the Company Subsidiaries or in such Indemnified Party's capacity as a director, officer, member, trustee or fiduciary of another corporation, partnership, joint venture, trust, pension or other employee benefit plan or enterprise at the request or for the benefit of Company or any Company Subsidiary, including in connection with the transactions contemplated by this Plan of Merger. All rights to indemnification or advancement of expenses in respect of any Action pending or asserted or any claim made within such period shall continue until the disposition of such Action or resolution of such claim. In the event of any such Action, the Surviving Corporation shall reasonably cooperate with the Indemnified Party in the defense of the Action.

5.10.3 The Surviving Corporation shall maintain in effect for not less than six years from the Effective Time the current policies of directors' and officers' liability insurance and fiduciary liability insurance maintained by Company and the Company Subsidiaries for the Indemnified Parties prior to the Effective Time with respect to matters occurring at or prior to the Effective Time, including the transactions contemplated by this Plan of Merger. Alternatively, the Surviving Corporation may substitute therefor policies of substantially the same coverage containing terms and conditions that, taken as a whole, are no less advantageous to the Indemnified Parties. Notwithstanding the foregoing, the Surviving Corporation shall not be required to pay annual premiums for such insurance coverages in excess of 300% of the last annual premium (such 300% threshold, the *Maximum Amount*) paid by Company prior to the date of this Plan of Merger in respect of the coverages required to be obtained pursuant to this *Section 5.10.3*, but in such case shall purchase the greatest coverage available for a cost not exceeding the

Maximum Amount. Alternatively, the Surviving Corporation may purchase at or after the Effective Time, at a total aggregate cost not exceeding the Maximum Amount, a six-year prepaid tail policy on terms and conditions providing substantially equivalent benefits as the current policies of directors and officers liability insurance and fiduciary liability insurance maintained by

A-37

TABLE OF CONTENTS

Company and the Company Subsidiaries for the Indemnified Parties with respect to matters occurring at or prior to the Effective Time, including the transactions contemplated by this Plan of Merger. If such *tail* prepaid policy has been obtained, the Surviving Corporation shall maintain it in full force and effect for its full term and honor all obligations thereunder.

5.10.4 The rights of each Indemnified Party hereunder shall be in addition to, and not in limitation of, any other rights such Person may have under the articles of incorporation or bylaws or other organization documents of Company or any of the Company Subsidiaries or the Surviving Corporation, any other indemnification arrangement, the MBCA, directors and officers insurance claims under any policy that is or has been in existence with respect to Company or the Company Subsidiaries or otherwise. The provisions of this *Section 5.10* shall survive the consummation of the Merger and expressly are intended to benefit, and are enforceable by, each of the Indemnified Parties, each of whom is a third-party beneficiary of this *Section 5.10*.

5.10.5 In the event that the Surviving Corporation or its successors or assigns (a) consolidates with or merges into any other Person and shall not be the continuing or surviving corporation or entity in such consolidation or merger or (b) transfers all or substantially all of its properties and assets to any Person, in each case, proper provision shall be made so that the successors and assigns of the Surviving Corporation, as the case may be, shall assume the obligations set forth in this *Section 5.10*.

5.10.6 Notwithstanding any provisions to the contrary, the indemnification obligations in this *Section 5.10* are limited by applicable banking, securities, and other Laws and any such obligations that violate any applicable banking, securities, and other Laws or published public policy are void and unenforceable.

5.11 *Takeover Laws.* If any moratorium, control share, fair price, affiliate transaction, business combination or anti-takeover Law is or may become applicable to the Merger, the parties shall use their respective commercially reasonable efforts to (a) take such actions as are reasonably necessary so that the transactions contemplated hereunder may be consummated as promptly as practicable on the terms contemplated by this Plan of Merger and (b) otherwise take all such actions as are reasonably necessary to eliminate or minimize the effects of any such Law on the Merger and the transactions contemplated by this Plan of Merger.

5.12 *Section 16 Matters.* Prior to the Effective Time, Company and Purchaser each shall use commercially reasonable efforts to cause any acquisitions or dispositions of Purchaser Common Stock (including derivative securities with respect to Purchaser Common Stock and Converted Stock Options) resulting from the Merger and the other transactions contemplated by this Plan of Merger, by each individual who may become or is reasonably expected to become subject to the reporting requirements of Section 16(a) of the Exchange Act with respect to Purchaser immediately following the Effective Time, to be exempt under Rule 16b-3 promulgated under the Exchange Act.

5.13 *Securityholder Litigation.* Each party shall keep the other party reasonably informed with respect to the defense or settlement of any securityholder Action against it or its directors or officers relating to the Merger or the other transactions contemplated by this Plan of Merger. Each party shall give the other party the opportunity to consult with it regarding the defense or settlement of any such securityholder Action and shall not settle any such Action without the other party's prior written consent (such consent not to be unreasonably withheld, conditioned or delayed).

5.14 *Tax-Free Reorganization Treatment.*

5.14.1 Company and Purchaser intend that the Merger will qualify as a reorganization under Section 368(a) of the Code and that Company and Purchaser are treated as parties to the reorganization (the *Intended Tax Treatment*), and each shall not, and shall not permit any of their respective Subsidiaries to, take any action, or fail to take any action,

that would reasonably be expected to jeopardize the Intended Tax Treatment. Company and Purchaser shall use commercially reasonable efforts, and shall cause their respective Subsidiaries to use commercially reasonable efforts, to cause the Merger to qualify as a reorganization within the meaning of Section 368(a) of the Code, including providing reasonable and customary representations, covenants and certificates requested by counsel under *Sections 6.2.5 and 6.3.5*. Within 45 days following the Effective Time, the Surviving Corporation shall comply with the reporting requirements of Section 1.6045B-1(a)(2) of the Treasury Regulations.

A-38

TABLE OF CONTENTS

5.14.2 Each of Company and Purchaser shall report the Merger as a reorganization within the meaning of Section 368(a) of the Code on its United States federal income Tax Return, unless otherwise required pursuant to a determination within the meaning of Section 1313(a) of the Code.

5.15 *Expenses.* Whether or not the Merger is consummated, except as otherwise provided in this Plan of Merger, all costs and expenses incurred in connection with this Plan of Merger and the transactions contemplated by this Plan of Merger shall be paid by the party incurring such expenses, except that Purchaser shall pay and bear the cost of (a) each regulatory filing, notification, registration or similar fee required to be paid by any party in connection with this Plan of Merger and the transactions contemplated by this Plan of Merger under the Securities Act, the Exchange Act, applicable banking Laws and other applicable Laws and (b) any fees and expenses (excluding each party's internal costs and fees and expenses of attorneys, accountants and financial and other advisors) incurred in respect of printing, filing and mailing of the Proxy Statement and the Registration Statement.

5.16 *Bank Consolidation.* Company shall take all actions reasonably requested by Purchaser to cause the consolidation of Bank with and into Independent Bank, a Michigan state chartered bank (the **Bank Consolidation**), with Independent Bank as the surviving institution, immediately following the Bank Consolidation, including by executing and delivering a bank consolidation agreement in customary form. The parties will cooperate and cause their Subsidiaries to cooperate in all reasonable respects to facilitate the mailing or posting in a timely fashion of any notices to customers of the banks with respect to the Bank Consolidation reasonably deemed necessary or appropriate by Purchaser.

5.17 *Fairness Opinion.* Company will use commercially reasonable efforts to deliver to Purchaser a copy of a written fairness opinion dated as of the date of this Plan of Merger and received from the Company Investment Banker within seven Business Days of the date of this Plan of Merger together with the form of consent of the Company Investment Banker to permit the inclusion of the text of its written opinion in its entirety in the Proxy Statement, so long as the Company Investment Banker and its counsel have approved any summary of, or other description of, its written opinion in the Proxy Statement in advance of its filing with the SEC.

5.18 *Environmental Investigation.* Pursuant to the terms described below, Purchaser shall be permitted to conduct environmental assessments of: (i) any or all parcels of real property owned by Company or any Company Subsidiary; and (ii) to the extent permitted by the current owners or operators thereof, any other real estate formerly owned, leased, or used by Company or any Company Subsidiary (each of the parcels described in both clause (i) and (ii), an **Investigated Property**). As to each Investigated Property:

5.18.1 *Phase I Work.* Not later than 30 Business Days after the date of this Plan of Merger (or within 30 Business Days after the acquisition or lease of any Investigated Property acquired or leased after the date of this Plan of Merger), Purchaser shall be permitted to conduct, at its expense, a Phase I environmental site assessment, compliant with ASTM Standard E1527-13 and applicable legal standards (a **Phase I Assessment**), of the Investigated Property. Upon request, Company and each Company Subsidiary shall provide reasonable assistance, including site access, a knowledgeable contact person, legal descriptions and other documentation relating to the real estate, and any prior environmental investigation reports, compliance audits, and any related correspondence or documentation in Company's possession to Purchaser's consultant for purposes of conducting the Phase I Assessments. Purchaser shall provide Company with a copy of its final Phase I Assessment for the Investigated Property.

5.18.2 *Phase II Work.* Within 5 Business Days of receipt of a final Phase I Assessment, Purchaser shall notify Company whether it plans to conduct a Phase II environmental assessment (a **Phase II Assessment**) of the Investigated Property, which may include the procurement and analysis of samples of soil, groundwater, surface water, air, or any other environmental medium. All Phase II Assessments shall be at Purchaser's sole expense. Purchaser shall furnish a copy of a proposed written scope of work for the Phase II Assessment to Company within 10

Business Days of receipt of the final Phase I Assessment. Purchaser and Company shall use commercially reasonable efforts to agree upon the work plan prior to commencing the Phase II Assessment. The Phase II Assessment may be conducted in more than one phase, provided that all phases shall be completed by the earlier of (i) 20 Business Days after the parties agree upon the work plan, and (ii) 10 Business Days prior to the Closing. Purchaser shall provide Company with a copy of its final Phase II Assessment for each Investigated Property for which a Phase II Assessment has been obtained.

5.18.3 *Environmental Risks.* If there are any facts or conditions identified in any Phase I Assessment or Phase II Assessment that Purchaser reasonably believes pose a current or future material risk of liability, material

A-39

TABLE OF CONTENTS

interference with use, or a material diminution of value of the Investigated Properties (collectively, **Environmental Risks**), then Purchaser shall notify Company of such Environmental Risks and the facts or conditions underlying such Environmental Risks within 10 Business Days after receipt of all final environmental reports for all Investigated Properties. Such notice shall include either (i) an estimate by a qualified environmental professional of the actual cost of all remedial or other corrective actions and measures required by applicable Law to be taken with respect to the Investigated Property, or (ii) a statement from a qualified environmental professional that the cost of such actions and measures cannot be reasonably estimated.

5.19 *Conversion*. Purchaser intends to convert some or all of Company's information and data onto Purchaser's information technology systems (the **Data Conversion**). Purchaser agrees to use all commercially reasonable efforts to promptly commence preparations for implementation of the Data Conversion with the goal of effecting the Data Conversion at or as soon as reasonably practicable after the Effective Time. Company agrees to cooperate with Purchaser in preparing for the Data Conversion within the time frame set forth above, including providing reasonable access to data, information systems, and personnel having expertise with Company's and the Company Subsidiaries information and data systems; *provided, however*, that Company shall not be required to terminate any third-party service provider arrangements prior to the Effective Time. In the event that Company takes, at the request of Purchaser, any action relative to third parties to facilitate the Data Conversion that results in the imposition of any termination fees or other charges or expenses, Purchaser shall indemnify Company for all such fees, charges and expenses, and the costs of reversing the Data Conversion process, if the Merger is not consummated for any reason, other than the breach of this Plan of Merger by Company or the termination of this Plan of Merger by Company pursuant to *Section 7.1.8*.

5.20 *Trust Preferred Securities*. Prior to the Effective Time, Company and Purchaser shall take all actions necessary for Purchaser to enter into a supplemental indenture with the trustee of the indenture for Company's outstanding floating-rate junior subordinated debt securities due 2035 (the **Debt Securities**) to evidence the succession of Purchaser as of the Effective Time. The form of the supplemental indenture shall be reasonably acceptable to Purchaser, and, pursuant to such supplemental indenture, Purchaser will agree to assume the covenants, agreements and obligations of Company under the indenture, including the obligation to make all payments when due in respect of the Debt Securities.

5.21 *Technology-Related Contracts*. Until the Effective Time, Company shall advise Purchaser of all anticipated renewals or extensions of existing data processing service agreements, data processing software license agreements, data processing hardware lease agreements, and other material technology-related licensing, maintenance or servicing agreements with independent vendors (**Technology-Related Contracts**) involving Company or any Company Subsidiary. The material Technology-Related Contracts of Company and any Company Subsidiary are listed in Section 5.21 of the Company Disclosure Letter. Notwithstanding any other provision of this *Section 5.21*, neither Company nor any Company Subsidiary shall be obligated to take any irrevocable action, or irrevocably forego taking any action, with respect to those Technology-Related Contracts that would cause any such agreement to terminate, expire, or be materially modified prior to the Effective Time.

5.22 *Miscellaneous Agreements and Consents*. Subject to the terms and conditions of this Plan of Merger, each of the parties shall use all commercially reasonable efforts to take, or cause to be taken, all actions, and to do, or cause to be done, all things necessary, proper, or advisable under applicable Laws and regulations or as otherwise reasonably requested in writing by Purchaser to consummate and make effective the Merger. Subject to the terms and conditions of this Plan of Merger, the parties will use all commercially reasonable efforts to obtain consents of all third parties and Governmental Entities necessary or desirable for the consummation of the Merger.

5.23 *Exchange of Financial Information*. After the execution of this Plan of Merger until the Effective Time of the Merger, Company shall promptly deliver to Purchaser copies of:

5.23.1 Each monthly internal financial report prepared with respect to Company and each of the Company Subsidiaries. Company represents and warrants that such information shall be consistent with the financial information as used for internal purposes by Company in the management of its consolidated business; and

5.23.2 Each financial report or statement submitted to regulatory authorities for Company and each of the Company Subsidiaries.

A-40

TABLE OF CONTENTS

5.24 *Estoppels.* Company shall use commercially reasonable efforts to obtain landlord or tenant estoppel certificates, as applicable, in form and substance reasonably acceptable to Purchaser and dated no earlier than 25 days prior to Closing from all landlords and tenants, as applicable, under the leases listed in Section 5.24 of the Company Disclosure Letter.

5.25 *Notification of Change in Business Relationships.* Company shall promptly notify Purchaser in writing of any customer, agent, representative, supplier, or other person with whom Company or any Company Subsidiary has a material contractual relationship, who, to the Knowledge of Company, intends, whether on account of the Merger or otherwise, to discontinue, materially diminish, or change its relationship with Company or any Company Subsidiary in an adverse manner.

5.26 *Company Consolidated Shareholders Equity.*

5.26.1 *Company Consolidated Shareholders Equity.* For purposes of the Closing Balance Sheet, **Company Consolidated Shareholders Equity** shall be Company's total consolidated shareholders equity as of the Final Statement Date computed in accordance with GAAP, consistently applied and excluding the net accumulated other comprehensive income/(loss) related to unrealized investment securities gains/(losses), except such total consolidated shareholders equity shall be adjusted for each of the following items: (a) no expense shall be accrued or deduction shall be made for any of the following: any accruals, reserves, or charges resulting from expenses of the Merger and other transactions contemplated by this Plan of Merger including Company investment banking fees, severance pay, retention bonuses, attorneys and accountants fees, and amounts owing and paid under management change-in-control contracts; (b) to the extent Company's aggregate provisions for loan losses are less than the aggregate Company net charge-offs (except to the extent there is a specific reserve) on loans during the period from the date of this Plan of Merger until the Effective Time, an expense shall be accrued for any such shortfall; (c) no expense shall be accrued or deduction shall be made for the termination fees and costs related to any Contract with Company or any Company Subsidiary that is terminated in connection with the Merger; (d) Company Consolidated Shareholders Equity shall include any Aggregate Collections in excess of \$691,000 except to the extent Company Consolidated Shareholders Equity has been or will be reduced by a Special Dividend in the amount of such excess; (e) an expense shall be accrued for the amount of all bonuses and other benefits to be paid pursuant to *Section 5.7.6*; and (f) any other adjustments as may be mutually agreed to in writing between Purchaser and Company.

5.26.2 *Closing Balance Sheet.* Company shall prepare, and cause its independent accountants Plante Moran (the **Accounting Firm**), to perform agreed-upon procedures on a consolidated balance sheet of Company as of the Final Statement Date (the **Closing Balance Sheet**) and the computation of Company Consolidated Shareholders Equity as of the Final Statement Date, determined in accordance with this Plan of Merger. The Closing Balance Sheet shall be prepared in accordance with GAAP, consistently applied, and in a manner consistent with the audited consolidated balance sheet of Company as of December 31, 2016, except as provided in *Section 5.26.1* above. The Accounting Firm's engagement will be governed by mutually agreed upon procedures and, upon completion of such review, the Accounting Firm shall issue an agreed upon procedures report setting forth Company Consolidated Shareholders Equity (the **Closing Report**). The fees and expenses of the Accounting Firm incurred pursuant to this *Article V* shall be paid by Company. Notwithstanding the foregoing, Purchaser may in its discretion agree to accept a Closing Balance Sheet that is certified by Company as accurate and in accordance with the requirements of this Plan of Merger, in lieu of the Closing Report.

5.26.3 *Final Statement Date.* The last day of the calendar month preceding the date on which both the shareholders of Company have approved the Merger as required by this Plan of Merger and all regulatory approvals required by Law to consummate the Merger have been obtained (statutory waiting periods need not have expired), or such other date as agreed upon by Purchaser and Company, shall be the **Final Statement Date**.

5.27 *Special Dividend.* If the aggregate cash amount collected by Bank (the *Aggregate Collections*) relating to the loan to the borrower (the *Borrower*) described in Section 5.27 of the Company Disclosure Letter exceeds \$691,000 at any time prior to the Effective Time, then the Company Board of Directors may, subject to applicable Law and the Company articles of incorporation and bylaws, declare a special cash dividend on the shares of Company Common Stock in an aggregate amount not greater than the product of (a) sixty-five percent (65%), multiplied by

A-41

TABLE OF CONTENTS

(b) the difference between the amount of such Aggregate Collections and \$691,000 (such dividend, the *Special Dividend*), and the Company Board of Directors may set the record date and payment date for such Special Dividend in its sole discretion, provided that the record date must be earlier than the date on which the Effective Time occurs.

5.28 *Addition of Company Director to Purchaser Board.* After the Effective Time, the Purchaser shall cause one director of the Company, determined by the Company but subject to the reasonable approval of Purchaser, to be added to the Board of Directors of Purchaser.

ARTICLE VI CLOSING CONDITIONS

6.1 *Conditions to Each Party's Obligation to Effect the Merger.* The respective obligations of each party to effect the Merger are subject to the fulfillment (or waiver by Company and Purchaser) at or prior to the Effective Time of the following conditions:

6.1.1 The Company Shareholder Approval shall have been obtained.

6.1.2 Company and Purchaser shall have received all regulatory approvals required in connection with the transactions contemplated by this Plan of Merger, all applicable notice periods and waiting periods shall have expired, and all such regulatory approvals shall be in effect; *provided*, that no such regulatory approvals shall contain any non-standard conditions, restrictions or requirements that would, after the Effective Time, have, or be reasonably likely to have, individually or in the aggregate, a Material Adverse Effect on the Surviving Corporation (after giving effect to the Merger) in the reasonable opinion of the Purchaser.

6.1.3 No provision of any applicable Law making illegal or otherwise prohibiting the consummation of the Merger shall be in effect and no temporary, preliminary or permanent restraining Order preventing the consummation of the Merger will be in effect.

6.1.4 Neither party shall be subject to any Order of a court or agency of competent jurisdiction that enjoins or prohibits the consummation of the Merger.

6.1.5 The Registration Statement shall have become effective under the Securities Act, no stop order suspending the effectiveness of the Registration Statement shall have been issued by the SEC and no proceedings for that purpose shall have been commenced or threatened by the SEC.

6.1.6 The shares of Purchaser Common Stock to be issued as Merger Consideration shall have been authorized for listing on The Nasdaq Global Select Market, subject to official notice of issuance.

6.2 *Conditions to Company's Obligation to Effect the Merger.* The obligation of Company to effect the Merger is subject to the fulfillment (or waiver by Company) at or prior to the Effective Time of the following additional conditions:

6.2.1 (a) The representations and warranties of Purchaser set forth in this Plan of Merger (other than *Sections 4.1.1, 4.2, 4.3.1, 4.3.2, and 4.4*) will be true and correct (without giving effect to any limitation as to materiality or Purchaser Material Adverse Effect contained therein) as of the Closing Date as though made as of such date (except to the extent such representations and warranties speak as of another time, in which case such representations and warranties will be true and correct as of such other time), except where the failure of such representations and warranties to be so true and correct does not have, and would not reasonably be expected to have, individually or in the aggregate, a Purchaser Material Adverse Effect, and (b) the representations and warranties of Purchaser set forth in *Sections 4.1.1, 4.2, 4.3.1,*

4.3.2, and 4.4 will be true and correct in all but de minimis respects as of the Closing Date as though made as of the Closing Date (except to the extent such representations and warranties speak as of another time, in which case such representations and warranties will be true and correct in all but de minimis respects as of such other time).

6.2.2 Purchaser shall have performed in all material respects all of the covenants required to be performed by it under this Plan of Merger at or prior to the Closing Date.

6.2.3 Purchaser shall have delivered to Company a certificate, dated as of the Closing Date and signed on behalf of Purchaser by its Chief Executive Officer or Chief Financial Officer certifying to the effect that the conditions set forth in *Sections 6.2.1* and *6.2.2* have been satisfied.

A-42

TABLE OF CONTENTS

6.2.4 Since December 31, 2016, there shall not have been any change, state of facts, event, development or effect that has had, or would reasonably be expected to have, individually or in the aggregate, a Purchaser Material Adverse Effect.

6.2.5 Company shall have received the opinion of Warner Norcross & Judd LLP, acting as counsel to Company, on the basis of certain facts, representations and assumptions set forth in such opinion, dated the Closing Date, a copy of which shall be furnished to Purchaser, to the effect that the Merger will be treated for federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code. In rendering such opinion, such counsel shall be entitled to receive and rely upon customary representations of officers of Company and Purchaser as to such matters as such counsel may reasonably request.

6.3 *Conditions to Purchaser's Obligation to Effect the Merger.* The obligation of Purchaser to effect the Merger is subject to the fulfillment (or waiver by Purchaser) at or prior to the Effective Time of the following additional conditions:

6.3.1 (a) The representations and warranties of Company set forth in this Plan of Merger (other than *Sections 3.1.1, 3.2, 3.3.1, 3.3.2, and 3.4*) will be true and correct (without giving effect to any limitation as to materiality or Company Material Adverse Effect contained therein) as of the Closing Date as though made as of such date (except to the extent such representations and warranties speak as of another time, in which case such representations and warranties will be true and correct as of such other time), except where the failure of such representations and warranties to be so true and correct does not have, and would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect, and (b) the representations and warranties of Company set forth in *Sections 3.1.1, 3.2, 3.3.1, 3.3.2, and 3.4* will be true and correct in all but de minimis respects as of the Closing Date as though made as of the Closing Date (except to the extent such representations and warranties speak as of another time, in which case such representations and warranties will be true and correct in all but de minimis respects as of such other time).

6.3.2 Company shall have performed in all material respects all of the covenants required to be performed by it under this Plan of Merger at or prior to the Closing Date.

6.3.3 Company shall have delivered to Purchaser a certificate, dated as of the Closing Date and signed on behalf of Company by its Chief Executive Officer or Chief Financial Officer certifying to the effect that the conditions set forth in *Sections 6.3.1 and 6.3.2* have been satisfied.

6.3.4 Since December 31, 2016, there shall not have been any change, state of facts, event, development or effect that has had, or would reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect.

6.3.5 Purchaser shall have received the opinion of Varnum LLP, acting as counsel to Purchaser, on the basis of certain facts, representations and assumptions set forth in such opinion, dated the Closing Date, a copy of which shall be furnished to Company, to the effect that the Merger will be treated for federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code. In rendering such opinion, such counsel shall be entitled to receive and rely upon customary representations of officers of Company and Purchaser as to such matters as such counsel may reasonably request.

6.3.6 Purchaser shall have received one or more certificates dated as of the Closing Date and signed by the secretary of Company on behalf of Company certifying (a) the total number of shares of capital stock of Company issued and outstanding as of the close of business on the day immediately preceding the Closing; and (b) the number of shares of Company Common Stock, if any, that are issuable on or after that date, all in such form as Purchaser may reasonably request.

6.3.7 As of the Final Statement Date, the Company Consolidated Shareholders' Equity shall be at least \$33,000,000.

6.3.8 As of the Final Statement Date, the Company's allowance for loan and lease losses shall be at least equal to the sum of (a) the greater of (X) \$2,363,000 or (Y) 0.85% of gross loans as of the Final Statement Date, *plus* (b) any credit (increase) to the allowance between the date of this Plan of Merger and the Final Statement Date resulting from a recovery relating to the Bank's loan to the Borrower.

A-43

TABLE OF CONTENTS

**ARTICLE VII
TERMINATION**

7.1 *Termination of Plan of Merger.* Notwithstanding anything contained in this Plan of Merger to the contrary, this Plan of Merger may be terminated and the Merger may be abandoned at any time prior to the Effective Time, whether before or, subject to the terms of this Plan of Merger, after receipt of the Company Shareholder Approval, as follows:

7.1.1 by mutual written consent of Company and Purchaser;

7.1.2 by either Company or Purchaser, if any Governmental Entity has issued an Order or taken any other action permanently enjoining, restraining or otherwise prohibiting the consummation of the Merger and such Order or other action is final and unappealable; *provided, however*, that the right to terminate this Plan of Merger pursuant to this *Section 7.1.2* shall not be available to the party seeking to terminate if (a) the failure of Company, in the case of a termination by Company, or (b) the failure of Purchaser, in the case of a termination by Purchaser, to perform any of its obligations under this Plan of Merger required to be performed at or prior to the Effective Time has been a substantial cause of, or a substantial factor that resulted in, the issuance of such an Order or the taking of such an action;

7.1.3 by either Company or Purchaser, if the Merger does not occur on or before September 4, 2018 (the *End Date*); *provided, however*, that the right to terminate this Plan of Merger pursuant to this *Section 7.1.3* shall not be available to the party seeking to terminate if (a) the failure of Company, in the case of a termination by Company, or (b) the failure of Purchaser, in the case of a termination by Purchaser, to perform any of its obligations under this Plan of Merger required to be performed at or prior to the Effective Time has been a substantial cause of, or a substantial factor that resulted in, the failure of the Effective Time to occur on or before the End Date;

7.1.4 by either Company or Purchaser if the Company Shareholder Meeting (including any postponements or adjournments) shall have concluded and been finally adjourned and the Company Shareholder Approval shall not have been obtained; *provided, however*, that right to terminate this Plan of Merger pursuant to this *Section 7.1.4* shall not be available to the party seeking to terminate if (a) the failure of Company, in the case of a termination by Company, or (b) the failure of Purchaser, in the case of a termination by Purchaser, to perform any of its obligations under this Plan of Merger required to be performed at or prior to the Company Shareholder Meeting has been a substantial cause of, or a substantial factor that resulted in, the Company Shareholder Approval not having been obtained;

7.1.5 by Company, if Purchaser shall have breached or failed to perform any of its representations, warranties, covenants or other agreements contained in this Plan of Merger, which breach or failure to perform (a) would result in a failure of a condition set forth in *Section 6.1* or *Section 6.2* and (b) (i) cannot be cured by the End Date or (ii) if capable of being cured by the End Date, shall not have been cured within 30 Business Days following receipt of written notice (which notice shall specify in reasonable detail the nature of such breach or failure and Company's intention to terminate this Plan of Merger if such breach or failure is not cured) from Company of such breach or failure; *provided*, that Company shall not have a right to terminate this Plan of Merger pursuant to this *Section 7.1.5* if it is then in breach of any representations, warranties, covenants or other agreements contained in this Plan of Merger that would result in a failure of a condition set forth in *Section 6.1* or *Section 6.3*;

7.1.6 by Purchaser, if Company shall have breached or failed to perform any of its representations, warranties, covenants or other agreements contained in this Plan of Merger, which breach or failure to perform (a) would result in a failure of a condition set forth in *Section 6.1* or *Section 6.3* and (b) (i) cannot be cured by the End Date or (ii) if capable of being cured by the End Date, shall not have been cured within 30 Business Days following receipt of written notice (which notice shall specify in reasonable detail the nature of such breach or failure and Purchaser's

intention to terminate this Plan of Merger if such breach or failure is not cured) from Purchaser of such breach or failure; *provided*, that Purchaser shall not have a right to terminate this Plan of Merger pursuant to this *Section 7.1.6* if it is then in breach of any representations, warranties, covenants or other agreements contained in this Plan of Merger that would result in a failure of a condition set forth in *Section 6.1* or *Section 6.2*;

7.1.7 by Purchaser prior to the receipt of the Company Shareholder Approval if (a) the Company Board of Directors shall have effected a Company Adverse Recommendation Change; (b) the Company Board of

A-44

TABLE OF CONTENTS

Directors shall have failed to reject a Company Takeover Proposal and reaffirm the Company Board Recommendation within five Business Days following the public announcement of such Company Takeover Proposal and in any event at least two Business Days prior to the Company Shareholder Meeting; (c) Company enters into a Company Acquisition Agreement; or (d) in the absence of a Company Takeover Proposal and only during the period which is 30 days before the mailing date of the Proxy Statement and the date of the Company Shareholder Meeting, the Company Board of Directors fails to publicly reaffirm its recommendation of this Plan of Merger within five Business Days of a written request by Purchaser to provide such reaffirmation;

7.1.8 by Company prior to receipt of the Company Shareholder Approval, in order to enter into a definitive merger agreement or other definitive purchase or acquisition agreement that constitutes a Company Superior Proposal; *provided, however*, that (a) Company has complied with *Section 5.3* in all material respects and (b) Company pays (or causes to be paid) the Company Termination Fee prior to or simultaneously with such termination.

7.1.9 by Purchaser, if the condition set forth in *Section 6.3.7* is not satisfied;

7.1.10 by Purchaser, if the condition set forth in *Section 6.3.8* is not satisfied;

7.1.11 by Purchaser, if there shall have occurred one or more events that shall have caused or are reasonably likely to cause a Material Adverse Effect on Company; or

7.1.12 by Purchaser, if, prior to the Closing, Bank is examined for compliance with the Community Reinvestment Act and receives written notification of a rating lower than Satisfactory.

7.2 Effect of Termination.

7.2.1 In the event that:

7.2.1.1 this Plan of Merger is terminated by Purchaser pursuant to *Section 7.1.7*, Company shall pay, or cause to be paid, to Purchaser cash in an amount equal to \$2,529,658 (the ***Company Termination Fee***);

7.2.1.2 this Plan of Merger is terminated by Purchaser pursuant to *Section 7.1.6* or by Company or Purchaser pursuant to *Section 7.1.4*, and if (a) any Person shall have made a Company Takeover Proposal (i) on or after the date of this Plan of Merger but prior to the date that this Plan of Merger is terminated in the case of a termination pursuant to *Section 7.1.6* or (ii) on or after the date of this Plan of Merger but prior to the Company Shareholder Meeting in the case of a termination pursuant to *Section 7.1.4*, and (b) at any time prior to the date that is 12 months after the date of any such termination, Company consummates a Company Takeover Proposal or enters into any definitive agreement providing for a Company Takeover Proposal and such Company Takeover Proposal is subsequently consummated (*provided* that, for purposes of this *Section 7.2.1.2*, the references to 10% in the definition of Company Takeover Proposal shall be deemed to be references to 50%), then Company shall pay, or cause to be paid, to Purchaser cash in an amount equal to the Company Termination Fee;

7.2.1.3 (a) this Plan of Merger is terminated by Company or Purchaser pursuant to *Section 7.1.3*, (b) any Person shall have made a Company Takeover Proposal on or after the date of this Plan of Merger but prior to the date of any such termination, and (c) at any time prior to the date that is 12 months after the date of any such termination, Company consummates a Company Takeover Proposal or enters into any definitive agreement providing for a Company Takeover Proposal and such Company Takeover Proposal is subsequently consummated (*provided* that, for purposes of this *Section 7.2.1.3*, the references to 10% in the definition of Company Takeover Proposal shall be deemed to be references to 50%), then Company shall pay, or cause to be paid, to Purchaser cash in an amount equal to the Company Termination Fee; *provided, however*, that in the case of a termination by Company, Company shall not be

obligated to pay the Company Termination Fee if the failure of Purchaser to perform any of its obligations under this Plan of Merger required to be performed at or prior to the Effective Time has been a substantial cause of, or a substantial factor that resulted in, the failure of the Effective Time to occur on or before the End Date; or

7.2.1.4 this Plan of Merger is terminated by Company pursuant to *Section 7.1.8*, then Company shall pay, or cause to be paid, to Purchaser, prior to or contemporaneously with such termination, cash in an amount equal to the Company Termination Fee.

A-45

TABLE OF CONTENTS

7.2.2 Each of the parties hereto acknowledge and agree that the agreements contained in this *Section 7.2* are an integral part of the transactions contemplated by this Plan of Merger, and that without these agreements, the other party would not enter into this Plan of Merger. Accordingly, if Company fails to pay the amount due pursuant to this *Section 7.2* and, in order to obtain such payment, Purchaser commences a suit that results in a judgment against Company for the Company Termination Fee, then Company shall pay Purchaser its costs and expenses (including reasonable attorneys' fees and expenses) in connection with such suit, together with interest on the amount of the Company Termination Fee from the date such payment was required to be made until the date of payment at the prime rate published in the *Wall Street Journal* on the date such payment was required to be made.

7.2.3 On any termination of this Plan of Merger pursuant to *Section 7.1*, this Plan of Merger shall terminate and forthwith become void and have no further force or effect (except for the provisions of *Sections 5.8, 5.9.2, 5.13, 5.15, 7.2* and *Article IX*), and, subject to the payment of any amounts owing pursuant to this *Section 7.2*, there shall be no other liability on the part of Company or Purchaser to the other. Notwithstanding anything in this Plan of Merger to the contrary, no party hereto will be relieved or released from any liability or damages arising from a willful or intentional breach of any provision of this Plan of Merger or fraud, and the aggrieved party will be entitled to all rights and remedies available at law or in equity.

7.2.4 The Company Termination Fee will be paid in the aggregate to Purchaser by or at the direction of Purchaser in immediately available funds in the case of *Section 7.2.1.1, 7.2.1.2* or *7.2.1.3*, upon the occurrence of the event giving rise to the obligation to make such payment.

7.2.5 For the avoidance of doubt, in no event shall Company be required to pay the Company Termination Fee on more than one occasion.

ARTICLE VIII CERTAIN DEFINITIONS

8.1 *Definitions.* When used in this Plan of Merger, the following terms will have the meanings assigned to them in this *Section 8.1*:

Action means (a) any litigation, claim, action, suit, hearing, proceeding or arbitration, (b) any material investigation by a Governmental Entity or (c) any demand or notice of violation by a Governmental Entity (in the case of clauses (a), (b) and (c), whether civil, criminal, administrative, labor or investigative).

Affiliate means, with respect to a Person, any other Person that, directly or indirectly, through one or more intermediaries, controls, is controlled by or is under common control with, such Person.

Bank means Traverse City State Bank, a Michigan banking corporation and a wholly-owned Subsidiary of Company.

Bank Holding Company Act means the Bank Holding Company Act of 1956, as amended.

Book-Entry Shares means shares of Company Common Stock represented by book-entry immediately prior to the Effective Time (other than Excluded Shares).

Business Day means a day other than a Saturday, Sunday or other day on which The Nasdaq Global Select Market is closed.

Certificates means outstanding certificates that immediately prior to the Effective Time represented shares of Company Common Stock (other than Excluded Shares).

Collective Bargaining Agreement means any Contract that has been entered into with any labor organization, union, works council, employee representative or association.

Company Benefit Plan means, other than any Multiemployer Plan, (a) any employee benefit plan within the meaning of Section 3(3) of ERISA, (b) the Company Stock Plan, and (c) any deferred compensation, retirement, defined contribution, defined benefit, pension, profit sharing, employee welfare, fringe benefit, flexible spending account, stock purchase, stock option, stock ownership, phantom stock, stock appreciation rights, restricted stock, restricted stock units, severance, separation, employment, change in control, vacation pay, leave of absence, layoff, salary continuation, sick leave, excess benefit, bonus or other incentive compensation, day or dependent care, legal services, cafeteria, health, life, accident, disability, workers compensation or other insurance, or other employee benefit plan, or contract, program, or practice, whether written or oral, for the benefit of Company's current or former

A-46

TABLE OF CONTENTS

officers, employees, independent contractors, or directors, in each case either (i) existing at the Closing Date and sponsored, maintained, or contributed to by Company or any of its Subsidiaries, or (ii) existing at the Closing Date or prior thereto, in respect of which Company or any of its Subsidiaries has any Liability.

Company Board of Directors means the board of directors of Company.

Company Director Deferred Compensation Plan means Company's Directors' Deferred Compensation Plan (Amended and Restated January 1, 2008).

Company Material Adverse Effect means a Material Adverse Effect with respect to Company.

Company Shareholders means holders of shares of Company Common Stock.

Company Site means, with respect to Company, any real properties (in each case, including all soil, subsoil, surface waters and groundwater thereat) currently or previously owned, leased or operated (excluding other real estate owned) by: (a) Company or any of the Company Subsidiaries; (b) any predecessors of Company or any of the Company Subsidiaries; or (c) any entities previously owned by Company or any of the Company Subsidiaries.

Company Stock Plan means Company's Stock Incentive Plan of 2011, as amended and restated as of May 7, 2014.

Company's 401(k) Plan means the Traverse City State Bank Employees' Savings and Profit Sharing Plan.

Contract means any agreement, contract, commitment, arrangement, memorandum of understanding, side letter, understanding, contractual obligation or other instrument of a contractual nature, whether written or oral.

DPC Shares means shares of Company Common Stock held by Purchaser or Company or any of their respective Subsidiaries in respect of a debt previously contracted.

Environmental Claim means any and all administrative or judicial actions, suits, orders, claims, liens, notices, notices of violations, investigations, complaints, requests for information, proceedings, or other communication (written or oral), whether criminal or civil, pursuant to or relating to any applicable Environmental Law.

Environmental Law means any and all Laws, Environmental Permits, or binding agreements with any Governmental Entity, relating to the protection of health and the environment, or governing the handling, use, generation, treatment, storage, transportation, disposal, manufacture, distribution, formulation, packaging, labeling, or Release of or exposure to Hazardous Materials.

Environmental Permit means any Permit required or issued by any Governmental Entity under or in connection with any Environmental Law, including without limitation, any and all orders, consent orders or binding agreements issued by or entered into with a Governmental Entity under any applicable Environmental Law.

ERISA means the Employee Retirement Income Security Act of 1974, as amended, and the rules and regulations promulgated thereunder.

ERISA Affiliate means, with respect to Company or Purchaser, as applicable, any Person who is, or at any time was, a member of a controlled group (within the meaning of Section 414(n)(6)(B) of the Code) that includes, or at any time included, Company or Purchaser, as applicable, or any Affiliate of Company or Purchaser, as applicable, or any predecessor of any of the foregoing.

Exchange Act means the Securities Exchange Act of 1934, as amended.

FDI Act means the Federal Deposit Insurance Act of 1950, as amended.

FDIC means the Federal Deposit Insurance Corporation.

Federal Reserve Board means the Board of Governors of the Federal Reserve System or its delegees.

FHLB means the Federal Home Loan Bank.

GAAP means United States generally accepted accounting principles, consistently applied.

A-47

TABLE OF CONTENTS

Governmental Entity means any entity or body exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to United States federal, state or local government or other non-United States international, multinational or other government, including any department, commission, board, agency, instrumentality, political subdivision, bureau, official or other regulatory, administrative or judicial authority thereof and any self-regulatory organization.

Hazardous Material means petroleum, petroleum hydrocarbons or petroleum products, petroleum by-products, radioactive materials, asbestos or asbestos-containing materials, gasoline, diesel fuel, pesticides, radon, urea formaldehyde, mold, lead or lead-containing materials, polychlorinated biphenyls, and any other chemicals, materials, substances or wastes in any amount or concentration which are regulated under or for which liability can be imposed under any Environmental Law.

Intellectual Property means all intellectual property and other similar proprietary rights in any jurisdiction worldwide, whether registered or unregistered, including such rights in and to: (a) patents (including all reissues, divisions, provisionals, continuations and continuations-in-part, re-examinations, renewals and extensions thereof), patent applications, patent disclosures or other patent rights; (b) copyrights, design, design registration, and all registrations, applications for registration, and renewals for any of the foregoing, and any *moral* rights; (c) trademarks, service marks, trade names, business names, logos, trade dress, certification marks and other indicia of commercial source or origin together with all goodwill associated with the foregoing, and all registrations, applications and renewals for any of the foregoing; (d) trade secrets and business, technical and know-how information, databases, data collections and other confidential and proprietary information and all rights therein; (e) software, including data files, source code, object code, application programming interfaces, architecture, files, records, schematics, computerized databases and other software-related specifications and documentation; and (f) Internet domain name registrations.

IRS means the United States Internal Revenue Service.

Knowledge or any similar phrase means (a) with respect to Company, those facts that are actually known or should have been known by any of the Persons set forth in Section 8.1 of the Company Disclosure Letter in the reasonable performance of such individual's duties for Company, and (b) with respect to Purchaser, those facts that are actually known or should have been known by any of the Persons set forth in Section 8.1 of the Purchaser Disclosure Letter in the reasonable performance of such individual's duties for Purchaser.

Law means any federal or state statute, law, ordinance, rule, code, executive order, common law, injunction, judgment, decree, Order or regulation of any Governmental Entity.

Liability means all indebtedness, obligations and other liabilities and contingencies of a Person, whether absolute, accrued, contingent, fixed or otherwise, or whether due or to become due.

Lien means, with respect to any property or asset, any mortgage, lien, pledge, security interest, hypothecation or other encumbrance affecting such property or asset.

Material Adverse Effect means with respect to any Person, any event, occurrence, fact, condition or change that (a) is materially adverse to the business, results of operations, financial condition, or assets of such Person and its Subsidiaries, taken as a whole, or (b) prohibits or materially impairs the ability of such Person to consummate the transactions contemplated by this Plan of Merger on a timely basis; *provided, however*, that, for the purposes of clause (a), a Material Adverse Effect shall not include events, occurrences, facts, conditions or changes arising out of, relating to or resulting from (either alone or in combination): (i) conditions or changes generally affecting the economy, financial or securities markets; (ii) any outbreak or escalation of hostilities, war (whether or not declared) or military action or any act of terrorism, the occurrence of any natural disaster, or occurrence of any man-made disaster;

(iii) general conditions in or changes generally affecting the banking industry or geographic regions in which such Person or its Subsidiaries operate; (iv) changes in Laws (or interpretations thereof); (v) changes in GAAP or accounting standards (or interpretations thereof); (vi) compliance with the terms of, or the taking of any action required by, this Plan of Merger; (vii) the announcement or pendency of the Merger or any other transaction contemplated by this Plan of Merger; (viii) acts or omissions of (A) Company prior to the Effective Time taken at the written request of Purchaser or with the prior written consent of Purchaser, or (B) Purchaser prior to the Effective Time taken at the written request of Company or with the prior written consent of Company; or (ix) any decline in the market price, or change in trading volume, of Purchaser Common Stock (*provided, however*, that any event, occurrence, fact, condition or change that caused or contributed to any decline in market price or change in trading

A-48

TABLE OF CONTENTS

volume, of Purchaser Common Stock shall not be excluded unless otherwise specifically excluded by this definition); *provided, further*, that any event, occurrence, fact, condition or change referred to in clauses (i), (ii), (iii) and (iv) immediately above shall be taken into account in determining whether a Material Adverse Effect has occurred or would reasonably be expected to occur to the extent that such event, occurrence, fact, condition or change has a disproportionate effect on such Person and its Subsidiaries, taken as a whole, compared to other community banking organizations in Michigan.

Michigan Banking Code means the Michigan Banking Code of 1999, as amended.

Multiemployer Plan means a multiemployer plan within the meaning of Section 3(37) of ERISA.

NLRB means the National Labor Relations Board.

Order means any award, injunction, judgment, decree, order, ruling or verdict or other similar decision issued, promulgated or entered by or with any Governmental Entity of competent jurisdiction.

Permit means any grant, exemption, declaration, registration, filing, order, authorization, approval, consent, exception, accreditation, certificate, license, permit or franchise of, from or required by any Governmental Entity of competent jurisdiction or pursuant to any Law.

Permitted Liens means with respect to Company, (a) Liens for Taxes that are not yet due and payable or that may hereafter be paid without material penalty or that are being contested in good faith for which adequate accruals or reserves have been established on the books and records of Company, (b) statutory Liens of landlords and workers , carriers and mechanics or other like Liens incurred in the ordinary course of business for amounts that are not yet due and payable or that are being contested in good faith for which adequate accruals or reserves have been established on the books and records of Company, (c) Liens and encroachments which do not materially interfere with the present use of the properties or assets they affect, (d) Liens that will be released prior to or as of the Closing, (e) Liens that are disclosed on the most recent audited consolidated balance sheet of Company or notes thereto or securing liabilities reflected on such balance sheet, (f) Liens that were incurred in the ordinary course of business since the date of the most recent consolidated balance sheet of Company, (g) Liens set forth in Section 8.1 of the Company Disclosure Letter, and (h) with respect to real property, whether owned or leased, any Lien that has not had and would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect.

Person means an individual, a corporation, a partnership, a limited liability company, a trust, an unincorporated association, a Governmental Entity or any other entity or body.

Purchaser Board of Directors shall mean the board of directors of Purchaser.

Purchaser Material Adverse Effect means a Material Adverse Effect with respect to Purchaser.

Regulation O means Regulation O of the Federal Reserve Board.

Regulatory Agreement means any Contract, cease and desist order, written agreement or memorandum of understanding with, or a party to any commitment letter, board resolution or similar undertaking to, or is subject to any Order by, or is a recipient of any extraordinary supervisory letter from, any Governmental Entity that restricts materially the conduct of a party or such party's Subsidiary's business, or in any manner relates to the capital adequacy, credit or reserve policies or management of such party or such party's Subsidiary.

Release means any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, migrating, leaching, dumping or disposing of a Hazardous Material.

Representatives means, with respect to any Person, the respective officers, directors, managers, members, employees, consultants, accountants, brokers, financial advisors, legal counsel, agents, advisors, Affiliates and other representatives of that Person.

SEC means the United States Securities and Exchange Commission.

Securities Act means the Securities Act of 1933, as amended.

SOX means the Sarbanes-Oxley Act of 2002, as amended.

A-49

TABLE OF CONTENTS

Subsidiary means, with respect to any Person, any corporation, limited liability company, partnership, joint venture or other legal entity of which such Person (either alone or through or together with any other Subsidiary), owns, directly or indirectly, more than 50% of the stock or other equity interests, the holders of which are generally entitled to vote for the election of the board of directors or other governing body of a non-corporate Person.

Tax or **Taxes** means any and all federal, state, local, or foreign net or gross income, gross receipts, net proceeds, sales, use, ad valorem, value added, franchise, withholding, payroll, employment, excise, property, abandoned property, escheat, deed, stamp, alternative or add-on minimum, environmental, profits, windfall profits, transaction, license, lease, service, service use, occupation, severance, energy, transfer, real property transfer, recording, documentary, stamp, registration, unemployment, social security, workers compensation, capital, premium, deficiencies, charges, backup withholding, personal property, franchise, and other governmental taxes, assessments, customs, duties or levies, whether disputed or not, together with any interest, penalties, additions to tax, or additional amounts with respect thereto.

Tax Returns means any return, declaration, report, claim for refund, or information return or statement relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof, filed or required to be filed with any Governmental Entity.

Transaction Documents means (a) the Proxy Statement, (b) the Registration Statement, and (c) any other documents to be filed with the SEC, the Federal Reserve Board or any other Governmental Entity in connection with the Merger.

Trust Account Shares means shares of Company Common Stock held directly or indirectly in trust accounts, managed or custodial accounts and the like or otherwise held in a fiduciary capacity for the benefit of third parties including all shares of Company Common Stock held in connection with Company's 401(k) Plan.

WARN Act means the Worker Adjustment and Retraining Notification Act of 1988, and any similar foreign, state or local Law.

8.2 **Construction and Interpretation.** For purposes of this Plan of Merger, except as otherwise expressly provided herein or unless the context otherwise requires: (a) the meaning assigned to each term defined herein will be equally applicable to both the singular and the plural forms of such term and vice versa, and words denoting any gender will include all genders as the context requires; (b) where a word or phrase is defined herein, each of its other grammatical forms will have a corresponding meaning; (c) the terms hereof, herein, hereunder, hereby and herewith and words of similar import will, unless otherwise stated, be construed to refer to this Plan of Merger as a whole and not to any particular provision of this Plan of Merger; (d) when a reference is made in this Plan of Merger to an Article, Section, paragraph, Exhibit or Schedule without reference to a document, such reference is to an Article, Section, paragraph, Exhibit or Schedule to this Plan of Merger; (e) a reference to a subsection without further reference to a Section is a reference to such subsection as contained in the same Section in which the reference appears, and this rule will also apply to paragraphs and other subdivisions; (f) the word include, includes or including when used in this Plan of Merger will be deemed to include the words without limitation, unless otherwise specified; (g) a reference to any party to this Plan of Merger or any other agreement or document will include such party's predecessors, successors and permitted assigns; (h) a reference to any Law means such Law as amended, modified, codified, replaced or reenacted, and all rules and regulations promulgated thereunder; (i) all accounting terms used and not defined herein have the respective meanings given to them under GAAP; and (j) any references in this Plan of Merger to dollars or \$ shall be to U.S. dollars.

8.3 **Defined Terms.** The following terms are defined on the following pages of this Plan of Merger:

<u>Acceptable Company Confidentiality Agreement</u>	<u>A-32</u>
<u>Acceptance Period</u>	<u>A-6</u>
<u>Accounting Firm</u>	<u>A-41</u>
<u>Adjusted Exchange Ratio</u>	<u>A-6</u>
<u>Adjusted Stock Purchase Value</u>	<u>A-7</u>
<u>Aggregate Collections</u>	<u>A-41</u>
<u>Bank Consolidation</u>	<u>A-39</u>
<u>Bank Index</u>	<u>A-6</u>
<u>Borrower</u>	<u>A-41</u>

A-50

TABLE OF CONTENTS

<u>Certificate of Merger</u>	<u>A-1</u>
<u>Closing</u>	<u>A-1</u>
<u>Closing Balance Sheet</u>	<u>A-41</u>
<u>Closing Date</u>	<u>A-1</u>
<u>Closing Report</u>	<u>A-41</u>
<u>Code</u>	<u>A-1</u>
<u>Company</u>	<u>A-1</u>
<u>Company Acquisition Agreement</u>	<u>A-32</u>
<u>Company Adverse Recommendation Change</u>	<u>A-32</u>
<u>Company Board Recommendation</u>	<u>A-7</u>
<u>Company Call Reports</u>	<u>A-10</u>
<u>Company Common Stock</u>	<u>A-8</u>
<u>Company Consolidated Shareholders' Equity</u>	<u>A-41</u>
<u>Company Disclosure Letter</u>	<u>A-7</u>
<u>Company Financial Statements</u>	<u>A-9</u>
<u>Company Investment Banker</u>	<u>A-20</u>
<u>Company Lease</u>	<u>A-13</u>
<u>Company Material Contract</u>	<u>A-14</u>
<u>Company Preferred Stock</u>	<u>A-8</u>
<u>Company Real Property</u>	<u>A-12</u>
<u>Company Shareholder Approval</u>	<u>A-7</u>
<u>Company Shareholder Meeting</u>	<u>A-34</u>
<u>Company Stock Option</u>	<u>A-3</u>
<u>Company Subsidiaries</u>	<u>A-7</u>
<u>Company Subsidiary</u>	<u>A-7</u>
<u>Company Superior Proposal</u>	<u>A-33</u>
<u>Company Takeover Proposal</u>	<u>A-33</u>
<u>Company Termination Fee</u>	<u>A-45</u>
<u>Company-Leased Real Property</u>	<u>A-12</u>
<u>Company-Owned Intellectual Property</u>	<u>A-14</u>
<u>Company-Related Person</u>	<u>A-22</u>
<u>Confidentiality Agreement</u>	<u>A-37</u>
<u>Constituent Corporation</u>	<u>A-1</u>
<u>Continuing Employee</u>	<u>A-35</u>
<u>Converted Stock Option</u>	<u>A-3</u>
<u>Data Conversion</u>	<u>A-40</u>
<u>Debt Securities</u>	<u>A-40</u>
<u>Effective Time</u>	<u>A-2</u>
<u>Employment-Related Payments</u>	<u>A-17</u>

<u>End Date</u>	<u>A-44</u>
<u>Environmental Risks</u>	<u>A-40</u>
<u>Exchange Agent</u>	<u>A-3</u>
<u>Exchange Fund</u>	<u>A-4</u>
<u>Exchange Ratio</u>	<u>A-2</u>
<u>Excluded Shares</u>	<u>A-2</u>
<u>Exercise Period</u>	<u>A-6</u>
<u>Final Index Price</u>	<u>A-6</u>
<u>Final Purchaser Price</u>	<u>A-6</u>
<u>Final Statement Date</u>	<u>A-41</u>
<u>Floor Purchaser Price</u>	<u>A-6</u>
<u>Increase Notice</u>	<u>A-6</u>
<u>Indemnified Party</u>	<u>A-37</u>
<u>Initial Index Price</u>	<u>A-6</u>

A-51

TABLE OF CONTENTS

<u>Intended Tax Treatment</u>	<u>A-38</u>
<u>Investigated Property</u>	<u>A-39</u>
<u>Maximum Amount</u>	<u>A-37</u>
<u>MBCA</u>	<u>A-1</u>
<u>Merger</u>	<u>A-1</u>
<u>Merger Consideration</u>	<u>A-3</u>
<u>PBGC</u>	<u>A-19</u>
<u>Phase I Assessment</u>	<u>A-39</u>
<u>Phase II Assessment</u>	<u>A-39</u>
<u>Plan of Merger</u>	<u>A-1</u>
<u>Pricing Period</u>	<u>A-6</u>
<u>Proxy Statement</u>	<u>A-33</u>
<u>Purchaser</u>	<u>A-1</u>
<u>Purchaser Call Reports</u>	<u>A-25</u>
<u>Purchaser Common Stock</u>	<u>A-24</u>
<u>Purchaser Disclosure Letter</u>	<u>A-23</u>
<u>Purchaser Financial Statements</u>	<u>A-25</u>
<u>Purchaser Investment Banker</u>	<u>A-26</u>
<u>Purchaser Preferred Stock</u>	<u>A-24</u>
<u>Purchaser SEC Documents</u>	<u>A-26</u>
<u>Purchaser Share-Based Awards</u>	<u>A-24</u>
<u>Purchaser Stock Plans</u>	<u>A-24</u>
<u>Purchaser Subsidiaries</u>	<u>A-23</u>
<u>Purchaser Subsidiary</u>	<u>A-23</u>
<u>Registration Statement</u>	<u>A-33</u>
<u>Shareholders' Equity Price Adjustment</u>	<u>A-7</u>
<u>Special Dividend</u>	<u>A-42</u>
<u>Stock Purchase Value</u>	<u>A-7</u>
<u>Surviving Corporation</u>	<u>A-1</u>
<u>Technology-Related Contracts</u>	<u>A-40</u>
<u>Upset Condition</u>	<u>A-6</u>

ARTICLE IX
MISCELLANEOUS

9.1 *No Third-Party Beneficiaries.* This Plan of Merger will not confer any rights or remedies upon any Person other than the parties hereto and their respective successors and permitted assigns, other than *Section 5.7* and *Section 5.10* (which will be for the benefit of the Persons set forth therein, and any such Person will have the rights provided for therein) and *Article II* (which shall be for the benefit of the holders of Company Common Stock after the Effective Time, whether represented by Certificates or Book-Entry Shares, and any holder of a Company Stock Option granted under the Company Stock Plan).

9.2 *Specific Performance.*

9.2.1 The parties agree that irreparable damage to Company or Purchaser, as applicable, would occur in the event that any of the provisions of this Plan of Merger were not performed in accordance with their specific terms or were otherwise breached and that any breach of this Plan of Merger could not be adequately compensated in all cases by monetary damages alone. The parties acknowledge and agree that, prior to the valid termination of this Plan of Merger pursuant to *Article VII*, (a) Company shall be entitled to seek an injunction, specific performance and other equitable relief to prevent breaches of this Plan of Merger by Purchaser or to enforce specifically the terms and provisions of this Plan of Merger and (b) Purchaser shall be entitled to seek an injunction, specific performance and other equitable relief to prevent breaches of this Plan of Merger by Company or to enforce specifically the terms and provisions of this Plan of Merger.

9.2.2 The parties hereby agree not to raise any objections to the availability of the equitable remedy of specific performance to prevent or restrain breaches of this Plan of Merger by Company or Purchaser, as applicable, and to specifically enforce the terms and provisions of this Plan of Merger to prevent breaches or

A-52

TABLE OF CONTENTS

threatened breaches of, or to enforce compliance with, the respective covenants and obligations of Company or Purchaser, as applicable, under this Plan of Merger, all in accordance with the terms of this *Section 9.2*.

9.2.3 Neither Company nor Purchaser, as applicable, shall be required to provide any bond or other security in connection with seeking an injunction or injunctions to prevent breaches of this Plan of Merger and to enforce specifically the terms and provisions of this Plan of Merger, all in accordance with the terms of this *Section 9.2*.

9.3 *Entire Agreement.* This Plan of Merger (including the exhibits and the schedules hereto), together with the Confidentiality Agreement, constitutes the entire agreement between the parties hereto and supersedes any prior understandings, agreements or representations by or between the parties hereto, written or oral, to the extent they are related in any way to the subject matter of this Plan of Merger.

9.4 *Succession and Assignment.* This Plan of Merger will be binding upon and inure to the benefit of the parties named herein and their respective successors and permitted assigns. No party hereto may assign either this Plan of Merger or any of its rights, interests or obligations hereunder without the prior written approval of, in the case of assignment by Company, Purchaser, and, in the case of assignment by Purchaser, Company.

9.5 *Construction.* The parties have participated jointly in the negotiation and drafting of this Plan of Merger, and, in the event an ambiguity or question of intent or interpretation arises, this Plan of Merger will be construed as if drafted jointly by the parties, and no presumption or burden of proof will arise favoring or disfavoring any party by virtue of the authorship of any of the provisions of this Plan of Merger.

9.6 *Exclusive Jurisdiction.* Each of the parties to this Plan of Merger irrevocably and unconditionally submits, for itself and its property, to the exclusive jurisdiction of the Circuit Courts of the State of Michigan or any federal court of the United States of America sitting in the State of Michigan, and any appellate court from any thereof, in any Action or proceeding arising out of or relating to this Plan of Merger or the transactions contemplated by this Plan of Merger, or for recognition or enforcement of any judgment, and agrees that all claims in respect of any such Action or proceeding shall be heard and determined in such Michigan court or, to the extent permitted by Law, in such federal court.

9.7 *Waiver of Jury Trial.* Each of the parties waives to the fullest extent permitted by applicable Law any right it may have to a trial by jury with respect to any Action or proceeding directly or indirectly arising out of, under or in connection with this Plan of Merger or the transactions contemplated by this Plan of Merger.

9.8 *Notices.* All notices, requests, demands, and other communications under this Plan of Merger shall be in writing and shall be deemed to have been duly given and effective immediately if delivered or sent and received by a fax transmission or electronic mail (if receipt by the intended recipient is confirmed by the same means, which confirmation each party agrees to transmit reasonably promptly) a hand delivery, or a nationwide overnight delivery service (all fees prepaid) to the following addresses:

If to Purchaser:	With a copy to:
Independent Bank Corporation	Varnum LLP
4200 E. Beltline Av. NE	Bridgewater Place
Grand Rapids, MI 49525	333 Bridge Street NW
Attention: William B. Kessel	Grand Rapids, MI 49504
Facsimile: (616) 522-1858	Attention: Michael G. Wooldridge
Telephone: (616) 447-3933	Facsimile: (616) 336-7000

Edgar Filing: CorEnergy Infrastructure Trust, Inc. - Form 8-K

Email: bkessel@ibcp.com

Telephone: (616) 336-6903

Email: mgwooldridge@varnumlaw.com

If to Company:

TCSB Bancorp, Inc.

333 W. Grandview Pkwy.

Traverse City, MI 49684

Attention: Constance Deneweth Grand Rapids, Michigan 49503

Facsimile: (231) 995-5597

Telephone: (231) 995-5500

Email: connied@tcsb.com

With a copy to:

Warner Norcross & Judd LLP

900 Fifth Third Center

111 Lyon St. NW

Grand Rapids, Michigan 49503

Attention: Charlie Goode

Facsimile: (616) 222-2176

Telephone: (616) 752-2176

Email: cgoode@wnj.com

A-53

TABLE OF CONTENTS

9.9 *Governing Law.* This Plan of Merger shall be governed, construed, and enforced in accordance with the Laws of the State of Michigan, without regard to principles of conflicts of laws.

9.10 *Counterparts.* This Plan of Merger may be executed in one or more counterparts, which taken together shall constitute one and the same instrument. Executed counterparts of this Plan of Merger shall be deemed to have been fully delivered and shall become legally binding if and when executed signature pages are received by facsimile or electronic mail transmission from a party. If so delivered by facsimile or electronic mail transmission, the parties agree to promptly send original, manually executed copies by nationwide overnight delivery service.

9.11 *Headings.* The article headings and section headings contained in this Plan of Merger are inserted for convenience only and shall not affect in any way the meaning or interpretation of this Plan of Merger.

9.12 *Calculation of Dates and Deadlines.* Unless otherwise specified, any period of time to be determined under this Plan of Merger shall be deemed to commence at 12:01 a.m. on the first full day after the specified starting date, event, or occurrence. Any deadline, due date, expiration date, or period-end to be calculated under this Plan of Merger shall be deemed to end at 5 p.m. on the last day of the specified period. The time of day shall be determined with reference to the then-current local time in Grand Rapids, Michigan.

9.13 *Severability.* If any term, provision, covenant, or restriction contained in this Plan of Merger is held by a final and unappealable Order of a court of competent jurisdiction to be invalid, void, or unenforceable, then the remainder of the terms, provisions, covenants, and restrictions contained in this Plan of Merger shall remain in full force and effect, and shall in no way be affected, impaired, or invalidated unless the effect would be to cause this Plan of Merger to not achieve its essential purposes.

9.14 *Non-Survival of Representations, Warranties and Agreements.* None of the representations, warranties, covenants and other agreements in this Plan of Merger or in any instrument delivered pursuant to this Plan of Merger, including any rights arising out of any breach of such representations, warranties, covenants and other agreements, will survive the Effective Time, except for those covenants and agreements contained herein that by their terms apply or are to be performed in whole or in part after the Effective Time and this *Article IX*.

9.15 *Amendments.* This Plan of Merger may be amended by the parties hereto, by action taken or authorized, in the case of Company, by the Company Board of Directors or a duly authorized committee of the Company Board of Directors and, in the case of Purchaser, by the Purchaser Board of Directors or a duly authorized committee of the Purchaser Board of Directors at any time before or after the receipt of the Company Shareholder Approval, but, after receipt of any such shareholder approval, no amendment will be made which by Law requires further approval by the Company Shareholders without such further approval. This Plan of Merger may not be amended except by an instrument in writing signed on behalf of Company and Purchaser.

[Signature page follows.]

TABLE OF CONTENTS

IN WITNESS WHEREOF, the undersigned parties have duly executed and acknowledged this Plan of Merger as of the date first written above.

INDEPENDENT BANK
CORPORATION

/s/ Robert N. Shuster
By: Robert N. Shuster
Its: EVP and Chief Financial Officer

TCSB BANCORP, INC.

/s/ Constance Deneweth
By: Constance Deneweth
Its: Chief Executive Officer

TABLE OF CONTENTS

Exhibit A

VOTING AGREEMENT

Each of the undersigned directors of TCSB Bancorp, Inc. (*Company*) hereby agrees in his or her individual capacity as a shareholder to vote his or her shares of Company Common Stock that are registered in his or her personal name (and agrees to use his or her reasonable efforts to cause all additional shares of Company Common Stock owned jointly by him or her with any other person or by his or her spouse or over which he or she has voting influence or control to be voted) in favor of approval of the Agreement and Plan of Merger by and between Independent Bank Corporation (*Purchaser*) and Company, dated December 4, 2017 (the *Plan of Merger*). In addition, each of the undersigned directors hereby agrees not to make any transfers of shares of Company Common Stock with the purpose of avoiding his or her agreements set forth in the preceding sentence and agrees to cause any transferee of such shares to abide by the terms of this Voting Agreement. Each of the undersigned is entering into this Voting Agreement solely in his or her capacity as an individual shareholder and, notwithstanding anything to the contrary in this Voting Agreement, nothing in this Voting Agreement is intended or shall be construed to require any of the undersigned, (i) in his or her capacity as a director of Company or (ii) in his or her capacity as a trustee, personal representative or other fiduciary capacity, to act or fail to act in accordance with his or her duties in such director or fiduciary capacity. This Voting Agreement is an individual agreement of each undersigned director with Purchaser and is not an agreement among the undersigned directors. Furthermore, none of the undersigned makes any agreement or understanding herein in his or her capacity as a director of Company. Notwithstanding any contrary provision herein, this Voting Agreement shall be effective from the date hereof and shall terminate and be of no further force and effect upon the earliest of (a) approval of the Plan of Merger by the shareholders of the Company; (b) the termination of the Plan of Merger in accordance with its terms; (c) upon a Company Adverse Recommendation Change (as defined in the Plan of Merger); or (d) the two year anniversary of the date of the Plan of Merger. This Voting Agreement may be executed in any number of counterparts, each of which shall be an original, but such counterparts shall together constitute one and the same instrument.

Dated this 4th of December, 2017.

A-A-1

TABLE OF CONTENTS

Exhibit B

NON-COMPETITION AND NON-SOLICITATION AGREEMENT

This NON-COMPETITION AND NON-SOLICITATION AGREEMENT (the Agreement), effective as of December 4, 2017, is entered into by and between [•] (the Director), and Independent Bank Corporation, a Michigan corporation (IBC).

The Director is a current member of the Board of Directors of TCSB Bancorp, Inc., a Michigan corporation (TCSB), and Traverse City State Bank, a Michigan banking corporation (the Bank). This Agreement is entered into in connection with the transactions contemplated by that certain Agreement and Plan of Merger, dated December 4, 2017 (the Merger Agreement), by and between IBC and TCSB.

For good and valuable consideration, the receipt and sufficiency of which is acknowledged by both parties, the parties agree as follows:

1. **Definitions.** Capitalized terms used in this Agreement without being defined have the meanings given to them in the Merger Agreement.

2. **Acknowledgments of Director.** The Director acknowledges that:

- (a) the Director has agreed to enter into this Agreement with IBC to induce IBC to enter into the Merger Agreement; the Director has an economic interest in TCSB and will derive benefits from the closing of the transactions
- (b) contemplated by the Merger Agreement and the agreements the Director is making under this Agreement are adequately supported by consideration;
 - the agreements the Director is making in this Agreement are reasonable for the protection of the business interests of IBC and/or one or more of its subsidiaries (each, an IBC Entity) in connection with the transactions contemplated by the Merger Agreement; and
- (c) the length of the Restricted Period (as defined below), the geographic scope of the Restricted Territory (as defined below), and the scope and terms of the covenants set forth in this Agreement are reasonable.

3. **Non-Competition.**

The Director will not, at any time during the period commencing on the date of this Agreement and ending on the 2 year anniversary of the Effective Time (the Restricted Period), directly or indirectly, own, manage, operate, control, conduct, or assist in any way any business operating within the Restricted Territory that either (i) is an institution the deposits of which are insured by the FDIC or NCUA, or (ii) is otherwise engaged in the business of

- (a) commercial banking or any form of business or consumer lending, or (iii) that otherwise competes with any line of business conducted by any IBC Entity or any of TCSB, the Bank and/or their respective subsidiaries (each, a TCSB Entity) as of the date of this Agreement (each of the foregoing, a Competitive Business). Notwithstanding the foregoing, if the Merger Agreement is terminated without the Merger having occurred, the Restricted Period shall end on the date of termination of the Merger Agreement.

(b) For purposes of this Agreement, Restricted Territory means the counties of Grand Traverse, Benzie, Leelanau, Manistee, Wexford, Missaukee, Kalkaska and Antrim, Michigan.

The Director acknowledges that the restrictions of Section 3(a) above prevent the Director from all of following:

- (1) entering into, engaging in, becoming an officer, director, organizer, or employee of, or acquiring any ownership interest in a Competitive Business; (2) directly or indirectly soliciting, diverting, enticing, or accepting any customers, clients, or business patronage from any customers, clients, or businesses with which the Director had
- (c) contact or involvement during the Director's service as a director of any TCSB Entity (including through knowledge gained as a director of the Bank) on behalf of any Competitive Business; and/or (3) promoting or assisting, financially or otherwise, any Competitive Business. The Director acknowledges that this Section 3(c) does not contain a complete list of the activities prohibited by Section 3(a).

A-B-1

TABLE OF CONTENTS

This Agreement does not preclude or prohibit the Director from (1) owning less than 5% of the outstanding securities of any class of securities of a Competitive Business that are actively traded on a national securities exchange, as long as the ownership interest represents a passive investment and does not represent a controlling interest; (2) owning any interest in any mutual fund, exchange-traded fund or other similar fund that holds an interest in a Competitive Business; (3) directly or indirectly establishing or maintaining deposit or brokerage accounts at or with a Competitive Business; (4) directly or indirectly establishing or maintaining credit facilities at or with a Competitive Business; or (5) establishing or maintaining a relationship with a Competitive Business that is serving in a fiduciary capacity with respect to the assets of the Director, his or her spouse, or other family members as long as such relationship is limited to the provision of fiduciary and related services by the Competitive Business and/or otherwise permitted by this Section 3(d).

Non-Solicitation; Non-Interference. The Director will not, at any time during the Restricted Period, interfere with the business of any IBC Entity or TCSB Entity by soliciting, inducing, or attempting to solicit or induce, or in any other manner to influence any employees, officers, or directors (each, a Business Affiliate) of any IBC Entity or any TCSB Entity to terminate the Business Affiliate’s position or relationship with any IBC Entity or any TCSB Entity; but these restrictions do not apply to (a) any officer or employee of any TCSB Entity whose employment has been terminated by any TCSB Entity or IBC Entity; and (b) the use of non-targeted employment advertisements directed at the public in general.

In addition, the Director will not, at any time during the Restricted Period, interfere with the business of any IBC Entity or TCSB Entity by (a) inducing or attempting to induce any third party to terminate or materially and adversely modify its business relationship with any IBC Entity or any TCSB Entity, or (b) taking any other action intended to interfere with, disturb, disrupt, decrease, or otherwise jeopardize any business relationship of any IBC Entity or any TCSB Entity.

Confidentiality. The Director will not, at any time, disclose any confidential or proprietary information or trade secrets of any TCSB Entity; but this information may be disclosed (a) to third parties if the information was then generally known to the public through no fault of the Director or any of the Director’s agent’s or representatives; (b) as required by law; or (c) to the extent necessary to assert or defend a claim arising or relating to any transaction contemplated by the Merger Agreement.

Specific Performance. The Director acknowledges that IBC may be irreparably damaged (and damages at law would be an inadequate remedy) if this Agreement is not specifically enforced. Therefore, in the event of a breach or threatened breach by the Director of any provision of this Agreement, then IBC will be entitled, in addition to all other rights or remedies that may be available at law or in equity, to seek an injunction restraining such breach, without being required to show any actual damage or to post an injunction bond, and/or to a decree for specific performance of the provisions of this Agreement.

Severability. If any provision of this Agreement is deemed invalid under applicable law, such provision shall be deemed omitted to the extent it is invalid, but the remainder of this Agreement shall not be invalidated as a result and shall be given full force and effect so far as possible. If any provision of this Agreement may be construed in two or more ways, one of which would render the provision invalid or otherwise voidable or unenforceable and another of which would render the provision valid and enforceable, such provision shall have the meaning which renders it valid and enforceable. In addition, if the duration, scope, or geographic area contemplated by this Agreement are determined to be unenforceable by a court of competent jurisdiction, the parties agree that such duration, scope, and/or geographic area shall be deemed to be reduced to the greatest scope, duration, and/or geographic area which will be enforceable.

Miscellaneous. This Agreement may be executed in one or more counterparts, each of which shall be an original. This Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of Michigan. This Agreement shall inure to the benefit of, and be enforceable by, each TCSB Entity, each IBC Entity, and their respective successors and assigns. The failure or delay of any IBC Entity to require performance by the Director of any provision of this Agreement shall not affect the right of the IBC Entity to require performance of that provision or to exercise any right, power, or remedy under this Agreement.

[Signatures appear on following page.]

A-B-2

TABLE OF CONTENTS

INTENDING TO BE LEGALLY BOUND, the parties have executed this Non-Competition and Non-Solicitation Agreement as of the date set forth in the opening paragraph above.

DIRECTOR: IBC:

[•] Independent
Bank
Corporation
By:
Its:

A-B-3

TABLE OF CONTENTS

Appendix B

December 4, 2017

Board of Directors
TCSB Bancorp, Inc.
333 West Grandview Pkwy
Traverse City, MI 49684

Members of the Board:

We understand that TCSB Bancorp, Inc., a Michigan corporation headquartered in Traverse City, Michigan (the "Company") and Independent Bank Corporation (the Purchaser), a Michigan corporation plan to enter into an agreement and plan of merger (the Plan of Merger) pursuant to which, among other things, the Company will merge into the Purchaser (the Merger). Each share of Company Common Stock shall be converted into the right to receive 1.1166 shares (the Exchange Ratio) of Purchaser Common Stock. The terms and conditions of the Merger are more fully set forth in the Plan of Merger.

Capitalized terms used herein without definition have the respective meanings ascribed to them in the Plan of Merger.

You have requested our opinion as to the fairness, from a financial point of view, to the Company of the Exchange Ratio to be paid for Company Common Stock in the proposed Merger.

In connection with preparing our opinion, we have reviewed, among other things:

- (i) the draft Plan of Merger dated November 29, 2017;
- (ii) certain financial statements and other historical financial and business information about the Company and the Purchaser made available to us from published sources and/or from the internal records of the Company and the Purchaser;
- (iii) certain internal financial projections and other financial and operating data concerning the business, operations and prospects of the Company and the Purchaser prepared by or at the direction of management of the Company and the Purchaser, as approved for our use by the Company and the Purchaser, respectively;
- (iv) the current market environment generally and the banking environment in particular;
- (v) the financial terms of certain other transactions in the financial institutions industry, to the extent publicly available;
- (vi) compared the current and historical market prices and trading activity of Purchaser Common Stock with that of certain other publicly-traded companies that we deemed relevant;
- (vii) considered the pro forma financial effects of the Merger, taking into consideration the amounts and timing of transaction costs, earnings estimates, potential cost savings, and other financial and accounting considerations in connection with the Merger;
- (viii) participated in discussions and negotiations among representatives of the Company and the Purchaser, and their respective financial and legal advisors;
- (ix) the net present value of the Company with consideration of projected financial results through 2022;
- (x) the relative contributions of the Company and the Purchaser to the combined company;

TABLE OF CONTENTS

- (xi) compared the financial and operating performance of the Company and the Purchaser with publicly available information concerning certain other companies that we deemed relevant; and,
- (xii) such other financial studies, analyses and investigations and financial, economic and market criteria and other information as we considered relevant including discussions with management and other representatives and advisors of the Company and the Purchaser concerning the business, financial condition, results of operations and prospects of the Company and the Purchaser.

In arriving at our opinion, we have, with your consent, assumed and relied upon the accuracy and completeness of all information that was publicly available or supplied or otherwise made available to, discussed with or reviewed by or for us. We have not independently verified (nor have we assumed responsibility for independently verifying) such information or its accuracy or completeness. We have not undertaken or been provided with any independent evaluation or appraisal of any of the assets or liabilities (contingent or otherwise) of the Company or the Purchaser, and we did not make an independent appraisal or analysis of the Company or the Purchaser with respect to the Merger. In addition, we have not assumed any obligation to conduct, nor have we conducted, any physical inspection of the properties or facilities of the Company or the Purchaser, and have not been provided with any reports of such physical inspections. We have assumed that there has been no material change in Company's or Purchaser's business, assets, financial condition, results of operations, cash flows or prospects since the date of the most recent financial statements provided to us, and that neither the Company nor the Purchaser is party to any material pending transaction, including without limitation any financing, recapitalization, acquisition or merger, divestiture or spin-off, other than the Merger.

With respect to the financial forecasts and other analyses (including information relating to certain pro forma financial effects of, and strategic implications and operational benefits anticipated to result from, the Merger) provided to or otherwise reviewed by or for or discussed with us, we have been advised by management of the Company and the Purchaser, and have assumed with your consent, that such forecasts and other analyses were reasonably prepared on bases reflecting the best currently available estimates and good faith judgments of management of the Company and the Purchaser as to the future financial performance of the Company and the Purchaser and the other matters covered thereby, and that the financial results (including the potential strategic implications and operational benefits anticipated to result from the Merger) reflected in such forecasts and analyses will be realized in the amounts and at the times projected. We assume no responsibility for and express no opinion as to these forecasts and analyses or the assumptions on which they were based. We have relied on the assurances of management of the Company and the Purchaser that they are not aware of any facts or circumstances that would make any of such information, forecasts or analyses inaccurate or misleading.

We are not experts in the evaluation of loan and lease portfolios, classified loans or other real estate owned or in assessing the adequacy of the allowance for loan losses with respect thereto, and we did not make an independent evaluation or appraisal thereof, or of any other specific assets, the collateral securing assets or the liabilities (contingent or otherwise) of the Company and the Purchaser or any of their respective subsidiaries. We have not reviewed any individual loan or credit files relating to the Company or the Purchaser or any of their respective subsidiaries. We have assumed, with your consent, that the respective allowances for loan and lease losses for both the Company and the Purchaser are adequate to cover such losses and will be adequate on a pro forma basis for the combined entity. We did not make an independent evaluation of the quality of Company's or Purchaser's deposit base, nor have we independently evaluated potential deposit concentrations or the deposit composition of the Company or the Purchaser. We did not make an independent evaluation of the quality of Company's or Purchaser's investment securities portfolio, nor have we independently evaluated potential concentrations in the investment securities portfolio of the Company or the Purchaser.

We have assumed that all of the representations and warranties contained in the Plan of Merger and all related agreements are true and correct in all respects material to our analysis, and that the Merger will be consummated in accordance with the terms of the Plan of Merger, without waiver, modification or amendment of any term, condition

or covenant thereof the effect of which would be in any respect material to our analysis. We also have assumed that all material governmental, regulatory or other consents, approvals, and waivers necessary for the consummation of the Merger will be obtained without any material adverse effect on the Company or the Purchaser or the contemplated benefits of the Merger. Further, we have assumed that the executed Plan of Merger will not differ in any material respect from the Plan of Merger, dated November 29, 2017, reviewed by us.

B-2

TABLE OF CONTENTS

We have assumed in all respects material to our analysis that the Company will remain as a going concern for all periods relevant to our analysis. We express no opinion regarding the liquidation value of the Company or any other entity.

Our opinion is limited to the fairness, from a financial point of view, to the Company of the Exchange Ratio to be paid in the proposed Merger. We do not express any view on, and our opinion does not address, any other term or aspect of the Plan of Merger or the Merger (including, without limitation, the form or structure of the Merger) or any term or aspect of any other agreement or instrument contemplated by the Plan of Merger or entered into in connection with the Merger, or as to the underlying decision by the Company to engage in the Merger. Furthermore, we express no opinion with respect to the amount or nature of any compensation to any officers, directors or employees of the Company, or any class of such persons, relative to the Exchange Ratio in the Merger, or with respect to the fairness of any such compensation to the Company.

We express no view as to, and our opinion does not address, the relative merits of the Merger as compared to any alternative business transactions or strategies, or whether such alternative transactions or strategies could be achieved or are available. In addition, our opinion does not address any legal, regulatory, tax or accounting matters, as to which we understand that the Company obtained such advice as it deemed necessary from qualified professionals. We express no view as to the potential benefits, federal or state tax implications.

We do not express any opinion as to the value of any asset of the Company or the Purchaser whether at current market prices or in the future, or as to the price at which the Company or the Purchaser or its assets could be acquired in the future. We also express no opinion as to the price at which Company Common Stock or Purchaser Common Stock will trade following announcement of the Merger or at any future time.

We have not evaluated the solvency or fair value of the Company under any state, federal or other laws relating to bankruptcy, insolvency or similar matters. This opinion is not a solvency opinion and does not in any way address the solvency or financial condition of the Company. We are not expressing any opinion as to the impact of the Merger on the solvency or viability of the Company or the Purchaser or the ability of the Company or the Purchaser to pay their respective obligations when they come due.

We have acted as Company's financial advisor in connection with the Merger and will receive a fee for our services, a portion of which is payable upon the rendering of this opinion and a significant portion of which is contingent upon consummation of the Merger. In addition, the Company has agreed to reimburse our reasonable expenses and indemnify us against certain liabilities arising out of our engagement.

During the two years preceding the date of this letter, we have provided investment banking and other financial services to the Company for which we would have received customary compensation.

In the ordinary course of our business, D.A. Davidson & Co. and its affiliates may trade or hold securities of the Company or the Purchaser for our own accounts or for the accounts of our customers and, accordingly, may at any time hold long or short positions in such securities. We may seek to provide investment banking or other financial services to the Company or the Purchaser in the future for which we would expect to receive compensation.

This fairness opinion was reviewed and approved by a D.A. Davidson & Co. Fairness Opinion Committee.

It is understood that this letter is for the information of the Board of Directors of the Company in connection with and for the purposes of its consideration of the Merger. This opinion is not intended to be and does not constitute a recommendation as to how the shareholders of the Company should vote or act with respect to the Merger or any matter relating thereto.

This opinion is for the information of the Board of Directors of the Company and shall not be disclosed, referred to, published or otherwise used (in whole or in part), nor shall any public references to us be made, without our prior written consent, except that a copy of this opinion may be included in its entirety in any regulatory filing that the Purchaser is required to make in connection with the Merger if such inclusion is required by applicable law.

Our opinion is necessarily based on economic, market and other conditions as in effect on, and the information made available to us as of, the date hereof. Events occurring after the date hereof may affect this opinion and the assumptions used in preparing it, and we do not assume any obligation to update, revise or reaffirm this opinion.

B-3

TABLE OF CONTENTS

Based upon and subject to the foregoing, it is our opinion that, as of the date hereof, the Exchange Ratio to be paid in the Merger is fair, from a financial point of view, to the Company.

Very truly yours,

D.A. Davidson & Co.

B-4