CHEMICAL FINANCIAL CORP
Form 10-Q
August 07, 2007

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2007

[ ] **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from ____________ to ____________
Commission File Number: 000-08185

CHEMICAL FINANCIAL CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Michigan (State or Other Jurisdiction of Incorporation or Organization)	**38-2022454** (I.R.S. Employer Identification No.)
333 East Main Street **Midland, Michigan** (Address of Principal Executive Offices)	**48640** (Zip Code)

(989) 839-5350
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes _X_ No __

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer _X_ Accelerated filer __ Non-accelerated filer __

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

The number of shares outstanding of the Registrant's Common Stock, $1 par value, as of July 25, 2007, was 24,274,803 shares.

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Safe Harbor Statement

This report 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 itself. Words such as "anticipates," "believes," "estimates," "expects," "forecasts," "intends," "is likely," "judgment," "plans," "predicts," "projects," "should," "will," variations of such words and similar expressions are intended to identify such forward-looking statements. 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. Chemical Financial 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, "Risk Factors," in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2006, which are here incorporated by reference; the timing and level of asset growth; changes in banking laws and regulations; changes in tax laws; changes in prices, levies and assessments; the impact of technological advances and issues; governmental and regulatory policy changes; opportunities for acquisitions and the effective completion of acquisitions and integration of acquired entities; the possibility that anticipated cost savings and revenue enhancements from acquisitions, restructurings, reorganizations and bank consolidations may not be realized at all or within expected time frames; and the local and global effects of the ongoing war on terrorism and other military actions, including actions in Iraq. 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.

Part I. Financial Information

Item 1. Financial Statements

Chemical Financial Corporation and Subsidiary
Consolidated Statements of Financial Position

	June 30, 2007	December 31, 2006	June 30, 2006
	(Unaudited)		(Unaudited)
		(In thousands, except share data)	
Assets			
Cash and cash equivalents:			
Cash and cash due from banks	**$ 103,910**	$ 135,544	$ 110,457
Federal funds sold	**86,200**	49,500	36,500
Interest-bearing deposits with unaffiliated banks	**5,487**	5,712	5,211
Total cash and cash equivalents	**195,597**	190,756	152,168
Investment securities:			
Available for sale (at estimated fair value)	**513,954**	520,867	549,532
Held to maturity (estimated fair value - $106,316 at 6/30/07, $94,172 at 12/31/06 and $95,273 at 6/30/06)	**106,792**	94,564	96,518
Total investment securities	**620,746**	615,431	646,050
Other securities	**22,135**	22,131	25,683
Loans held for sale	**6,560**	5,667	7,326
Loans:			
Commercial	**522,535**	545,591	536,099
Real estate commercial	**735,510**	726,554	706,213
Real estate construction	**132,900**	145,933	155,463
Real estate residential	**845,432**	835,263	805,081
Consumer	**559,955**	554,319	554,492
Total loans	**2,796,332**	2,807,660	2,757,348
Less: Allowance for loan losses	**36,254**	34,098	33,638
Net loans	**2,760,078**	2,773,562	2,723,710
Premises and equipment	**48,313**	49,475	44,736
Goodwill	**69,908**	70,129	63,293
Other intangible assets	**7,757**	8,777	6,936
Interest receivable and other assets	**53,820**	53,319	61,475
Total Assets	**$ 3,784,914**	$ 3,789,247	$ 3,731,377
Liabilities and Shareholders' Equity			
Deposits:			
Noninterest-bearing	**$ 544,555**	$ 551,177	$ 535,537
Interest-bearing	**2,391,323**	2,346,908	2,255,816

Total deposits	**2,935,878**	2,898,085	2,791,353
Interest payable and other liabilities	**22,156**	29,235	24,315
Securities sold under agreements to repurchase	**185,357**	178,969	151,267
Federal Home Loan Bank advances - short-term	**-**	30,000	125,000
Federal Home Loan Bank advances - long-term	**135,049**	145,072	135,072
Total liabilities	**3,278,440**	3,281,361	3,227,007
Shareholders' equity:			
Common stock, $1 par value per share:			
Authorized - 30,000,000 shares			
Issued and outstanding - 24,364,803 shares at 6/30/07, 24,827,566 shares at 12/31/06 and 24,817,138 shares at 6/30/06	**24,365**	24,828	24,817
Surplus	**356,532**	368,554	368,562
Retained earnings	**135,054**	123,454	121,457
Accumulated other comprehensive loss	**(9,477)**	(8,950)	(10,466)
Total shareholders' equity	**506,474**	507,886	504,370
Total Liabilities and Shareholders' Equity	**$ 3,784,914**	$ 3,789,247	$ 3,731,377

See notes to consolidated financial statements.

Chemical Financial Corporation and Subsidiary
Consolidated Statements of Income (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	**2007**	2006
	(In thousands, except per share amounts)			
Interest Income				
Interest and fees on loans	**$ 48,138**	$ 45,474	**$ 95,504**	$ 89,184
Interest on investment securities:				
Taxable	**6,233**	6,176	**12,368**	12,518
Tax-exempt	**666**	611	**1,330**	1,231
Total interest on investment securities	**6,899**	6,787	**13,698**	13,749
Dividends on other securities	**357**	348	**573**	689
Interest on federal funds sold	**1,617**	621	**3,062**	1,572
Interest on deposits with unaffiliated banks	**75**	161	**174**	474
Total interest income	**57,086**	53,391	**113,011**	105,668
Interest Expense				
Interest on deposits	**20,917**	16,496	**41,253**	31,570
Interest on securities sold under agreements to repurchase	**1,692**	1,205	**3,306**	2,264
Interest on reverse repurchase agreements - short-term	**-**	62	**-**	154
Interest on Federal Home Loan Bank advances - short-term	**174**	602	**468**	1,019
Interest on Federal Home Loan Bank advances - long-term	**1,883**	1,809	**3,790**	3,853
Total interest expense	**24,666**	20,174	**48,817**	38,860
Net Interest Income	**32,420**	33,217	**64,194**	66,808
Provision for loan losses	**2,500**	400	**4,125**	860
Net interest income after provision for loan losses	**29,920**	32,817	**60,069**	65,948
Noninterest Income				
Service charges on deposit accounts	**5,236**	5,356	**10,204**	10,453
Trust and investment services revenue	**2,087**	2,094	**4,187**	4,099
Other charges and fees for customer services	**2,376**	2,255	**4,818**	4,387
Mortgage banking revenue	**628**	490	**1,070**	913
Investment securities gains	**-**	-	**4**	-
Other	**1,029**	323	**1,116**	498
Total noninterest income	**11,356**	10,518	**21,399**	20,350
Operating Expenses				
Salaries, wages and employee benefits	**15,773**	14,012	**30,512**	28,602
Occupancy	**2,771**	2,421	**5,360**	5,019
Equipment	**2,381**	2,345	**4,685**	4,533

Other	**6,296**	6,298	**13,422**	12,043
Total operating expenses	**27,221**	25,076	**53,979**	50,197
Income Before Income Taxes	**14,055**	18,259	**27,489**	36,101
Provision for federal income taxes	**4,543**	6,030	**8,936**	11,975
Net Income	**$ 9,512**	$ 12,229	**$ 18,553**	$ 24,126
Net Income Per Share (Basic)	**$ 0.39**	$ 0.49	**$ 0.75**	$ 0.96
(Diluted)	**0.39**	0.49	**0.75**	0.96
Cash Dividends Paid Per Share	**0.285**	0.275	**0.570**	0.550

See notes to consolidated financial statements.

Chemical Financial Corporation and Subsidiary
Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	(In thousands, except share data)				
Balances at December 31, 2005	$25,079	$376,046	$106,507	$ (6,567)	$501,065
Cumulative impact of adopting SAB 108, net of tax of $2,467			4,582		4,582
Balances at January 1, 2006	25,079	376,046	111,089	(6,567)	505,647
Comprehensive Income:					
Net income			24,126		
Net change in unrealized losses on investment securities available for sale, net of tax benefit of $2,099				(3,899)	
Comprehensive income					20,227
Cash dividends paid of $0.55 per share			(13,758)		(13,758)
Shares issued - stock options	27	685			712
Shares issued - directors' stock purchase plan	8	247			255
Repurchase of shares	(297)	(8,420)			(8,717)
Share-based compensation, net of tax benefit of $2		4			4
Balances at June 30, 2006	$24,817	$368,562	$121,457	$(10,466)	$504,370
Balances at January 1, 2007	**$24,828**	**$368,554**	**$123,454**	**$ (8,950)**	**$507,886**
Impact of adoption of FIN 48			**40**		**40**
Comprehensive income:					
Net income			**18,553**		
Net change in unrealized losses on investment securities available for sale, net of tax benefit of $230				**(426)**	
Reclassification adjustment for realized net investment securities gains included in net income, net of tax expense of $1				**(3)**	
Adjustment for pension and other postretirement benefits expense, net of tax benefit of $53				**(98)**	
Comprehensive income					**18,026**
Cash dividends declared and paid of $0.285 per share			**(6,990)**		**(6,990)**
Shares issued - stock options	**2**	**30**			**32**
Shares issued - directors' stock purchase plan	**7**	**216**			**223**
Shares issued - share awards	**1**	**44**			**45**
Repurchase of shares	**(473)**	**(12,315)**			**(12,788)**

Share-based compensation, net of tax benefit of $1		**3**			**3**
Other			**(3)**		**(3)**
Balances at June 30, 2007	**$24,365**	**$356,532**	**$135,054**	**$ (9,477)**	**$506,474**

See notes to consolidated financial statements.

Chemical Financial Corporation and Subsidiary
Consolidated Statements of Cash Flows (Unaudited)

	Six Months Ended June 30,	
	2007	2006
	(In thousands)	
Cash Flows From Operating Activities:		
Net income	**$ 18,553**	$ 24,126
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	**4,125**	860
Gains on sales of loans	**(640)**	(402)
Proceeds from sales of loans	**68,301**	49,907
Loans originated for sale	**(68,554)**	(53,312)
Investment securities gains	**(4)**	-
Net (gains) losses on sales of other real estate and repossessed assets	**(48)**	108
Gains on sales of branch bank properties	**(905)**	-
Losses on disposals of other assets	**269**	-
Depreciation of premises and equipment	**2,934**	2,880
Amortization of intangible assets	**1,399**	1,401
Net amortization of premiums and discounts on investment securities	**303**	805
Share-based compensation expense	**3**	6
Net decrease in interest receivable and other assets	**734**	1,185
Net increase (decrease) in interest payable and other liabilities	**(231)**	481
Net cash provided by operating activities	**26,239**	28,045
Cash Flows From Investing Activities:		
Investment securities available for sale:		
Proceeds from maturities, calls and principal reductions	**60,519**	68,350
Purchases	**(54,464)**	(30,037)
Investment securities held to maturity:		
Proceeds from maturities, calls and principal reductions	**8,607**	38,225
Purchases	**(20,933)**	(7,094)
Other securities:		
Purchases	**(5)**	(4,631)
Net decrease (increase) in loans	**6,351**	(58,890)
Proceeds from sales of other real estate and repossessed assets	**1,657**	3,152
Proceeds from sales of branch bank properties	**1,825**	-
Purchases of premises and equipment	**(2,511)**	(3,194)
Net cash provided by investing activities	**1,046**	5,881

Cash Flows From Financing Activities:

Net increase (decrease) in noninterest-bearing and interest-bearing demand deposits and savings accounts	**21,160**	(101,328)
Net increase in time deposits	**16,633**	72,801
Net increase in securities sold under agreements to repurchase	**6,388**	25,669
Net decrease in reverse repurchase agreements - short-term	-	(10,000)
Increase in FHLB advances - short-term	-	100,000
Repayment of FHLB advances - short-term	**(30,000)**	(43,000)
Increase in FHLB advances - long-term	**10,000**	10,000
Repayment of FHLB advances - long-term	**(20,023)**	(71,693)
Cash dividends paid	**(14,069)**	(13,758)
Proceeds from directors' stock purchase plan	**223**	255
Tax benefits from share-based awards	**9**	57
Proceeds from exercise of stock options	**23**	460
Repurchases of common stock	**(12,788)**	(8,717)
Net cash used in financing activities	**(22,444)**	(39,254)
Net increase (decrease) in cash and cash equivalents	**4,841**	(5,328)
Cash and cash equivalents at beginning of year	**190,756**	157,496
Cash and Cash Equivalents at End of Period	**$ 195,597**	$ 152,168
Supplemental disclosure of cash flow information:		
Interest paid	**$ 49,037**	$ 38,603
Federal income taxes paid	**7,105**	11,800
Loans transferred to other real estate and repossessed assets	**3,008**	6,867

See notes to consolidated financial statements.

Chemical Financial Corporation and Subsidiary
Notes to Consolidated Financial Statements (Unaudited)
June 30, 2007

Note A: Basis of Presentation

The accompanying unaudited consolidated financial statements of Chemical Financial Corporation (the Corporation) have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly the financial condition and results of operations of the Corporation for the periods presented. Operating results for the three and six months ended June 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. For further information, refer to the consolidated financial statements and footnotes thereto included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2006.

Certain prior year amounts have been reclassified to place them on a basis comparable with the current period's financial statements. Such reclassifications had no impact on net income or shareholders' equity.

Share-Based Compensation

Effective January 1, 2006, the Corporation adopted Statement of Financial Accounting Standards (SFAS) No. 123(R), "Share-Based Payment" (SFAS 123(R)), using the modified-prospective transition method. Under that method, compensation expense is recognized for all share-based awards granted prior to, but not yet vested, as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS 123).

The fair value of share-based awards is recognized as compensation expense on a straight-line basis over the requisite service period for awards granted after the adoption of SFAS 123(R). The requisite service period is the shorter of the vesting period or the period to normal retirement eligibility.

Income Taxes

The difference between the federal statutory income tax rate and the Corporation's effective federal income tax rate is primarily a function of the proportion of the Corporation's interest income exempt from federal taxation, nondeductible interest expense and other nondeductible expenses relative to pretax-income and tax credits.

Deferred tax assets and liabilities are recognized for future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases at the enacted tax rates expected to be applied to taxable income in the years in which those differences are expected to be recovered or settled. Reserves for contingent tax liabilities are reviewed quarterly for adequacy based upon developments in tax law and the status of audit examinations.

The tax periods open to examination by the Internal Revenue Service include the fiscal years ended December 31, 2006, 2005, 2004 and 2003. The same fiscal years are open to examination for the Michigan Single Business Tax with the addition of the fiscal year ended December 31, 2002.

Earnings Per Share

All earnings per share amounts have been presented to conform to the requirements of SFAS No. 128, "Earnings Per Share." Basic earnings per share excludes any dilutive effect of stock options. Basic earnings per share for the Corporation is computed by dividing net income by the weighted average number of common shares outstanding. Diluted earnings per share for the Corporation is computed by dividing net income by the sum of the weighted average number of common shares outstanding and the dilutive effect of outstanding employee stock options.

Chemical Financial Corporation and Subsidiary
Notes to Consolidated Financial Statements (Unaudited)
June 30, 2007

Note A: Basis of Presentation (continued)

The following table summarizes the number of shares used in the numerator and denominator of the basic and diluted earnings per share computations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	**2007**	2006
	(In thousands, except per share amounts)			
Numerator for both basic and diluted earnings per share, net income	**$9,512**	$12,229	**$18,553**	$24,126
Denominator for basic earnings per share, average outstanding common shares	**24,644**	24,977	**24,738**	25,036
Potential dilutive shares resulting from employee stock options	**11**	33	**14**	39
Denominator for diluted earnings per share	**24,655**	25,010	**24,752**	25,075
Basic earnings per share	**$0.39**	$0.49	**$0.75**	$0.96
Diluted earnings per share	**0.39**	0.49	**0.75**	0.96

The average number of employee stock option awards outstanding that were anti-dilutive and therefore not included in the computation of earnings per share were as follows: 524,998 and 447,877 for the three months ended June 30, 2007 and 2006, respectively, and 484,594 and 388,727 for the six months ended June 30, 2007 and 2006, respectively.

Equity

In April 2007, the Corporation authorized management to repurchase up to 500,000 shares of the Corporation's stock. The April 2007 authorization replaced all remaining prior share repurchase authorizations. During the three months ended June 30, 2007, 449,800 shares were purchased under the April 2007 authorization at an average price of $26.96 per share and at June 30, 2007 there were 50,200 remaining shares available for repurchase under this authorization. In July 2007, the Corporation authorized management to repurchase up to 500,000 additional shares of the Corporation's stock.

Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss, net of related tax benefits, at June 30, 2007, December 31, 2006 and June 30, 2006 are as follows:

	June 30, 2007	December 31, 2006	June 30, 2006

	(In thousands)		
Net unrealized losses on investment securities available for sale, net of related tax benefit of $2,372 at 6/30/07, $2,141 at 12/31/06 and $5,635 at 6/30/06.	**$(4,406)**	$(3,977)	$(10,466)
Pension and other postretirement benefits expense, net of related tax benefit of $2,730 at 6/30/07 and $2,677 at 12/31/06.	**(5,071)**	(4,973)	-
Accumulated other comprehensive loss	**$(9,477)**	$(8,950)	$(10,466)

Chemical Financial Corporation and Subsidiary
Notes to Consolidated Financial Statements (Unaudited)
June 30, 2007

Note A: Basis of Presentation (continued)

At June 30, 2007, the Corporation held investment securities with a fair market value of $132.5 million that had gross unrealized losses, which existed for less than twelve months, of $0.81 million at that date. The Corporation also held investment securities as of June 30, 2007 with a fair market value of $401.0 million that had gross unrealized losses, which existed for twelve months or more, of $6.85 million at that date. Management believes that the unrealized losses on investment securities are temporary in nature and are due primarily to changes in interest rates and not as a result of credit related issues. The Corporation has both the intent and ability to hold the investment securities with unrealized losses to maturity or until such time as the unrealized losses recover.

Operating Segment

Under the provisions of SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," the Corporation operates in a single operating segment - commercial banking. The Corporation is a financial holding company that operates through one commercial bank, Chemical Bank, as of June 30, 2007. Chemical Bank operates within the state of Michigan as a state-chartered commercial bank. The Corporation's commercial bank subsidiary operates through an internal organizational structure of four regional banks and offers a full range of commercial banking and fiduciary products and services to the residents and business customers in the regional banks' geographical market areas. The Corporation's regional banks are collections of branch banking offices organized by geographical regions within the state. The products and services offered by the regional banks are generally consistent throughout the Corporation. The marketing of products and services throughout the Corporation's regional banks is generally uniform, as many of the markets served by the regional banks overlap. The distribution of products and services is uniform throughout the Corporation's regional banks and is achieved primarily through retail branch banking offices, automated teller machines and electronically accessed banking products.

Recent Accounting Pronouncements

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in the Current Year Financial Statements" (SAB 108). SAB 108 addresses how the effects of prior-year uncorrected misstatements should be considered when quantifying misstatements in the current year financial statements. SAB 108 requires an entity to quantify misstatements using both a balance sheet perspective (iron curtain approach) and income statement perspective (rollover approach) and to evaluate whether either approach results in quantifying an error that is material in light of relevant quantitative and qualitative factors.

In accordance with the adoption of SAB 108 in the fourth quarter of 2006, the Corporation recorded a $4.6 million cumulative increase, net of tax of $2.5 million, to retained earnings as of January 1, 2006. Information presented in the consolidated statement of financial position as of June 30, 2006 and the consolidated statement of changes in shareholders' equity for the six months ended June 30, 2006 has been adjusted to reflect the cumulative SAB 108 adjustment as of January 1, 2006. Financial information as of January 1, 2006, included herein in Management's Discussion and Analysis of Financial Condition and Results of Operations, has also been adjusted to reflect the adoption of SAB 108.

Accounting for Servicing of Financial Assets: The Financial Accounting Standards Board (FASB) issued SFAS No. 156, "Accounting for Servicing of Financial Assets" (SFAS 156), which amends SFAS No. 140,

"Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS 156 permits an entity to choose either of the following subsequent measurement methods for each class of separately recognized servicing assets and servicing liabilities:

Amortization Method - Amortize servicing assets or servicing liabilities in proportion to and over the period of net servicing income or net servicing loss and assess the servicing assets or liabilities for impairment or increased obligation based on fair value at each reporting date.

Chemical Financial Corporation and Subsidiary
Notes to Consolidated Financial Statements (Unaudited)
June 30, 2007

Fair Value Measurement Method - Measure servicing assets or servicing liabilities at fair value at each reporting date and report changes in fair value in earnings in the periods in which the changes occur.

The Corporation adopted the amortization method on January 1, 2007. The adoption of SFAS 156 did not have a material impact on the Corporation's consolidated financial condition or results of operations.

Fair Value Measurements: In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS 157), on fair value measurement. SFAS 157 provides guidance for using fair value to measure assets and liabilities. SFAS 157 also responds to investors' requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value and the effect of fair value measurements on earnings. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. SFAS 157 does not expand the use of fair value in any new circumstances.

Over forty current accounting standards within generally accepted accounting principles require (or permit) entities to measure assets and liabilities at fair value. Prior to SFAS 157, the methods for measuring fair value were diverse and inconsistent, especially for items that are not actively traded.

Under SFAS 157, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts such sales or transfers. SFAS 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability. In support of this principle, SFAS 157 establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, for example, the reporting entity's own data. Under SFAS 157, fair value measurements would be separately disclosed by level within the fair value hierarchy.

SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. Early adoption is permitted. The Corporation has not determined the impact that SFAS 157 will have on the Corporation's consolidated financial condition or results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS 159), which is effective for fiscal years beginning after November 15, 2007. SFAS 159 provides companies with an option to report selected financial assets and liabilities at fair value. The standard's objective is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. It also requires entities to display the fair value of those assets and liabilities for which the company has chosen to use fair value on the face of the balance sheet. SFAS 159 does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in SFAS 157 and SFAS No. 107, "Disclosures about Fair Value of Financial Instruments." The Corporation has not determined the impact that SFAS 159 will have on the Corporation's consolidated financial condition or results of operations.

Accounting for Uncertainty in Income Taxes: The FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48), which is effective for fiscal years beginning after December 15, 2006. The Corporation adopted FIN 48 effective January 1, 2007. FIN 48 creates a single model to address uncertainty in tax

positions. FIN 48 clarifies the accounting for income tax positions by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition.

FIN 48 utilizes a two-step approach for evaluating tax positions. Recognition (step one) occurs when an enterprise concludes that a tax position, based solely on its technical merits, is more-likely-than-not to be sustained upon examination. Measurement (step two) is only addressed if step one has been satisfied (i.e., the position is more-

Chemical Financial Corporation and Subsidiary
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likely-than-not to be sustained). Under step two, the tax benefit is measured as the largest amount of benefit, determined on a cumulative probability basis that is more-likely-than-not to be realized upon ultimate settlement. FIN 48's use of the term "more-likely-than-not" in steps one and two is consistent with how that term is used in SFAS No. 109, "Accounting for Income Taxes" (i.e., a likelihood of occurrence greater than 50 percent).

Those tax positions failing to qualify for initial recognition are recognized in the first subsequent interim period in which they meet the more-likely-than-not standard, or are resolved through negotiation or litigation with the taxing authority, or upon expiration of the statute of limitations. Derecognition of a tax position that was previously recognized would occur when a company subsequently determines that a tax position no longer meets the more-likely-than-not threshold of being sustained. FIN 48 specifically prohibits the use of a valuation allowance as a substitute for derecognition of tax positions.

FIN 48 includes expanded disclosure requirements, including a tabular roll forward of the beginning and ending aggregate unrecognized tax benefits as well as specific detail related to tax uncertainties for which it is reasonably possible the amount of unrecognized tax benefit will significantly increase or decrease within twelve months. These disclosures are required at each annual reporting period unless a significant change occurs in an interim period. The adoption of FIN 48 did not have a material impact on the Corporation's consolidated financial condition or results of operations. Upon adoption of FIN 48, the Corporation recognized an increase in retained earnings of $0.04 million, a reduction in goodwill of $0.22 million and a reduction in income taxes payable (included in interest payable and other liabilities on the consolidated statement of financial position) of $0.26 million. After adoption of FIN 48, the Corporation had no remaining unrecognized tax benefits.

The Corporation recognizes any interest and penalties related to unrecognized tax benefits in the provision for income taxes.

Other

The Michigan Single Business Tax, which expires December 31, 2007, was replaced by the Michigan Business Tax (MBT) in June, 2007. The MBT includes a provision for a Financial Institutions Tax (FIT), which applies to all banks, savings banks, holding companies and all their affiliated companies. The FIT is a tax on combined capital less United States and Michigan municipal obligations using a five-year average at a tax rate of 0.235%. The FIT base may also be reduced by goodwill acquired after July 1, 2007. The Corporation has not yet determined the impact of this tax on the Corporation's consolidated financial condition or results of operations.

The Corporation and its subsidiary bank are subject to certain legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material adverse effect on the consolidated financial condition or results of operations of the Corporation.

Chemical Financial Corporation and Subsidiary
Notes to Consolidated Financial Statements (Unaudited)
June 30, 2007

Note B: Nonperforming Assets, Allowance for Loan Losses and Impaired Loans

The following summarizes nonperforming assets at the dates indicated:

	June 30, 2007	December 31, 2006	June 30, 2006
		(In thousands)	
Nonperforming Assets			
Nonaccrual loans:			
Commercial	**$ 5,810**	$ 4,203	$ 3,738
Real estate commercial	**19,163**	9,612	7,385
Real estate construction - commercial	**4,483**	2,552	1,735
Real estate residential	**4,967**	2,887	3,892
Consumer	**1,696**	985	886
Total nonaccrual loans	**36,119**	20,239	17,636
Accruing loans contractually past due 90 days or more as to interest or principal payments:			
Commercial	**1,564**	1,693	1,903
Real estate commercial	**5,561**	2,232	5,569
Real estate construction - commercial	**884**	174	179
Real estate residential	**2,352**	1,158	1,618
Consumer	**1,343**	1,414	349
Total accruing loans contractually past due 90 days or more as to interest or principal payments	**11,704**	6,671	9,618
Total Nonperforming Loans	**47,823**	26,910	27,254
Repossessed Assets [(1)]	**9,177**	8,852	9,615
Total Nonperforming Assets	**$57,000**	$35,762	$36,869

[(1)] Includes property acquired through foreclosure and by acceptance of a deed in lieu of foreclosure and other property held for sale.

	June 30, 2007	December 31, 2006	June 30, 2006
Nonperforming loans as a percent of total loans	**1.71%**	0.96%	0.99%
Allowance for loan losses as a percent of total loans	**1.30%**	1.21%	1.22%
Nonperforming assets as a percent of total assets	**1.51%**	0.94%	0.99%
Allowance for loan losses as a percent of nonperforming loans	**76%**	127%	123%

Chemical Financial Corporation and Subsidiary
Notes to Consolidated Financial Statements (Unaudited)
June 30, 2007

Note B: Nonperforming Assets, Allowance For Loan Losses and Impaired Loans (continued)

The following summarizes the changes in the Allowance for Loan Losses:

	Six Months Ended June 30,	
	2007	2006
	(In thousands)	
Balance as of January 1	**$34,098**	$34,148
Provision for loan losses	**4,125**	860
Loans charged off:		
Commercial	**(864)**	(281)
Real estate commercial	**(260)**	(600)
Real estate construction - commercial	**(288)**	-
Real estate residential	**(114)**	(306)
Consumer	**(838)**	(824)
Total loans charged off	**(2,364)**	(2,011)
Loan recoveries:		
Commercial	**141**	260
Real estate commercial	**1**	3
Real estate residential	**2**	97
Consumer	**251**	281
Total loan recoveries	**395**	641
Net loans charged off	**(1,969)**	(1,370)
Balance as of June 30	**$36,254**	$33,638
Net loans charged off against the allowance for loan losses to average loans (annualized)	**0.14%**	0.10%

The following summarizes impaired loan information at the dates indicated:

	Balances			Valuation Reserve		
	June 30, 2007	December 31, 2006	June 30, 2006	**June 30, 2007**	December 31, 2006	June 30, 2006
	(in thousands)					
Impaired loans with valuation reserve	**$ 8,994**	$ 3,770	$ 6,546	**$1,823**	$912	$1,569

Impaired loans with no valuation reserve	**25,380**	16,063	9,128	**-**	-	-
Total impaired loans	**$34,374**	$19,833	$15,674	**$1,823**	$912	$1,569
Impaired loans on nonaccrual basis	**$29,456**	$16,367	$12,858	**$1,309**	$892	$1,556
Impaired loans on accrual basis	**4,918**	3,466	2,816	**514**	20	13
Total impaired loans	**$34,374**	$19,833	$15,674	**$1,823**	$912	$1,569

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Notes to Consolidated Financial Statements (Unaudited)
June 30, 2007

Note B: Nonperforming Assets, Allowance For Loan Losses and Impaired Loans (continued)

The Corporation considers all nonaccrual commercial and real estate commercial loans to be impaired loans. In addition, the Corporation identified an additional $4.9 million, $3.8 million and $3.5 million of impaired commercial and real estate commercial loans that were in an accrual status at June 30, 2007, March 31, 2007 and December 31, 2006, respectively. Real estate residential and consumer loans are considered to be homogeneous and therefore are excluded from the analysis of impaired loans.

Note C: Intangible Assets

The Corporation has recorded four types of intangible assets: goodwill, mortgage servicing rights (MSRs), core deposits and non-compete covenants. Goodwill, core deposits and non-compete covenants arose as the result of business combinations or other acquisitions. MSRs arose as a result of selling mortgage loans in the secondary market but retaining the right to service these loans and receive servicing income over the life of the loan. Amortization is recorded on the MSRs, core deposits and non-compete covenants. Goodwill is not amortized but is evaluated at least annually for impairment. No impairment was indicated in the annual impairment review for 2006.

The Corporation recognized $6.8 million of goodwill, including purchase accounting adjustments of $2.5 million, and $2.7 million of core deposit intangible assets, in conjunction with the acquisition of two branch offices during the third quarter of 2006. The core deposit intangible assets are being amortized on an accelerated basis over ten years. This branch transaction qualified as a business combination in accordance with SFAS No. 141, "Business Combinations."

The changes in the carrying amount of goodwill for the six months ended June 30, 2007 and 2006 are as follows:

	Six Months Ended June 30,	
	2007	2006
	(In thousands)	
Balance as of January 1	**$70,129**	$63,293
Adjustment due to the adoption of FIN 48	**(221)**	-
Balance as of June 30	**$69,908**	$63,293

The following table shows the net carrying value of the Corporation's other intangible assets:

	June 30, 2007	December 31, 2006	June 30, 2006
		(In thousands)	
Core deposits/non-compete covenants	**$5,455**	$6,379	$4,743
Mortgage servicing rights	**2,302**	2,398	2,193
Total other intangible assets	**$7,757**	$8,777	$6,936

There was no impairment valuation allowance recorded on MSRs as of June 30, 2007, December 31, 2006 or June 30, 2006. The Corporation was servicing $555.3 million, $551.8 million and $524.6 million of real estate residential loans as of June 30, 2007, December 31, 2006 and June 30, 2006, respectively.

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Notes to Consolidated Financial Statements (Unaudited)
June 30, 2007

Note C: Intangible Assets (continued)

The following table sets forth the carrying amount and accumulated amortization of core deposits and non-compete covenants that are amortizable and arose from business acquisitions:

	June 30, 2007			December 31, 2006			June 30, 2006		
	Original Amount	**Accumulated Amortization**	**Carrying Amount**	Original Amount	Accumulated Amortization	Carrying Amount	Original Amount	Accumulated Amortization	Carrying Amount
					(In thousands)				
Core deposits/ non-compete covenants	**$21,956**	**$16,501**	**$5,455**	$21,956	$15,577	$6,379	$19,959	$15,216	$4,743

The following table sets forth the amortization expense of other intangible assets:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	**2007**	2006
		(In thousands)		
Core deposits/ non-compete covenants	**$ 430**	$ 503	**$ 924**	$1,037
Mortgage servicing rights	**235**	180	**475**	364
Total other intangible assets amortization	**$ 665**	$ 683	**$1,399**	$1,401

At June 30, 2007, the remaining amortization expense on other intangible assets that existed as of that date has been estimated through 2012 and thereafter in the following table (in thousands):

2007	**$ 862**
2008	1,542
2009	718
2010	470
2011	406
2012 and thereafter	1,457
Total	$5,455

Note D: Employee Benefit Plans

Share-Based Compensation Plans

The Corporation's Stock Incentive Plan of 1997 (1997 Plan), which was shareholder-approved, permitted the grant of options to purchase shares of common stock to its employees. As of June 30, 2007, there were no shares available for

future grant under the 1997 Plan, by action of the board of directors in December 2006.

Effective January 17, 2006, as approved by the Corporation's shareholders at the 2006 annual meeting of shareholders held April 17, 2006, the Corporation established the Stock Incentive Plan of 2006 (2006 Plan). The 2006 Plan permits the grant and award of stock options, restricted stock and restricted stock units, stock awards, other stock-based and stock-related awards and stock appreciation rights (incentive awards). Subject to certain anti-dilution and other adjustments, the Plan authorized up to 1,000,000 shares of the Corporation's common stock available for issuance as incentive awards. No employee of the Corporation may receive any incentive award under the 2006 Plan while the employee is a member of the Compensation and Pension Committee. The 2006 Plan provides for accelerated vesting if there is a change in control as defined in the 2006 Plan. Option awards can be

Chemical Financial Corporation and Subsidiary
Notes to Consolidated Financial Statements (Unaudited)
June 30, 2007

Note D: Employee Benefit Plans (continued)

granted with an exercise price equal to no less than the market price of the Corporation's stock at the date of grant and the Corporation expects option awards generally to vest from one to five years from the date of grant. Dividends are not paid on unexercised options. Key employees of the Corporation and its subsidiaries, as the Compensation and Pension Committee of the board of directors may select from time to time, are eligible to receive awards under the 2006 Plan. At June 30, 2007 there were 998,637 shares available for future issuance under the 2006 Plan.

The Corporation did not grant share-based compensation awards during the six-month periods ended June 30, 2007 and June 30, 2006.

The Corporation maintains share-based employee compensation plans, under which it periodically has granted stock options for a fixed number of shares with an exercise price equal to the market value of the shares on the date of grant. Prior to January 1, 2006, the Corporation accounted for these options under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (Opinion 25), and related interpretations, as permitted by SFAS 123. No share-based employee compensation expense was recognized in the consolidated statement of income for years prior to 2006, as all options granted had an exercise price equal to the market value of the underlying common stock on the date of grant. Effective January 1, 2006, the Corporation adopted SFAS 123(R) using the modified-prospective transition method. Under that transition method, compensation expense recognized in the first six months of 2007 and 2006 includes compensation expense for all share-based awards (stock options) granted prior to, but not yet vested, as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123.

The fair value of share-based awards is recognized as compensation expense on a straight-line basis over the requisite service period for awards granted after the adoption of SFAS 123(R). The requisite service period is the shorter of the vesting period or the period to normal retirement eligibility. Forfeitures have been insignificant historically, and are expected to continue to be insignificant.

As a result of adopting SFAS 123(R) on January 1, 2006, the Corporation recognized compensation expense related to stock options of two thousand dollars and four thousand dollars for the three and six months ended June 30, 2007, compared to three thousand dollars and six thousand dollars for the three and six months ended June 30, 2006. Basic and diluted earnings per share for the three and six month periods ended June 30, 2007 and June 30, 2006 did not change as a result of the Corporation adopting SFAS 123(R). The Corporation reported basic and diluted earnings per share of $0.39 and $0.75 for the three and six months ended June 30, 2007, and $0.49 and $0.96 for the three and six months ended June 30, 2006.

SFAS 123(R) requires the cash flows realized from the tax benefits of exercised stock option awards that result from actual tax deductions in excess of the recorded tax benefits related to the compensation expense recognized for those options (excess tax benefits) to be classified as financing cash flows. The tax benefits classified as financing cash flows of nine thousand dollars in the first six months of 2007 and fifty-seven thousand dollars in the first six months of 2006 would have been classified as operating cash flows prior to the adoption of SFAS 123(R).

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Chemical Financial Corporation and Subsidiary
Notes to Consolidated Financial Statements (Unaudited)
June 30, 2007

Note D: Employee Benefit Plans (continued)

A summary of stock option activity during the six months ended June 30, 2007 is presented below:

	Number of Options	Weighted-Average Exercise Price Per Share
Outstanding at January 1, 2007	**641,494**	**$33.15**
Granted	**-**	**-**
Exercised	**(6,573)**	**$27.15**
Forfeited or expired	**(7,727)**	**$35.99**
Outstanding at June 30, 2007	**627,194**	**$33.17**
Exercisable/vested at June 30, 2007	**621,957**	**$33.22**

As of June 30, 2007, there was approximately three thousand dollars of total unrecognized pre-tax compensation expense related to nonvested share-based compensation awards outstanding. This expense will be recognized during 2007.

Pension and Other Postretirement Benefits

The components of net periodic benefit cost for the Corporation's qualified and nonqualified pension plans and nonqualified postretirement benefits plan are as follows:

	Defined Benefit Pension Plans		Postretirement Benefits Plan	
	Six Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	**2007**	2006
	(In thousands)			
Service cost	**$ 939**	$ 2,347	**$ -**	$ -
Interest cost	**2,242**	2,340	**131**	135
Expected return on plan assets	**(2,810)**	(3,109)	**-**	-
Amortization of prior service benefit	**(3)**	(10)	**(162)**	(162)
Amortization of unrecognized net (gain) loss	**(1)**	325	**14**	28
Curtailment gain	**-**	(15)	**-**	-
Net periodic benefit cost	**$ 367**	$ 1,878	**$ (17)**	$ 1

During the second quarter of 2007, the Corporation offered a special benefit to certain employees covered under the Corporation's noncontributory defined benefit pension plan in connection with their voluntary termination of employment (special termination benefits) as part of the retail banking reorganization. The special termination benefit offer expires on December 31, 2007. The special termination benefit was offered as a lump-sum payment to be made upon termination or a series of future periodic payments in addition to the employee's regular plan benefits. Management believes that the majority of the special termination benefits will be paid as lump-sum payments prior to December 31, 2007, totaling $0.32 million. The $0.32 million was recognized as employee benefit expense in the second quarter of 2007, although it is not included in net periodic benefit cost in the above table.

401(k) Savings Plan (401(k) Plan) expense was $0.95 million and $0.28 million for the six months ended June 30, 2007 and 2006, respectively.

For further information on the Corporation's pension and other postretirement benefits, refer to Note L to the consolidated financial statements included in the Corporation's 2006 Annual Report on Form 10-K.

Chemical Financial Corporation and Subsidiary
Notes to Consolidated Financial Statements (Unaudited)
June 30, 2007

Note E: Financial Guarantees

In the normal course of business, the Corporation is a party to financial instruments containing credit risk that are not required to be reflected in the consolidated statements of financial position. For the Corporation, these financial instruments are financial and performance standby letters of credit. The Corporation has risk management policies to identify, monitor and limit exposure to credit risk. To mitigate credit risk for these financial guarantees, the Corporation generally determines the need for specific covenant, guarantee and collateral requirements on a case-by-case basis, depending on the nature of the financial instrument and the customer's creditworthiness. At June 30, 2007 and 2006, the Corporation had $45.3 million and $44.9 million, respectively, of outstanding financial and performance standby letters of credit which expire in five years or less. The majority of these standby letters of credit are collateralized. The amount of a potential liability arising from these standby letters of credit is considered immaterial to the financial statements as a whole.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is management's discussion and analysis of certain significant factors that have affected the Corporation's financial condition and results of operations during the periods included in the consolidated financial statements included in this filing.

Critical Accounting Policies

The Corporation's consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP) and follow general practices within the industry in which the Corporation operates. Application of these principles requires management to make estimates, assumptions, and complex judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions and judgments are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates, assumptions and judgments. Actual results could differ significantly from those estimates. Certain policies inherently have a greater reliance on the use of estimates, assumptions and judgments and, as such, have a greater possibility of producing results that could be materially different than originally reported. Management has identified the determination of the allowance for loan losses, pension and other postretirement plan accounting, income and other taxes, capitalization and valuation of mortgage servicing rights and the evaluation of goodwill impairment to be the accounting areas that require the most subjective or complex judgments, and as such, could be most subject to revision as new or additional information becomes available or circumstances change, including overall changes in the economic climate and/or market interest rates. The Corporation believes that these estimates and the related policies are important to the portrayal of the Corporation's financial condition and results of operations. Therefore, management considers them to be critical accounting policies and discusses them directly with the Audit Committee of the board of directors. The Corporation's significant accounting policies are more fully described in Note A to the audited consolidated financial statements contained in the Corporation's 2006 Annual Report on Form 10-K and the more significant assumptions and estimates made by management are more fully described in "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies" in the Corporation's 2006 Annual Report on Form 10-K. There have been no material changes to those policies or the estimates made pursuant to those policies during the most recent quarter.

Summary

The Corporation's net income was $9.5 million in the second quarter of 2007, down 22.2% from net income of $12.2 million in the second quarter of 2006. Diluted earnings per share were $0.39 in the second quarter of 2007, down 20.4% from diluted earnings per share of $0.49 in the second quarter of 2006. The decreases in net income and earnings per share were primarily the result of a decrease in net interest income and increases in the provision for loan losses and operating expenses.

Return on average assets in the second quarter of 2007 was 1.00%, compared to 1.32% in the second quarter of 2006 on an annualized basis. Return on average equity in the second quarter of 2007 was 7.5%, compared to 9.7% in the second quarter of 2006 on an annualized basis.

Total assets were $3.78 billion as of June 30, 2007, up $53.5 million, or 1.4%, from June 30, 2006, and essentially the same as total assets of $3.79 billion at December 31, 2006. The increase in total assets from June 30, 2006 to June 30, 2007 was attributable to the acquisition of two branch banking offices in August 2006.

Total loans increased $39.0 million, or 1.4%, from June 30, 2006 to $2.80 billion as of June 30, 2007, although decreased $11.3 million, or 0.4%, from December 31, 2006. The increase in total loans from June 30, 2006 was attributable to the net addition of $50 million in loans that were acquired in conjunction with the acquisition of two

branch banking offices in 2006.

In August 2006, the Corporation acquired two branch banking offices in Hastings and Gun Lake, Michigan from First Financial Bank, N.A., headquartered in Hamilton, Ohio, operating as Sand Ridge Bank. As a result of this transaction, the Corporation acquired deposits of $47 million, portfolio loans of $50 million, long-term fixed interest rate real estate residential loans of $14 million (which were sold during December 2006), and other miscellaneous assets, including goodwill of $6.8 million and core deposit intangible assets of $2.7 million.

At June 30, 2007, shareholders' equity was 13.4% of total assets and $20.79 per outstanding share. Shareholders' equity of $506.5 million as of June 30, 2007 decreased $1.4 million, or 0.3%, from December 31, 2006. The decrease in shareholders' equity during the six months ended June 30, 2007 was primarily attributable to retained net income that was offset by the repurchase of $12.8 million, or 472,800 shares, of the Corporation's common stock.

Balance Sheet Changes

Total Assets

Total assets were $3.78 billion as of June 30, 2007, relatively the same as December 31, 2006 and an increase of $53.5 million, or 1.4%, from total assets of $3.73 billion as of June 30, 2006. The increase in total assets from June 30, 2006 was attributable to the acquisition of two branch banking offices in August 2006.

Interest-earning assets were $3.54 billion at June 30, 2007, an increase of $31.4 million, and 0.9%, from December 31, 2006. The increase in interest-earning assets between December 31, 2006 and June 30, 2007 was attributable to overall deposit growth that was invested in federal funds sold.

Total Deposits

Total deposits were $2.94 billion as of June 30, 2007, an increase of $37.8 million, or 1.3%, from total deposits of $2.90 billion as of December 31, 2006, and an increase of $144.5 million, or 5.2%, from total deposits of $2.79 billion as of June 30, 2006. The increase in total deposits during the first six months of 2007 was attributable to higher money market and time deposit account balances. The increase in total deposits during the twelve months ended June 30, 2007 was partially attributable to the acquisition of two branch banking offices in August 2006, which added $47 million of deposits at the transaction date.

During the twelve months ended June 30, 2007, the Corporation experienced an unfavorable change in the mix of deposits as customers transferred deposit balances in lower yielding transaction accounts to higher yielding money market savings and time deposit accounts. In addition, deposit declines in lower yielding type consumer deposit accounts were replaced with increases in higher interest rate business and municipal deposit accounts. The combination of the rising interest rate environment throughout 2006 and the change in the mix of the deposit portfolio resulted in the average cost of the deposit portfolio increasing to 3.49% in the second quarter of 2007 from 2.87% in the second quarter of 2006.

Loans and Asset Quality

The Corporation's philosophy is such that it will not compromise on loan quality and generally does not make loans outside its banking markets to grow its loan portfolio. In addition, the Corporation generally does not participate in syndicated loans, which is a method utilized by some financial institutions to increase the size of their loan portfolios. The Corporation's loan portfolio consists, almost exclusively, of loans originated within the state of Michigan, although the loan portfolio is generally diversified geographically within the state of Michigan, as well as along industry lines, and is generally well collateralized.

Total loans at June 30, 2007 were $2.80 billion, down $11.3 million, or 0.4%, compared to total loans of $2.81 billion at December 31, 2006, and up $39.0 million, or 1.4%, from total loans at June 30, 2006. The decline in loans from year-end was attributable to a reduction in customer demand that is believed by management to be due to the less than favorable economic climate within Michigan. The result of the weakness of the economy within Michigan has adversely impacted both new capital investments by businesses within the Corporation's markets and new

residential housing construction. The increase in total loans from June 30, 2006 was attributable to the addition of $50 million in net loans from the acquisition of two branch banking offices in August 2006.

Commercial loans decreased $23.1 million, or 4.2%, from December 31, 2006 to $522.5 million as of June 30, 2007. Commercial loans represented 18.7% of the Corporation's loan portfolio as of June 30, 2007 and 19.4% as of December 31, 2006.

Real estate commercial loans increased $9.0 million, or 1.2%, from December 31, 2006 to $735.5 million as of June 30, 2007. Real estate commercial loans represented 26.3% of the Corporation's loan portfolio as of June 30, 2007 and 25.9% as of December 31, 2006.

Commercial lending and real estate commercial lending are generally considered to involve a higher degree of risk than one- to four-family residential lending. Such lending typically involves large loan balances concentrated in a single borrower for rental or business properties or for the operation of a business. The payment experience on loans secured by income-producing properties is typically dependent on the success of the operation of the related project and thus is typically affected by adverse conditions in the real estate market and in the economy. The Corporation generally attempts to mitigate the risks associated with commercial lending by, among other things, lending primarily in its market areas and using conservative loan-to-value ratios in the underwriting process. In addition, loan to value ratios are susceptible to unfavorable changes when collateral values decline as a result of decreases in general economic conditions.

Real estate construction loans decreased $13.0 million, or 8.9%, from December 31, 2006 to $132.9 million as of June 30, 2007. Real estate construction loans represented 4.8% and 5.2% of the Corporation's loan portfolio as of June 30, 2007 and December 31, 2006, respectively. Construction lending is generally considered to involve a higher degree of risk than one- to four-family residential lending because of the uncertainties of construction, including the possibility of costs exceeding the initial estimates and the need to obtain a tenant or purchaser of the property if it will not be owner-occupied. The Corporation generally attempts to mitigate the risks associated with construction lending by, among other things, lending primarily in its market areas, using conservative underwriting guidelines and monitoring the construction process.

Real estate residential loans increased $10.2 million, or 1.2%, from December 31, 2006 to $845.4 million as of June 30, 2007. Residential real estate loans represented 30.2% of the Corporation's loan portfolio as of June 30, 2007 and 29.8% as of December 31, 2006. The Corporation's real estate residential loans primarily consist of one- to four-family residential loans with original terms of fifteen years or less. The loan-to-value ratio at time of origination is generally 80% or less. Loans originated with more than an 80% loan-to-value ratio generally require private mortgage insurance or are sold in the secondary market. During the first six months of 2007, the Corporation kept the majority of fixed rate real estate residential loans originated with fixed interest rate terms of up to ten years in its own loan portfolio, rather than selling them in the secondary mortgage market. The Corporation continued to sell the majority of fixed rate residential loans with terms fifteen years and greater in the secondary mortgage market.

Consumer loans increased $5.6 million, or 1.0%, from December 31, 2006 to $560.0 million as of June 30, 2007. Consumer loans represented 20.0% of the Corporation's loan portfolio as of June 30, 2007 and 19.7% as of December 31, 2006.

Consumer loans generally have shorter terms than mortgage loans but generally involve more credit risk than one- to four-family residential lending because of the type and nature of the collateral. Collateral values, particularly those of automobiles, are negatively impacted by many factors, such as new car promotions, vehicle condition and economic conditions. Consumer lending collections are dependent on the borrower's continuing financial stability, and thus are more likely to be negatively affected by adverse personal situations. Weaker economic conditions in Michigan have resulted in higher consumer delinquencies and bankruptcies that have consequently increased the risk profile of

consumer loans and also resulted in higher losses on the disposition of collateral.

Loans held for sale at June 30, 2007 were $6.6 million, an increase of $0.89 million, or 15.8%, compared with December 31, 2006.

Nonperforming Assets. Nonperforming assets consist of loans for which the accrual of interest has been discontinued, loans which are past due as to principal or interest by ninety days or more and are still accruing interest and assets obtained through foreclosures and repossessions. Nonperforming assets were $57.0 million as of June 30, 2007, compared to $44.4 million as of March 31, 2007 and $35.8 million as of December 31, 2006, and represented 1.5%, 1.2% and 0.9% of total assets, respectively. It is management's opinion that the increase in nonperforming assets is, in part, attributable to the recessionary type economic climate within Michigan. As detailed below, the increase in the Corporation's nonperforming assets is not concentrated in any one industry or any one geographical area within Michigan. The Corporation's lending market areas do not include the southeastern portion of Michigan and at June 30, 2007, the Corporation did not have any nonperforming assets in that portion of the state. In addition, the sizes of the loan transactions are generally relatively small in nature, which further decreases the risk of loss due to the lack of loan concentration. While it has been well publicized nationwide over the last three months that appraisal values of residential real estate have declined, the Corporation has also experienced some modest declines in commercial real estate appraisals due to the weakness in the economy in Michigan. It is management's assessment that as of June 30, 2007, for both commercial and residential real estate loans, that the discounted loan to value ratios within the Corporation's lending market areas are generally still within an acceptable underwriting range. Based on the declines in both commercial and residential real estate values, management continues to discount appraised values to compute estimated fair market values of real estate.

Nonperforming Assets

	June 30, 2007	March 31, 2007	December 31, 2006
		(in thousands)	
Nonaccrual loans	**$36,119**	$28,748	$20,239
Accruing loans contractually past due ninety days or more as to interest or principal payments	**11,704**	6,441	6,671
Total Nonperforming Loans	**47,823**	35,189	26,910
Repossessed assets	**9,177**	9,250	8,852
Total Nonperforming Assets	**$57,000**	$44,439	$35,762

Nonperforming loans were $47.8 million at June 30, 2007, compared to $35.2 million at March 31, 2007 and $26.9 million at December 31, 2006. The Corporation transfers a loan that is ninety days or more past due to nonaccrual status, unless it believes the loan is both well secured and in the process of collection. Accordingly, the Corporation has determined that the collection of accrued and unpaid interest on any loan that is ninety days or more past due and still accruing interest is probable. The increases in nonperforming loans from both March 31, 2007 and December 31, 2006 to June 30, 2007 occurred primarily in the real estate commercial and real estate construction-commercial loan categories.

At June 30, 2007, the composition of nonperforming loans was 15.4% commercial loans, 62.9% real estate commercial and real estate construction-commercial loans, 15.3% real estate residential loans and 6.4% consumer loans.

Nonperforming commercial loans were $7.4 million at June 30, 2007, compared to $6.9 million at March 31, 2007 and $5.9 million at December 31, 2006. At June 30, 2007, the Corporation had one nonperforming commercial loan over $1 million, with the customer's commercial loan relationship totaling $2.3 million. The customer is a manufacturer of auto parts. In addition, the Corporation had a $1.0 million nonperforming real estate commercial loan

with this customer at June 30, 2007. This loan relationship became nonperforming in the second quarter of 2007. The customer is liquidating the business to satisfy the indebtedness. At June 30, 2007, the Corporation assessed the fair market value of the underlying collateral of this borrower's loan relationship and it was in excess of the principal balance of the loans.

Nonperforming real estate commercial and real estate construction-commercial loans were $30.1 million at June 30, 2007, compared to $20.2 million at March 31, 2007 and $14.6 million at December 31, 2006. The $9.9 million increase in nonperforming real estate commercial and real estate construction-commercial loans during the second quarter of 2007 represented 79% of the total increase in nonperforming loans during the quarter. The increase in nonperforming real estate commercial and real estate construction-commercial loans during the second quarter of 2007 was primarily attributable to the addition of eight customer loan relationships with borrowings between $0.5

million and $2.2 million and totaling $9.5 million. At June 30, 2007, the Corporation established an impairment reserve (specific allocation of the allowance for loan losses) in the amount of $0.15 million on one of these seven borrowings. This loan is secured by a residential real estate development project and is discussed in more detail later in this document. At June 30, 2007, the underlying collateral of the other six customer loan relationships were determined to have a fair market value in excess of the principal balance of the loans.

The nonperforming commercial real estate-based loans at June 30, 2007 of $30.1 million were comprised of $17.5 million of loans secured by commercial real estate properties, $6.5 million of loans secured by residential real estate development properties, $5.8 million of loans secured by vacant land and land development properties and $0.3 million of loans secured by residential real estate. At June 30, 2007, $8.0 million of the nonperforming commercial real estate-based loans were in various stages of foreclosure with four borrowers. The economy in Michigan has adversely impacted housing demand throughout Michigan and, accordingly, the Corporation has experienced an increase in the number of its residential real estate and land development borrowers with cash flow difficulties associated with a significant decline in sales of residential real estate.

The Corporation's $17.5 million of nonperforming commercial real estate-based loans secured by commercial properties at June 30, 2007 were comprised of fifty borrowers with loan relationships from $30,000 to $2.3 million, with five borrowers having loan relationships exceeding $1 million. A description of these five loan relationships follows. Two loans in the amounts of $1.3 million and $1.1 million are secured by the same non-owner occupied real estate, with foreclosure proceedings commenced. A loan in the amount of $1.7 million is secured by a hotel and foreclosure proceedings have also begun on this loan. A loan in the amount of $1.7 million is secured by a restaurant. This loan was partially charged off in 2006 in the amount of $1.1 million. The customer's reorganizational bankruptcy plan has been approved and scheduled payments on the reduced loan balance are expected to begin in the third quarter of 2007. The next two loans described below became nonperforming during the second quarter of 2007. A loan in the amount of $1.9 million is secured by an automobile dealership and is also secured with a seventy-five percent guarantee by a federal governmental agency. A loan in the amount of $1.7 million is secured by a hotel. The Corporation determined that the underlying collateral of these six loans exceeded the principal balance of these loans at June 30, 2007.

The Corporation's $6.5 million of nonperforming commercial real estate-based loans secured by residential real estate development projects at June 30, 2007 were comprised of twelve borrowers with loan relationships between $0.2 million and $1.5 million, with two borrowers having loan relationships exceeding $1 million. One borrower has loans with a principal balance totaling $1.5 million that are secured by two residential condominium projects with eleven total units, with construction complete on three of the units and offered for sale by the borrower, and also secured by vacant land within one of the projects. This loan was partially charged-off in the amount of $0.4 million in 2006. Foreclosure proceedings have commenced. The second borrower has a loan balance of $1.2 million that is secured by the fifth phase of an eight unit condominium project, with construction complete on two units, four units partially complete and two vacant lots. This loan became nonperforming in the second quarter of 2007. The fifth phase is part of a 100-unit condominium project, with the first four phases completely sold. The Corporation established a $0.15 million impairment reserve (specific allocation of the allowance for loan losses) on this loan in the second quarter of 2007.

The Corporation's $5.8 million of nonperforming commercial real estate-based loans secured by vacant land and land development loans at June 30, 2007 were comprised primarily of two customer loan relationships with loans totaling $5.0 million, secured by multiple parcels of vacant land, zoned both commercial and residential, and seventy-one residential lots. The Corporation determined that the fair value of the underlying collateral exceeded the principal balance of both of these loan relationships at June 30, 2007. One of these borrowers with loans totaling $2.2 million became nonperforming during the second quarter of 2007. Foreclosure proceedings have begun with the other borrower with total loans of $2.8 million at June 30, 2007.

Nonperforming residential real estate loans were $7.3 million at June 30, 2007, an increase of $1.3 million, or 22%, from March 31, 2007 and an increase of $3.3 million, or 81%, from December 31, 2006. Nonperforming residential real estate loans represented 15.3% of nonperforming loans at June 30, 2007, compared to 17.1% at March 31, 2007 and 15.0% at December 31, 2006. The increase in nonperforming residential real estate loans was primarily due to a rise in delinquencies, bankruptcies and foreclosures reflective of weak economic conditions in Michigan.

Nonperforming consumer loans were $3.0 million at June 30, 2007, compared to $2.0 million at March 31, 2007 and $2.4 million at December 31, 2006. The increase in nonperforming consumer loans during the second quarter of 2007 was reflective of the weak economic conditions within Michigan.

Repossessed assets is a component of nonperforming assets and includes primarily real property acquired through foreclosure or by acceptance of a deed in lieu of foreclosure ("other real estate") and also personal property held for sale, mostly vehicles. Repossessed assets totaled $9.18 million at June 30, 2007, compared to $9.25 million at March 31, 2007 and $8.85 million at December 31, 2006. Other real estate, both residential and commercial properties, represented $9.0 million of repossessed assets at both June 30, 2007 and March 31, 2007, compared to $8.54 million of repossessed assets at December 31, 2006. At June 30, 2007, commercial real estate represented $4.9 million, or 54%, of other real estate and residential real estate represented $4.1 million, or 46%, of other real estate. A significant portion (77%) of the commercial component of other real estate at June 30, 2007 was represented by two properties totaling $3.76 million. One of these properties with a book value of $1.27 million was sold on a land contract, although the purchaser's down-payment was not sufficient to account for the transaction as a sale in accordance with generally accepted accounting principles. Payments on the land contract are reducing the book value balance, with scheduled payments current as of June 30, 2007. The second property with a book value of $2.44 million is a high rise mixed use condominium property with eleven residential units and six retail business condominium units offered for sale. The Corporation obtained an updated appraisal of the condominium property during the first quarter of 2007 which included a time to sale of approximately thirty months. In addition, the Corporation held ten other commercial real estate properties for sale at June 30, 2007, totaling $1.13 million, with book values of fifty thousand dollars to $0.35 million. The residential real estate component of other real estate was $4.1 million at June 30, 2007 and was comprised of twenty-nine properties with three properties having an individual book value greater than $0.25 million.

Impaired Loans

A loan is considered impaired when management determines it is probable that all of the principal and interest due will not be collected according to the contractual terms of the loan agreement. In most instances, the impairment is measured based on the fair market value of the underlying collateral. Impairment may also be measured based on the present value of expected future cash flows discounted at the loan's effective interest rate. A portion of the allowance for loan losses may be specifically allocated to impaired loans. The Corporation has determined that all of its nonaccrual commercial, real estate commercial and real estate commercial-construction loans meet the definition of an impaired loan. In addition, the Corporation identified $4.9 million of commercial and real estate commercial loans that were in an accrual status that were also impaired loans at June 30, 2007, with $3.9 million of these loans performing as of that date.

Impaired loans totaled $34.4 million as of June 30, 2007, $26.6 million at March 31, 2007 and $19.8 million as of December 31, 2006. After analyzing the various components of the customer relationships and evaluating the underlying collateral of impaired loans, the Corporation determined that as of June 30, 2007, March 31, 2007 and December 31, 2006, $9.0 million, $6.1 million and $3.8 million, respectively, of the impaired loans required a specific allocation of the allowance for loan losses. The allowance for loan losses allocated to these impaired loans was $1.8 million at June 30, 2007, compared to $1.4 million at March 31, 2007 and $0.9 million at December 31, 2006. The process of measuring impaired loans and the allocation of the allowance for loan losses requires judgment and estimation. The eventual outcome may differ from the estimates used on these loans.

The weakened economy in Michigan has resulted in higher loan delinquencies, customer bankruptcies and real estate foreclosures. Based on current economic conditions in Michigan, management expects real estate foreclosures to remain at higher than historical averages. It is also the management's opinion that the loan portfolio is generally well secured.

While the Corporation's credit quality deteriorated during the second quarter of 2007 as nonperforming loans increased $12.6 million, or 36%, to $47.8 million, the Corporation's impairment reserve on impaired loans increased only $0.4 million to $1.8 million. The Corporation's $47.8 million of nonperforming loans at June 30, 2007 included a total of $22 million of commercial and commercial real estate-based loans that were individually analyzed as of that

date and deemed to have sufficient collateral values so as not to require a specific allocation of the allowance for loan losses to these loans. Net loan losses were $2.0 million during the six months ended June 30, 2007, or 0.14% of average loans (annualized), as compared to net loan losses during the first six months of 2006 of $1.4 million, or 0.10% of average loans (annualized.) Net loan losses were higher in the second quarter of 2007 than in the first quarter of 2007. Net loan losses in the second quarter of 2007 were $1.26 million, or 0.18% of average loans (annualized), compared to net loan losses of $0.7 million, or 0.10% of average loans (annualized), in

the first quarter of 2007. The provision for loan losses was $2.5 million in the second quarter of 2007, compared to $1.625 million in the first quarter of 2007, resulting in the provision for loan losses exceeding net loan losses by $2.16 million during the first six months of 2007. The level of the provision for loan losses each quarter reflects management's assessment of the allowance for loan losses, taking into consideration factors such as net loan losses, levels of nonperforming and watch loans, loan mix, and loan delinquencies, as well as economic conditions and trends.

The allowance for loan losses was $36.3 million at June 30, 2007 and 1.30% of total loans, compared to $35.0 million, or 1.25% of total loans at March 31, 2007 and $34.1 million, or 1.21% of total loans at December 31, 2006.

Liquidity and Debt Capacity

The maintenance of an adequate level of liquidity is necessary to ensure that sufficient funds are available to meet customers' loan demands and deposit withdrawals and to capitalize on opportunities for business expansion. The bank subsidiary's primary liquidity sources consist of federal funds sold, interest-bearing deposits with unaffiliated banks, investment securities classified as available for sale and investment securities classified as held to maturity maturing within one year. These sources are supplemented by new deposits, loan payments by customers and additional Federal Home Loan Bank (FHLB) borrowings.

The Corporation's total loan to deposit ratio as of June 30, 2007 and December 31, 2006 was 95.2% and 96.9%, respectively.

FHLB advances - short-term are borrowings from the FHLB that have original maturities of one year or less. There were no FHLB advances - short-term as of June 30, 2007, compared to $30.0 million as of December 31, 2006. FHLB advances - long-term are borrowings from the FHLB that have original maturities of greater than one year. FHLB advances - long-term totaled $135.0 million as of June 30, 2007 compared to $145.1 as of December 31, 2006. At June 30, 2007, the Corporation's additional borrowing availability through the FHLB, based on the amount of FHLB stock owned by the Corporation, and subject to the FHLB's credit requirements and policies, was $189 million. FHLB advances, both short-term and long-term combined, are collateralized by a blanket lien on qualified one- to four-family residential mortgage loans with an aggregate book value equal to at least 145% of the advances. At June 30, 2007, the carrying value of these type loans was $798 million.

The scheduled principal maturities on FHLB advances - long-term outstanding at June 30, 2007 were as follows (in thousands):

2007	**$**	**-**
2008		75,024
2009		20,025
2010		40,000
Total	$	135,049

The Corporation has various commitments that may impact liquidity. The following table summarizes the Corporation's commitments and expected expiration dates by period at June 30, 2007.

	June 30, 2007				
	Less than 1 year	1-3 years	3-5 years	More than 5 years	Total

	(In thousands)				
Unused commitments to extend credit	**$254,548**	**$70,278**	**$34,381**	**$40,579**	**$399,786**
Undisbursed loans	**113,419**	**-**	**-**	**-**	**113,419**
Standby letters of credit	**32,819**	**7,363**	**5,080**	**10**	**45,272**
Total commitments	**$400,786**	**$77,641**	**$39,461**	**$40,589**	**$558,477**

Since the majority of these commitments historically have expired without being drawn upon, the total amount of these commitments does not necessarily represent future cash requirements of the Corporation.

Capital Resources

As of June 30, 2007, shareholders' equity was $506.47 million, compared to $507.90 million as of December 31, 2006, resulting in a decrease of $1.4 million, or 0.3%, during the first six months of 2007. The decrease in shareholders' equity was attributable to the repurchase of 472,800 shares of stock during this time period at a total cost of $12.8 million. Shareholders' equity as a percentage of total assets was 13.4% as of June 30, 2007 and 13.4% as of December 31, 2006.

The following table represents the Corporation's and Chemical Bank's regulatory capital ratios as of June 30, 2007:

	Leverage	Tier 1 Risk-Based Capital	Total Risk-Based Capital
Chemical Financial Corporation - actual ratio	**11.8%**	**16.3%**	**17.5%**
Regulatory minimum ratio	4.0	4.0	8.0
Ratio considered "well capitalized" by regulatory agencies	5.0	6.0	10.0
Chemical Bank - actual ratio	**11.5%**	**15.9%**	**17.1%**
Regulatory minimum ratio	4.0	4.0	8.0
Ratio considered "well capitalized" by regulatory agencies	5.0	6.0	10.0

The Corporation's Tier 1 and Total capital ratios under the risk-based capital measure at June 30, 2007 exceed the regulatory agencies ratios to be considered "well capitalized" partially due to the Corporation holding $735 million in assets, primarily investment securities, which are assigned a 20% risk rating and $1 billion in residential real estate loans and other assets which are assigned a 50% risk rating. These two risk ratings (20% and 50%) represented 44% of the Corporation's total risk-based assets (including off-balance sheet items) at June 30, 2007. Chemical Bank's Tier 1 and Total capital ratios are similar to the Corporation's at June 30, 2007, as the bank's level of assets and their allocation among the various risk weights are similar to the Corporation's.

Results of Operations

Net Interest Income

Interest income is the total amount earned on funds invested in loans, investment and other securities, interest-bearing deposits with unaffiliated banks and federal funds sold. Interest expense is the amount of interest paid on interest-bearing checking and savings accounts, time deposits, short-term borrowings and Federal Home Loan Bank (FHLB) advances. Net interest income, on a fully taxable equivalent (FTE) basis, is the difference between interest income and interest expense adjusted for the tax benefit received on tax-exempt commercial loans and investment securities. Net interest margin is calculated by dividing net interest income (FTE) by average interest-earning assets, annualized as applicable.

The presentation of net interest income on a FTE basis is not in accordance with GAAP, but is customary in the banking industry. This non-GAAP measure ensures comparability of net interest income arising from both taxable and tax-exempt loans and investment securities. The adjustments to determine net interest income (FTE) were $0.56 million and $0.43 million for the second quarters of 2007 and 2006, respectively. These adjustments were computed using a 35% federal income tax rate.

Net interest income is the most important source of the Corporation's earnings and thus is critical in evaluating the results of operations. Changes in the Corporation's net interest income are influenced by a variety of factors, including changes in the levels of interest-earning assets and interest-bearing liabilities, changes in the mix of interest-earning assets and interest-bearing liabilities, the income or yield earned on interest-earning assets, the expense or interest rate paid on interest-bearing liabilities, the manner by which such interest-earning assets are

funded (and the related cost of funding) and variations in interest sensitivity between interest-earning assets and interest-bearing liabilities. Certain macro-economic factors also influence net interest income, such as the level and direction of interest rates, the difference between short-term and long-term interest rates (the slope of the yield curve) and the general strength of the economies in the Corporation's markets. Risk management plays an important role in the Corporation's level of net interest income.

The Corporation's net interest income (FTE) in the second quarter of 2007 was $33.0 million, a $0.67 million, or a 2.0%, decrease from net interest income (FTE) of $33.7 million recorded in the second quarter of 2006. The decrease in net interest income (FTE) was primarily attributable to a combination of the adverse impact of the increase in short-term interest rates during 2006 and the flat and sometimes inverted interest yield curve during the twelve months ended June 30, 2007 on interest expense on deposits and short-term borrowings, and changes in the mix of interest-bearing liabilities from lower-cost transaction and savings deposits to higher-cost money market savings, time and municipal customer deposits. These unfavorable items were partially offset by an increase in the yield on interest-earning assets and a positive change in the mix of interest-earning assets, with average loans up $65.5 million, or 2.4%, in the second quarter of 2007, as compared to the second quarter of 2006.

Net interest margin was 3.70% on a tax equivalent basis in the second quarter of 2007, compared to 3.88% in the second quarter of 2006. The decrease in net interest margin during the second quarter of 2007, compared to the same time period in 2006, was primarily attributable to the increase in the average yield on interest-earning assets not keeping pace with the increase in the average cost of interest-bearing liabilities. The average yield on interest-earning assets increased 28 basis points to 6.48% on a tax equivalent basis in the second quarter of 2007, compared to the second quarter of 2006. The average cost of interest-bearing liabilities increased 57 basis points to 3.63% on a tax equivalent basis in the second quarter of 2007, compared to the second quarter of 2006. The increase in the cost of interest-bearing liabilities was largely attributable to the migration of customer funds from lower-yielding transaction and savings deposit products into higher yielding money market savings and time deposits, as well as due to the overall increase in market interest rates during 2006. The yield on the Corporation's loan portfolio has increased only moderately during a period of significantly rising interest rates due to the loan portfolio being comprised predominately of fixed interest rate loans or loans with interest rates fixed for at least five years and an increase in nonaccrual loans. In addition, the competition for loan volume remained high in the Corporation's local markets, resulting in heightened pricing competition for new loan originations.

The Corporation's competitive position within many of its market areas limits its ability to materially increase core deposits without adversely impacting the weighted average cost of the deposit portfolio. Competition for core deposits remains strong throughout the Corporation's markets and is expected to result in continued increases in the average cost of deposits. The Corporation's ability to increase net interest income during the remainder of 2007 and into 2008 will be dependent on a number of factors, including but not limited to, the direction and magnitude of market interest rates, the slope of the interest yield curve, the state of the economic climate in the markets that the Corporation serves, the Corporation's ability to sell more loan, deposit and other products to existing customers, the degree of competition from other financial institutions for both loan customers and deposit accounts and the Corporation's ability to attract new customers from competitor financial institutions for both loans and deposits.

Average Balances, Tax Equivalent Interest, and Effective Yields and Rates*

	Three Months Ended June 30,					
	2007			2006		
	Average Balance	**Tax Equivalent Interest**	**Effective Yield/ Rate**	Average Balance	Tax Equivalent Interest	Effective Yield/ Rate
	(Dollars in thousands)					
Assets						
Interest-earning Assets:						
Loans	**$2,796,902**	**$48,385**	**6.93%**	$2,731,421	$45,613	6.70%
Taxable investment securities	**557,543**	**6,233**	**4.47**	602,864	6,176	4.11
Tax-exempt investment securities	**61,077**	**982**	**6.43**	56,331	906	6.43
Other securities	**22,132**	**357**	**6.47**	25,683	348	5.43
Federal funds sold	**123,518**	**1,617**	**5.25**	51,440	621	4.84
Interest-bearing deposits with unaffiliated banks	**5,345**	**75**	**5.63**	13,033	161	4.95
Total interest-earning assets	**3,566,517**	**57,649**	**6.48**	3,480,772	53,825	6.20
Less: Allowance for loan losses	**35,399**			34,517		
Other Assets:						
Cash and cash due from banks	**89,482**			98,115		
Premises and equipment	**49,444**			44,822		
Interest receivable and other assets	**127,705**			126,877		
Total Assets	**$3,797,749**			$3,716,069		
Liabilities and Shareholders' Equity						
Interest-bearing Liabilities:						
Interest-bearing demand deposits	**$ 507,810**	**$ 3,218**	**2.54%**	$ 532,711	$ 3,059	2.30%
Savings deposits	**742,613**	**4,547**	**2.46**	721,961	2,977	1.65
Time deposits	**1,151,811**	**13,152**	**4.58**	1,051,490	10,460	3.99
Securities sold under agreements to repurchase	**170,527**	**1,692**	**3.98**	138,410	1,205	3.49
Reverse repurchase agreements - short-term	**-**	**-**	**-**	6,593	62	3.77
Federal Home Loan Bank advances - short-term	**13,187**	**174**	**5.29**	48,243	602	5.01
Federal Home Loan Bank advances - long-term	**143,137**	**1,883**	**5.28**	146,093	1,809	4.97
Total interest-bearing liabilities	**2,729,085**	**24,666**	**3.63**	2,645,501	20,174	3.06
Noninterest-bearing deposits	**529,743**			534,179		
Total deposits and borrowed funds	**3,258,828**			3,179,680		
Interest payable and other liabilities	**28,019**			28,501		
Shareholders' equity	**510,902**			507,888		

Total Liabilities and Shareholders' Equity	**$3,797,749**	$3,716,069
Net Interest Spread (FTE)	**2.85%**	3.14%
Net Interest Income (FTE)	**$32,983**	$33,651
Net Interest Margin (FTE)	**3.70%**	3.88%

*Taxable equivalent basis using a federal income tax rate of 35%.

Average Balances, Tax Equivalent Interest, and Effective Yields and Rates*

	Six Months Ended June 30,					
	2007			2006		
	Average Balance	**Tax Equivalent Interest**	**Effective Yield/ Rate**	Average Balance	Tax Equivalent Interest	Effective Yield/ Rate
	(Dollars in thousands)					
Assets						
Interest-earning Assets:						
Loans	**$2,797,752**	**$95,982**	**6.90%**	$2,713,680	$89,463	6.65%
Taxable investment securities	**556,638**	**12,368**	**4.45**	622,506	12,518	4.06
Tax-exempt investment securities	**60,814**	**1,962**	**6.45**	56,712	1,829	6.45
Other securities	**22,131**	**573**	**5.22**	25,683	689	5.41
Federal funds sold	**117,571**	**3,062**	**5.25**	68,950	1,572	4.60
Interest-bearing deposits with unaffiliated banks	**5,322**	**174**	**6.60**	20,567	474	4.65
Total interest-earning assets	**3,560,228**	**114,121**	**6.45**	3,508,098	106,545	6.12
Less: Allowance for loan losses	**34,900**			34,487		
Other Assets:						
Cash and cash due from banks	**90,673**			99,047		
Premises and equipment	**49,527**			44,954		
Interest receivable and other assets	**127,755**			126,053		
Total Assets	**$3,793,283**			$3,743,665		
Liabilities and Shareholders' Equity						
Interest-bearing Liabilities:						
Interest-bearing demand deposits	**$ 528,654**	**$ 6,861**	**2.62%**	$ 554,136	$ 6,080	2.21%
Savings deposits	**728,666**	**8,538**	**2.36**	738,853	5,768	1.57
Time deposits	**1,142,810**	**25,854**	**4.56**	1,032,697	19,722	3.85
Securities sold under agreements to repurchase	**166,575**	**3,306**	**4.00**	137,162	2,264	3.33
Reverse repurchase agreements - short-term	**-**	**-**	**-**	8,287	154	3.75
Federal Home Loan Bank advances - short-term	**17,790**	**468**	**5.30**	41,271	1,019	4.98
Federal Home Loan Bank advances - long-term	**144,099**	**3,790**	**5.30**	164,484	3,853	4.72
Total interest-bearing liabilities	**2,728,594**	**48,817**	**3.61**	2,676,890	38,860	2.93
Noninterest-bearing deposits	**525,690**			530,632		
Total deposits and borrowed funds	**3,254,284**			3,207,522		
Interest payable and other liabilities	**27,891**			27,915		
Shareholders' equity	**511,108**			508,228		

Total Liabilities and Shareholders' Equity	**$3,793,283**	$3,743,665
Net Interest Spread (FTE)	**2.84%**	3.19%
Net Interest Income (FTE)	**$65,304**	$67,685
Net Interest Margin (FTE)	**3.68%**	3.89%

*Taxable equivalent basis using a federal income tax rate of 35%.

Volume and Rate Variance Analysis [1]

	Three Months Ended June 30, 2007 compared to 2006		
	Increase (Decrease) Due to Changes in		
	Average Volume[2]	Average Yield/Rate[2]	Combined Increase/ (Decrease)
	(In thousands)		
Changes in Interest Income:			
Loans	$1,046	$1,726	$2,772
Taxable investment securities	(477)	534	57
Tax-exempt investment securities	76	-	76
Other securities	(52)	61	9
Federal funds sold	940	56	996
Interest-bearing deposits with unaffiliated banks	(106)	20	(86)
Total change in interest income	1,427	2,397	3,824
Changes in Interest Expense:			
Interest-bearing demand deposits	(11)	170	159
Savings deposits	1,335	235	1,570
Time deposits	936	1,756	2,692
Securities sold under agreements to repurchase	304	183	487
Reverse repurchase agreements - short-term	(62)	-	(62)
Federal Home Loan Bank advances - short-term	(461)	33	(428)
Federal Home Loan Bank advances - long-term	(37)	111	74
Total change in interest expense	2,004	2,488	4,492
Total Decrease in Net Interest Income (FTE)	$ (577)	$ (91)	$ (668)

(1) Taxable equivalent basis using a federal income tax rate of 35%.
(2) The change in interest income and interest expense due to both volume and rate has been allocated to the volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each.

Volume and Rate Variance Analysis [1]

	Six Months Ended June 30, 2007 compared to 2006		
	Increase (Decrease) Due to Changes in		
	Average Volume[2]	Average Yield/Rate[2]	Combined Increase/ (Decrease)
		(In thousands)	
Changes in Interest Income:			
Loans	$2,745	$3,774	$6,519
Taxable investment securities	(1,334)	1,184	(150)
Tax-exempt investment securities	132	1	133
Other securities	(93)	(23)	(116)
Federal funds sold	1,241	249	1,490
Interest-bearing deposits with unaffiliated banks	(445)	145	(300)
Total change in interest income	2,246	5,330	7,576
Changes in Interest Expense:			
Interest-bearing demand deposits	39	742	781
Savings deposits	1,891	879	2,770
Time deposits	2,090	4,042	6,132
Securities sold under agreements to repurchase	537	505	1,042
Reverse repurchase agreements - short-term	(154)	-	(154)
Federal Home Loan Bank advances - short-term	(612)	61	(551)
Federal Home Loan Bank advances - long-term	(508)	445	(63)
Total change in interest expense	3,283	6,674	9,957
Total Decrease in Net Interest Income (FTE)	$(1,037)	$(1,344)	$(2,381)

(1) Taxable equivalent basis using a federal income tax rate of 35%.
(2) The change in interest income and interest expense due to both volume and rate has been allocated to the volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each.

Provision and Allowance for Loan Losses

The provision for loan losses (provision) is an increase to the allowance for loan losses (allowance) to provide for probable losses inherent in the loan portfolio. The allowance provides for probable losses that have been identified with specific customer relationships and for probable losses believed to be inherent in the remainder of the loan portfolio but that have not been specifically identified. The allowance is comprised of specific allowances (assessed for loans that have known credit weaknesses), pooled allowances based on assigned risk ratings and historical loan loss experience for each loan type, and an unallocated allowance for imprecision in the subjective nature of the

specific and pooled allowance methodology. Management evaluates the allowance on a quarterly basis to ensure the level is adequate to absorb probable losses inherent in the loan portfolio. This evaluation process is inherently subjective as it requires estimates that may be susceptible to significant change and has the potential to affect net income materially. The Corporation's methodology for measuring the adequacy of the allowance includes several key elements, which includes a review of the loan portfolio, both individually and by category, and includes consideration of changes in the mix and volume of the loan portfolio, actual loan loss experience, the financial condition of the borrowers, industry and geographical exposures within the portfolio, economic conditions and employment levels of the Corporation's local markets and other factors affecting business sectors. Management believes that the allowance for loan losses is currently maintained at the appropriate level, considering the inherent risk in the loan portfolio. Future adjustments to the allowance may be necessary due to changes in economic conditions, delinquencies or the level of loan losses incurred.

The provision for loan losses was $2.5 million in the second quarter of 2007, compared to $1.625 million in the first quarter of 2007 and $0.4 million in the second quarter of 2006. Net loan charge-offs were $1.3 million in the second quarter of 2007, compared to $0.7 million in the first quarter of 2007 and $0.9 million in the second quarter of 2006. Net loan charge-offs (annualized) as a percentage of average total loans were 0.14% during the six months ended June 30, 2007, compared to 0.10% during the same time period in 2006. The increase in the provision for loan losses, in the second quarter of 2007 over both the first quarter of 2007 and the second quarter of 2006, was primarily driven by an increase in net loan charge-offs, an increase in nonperforming loans, an increase in loan delinquencies, an increase in the overall average risk grade of the commercial and real estate-commercial loan portfolios and an increase in the impairment reserve (specific allocation of the allowance) on impaired loans.

The level of the provision for loan losses each quarter reflects management's assessment of the allowance for loan losses. During the second quarter of 2007, the provision for loan losses of $2.5 million exceeded net loan charge-offs by $1.2 million. The moderate excess was reflective of credit deterioration in the second quarter of 2007 that was partially mitigated by management's assessment of having adequate collateral on most problem credits. Nonperforming loans increased $12.6 million, or 36%, in the second quarter of 2007 to $47.8 million, or 1.71%, of total loans at June 30, 2007. The increase in nonperforming loans in the second quarter of 2007 occurred primarily in the real estate commercial and real estate construction-commercial loan categories, with the addition of eight customer loan relationships with borrowings totaling $9.5 million. Each of these customer loan relationships was individually analyzed and it was determined that only one customer loan relationship required an impairment (specific allocation of the allowance) reserve in the amount of $0.15 million. During the second quarter of 2007, the Corporation's total impairment reserve increased $0.4 million to $1.8 million at June 30, 2007, which represented $0.4 million of the excess of the provision for loan losses over net loan charge-offs during the quarter. At June 30, 2007, the Corporation after individually reviewing its impaired loans determined that $22.0 million of nonperforming commercial and commercial real estate-based loans as of that date were deemed to have sufficient collateral values so as not to require a specific allocation of the allowance for loan losses to these loans. However, based on the Corporation's defined methodology of assessing the adequacy of the allowance, including the upward trends over the last three quarters in nonperforming loans, as well as loan delinquencies and average risk of the graded portion of the loan portfolio and the downward trend in the economy in Michigan, management determined an increase in the provision for loan losses was required in the second quarter of 2007.

Economic conditions in the Corporation's markets, all within Michigan, were generally less favorable than those nationwide during the six-month period ended June 30, 2007. Forward-looking indicators suggest these economic conditions will continue for the remainder of 2007.

At June 30, 2007, the allowance was $36.3 million, compared to $35.0 million at March 31, 2007, $34.1 million at December 31, 2006 and $33.6 million at June 30, 2006. The increase in the allowance during the second quarter of 2007 was attributable to the provision for loan losses of $2.5 million exceeding net loan charge-offs of $1.3 million. The allowance as a percentage of total period-end loans was 1.30% at June 30, 2007, compared to 1.25% at March 31, 2007, 1.21% at December 31, 2006 and 1.22% at June 30, 2006.

Noninterest Income

The following includes the major components of noninterest income during the three and six months ended June 30, 2007 and 2006.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	**2007**	2006
	(In thousands)			
Service charges on deposit accounts	**$ 5,236**	$ 5,356	**$10,204**	$10,453
Trust and investment services revenue	**2,087**	2,094	**4,187**	4,099
Other fees for customer services	**714**	743	**1,472**	1,456
ATM and network user fees	**705**	687	**1,478**	1,355
Investment fees	**717**	621	**1,455**	1,172
Insurance commissions	**240**	204	**413**	404
Mortgage banking revenue	**628**	490	**1,070**	913
Investment securities gains	**-**	-	**4**	-
Gains on sales of branch bank properties	**905**	-	**905**	-
Other	**124**	323	**211**	498
Total Noninterest Income	**$11,356**	$10,518	**$21,399**	$20,350

Noninterest income of $11.4 million in the second quarter of 2007 increased $0.8 million, or 8.0%, compared to the second quarter of 2006. The increase was primarily due to $0.9 million in gains realized on the sales of a branch office building and a parcel of excess land contiguous to an existing branch office during the three months ended June 30, 2007. The sale of the branch office building qualified as a sale-leaseback transaction under SFAS No. 13, "Accounting for Leases," as the sale included a provision to allow the Corporation to use one-third of the building for a future period of five years. The value of the lease portion of the sale was determined to be $0.45 million using a fair market value rental rate for similar properties, resulting in a deferred gain on sale being recorded in this amount at the date of sale. The deferred revenue will be amortized over the life of the lease. The Corporation experienced increases in mortgage banking revenue of $0.1 million, or 28.2%, and investment fees of $0.1 million, or 15.5%, compared to the second quarter of 2006. The increases in the second quarter of 2007 were partially offset by a decrease of $0.1 million, or 2.2%, in service charges on deposit accounts compared to the second quarter of 2006. Other noninterest income decreased $0.2 million during the three months ended June 30, 2007 due to the realization of gains during the second quarter of 2006 attributable to the disposal of other assets.

Operating Expenses

The following includes the major components of operating expenses during the three and six months ended June 30, 2007 and 2006.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	**2007**	2006
		(In thousands)		
Salaries and wages	**$13,112**	$11,430	**$24,876**	$22,506
Employee benefits	**2,661**	2,582	**5,636**	6,096
Occupancy	**2,771**	2,421	**5,360**	5,019
Equipment	**2,381**	2,345	**4,685**	4,533
Postage and courier	**661**	621	**1,404**	1,345
Supplies	**395**	252	**812**	505
Professional fees	**1,074**	998	**2,948**	1,841
Outside processing / service fees	**528**	477	**1,073**	1,045
Michigan single business tax	**417**	537	**807**	1,017
Advertising and marketing	**507**	351	**1,136**	724
Intangible asset amortization	**430**	504	**924**	1,037
Telephone	**492**	539	**960**	995
Other real estate and repossessed asset expenses	**682**	586	**1,095**	884
Other	**1,110**	1,433	**2,263**	2,650
Total Operating Expenses	**$27,221**	$25,076	**$53,979**	$50,197

Total operating expenses of $27.2 million in the second quarter of 2007 were $2.1 million, or 8.6%, higher than in the second quarter of 2006. The increase in operating expenses between the second quarter of 2007 and 2006 was primarily attributable to the recognition of $1.6 million in reorganization expenses incurred during the second quarter of 2007 in conjunction with the Corporation's retail banking reorganization. Excluding these reorganization expenses, operating expenses would have increased $0.55 million, or 2.2%, with the increase mostly attributable to new operating expenses associated with the two branch offices acquired in August 2006 and four new retail branch offices opened in the latter part of 2006 and early 2007.

In April 2007, the Corporation announced an internal reorganization that will centralize six operations departments and reduce back office and management staff. The reorganization is scheduled to be complete by December 31, 2007. The Corporation recognized $1.6 million in compensation related expense in the second quarter of 2007 for severance and early retirement costs in conjunction with the internal reorganization. The $1.6 million in reorganization expense was composed of $1.2 million in severance costs included in salaries and wages and $0.3 million of early retirement pension cost and $0.1 million of payroll taxes included in employee benefits. During the second quarter of 2007, $0.3 million of the $1.3 million in severance costs and payroll taxes were paid, resulting in a remaining accrued liability for severance costs and payroll taxes of $1.0 million at June 30, 2007. An additional $0.7 million of severance costs are expected to be incurred during the second half of 2007. Management expects annual pre-tax compensation expense savings of approximately $2.3 million beginning in 2008 related to the internal reorganization.

The Corporation had 1,539 employees on a full-time equivalent basis as of June 30, 2007, compared to 1,594 employees on a full-time equivalent basis as of June 30, 2006. The net decrease in the number of employees was

attributable to the Corporation's internal consolidation during 2006 that was partially offset by an increase in the number of employees from the 2006 branch acquisitions and four new branch banking offices that were opened during the latter part of 2006 and early 2007.

Salaries and wages of $13.1 million in the second quarter of 2007 were up $1.7 million, or 14.7%, compared to the same time period in 2006. This increase was attributable to the reorganization severance costs, 2006 branch acquisitions and four new branch banking offices previously discussed.

The Corporation decreased the future obligations of its defined benefit pension plan (Pension Plan) through a partial freeze of the Pension Plan effective May 31, 2006. This change affected approximately two-thirds of the Pension Plan participants, whereby benefits being earned under the Pension Plan by these employees ended on June 30, 2006. For employees affected by the freeze, the Corporation began contributing four percent of their eligible pay to the 401(k) Plan without regard to the employees' contribution, while continuing its existing policy of partially matching employee contributions to the 401(k) Plan. Employees who are receiving the new benefit under the 401(k) Plan are those with less than fifteen years of service or those whose combined age and years of service was less than sixty-five at June 30, 2006.

Total employee benefits expense during the three months ended June 30, 2007 was $2.7 million, approximately the same as during the three months ended June 30, 2006. Periodic pension cost for the defined benefit plans was $0.6 million lower during the three months ended June 30, 2007, compared to the same time period in 2006. The decrease in this expense during the three months ended June 30, 2007 was partially offset by an increase in 401(k) Plan expense of $0.4 million, compared to the same time period in 2006. The decrease in net periodic pension cost for the defined benefit plan was also offset by the $0.3 million in early retirement pension cost recorded in the second quarter of 2007 in conjunction with the internal reorganization.

Occupancy expense of $2.8 million in the second quarter of 2007 was up $0.4 million, or 14.5%, from the second quarter of 2006. The increase was largely attributable to the acquisition of two branches in 2006 and the addition of four newly constructed branches in late 2006 and early 2007.

Advertising and marketing expenses of $0.5 million during the second quarter of 2007 were $0.2 million, or 44.4%, higher than the second quarter of 2006. The increase was primarily attributable to costs incurred in conjunction with loan and other product promotions in the second quarter of 2007.

Other real estate and repossessed asset expenses of $0.7 million in the second quarter of 2007 were $0.1 million, or 16.4% higher than in the second quarter of 2006. The increase was primarily attributable to the recognition of $0.4 million in losses associated with the disposition of other real estate and repossessed assets in 2007, compared to $0.3 million in losses in 2006.

Other operating expenses for the three months ended June 30, 2007 were $1.1 million, down $0.3 million, or 22.5%, from the second quarter of 2006. Decreases in printing expense, employee training costs, and miscellaneous losses were offset by an increase in donations.

Income Tax Expense

The Corporation's effective federal income tax rate was 32.3% in the second quarter of 2007, compared to 33.0% in the second quarter of 2006. The difference between the federal statutory income tax rate and the Corporation's effective federal income tax rate is primarily a function of the proportion of the Corporation's interest income exempt from federal taxation, nondeductible interest expense and other nondeductible expenses relative to pretax income and tax credits.

Market Risk

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due primarily to changes in interest rates. Interest rate risk is the Corporation's primary market risk and results from timing differences in the repricing of assets and liabilities and changes in relationships between rate indices. Interest rate risk is the exposure to adverse changes in net interest income due to changes in interest rates. Consistency of the Corporation's net interest income is largely dependent upon the effective management of interest rate risk. Interest rate risk arises in

the normal course of the Corporation's business due to differences in the repricing and maturity characteristics of interest rate sensitive assets and liabilities. Sensitivity of earnings to interest rate changes arises when yields on assets change differently from the interest costs on liabilities. Interest rate sensitivity is determined by the amount of interest-earning assets and interest-bearing liabilities repricing within a specific time period and the magnitude by which interest rates change on the various types of interest-earning assets and interest-bearing liabilities. The management of interest rate sensitivity includes monitoring the maturities and repricing opportunities of interest-earning assets and interest-bearing liabilities. Interest rate sensitivity management aims at achieving

reasonable stability in both net interest income and the net interest margin through periods of changing interest rates. The Corporation's goal is to avoid a significant decrease in net interest income and thus an adverse impact on the profitability of the Corporation in periods of changing interest rates. It is necessary to analyze projections of net interest income based upon the repricing characteristics of the Corporation's interest-earning assets and interest-bearing liabilities and the varying magnitude by which interest rates may change on loans, investment securities, interest-bearing deposit accounts and borrowings. The Corporation's interest rate sensitivity is managed through policies and risk limits approved by the boards of directors of the Corporation and its subsidiary bank, and an Asset and Liability Committee (ALCO). The ALCO, which is comprised of executive management from various areas of the Corporation, including finance, lending, investments and deposit gathering, meets regularly to execute asset and liability management strategies. The ALCO establishes guidelines and monitors the sensitivity of earnings to changes in interest rates. The goal of the ALCO process is to maximize net interest income and the net present value of future cash flows within authorized risk limits.

The Corporation has not used interest rate swaps or other derivative financial instruments in the management of interest rate risk, other than best efforts forward commitments utilized to offset the interest rate risk of interest rate lock commitments provided to customers on unfunded residential mortgage loans intended to be sold in the secondary market. In the normal course of the mortgage loan selling process, the Corporation enters into a best efforts forward loan delivery commitment with an investor. The Corporation's exposure to market risk on these best efforts forward loan delivery commitments is not significant.

The primary technique utilized by the Corporation to measure its interest rate risk is simulation analysis. Simulation analysis forecasts the effects on the balance sheet structure and net interest income under a variety of scenarios that incorporate changes in interest rates, changes in the shape of the Treasury yield curve, changes in interest rate relationships, changes in asset and liability mix and loan prepayments.

These forecasts are compared against net interest income projected in a stable interest rate environment. While many assets and liabilities reprice either at maturity or in accordance with their contractual terms, several balance sheet components demonstrate characteristics that require an evaluation to more accurately reflect their repricing behavior. Key assumptions in the simulation analysis include prepayments on loans, probable calls of investment securities, changes in market conditions, loan volumes and loan pricing, deposit sensitivity, and customer preferences. These assumptions are inherently uncertain as they are subject to fluctuation and revision in a dynamic environment. As a result, the simulation analysis cannot precisely forecast the impact of rising and falling interest rates on net interest income. Actual results will differ from simulated results due to many factors such as changes in balance sheet components, interest rate changes, changes in market conditions and management strategies.

At June 30, 2007, the Corporation's interest rate risk position was liability sensitive, meaning net interest income is expected to increase if market interest rates fall and decrease if market interest rates rise, other factors being unchanged.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Information concerning quantitative and qualitative disclosures about market risk is contained in the discussion regarding interest rate risk and sensitivity under the captions "Liquidity Risk" and "Market Risk" of the Corporation's 2006 Annual Report on Form 10-K.

The Corporation does not believe that there has been a material change in the nature or categories of the Corporation's primary market risk exposure, or the particular markets that present the primary risk of loss to the Corporation. As of the date of this report, the Corporation does not know of or expect there to be any material change in the general nature of its primary market risk exposure in the near term. The methods by which the Corporation manages its primary market risk exposure, as described in the sections of its 2006 Annual Report to Shareholders on Form 10-K, have not changed materially during the current year. As of the date of this report, the Corporation does not expect to make material changes in those methods in the near term. The Corporation may change those methods in the future to adapt to changes in circumstances or to implement new techniques.

The Corporation's market risk exposure is mainly comprised of its vulnerability to interest rate risk. Prevailing interest rates and interest rate relationships are primarily determined by market factors that are beyond the Corporation's control. All information provided in response to this item consists of forward-looking statements. Reference is made to the section captioned "Safe Harbor Statement" in this report for a discussion of the limitations on the Corporation's responsibility for such statements. In this discussion, "near term" means a period of one year following the date of the most recent consolidated statement of financial position contained in this report.

Item 4. Controls and Procedures

An evaluation was performed under the supervision and with the participation of the Corporation's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures. Based on and as of the time of that evaluation, the Corporation's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Corporation's disclosure controls and procedures were effective as of the end of the period covered by this report. There was no change in the Corporation's internal control over financial reporting that occurred during the three months ended June 30, 2007 that has materially affected, or that is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

Part II. Other Information

Item 1A. Risk Factors

Information concerning risk factors is contained in the discussion in Item 1A, "Risk Factors," in the Corporation's 2006 Annual Report on Form 10-K. As of the date of this report, the Corporation does not believe that there has been a material change in the nature or categories of the Corporation's risk factors, as compared to the information disclosed in the Corporation's 2006 Annual Report on Form 10-K.

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

The following table sets forth the purchases of equity securities by the Corporation during the periods indicated:

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
April 1-30, 2007				
Common Stock Repurchase Program	**-**	**-**	**-**	**500,000**
Employee Transactions	**3,664**	**$30.16**	**N/A**	**N/A**
May 1-31, 2007				
Common Stock Repurchase Program	**269,800**	**27.11**	**269,800**	**230,200**
Employee Transactions	**-**	**-**	**N/A**	**N/A**
June 1-30, 2007				
Common Stock Repurchase Program	**180,000**	**26.75**	**180,000**	**50,200**
Employee Transactions	**-**	**-**	**N/A**	**N/A**
Total	**453,464**	**$26.99**	**449,800**	**50,200**

On April 19, 2007, the Corporation publicly announced that its board of directors authorized management to repurchase up to 500,000 shares of the Corporation's common stock. The repurchased shares are available for later reissue in connection with potential future stock dividends, the Corporation's dividend reinvestment plan, employee benefit plans and other general corporate purposes. This authorization cancelled the 31,542 remaining share repurchase authorization that existed at March 31, 2007. On July 18, 2007, the Corporation publicly announced that its board of directors authorized management to repurchase up to 500,000 additional shares of the Corporation's common stock. This authorization did not cancel the remaining 50,200 remaining share repurchase authorization that existed at June 30, 2007.

Employee transactions include shares delivered or attested in satisfaction of the exercise price and/or tax withholding obligations by holders of employee stock options who exercised options during the applicable period. The Corporation's stock compensation plans permit employees to use stock to satisfy such obligations based on the market value of the stock on the date of exercise.

Item 4. Submission of Matters to a Vote of Security Holders

The Corporation's annual meeting of shareholders was held April 16, 2007. At that meeting, the shareholders voted on one matter: the election of directors. All directors of the Corporation were standing for election at the meeting. The directors were elected by the following votes:

Election of Directors	Votes Cast	
All nominees for director were elected:	For	Withheld
Gary E. Anderson	20,278,371	387,569
J. Daniel Bernson	20,228,229	437,711
Nancy Bowman	20,231,449	434,491
James A. Currie	20,301,513	364,426
Thomas T. Huff	20,184,112	481,827
Michael T. Laethem	20,385,333	280,607
Geoffery E. Merszei	20,214,470	451,470
Terence F. Moore	19,747,874	918,066
Aloysius J. Oliver	18,196,676	2,469,263
Calvin D. Prins	20,079,612	586,327
David B. Ramaker	20,268,512	397,428
Larry D. Stauffer	20,408,972	256,968
William S. Stavropoulos	20,235,719	430,221
Franklin C. Wheatlake	20,282,439	383,501

There were no broker non-votes with respect to any nominee for director.

Item 6. Exhibits

Exhibits. The following exhibits are filed as part of this report on Form 10-Q:

Exhibit Number	Document
3.1	Restated Articles of Incorporation. Previously filed as Exhibit 4.1 to the Corporation's Registration Statement on Form S-8 filed with the Commission on March 2, 2001. Here incorporated by reference.
3.2	Restated Bylaws. Previously filed as Exhibit 3.2 to the Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004. Here incorporated by reference.
31.1	Certification. Certification of Chairman of the Board, Chief Executive Officer and President under Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification. Certification of Executive Vice President, Chief Financial Officer and Treasurer under Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification pursuant to 18 U.S.C. § 1350.

Signatures

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

CHEMICAL FINANCIAL CORPORATION

Date: August 7, 2007

By: /s/ David B. Ramaker

David B. Ramaker
Chairman of the Board, Chief Executive Officer and President
(Principal Executive Officer)

Date: August 7, 2007

By: /s/ Lori A. Gwizdala

Lori A. Gwizdala
Executive Vice President, Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)

Exhibit Index

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