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Chemical Financial Corporation Reports Fourth Quarter and Year End 2011 Results

MIDLAND, MI, January 26, 2012 -- -- Chemical Financial Corporation (NASDAQ:CHFC) today announced 2011 fourth quarter net income of $11.2 million, or $0.41 per diluted share, compared to 2011 third quarter net income of $11.6 million, or $0.42 per diluted share, and 2010 fourth quarter net income of $7.5 million, or $0.27 per diluted share. Net income was $43.1 million, or $1.57 per diluted share, for the twelve months ended December 31, 2011, an increase of 78 percent on a per diluted share basis, compared to $23.1 million, or $0.88 per diluted share, for the twelve months ended December 31, 2010.

"This is the second straight year that our earnings performance has trended higher, primarily due to a higher level of net interest income and a lower loan loss provision. Our 2011 net income of $43.1 million marked a return to near pre-U.S. recession levels, and a rapid recovery from our low of $10.0 million in 2009. Our strong balance sheet and disciplined lending philosophy not only allowed us to profitably weather the economic storm, but also to capitalize on growth opportunities and take a leadership position in Michigan's banking industry during this period of turmoil," said David B. Ramaker, Chairman, Chief Executive Officer and President of the Corporation. "We have made significant progress in improving credit quality during the year, with nonperforming assets down nearly 25 percent from their December 31, 2010 peak. While pleased with the positive trends seen in our nonperforming assets, we continue to focus on strategies to further improve credit quality."

"To drive organic earnings improvements in the slow-growth economy we continue to face, we will need to prudently grow our loan portfolio, further improve credit quality, and control operating costs," added Ramaker. "At the same time, we will look to further capitalize on anticipated consolidation opportunities in Michigan's banking industry."

The Corporation's pretax income was approximately the same in each of the last three quarters of 2011, with the modest difference in net income between the quarters attributable to a slightly different effective tax rate in each of those quarters. Operating expenses were $2.4 million higher in the fourth quarter of 2011, as compared to the third quarter of 2011, which was offset by increases in net interest income of $0.8 million and noninterest income of $0.3 million and a decrease in the provision for loan losses of $1.3 million. The increase in net income in the fourth quarter of 2011 over the fourth quarter of 2010 was primarily attributable to a $5.2 million decrease in the provision for loan losses.

The Corporation's return on average assets during the fourth quarter of 2011 was 0.83 percent, down slightly from 0.87 percent in the third quarter of 2011 and up from 0.57 percent in the fourth quarter of 2010. The return on average equity was 7.7 percent in the fourth quarter of

2011, down slightly from 8.0 percent in the third quarter of 2011 and up from 5.3 percent in the fourth quarter of 2010.

Net interest income was $47.1 million in the fourth quarter of 2011, up $0.8 million, or 1.8 percent, from the third quarter of 2011 and up $1.1 million, or 2.5 percent, from the fourth quarter of 2010. The increase in net interest income of $0.8 million in the fourth quarter of 2011, as compared to the third quarter of 2011, was primarily attributable to a decrease in the cost of interest-bearing liabilities due primarily to the repricing of maturing certificates of deposit. The net interest margin (on a tax-equivalent basis) in the fourth quarter of 2011 was 3.84 percent, up from 3.80 percent in the third quarter of 2011 and 3.79 percent in the fourth quarter of 2010. The increases in the net interest margin in the fourth quarter of 2011 were primarily attributable to the continued reduction in the average cost of deposits.

The provision for loan losses was $5.1 million in the fourth quarter of 2011, down from $6.4 million in the third quarter of 2011 and $10.3 million in the fourth quarter of 2010. Net loan charge-offs were $5.5 million in the fourth quarter of 2011, down from $7.4 million in the third quarter of 2011 and $10.3 million in the fourth quarter of 2010. For the twelve months ended December 31, 2011, the provision for loan losses was $26.0 million, compared to net loan charge-offs of $27.2 million. In comparison, the provision for loan losses and net loan charge-offs during the twelve months ended December 31, 2010 were $45.6 million and $36.9 million, respectively.

Noninterest income was $11.5 million in the fourth quarter of 2011, up slightly from $11.2 million in the third quarter of 2011 and $10.9 million in the fourth quarter of 2010.

Operating expenses were $37.8 million in the fourth quarter of 2011, up from $35.4 million in the third quarter of 2011 and $36.7 million in the fourth quarter of 2010. The increase in operating expenses of $2.4 million in the fourth quarter of 2011, as compared to the third quarter of 2011, was primarily related to an increase in writedowns to estimated net realizable value of ORE properties that had been held for one year or more. During the fourth quarter of 2011, the Corporation recognized net expense of $1.9 million applicable to ORE writedowns and net realized gains/losses on ORE sales, compared to $0.3 million in the third quarter of 2011. The Corporation also recognized $0.3 million of expense during the fourth quarter of 2011 related to the reduction in the carrying value of a building facility that is no longer being used and is held for sale. The Corporation's efficiency ratio was 63.1 percent in the fourth quarter of 2011, compared to 60.2 percent in the third quarter of 2011 and 63.3 percent in the fourth quarter of 2010.

Total assets were $5.34 billion at December 31, 2011, down from $5.44 billion at September 30, 2011 and up from $5.25 billion at December 31, 2010. The decrease in assets during the fourth quarter of 2011 was largely attributable to a decrease in interest-bearing balances held at the Federal Reserve Bank (FRB) resulting from a seasonal decline in deposits of municipal customers. The Corporation continues to maintain significant amounts of funds generated from deposit growth over the last two years at the FRB, and thus maintains a high level of available liquidity, with $256 million in balances held at the FRB at December 31, 2011, compared to $479 million at September 30, 2011 and $440 million at December 31, 2010.

Total loans were $3.83 billion at December 31, 2011, compared to $3.76 billion at September 30, 2011 and $3.68 billion at December 31, 2010. The increase in total loans of $150 million, or 4.1 percent, during the twelve months ended December 31, 2011 was driven primarily by increases in commercial loans and real estate residential loans. Approximately one-half of the 2011 increase in total loans occurred during the fourth quarter of the year, with commercial loans up $36 million, or 16.8 percent on an annualized basis, and real estate residential loans up $22 million, or 10.3 percent on an annualized basis. The growth in loans during the fourth quarter of 2011 was attributable to a combination of improving economic conditions and higher loan demand, as well as the Corporation increasing its market share. Commercial loans increased $76 million, or 9.3 percent, and real estate residential loans increased $64 million, or 8.0 percent, during the twelve months ended December 31, 2011. The growth in real estate residential loans during the twelve months ended December 31, 2011 was partially attributable to the Corporation originating $44 million of conforming real estate residential loans with amortization periods of fifteen years that it kept in the loan portfolio, rather than selling these loans in the secondary market as has historically been the Corporation’s general practice. Investment securities were $851 million at December 31, 2011, compared to $797 million at September 30, 2011 and $744 million at December 31, 2010.

Total deposits were $4.37 billion at December 31, 2011, compared to $4.48 billion at September 30, 2011 and $4.33 billion at December 31, 2010. The Corporation experienced a decrease of $114 million, or 2.5 percent, in total deposits during the fourth quarter of 2011, primarily attributable to a seasonal decline in deposits of municipal customers. The Corporation used a portion of its liquidity to pay off maturing Federal Home Loan Bank (FHLB) advances and brokered deposits that were acquired in the 2010 acquisition of O.A.K. Financial Corporation (OAK) and the Corporation intends to continue to pay off these wholesale funding sources as they mature. FHLB advances totaled $43.1 million at December 31, 2011, down from $46.0 million at September 30, 2011 and $74.1 million at December 31, 2010. Brokered deposits totaled $95 million at December 31, 2011, down from $98 million at September 30, 2011 and $163 million at December 31, 2010. The reduction in FHLB advances and brokered deposits and the repricing of matured customer certificates of deposit resulted in the Corporation’s average cost of funds declining to 0.73 percent in the fourth quarter of 2011 from 0.80 percent in the third quarter of 2011.

At December 31, 2011, the Corporation's tangible equity to assets ratio and total risk-based capital ratio were 8.7 percent and 13.1 percent, respectively, compared to 8.6 percent and 13.1 percent, respectively, at September 30, 2011. At December 31, 2011, the Corporation's book value was $20.82 per share, compared to $21.02 per share at September 30, 2011 and $20.41 per share at December 31, 2010.

The credit quality of the Corporation's loan portfolio showed continued improvement during the fourth quarter of 2011. At December 31, 2011, the Corporation's $3.34 billion portfolio of originated loans, representing all loans other than those acquired in the OAK acquisition, had nonaccrual loans and loans past due 90 days or more totaling $82.2 million, compared to $94.1 million at September 30, 2011 and $110.4 million at December 31, 2010, representing declines of 12.7 percent and 25.5 percent, respectively. The Corporation's nonperforming loans also include commercial, real estate commercial and real estate residential loans that have been modified and a concession granted due to financial difficulties being experienced by customers (nonperforming troubled debt restructurings) of $24.1 million at December 31, 2011, down from $26.3 million at September 30, 2011 and $37.4 million at December 31, 2010. At December 31, 2011, the Corporation’s $493 million portfolio of acquired loans, representing loans acquired in the OAK acquisition, were overall performing slightly better than expected, despite the establishment of a $1.6 million allowance for loan losses on acquired loans during 2011 that was primarily attributable to one of the loan pools experiencing a decline in expected cash flows.

Other real estate and repossessed assets totaled $25.5 million at December 31, 2011, compared to $28.7 million at September 30, 2011 and $27.5 million at December 31, 2010. The net decrease in the fourth quarter of 2011 was primarily attributable to writedowns of ORE properties that had been held for one year or more, as previously discussed.

At December 31, 2011, the allowance for loan losses of the originated portfolio was $86.7 million, or 2.60 percent of originated loans, compared to 2.68 percent at September 30, 2011 and 2.86 percent at December 31, 2010. The allowance for loan losses of the originated portfolio as a percentage of nonperforming loans was 82 percent at December 31, 2011, compared to 73 percent at September 30, 2011 and 61 percent at December 31, 2010. At December 31, 2011, nonperforming loans as a percentage of total loans were 2.77 percent, down from 3.20 percent at September 30, 2011 and 4.01 percent at December 31, 2010.

Chemical Financial Corporation is the second-largest bank holding company headquartered and operating branch offices in Michigan. The Corporation operates through a single subsidiary bank, Chemical Bank, with 142 banking offices spread over 32 counties in the lower peninsula of Michigan. At December 31, 2011, the Corporation had total assets of $5.3 billion. Chemical Financial Corporation's common stock trades on The NASDAQ Stock Market under the symbol CHFC and is one of the issues comprising the NASDAQ Global Select Market. More information about the Corporation is available by visiting the investor relations section of its website at www.chemicalbankmi.com.

Forward-Looking Statements

This press release contains forward-looking statements that are based on management's beliefs, assumptions, current expectations, estimates and projections about the financial services industry, the economy and Chemical Financial Corporation. Words such as “capitalize,” "continue," “focus,” “improving,” “intends,” “opportunities,” "will," “strategies,” “trends,” “anticipated,” “further,” “progress,” “yet,” “look” and variations of such words and similar expressions are intended to identify such forward-looking statements. Such statements are based upon current beliefs and expectations and involve substantial risks and uncertainties which could cause actual results to differ materially from those expressed or implied by such forward-looking statements. These statements include, among others, statements related to the credit quality of the loan portfolio, future levels of nonperforming loans, future economic trends and conditions, anticipated consolidation opportunities in Michigan’s banking industry, future income levels, and our ability to grow our loan portfolio, improve credit quality and control operating costs. All statements referencing future time periods are forward-looking. Management's determination of the provision and allowance for loan losses, the carrying value of acquired loans, goodwill, mortgage servicing rights and other real estate owned and the fair value of investment securities (including whether any impairment on any investment security is temporary or other-than-temporary and the amount of any impairment) involve judgments that are inherently forward-looking. Management's assumptions concerning pension and other postretirement benefit plans involve judgments that are inherently forward-looking. There can be no assurance that future loan losses will be limited to the amounts estimated or that other real estate owned can be sold for its carrying value or at all. The future effect of changes in the financial and credit markets and the national and regional economy on the banking industry, generally, and on the Corporation, specifically, are also inherently uncertain. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions ("risk factors") that are difficult to predict with regard to timing, extent, likelihood and degree of occurrence. Therefore, actual results and outcomes may materially differ from what may be expressed or forecasted in such forward-looking statements. The Corporation undertakes no obligation to update, amend or clarify forward-looking statements, whether as a result of new information, future events or otherwise.

Risk factors include, but are not limited to, the risk factors described in Item 1A of the Corporation's Annual Report on Form 10-K for the year ended December 31, 2010. These and other factors are representative of the risk factors that may emerge and could cause a difference between an ultimate actual outcome and a preceding forward-looking statement.