ISABELLA BANK CORP
Form DEF 14A
March 31, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934
(Amendment No.)
Filed by the Registrant ý Filed by a Party other than the Registrant ¨
Check the appropriate box:

¨ Preliminary Proxy Statement
¨ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
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¨ Soliciting Material Pursuant to §240.14a-12

ISABELLA BANK CORPORATION
(Name of Registrant as Specified In Its Charter)
(Name of Person(s) Filing Proxy Statement, if other than the Registrant)
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ISABELLA BANK CORPORATION
401 N. Main St.
Mt. Pleasant, Michigan 48858
NOTICE OF THE ANNUAL MEETING OF SHAREHOLDERS
To Be Held April 30, 2014

Notice is hereby given that the Annual Meeting of Shareholders of Isabella Bank Corporation will be held on Wednesday, April 30, 2014 at 5:00 p.m. Eastern Daylight Time, at the Comfort Inn, 2424 S. Mission Street, Mt. Pleasant, Michigan. The meeting is for the purpose of considering and acting upon the following items of business:

1. The election of five directors.
2. To hold an advisory, non-binding vote on executive compensation of named executive officers.
3. To transact such other business as may properly come before the meeting, or any adjournment or adjournments thereof.

The Board of Directors has fixed March 17, 2014 as the record date for determination of shareholders entitled to notice of, and to vote at, the meeting or any adjournments thereof.

Your vote is important. Even if you plan to attend the meeting, please vote:

1. By mail: Indicate your choice with respect to the matters to be voted upon, sign, date, and return your proxy form in the enclosed envelope. Note that if stock is held in more than one name, all parties should sign the proxy form; or
2. By internet - www.proxyvote.com: Have your proxy form in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form; or
3. By phone - 1-800-690-6903 (toll-free): Have your proxy form in hand and then follow the instructions.

By order of the Board of Directors
Debra Campbell, Secretary
Dated: March 31, 2014

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ISABELLA BANK CORPORATION
401 N. Main St.
Mt. Pleasant, Michigan 48858

PROXY STATEMENT

General Information

As used in this Proxy Statement, references to "the Corporation", “Isabella,” “we,” “our,” “us,” and similar terms refer to the consolidated entity consisting of Isabella Bank Corporation and its subsidiaries. Isabella Bank Corporation refers solely to the parent holding company, and the “Bank” refers to Isabella Bank Corporation’s subsidiary, Isabella Bank.

This Proxy Statement is furnished in connection with the solicitation of proxies, to be voted at our Annual Meeting of Shareholders (the “Annual Meeting”) which is to be held on Wednesday, April 30, 2014 at 5:00 p.m. at the Comfort Inn, 2424 S. Mission Street, Mt. Pleasant, Michigan, or at any adjournment or adjournments thereof, for the purposes set forth in the accompanying Notice of Annual Meeting of Shareholders and in this Proxy Statement.

This Proxy Statement has been mailed on March 31, 2014 to all holders of record of common stock as of the record date. If a shareholder’s shares are held in the name of a broker, bank, or other nominee, then that party should give the shareholder instructions for voting the shareholder’s shares.

Voting at the Meeting

We have fixed the close of business on March 17, 2014 as the record date for the determination of shareholders entitled to notice of, and to vote at, the Annual Meeting and any adjournment thereof. We have only one class of common stock and no preferred stock. As of March 17, 2014, there were 7,707,524 shares of stock outstanding. Each outstanding share entitles the holder thereof to one vote on each separate matter presented for vote at the meeting. You may vote on matters that are properly presented at the Annual Meeting by attending the meeting and casting a vote, signing and returning the enclosed proxy, voting on the internet, or voting by phone. You may change your vote or revoke your proxy at any time before it is voted at the Annual Meeting by filing with the Corporation an instrument revoking it, filing a duly executed proxy bearing a later date (including a proxy given over the internet or by phone) or by attending the meeting and electing to vote in person. You are encouraged to vote by mail, internet, or phone.

We will hold the Annual Meeting if a majority of the shares of common stock entitled to vote are represented in person or by proxy. If you sign and return the proxy, those shares will be counted to determine if there is a quorum, even if you abstain or fail to vote on any of the proposals.

Your broker may not vote on the election of directors or the advisory vote to approve the named executive officers' compensation if you do not furnish instructions for such proposals. You should use the voting instruction card provided by us to instruct the broker to vote the shares, or else your shares will be considered “broker non-votes.” Broker non-votes are shares held by brokers or nominees as to which voting instructions have not been received from the shares’ beneficial owner or the individual entitled to vote those shares and the broker or nominee does not have discretionary voting power under rules applicable to broker-dealers. Under these rules, Proposals 1 and 2 are not items on which brokerage firms may vote in their discretion on your behalf unless you have furnished voting instructions.

At this year’s Annual Meeting, you will elect one director to serve for a term of one year and four directors to serve for a term of three years. You may vote in favor, against, or withhold votes for any or all nominees. Directors are elected by a plurality of the votes cast at the annual meeting. Shares not voted, including broker non-votes, have no effect on the elections.

In voting on the advisory, nonbinding proposal to approve the executive compensation described in this proxy statement, a shareholder may vote in favor of the advisory proposal, vote against the advisory proposal or abstain from voting. A majority of the shares represented at the annual meeting and entitled to vote on this advisory proposal must be voted in favor of the proposal for it to pass. While this vote is required by law, it will neither be binding on the Board of Directors, nor will it create or imply any change in the fiduciary duties of, or impose any additional fiduciary duty on the Board of Directors. In counting votes on the advisory, nonbinding proposal to approve executive compensation matters, abstentions will have the same effect as a vote against the proposal and broker non-votes will have no effect on the outcome of the vote.

Proposal 1-Election of Directors

The Board of Directors (the "Board") currently consists of eleven (11) members divided into three classes, with the directors in the class noted below up for re-election at the Annual Meeting. On September 15, 2013 Wilson C. Lauer passed away and on October 31, 2013 Sandra L. Caul retired from the Board, resulting in the number of directors being reduced to ten (10). The number of Board members was increased to its current level by the appointment of Jae A. Evans to the Board on January 1, 2014. Dennis P. Angner, whose term expires at the Annual Meeting, has been nominated for election to a one year term through 2015 and Dr. Jeffrey J. Barnes, G. Charles Hubscher, David J. Maness, and W. Joseph Manifold, whose terms expire at the Annual Meeting, have been nominated for election to three year terms through 2017 for the reasons described below.

Except as otherwise specified, proxies will be voted for election of the five nominees. If a nominee becomes unable or unwilling to serve, proxies will be voted for such other person, if any, as shall be designated. However, we know of no reason to anticipate that this will occur. The five nominees who receive the greatest number of votes cast will be elected directors. Each of the nominees has agreed to serve as a director if elected.

Nominees and current directors, including their principal occupation for the last five or more years, age, and length of service as a director, are listed below.

We unanimously recommend that you vote FOR the election of each of the nominees.

Director Qualifications

Board members are highly qualified and represent your best interests. We select nominees who:

- Have extensive business leadership
- Bring a diverse perspective and experience
- Are independent and collegial
- Have high ethical standards and have demonstrated sound business judgment
- Are willing and able to commit the significant time and effort to effectively fulfill their responsibilities
- Are active in and knowledgeable of their respective communities

Each nominee and current director possess these qualities and provides a diverse complement of specific business skills, experience, and knowledge including extensive financial and accounting experience, knowledge of banking, small business operating experience, and specific knowledge of customer market segments including agriculture, oil and gas, health care, manufacturing, and retail.

The following describes the key qualifications each director brings to the Board, in addition to the general qualifications described above and the information included in the biographical summaries provided below.

Director	Professional Standing in Chosen Field	Expertise in financial or related field	Audit Committee Financial Expert	Civic and community involvement	Leadership and team building skills	Diversity by race, gender, or cultural	Geo-graphical diversity	Finance	Tech-nology	Market-ing	Go anc
David J. Maness	X			X	X				X		
Dennis P. Angner	X	X		X	X			X	X		X
Dr. Jeffrey J. Barnes	X			X	X		X				
Richard J. Barz	X	X		X	X			X		X	
Jae A. Evans	X	X		X	X			X		X	
G. Charles Hubscher	X	X		X	X						
Thomas L. Kleinhardt	X			X	X		X	X		X	
	X			X	X		X			X	

Joseph LaFramboise											
W. Joseph Manifold	X	X	X	X	X			X	X		
W. Michael McGuire	X	X	X	X	X		X	X	X		X
Sarah R. Opperman	X			X	X	X	X			X	

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The following table identifies individual Board members serving on each of our standing committees:

Director	Audit	Nominating and Corporate Governance	Compensation and Human Resource
David J. Maness	X[o]	X[o]	X[c]
Dennis P. Angner			
Dr. Jeffrey J. Barnes	X		X
Richard J. Barz			
Jae A. Evans			
G. Charles Hubscher	X		X
Thomas L. Kleinhardt			X
Joseph LaFramboise	X	X	X
W. Joseph Manifold	X[c]	X	X
W. Michael McGuire	X	X[c]	X
Sarah R. Opperman			X

C — Chairperson
O — Ex-Officio

Director Nominee for Term Ending in 2015

Dennis P. Angner (age 58) has been a director of Isabella Bank Corporation and the Bank since 2000. Mr. Angner has been principally employed by the Corporation since 1984 and has served as President of Isabella Bank Corporation since December 30, 2001 and CFO since January 1, 2010. Mr. Angner served as Chief Executive Officer of Isabella Bank Corporation from December 30, 2001 through December 31, 2009. He is a past Chair of the Michigan Bankers Association and is currently serving as vice chairman of its taxation committee, is a member of the American Bankers Association Government Relations Council, and served on the Central Michigan American Red Cross board for over 20 years.

Director Nominees for Terms Ending in 2017

Dr. Jeffrey J. Barnes (age 51) has been a director of the Bank since 2007 and of Isabella Bank Corporation since 2010. Dr. Barnes is a physician and shareholder in Lansing Ophthalmology PC. He is a former member of the Central Michigan Community Hospital Board of Directors.

G. Charles Hubscher (age 60) has been a director of the Bank since 2004 and of Isabella Bank Corporation since 2010. Mr. Hubscher is President of Hubscher and Son, Inc., a sand and gravel producer. He is a director of the National Stone and Gravel Association, the Michigan Aggregates Association, serves on the Board of Trustees for the Mt. Pleasant Area Community Foundation, and is a member of the Zoning Board of Appeals for Deerfield Township.

David J. Maness (age 60) has been a director of the Bank since 2003 and of Isabella Bank Corporation since 2004. Mr. Maness has served as chairman of the board for the Corporation and the Bank since 2010. He is President of Maness Petroleum, a geological and geophysical consulting services company. Mr. Maness is currently serving as a director for the Michigan Oil & Gas Association, and he previously served on the Mt. Pleasant Public Schools Board of Education.

W. Joseph Manifold (age 62) has been a director of Isabella Bank Corporation since 2003 and of the Bank since January 1, 2010. Mr. Manifold is CFO of Federal Broach Holdings LLC, a holding company which operates several manufacturing companies. Previously, he was a senior manager with Ernst & Young Certified Public Accounting firm working principally on external bank audits and was CFO of the Delfield Company. Prior to joining the Board, Mr. Manifold served on the Isabella Community Credit Union Board and was Chairman of the Mt. Pleasant Public Schools Board of Education.

Current Directors with Terms Ending in 2015

Richard J. Barz (age 65) has been a director of the Bank since 2000 and of Isabella Bank Corporation since 2002. Mr. Barz retired as Chief Executive Officer of Isabella Bank Corporation on December 31, 2013 after over 41 years of service with the Corporation. Mr. Barz was Chief Executive Officer of Isabella Bank Corporation since 2010 and President and CEO of the Bank from 2001 to July 2012. Mr. Barz has been very active in community organizations and events. He is a past chairman of the Central Michigan Community Hospital Board of Directors, is the current chairman of the Middle Michigan Development

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Corporation Board of Directors, and serves on several boards and committees for Central Michigan University and various volunteer organizations throughout mid-Michigan.

Jae A. Evans (age 57) was appointed a director of Isabella Bank Corporation and the Bank and elected Chief Executive Officer of Isabella Bank Corporation effective January 1, 2014. Mr. Evans has been employed by the Corporation since 2008 and has over 36 years of banking experience. He served as Chief Operations Officer of the Bank through December 31, 2013 and President of the Greenville Division of the Bank from January 1, 2008 to June 2011. Mr. Evans is a board member for The Community Bankers of Michigan, Art Reach of Mid Michigan, and is the chair of the EightCAP governing board. Mr Evans is also past vice-chair of the Carson City Hospital, was president of the Greenville Rotary Club, and just completed his term as chair of The Community Bankers of Michigan.

W. Michael McGuire (age 64) has been a director of Isabella Bank Corporation since 2007 and of the Bank since January 1, 2010. Mr. McGuire, an attorney, retired in August 2013 as the Director of the Office of the Corporate Secretary and Assistant Secretary of The Dow Chemical Company, a manufacturer of chemicals, plastics and agricultural products, headquartered in Midland, Michigan.

Current Directors with Terms Ending in 2016

Thomas L. Kleinhardt (age 59) has been a director of the Bank since 1998 and of Isabella Bank Corporation since 2010. Mr. Kleinhardt is President of McGuire Chevrolet, is active in the Clare Kiwanis Club, and coaches the girls Varsity Basketball team at Farwell High School.

Joseph LaFramboise (age 64) has been a director of the Bank since 2007 and of Isabella Bank Corporation since 2010. He is a retired Sales and Marketing Executive of Ford Motor Company. Mr. LaFramboise is an Ambassador of Eagle Village in Evart, Michigan.

Sarah R. Opperman (age 54) has been a director of the Bank and Isabella Bank Corporation since July 1, 2012. Ms. Opperman is the owner of Opperman Consulting, LLC, which provides public affairs counsel. She was previously employed for 28 years by The Dow Chemical Company, where she held leadership roles in public and government affairs. She was inducted into the CMU Journalism Hall of Fame and is a recipient of the Dow Genesis Award for Excellence in People Development. Ms. Opperman serves on the CMU Board of Trustees, the CMU Development Board, the Mid Michigan Health Corporate Board of Directors, and the Mid Michigan Health Fund Development Committee. She also served on the CMU Research Corporation Board of Directors.

Each of the directors has been engaged in their stated professions for more than five years.

Other Named Executive Officers

Steven D. Pung (age 64), President of the Bank and a member of the Board of Directors of Financial Group Information Services (a wholly owned subsidiary of Isabella Bank Corporation) has been employed by the Bank since 1979. Jerome E. Schwind (age 47), Executive Vice President and Chief Operating Officer of the Bank, has been employed by the Bank since 1999. David J. Reetz (age 53), Senior Vice President and Chief Lending Officer of the Bank, has been employed by the Bank since 1987.

All officers serve at the pleasure of the Board.

Proposal 2-Advisory Vote on Executive Compensation

The compensation of the Corporation’s principal executive officer, retired principal executive officer, principal financial officer, and three other most highly compensated executive officers (named executive officers) is described below under the headings “Compensation Discussion and Analysis” and “Executive Officers”. Shareholders are urged to read these sections of this proxy statement, which discusses the Corporation’s compensation policies and procedures with respect to its named executive officers.

In accordance with Section 14A of the Securities Exchange Act of 1934, shareholders will be asked at the Annual Meeting to provide their support with respect to the compensation of the Corporation’s named executive officers by voting on the following advisory, non-binding resolution:

RESOLVED, that the shareholders of Isabella Bank Corporation approve, on an advisory basis, the compensation paid to the Corporation’s named executive officers, as disclosed pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, compensation tables and narrative discussion, for purposes of Section 14A of the Securities Exchange Act of 1934.

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The advisory vote on executive compensation, commonly referred to as a say-on-pay advisory vote, is non-binding on the Board of Directors. Although non-binding, the Board of Directors and the Compensation and Human Resource Committee value constructive dialogue on executive compensation and other important governance topics with the Corporation's shareholders and encourage all shareholders to vote their shares on this matter. The Board of Directors and the Compensation and Human Resource Committee will review the voting results and take them into consideration when making future decisions regarding executive compensation programs. The Board believes shareholders should consider the following in determining whether to approve this proposal:

- The Corporation is not required to provide any severance or termination pay or benefits to any named executive officer;
- Each member of the Compensation and Human Resource Committee is independent under the applicable standards of the NASDAQ Stock Market Marketplace Rules;
- The Compensation and Human Resource Committee continually monitors the Corporation's performance and adjusts compensation practices accordingly; and
- The Compensation and Human Resource Committee regularly assesses the Corporation's individual and total compensation programs against peer companies, the general marketplace and other industry data points.

Unless otherwise instructed, validly executed proxies will be voted "FOR" this resolution.

We unanimously recommend that you vote FOR the nonbinding advisory resolution approving the executive compensation of the Corporation's named executive officers.

Corporate Governance

Director Independence

We have adopted the director independence standards as defined under of the NASDAQ Stock Market Marketplace Rules. We have determined that Dr. Jeffrey J. Barnes, G. Charles Hubscher, Thomas L. Kleinhardt, Joseph LaFramboise, David J. Maness, W. Joseph Manifold, W. Michael McGuire, and Sarah R. Opperman are independent directors. Former directors Sandra L. Caul and Wilson C. Lauer, were also determined to be independent directors. Richard J. Barz is not independent as he retired as CEO of Isabella Bank Corporation on December 31, 2013. Jae A. Evans is not independent as he is employed as CEO of Isabella Bank Corporation. Dennis P. Angner is not independent as he is employed as President and CFO of Isabella Bank Corporation.

Board Leadership Structure and Risk Oversight

Our Governance Policy provides that only directors who are deemed to be independent as set forth by the NASDAQ Stock Market Marketplace Rules and SEC rules are eligible to hold the office of chairperson. Additionally, the chairpersons of Board established committees must also be independent directors. It is our belief that having a separate chairperson and CEO best serves the interest of the shareholders. The Board elects its chairperson at the first Board meeting following the annual meeting. Independent members of the Board meet without inside directors at least twice per year.

Management is responsible for our day-to-day risk management and the Board's role is to engage in informed oversight. The Board utilizes committees to oversee risks associated with compensation and governance. Financial Group Information Services, our information processing subsidiary, is responsible for overseeing risks associated with information technology. The Isabella Bank Board of Directors is responsible for overseeing credit, investment, interest rate, and trust risks. The chairpersons of the respective boards or committees report on their activities on a regular basis.

Our Audit Committee is responsible for overseeing the integrity of our consolidated financial statements, the independent auditors' qualifications and independence, the performance of our internal audit function and those of independent auditors, our system of internal controls, our financial reporting and system of disclosure controls, and our compliance with legal and regulatory requirements and with our Code of Business Conduct and Ethics.

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Committees of the Board of Directors and Meeting Attendance

The Board met 12 times during 2013. All incumbent directors attended 75% or more of the meetings held in 2013.

The Board has an Audit Committee, a Nominating and Corporate Governance Committee, and a Compensation and Human Resource Committee.

Audit Committee

The Audit Committee is composed of independent directors. Information regarding the functions performed by the Committee, its membership, and the number of meetings held during the year, is set forth in the “Audit Committee Report” included elsewhere in this proxy statement. The Audit Committee is governed by a written charter approved by the Board, which is available on the Bank’s website: www.isabellabank.com.

In accordance with the provisions of the Sarbanes-Oxley Act of 2002, directors Manifold and McGuire meet the requirements of Audit Committee Financial Expert and have been so designated. The Committee also consists of directors Barnes, Hubscher, LaFramboise, and Maness (ex-officio).

Nominating and Corporate Governance Committee

We have a standing Nominating and Corporate Governance Committee consisting of independent directors. The Committee consists of directors LaFramboise, Maness (ex-officio), Manifold, and McGuire. The Nominating and Corporate Governance Committee held one meeting in 2013, with all directors attending the meeting. The Board has approved a Nominating and Corporate Governance Committee Charter which is available on the Bank’s website: www.isabellabank.com.

The Nominating and Corporate Governance Committee is responsible for evaluating and recommending individuals for nomination to the Board for approval. The Committee in evaluating nominees, including incumbent directors and any nominees put forth by shareholders, considers business experience, skills, character, judgment, leadership experience, and their knowledge of the geographical markets, business segments or other criteria the Committee deems relevant and appropriate based on the current composition of the Board. The Committee considers diversity in identifying members with respect to our geographical markets served and the business experience of the nominee.

The Nominating and Corporate Governance Committee will consider, as potential nominees persons recommended by shareholders. Recommendations should be submitted in writing to the Secretary of the Corporation, 401 N. Main St., Mt. Pleasant, Michigan 48858 and include the shareholder’s name, address and number of shares of the Corporation owned by the shareholder. The recommendation should also include the name, age, address and qualifications of the candidate. Recommendations for the 2015 Annual Meeting of Shareholders should be delivered no later than December 1, 2014. The Nominating and Corporate Governance Committee evaluates all potential director nominees in the same manner, whether the nominations are received from a shareholder, or otherwise.

Compensation and Human Resource Committee

The Compensation and Human Resource Committee is responsible for reviewing and recommending to our Board the compensation of the Chief Executive Officer and other executive officers, benefit plans, and the overall percentage increase in salaries. The committee consists of independent directors Barnes, Hubscher, Kleinhardt, LaFramboise, Maness, Manifold, McGuire, and Opperman. The committee held two meeting during 2013 with all directors in attendance. This Committee is governed by a written charter approved by the Board that is available on the Bank’s website: www.isabellabank.com.

Communications with the Board

Shareholders may communicate with the Board by sending written communications to the attention of the Corporation’s Secretary, Isabella Bank Corporation, 401 N. Main St., Mt. Pleasant, Michigan 48858. Communications will be forwarded to the Board or the appropriate committee, as soon as practicable.

Code of Ethics

Our Code of Business Conduct and Ethics, which is applicable to the CEO and CFO, is available on the Bank’s website: www.isabellabank.com.

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Audit Committee Report

The Audit Committee oversees the financial reporting process on behalf of the Board. The 2013 Committee consisted of directors Barnes, Hubscher, LaFramboise, Maness, Manifold, and McGuire.

The Audit Committee is responsible for pre-approving all auditing services and permitted non-audit services by our independent auditors, or any other auditing or accounting firm, if those fees are reasonably expected to exceed 5.0% of the current year agreed upon fee for independent audit services. The Audit Committee has established general guidelines for the permissible scope and nature of any permitted non-audit services in connection with its annual review of the audit plan and reviews the guidelines with the Board.

Management has the primary responsibility for the consolidated financial statements and the reporting process including the systems of internal controls. In fulfilling its oversight responsibilities, the Audit Committee reviewed the audited consolidated financial statements in the Annual Report with management including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in the consolidated financial statements. The Audit Committee also reviewed with management and the independent auditors, management's assertion on the design and effectiveness of our internal control over financial reporting as of December 31, 2013.

The Audit Committee reviewed with our independent auditors, who are responsible for expressing an opinion on the conformity of those audited consolidated financial statements with accounting principles generally accepted in the United States of America, their judgments as to the quality, not just the acceptability, of our accounting principles and such other matters as are required to be discussed with the Audit Committee by the standards of the Public Company Accounting Oversight Board (United States), including those described in Auditing Standard No. 16 "Communications with Audit Committees", as may be modified or supplemented. In addition, the Audit Committee has received the written disclosures and the letter from the independent auditors required by PCAOB Rule 3526, Communication with Audit Committees Concerning Independence, as may be modified or supplemented, and has discussed with the independent auditor the independent auditors' independence.

The Audit Committee discussed with our internal and independent auditors the overall scope and plans for their respective audits. The Audit Committee meets with the internal and external independent auditors, with and without management present, to discuss the results of their examinations, their evaluations of our internal controls, and the overall quality of our financial reporting process. The Audit Committee held five meetings during 2013, and all committee members attended 75% or more of the meetings.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors (and the Board has approved) that the audited consolidated financial statements be included in the Annual Report on Form 10-K for the year ended December 31, 2013 for filing with the Securities and Exchange Commission.

The Audit Committee has appointed Rehmann Robson LLC as the independent auditors for the 2014 audit.

Respectfully submitted,

W. Joseph Manifold, Audit Committee Chairperson
Dr. Jeffrey J. Barnes
G. Charles Hubscher
Joseph LaFramboise
David J. Maness (ex-officio)
W. Michael McGuire

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Compensation Discussion and Analysis

The Compensation and Human Resource Committee is responsible for reviewing and recommending to the Board the compensation and benefits for the CEO, President and CFO, and executive officers. The Committee evaluates and approves our executive officer and senior management compensation plans, policies, and programs. The CEO conducts annual performance reviews for named executive officers, excluding himself and recommends an appropriate salary to the Committee based on the performance review and the officer's years of service along with competitive market data.

Compensation Objectives

The Committee considers asset growth with the safety and soundness objectives and earnings per share to be the primary ratios in measuring financial performance. Our philosophy is to maximize long-term return to shareholders consistent with safe and sound banking practices, while maintaining the commitment to superior customer and community service. We believe that the performance of executive officers in managing the business should be the basis for determining overall compensation. Consideration is also given to overall economic conditions and current competitive forces in the market place. The objectives of the Committee are to effectively balance salaries and potential compensation to an officer's individual management responsibilities and encourage each of them to realize their potential for future contributions. The objectives are designed to attract and retain high performing executive officers who will provide leadership while attaining earnings and performance goals.

What the Compensation Programs are Designed to Reward

Our compensation programs are designed to reward dedicated and conscientious employment, loyalty in terms of continued employment, attainment of job related goals and overall profitability. In measuring an executive officer's contributions, the Committee considers numerous factors including, among other things, our growth in terms of asset size and increase in earnings per share. In rewarding loyalty and long-term service, we provide attractive retirement benefits.

Review of Risks Associated with Compensation Plans

Based on an analysis conducted by management and reviewed by the Committee, we do not believe that compensation programs for employees are reasonably likely to have a material short or long term adverse effect on our operating results.

Use of Consultants

In 2012, the Committee directly engaged the services of Blanchard Consulting Group, an independent compensation consulting firm, to assist with a total compensation review for the top three executive officers of the Corporation (CEO, President and CFO, and Bank President). Blanchard Consulting Group does not perform any additional services for us or any members of senior management. In addition, Blanchard Consulting Group does not have any other personal or business relationships with any Board members or officers. During 2013 and 2011, the Committee did not employ any services of outside compensation or benefit consultants to assist it in compensation-related initiatives.

Elements of Compensation

Our executive compensation program has consisted primarily of base salary and benefits, annual performance incentives, benefits and perquisites, and participation in our retirement plans.

How Elements Fit into Overall Compensation Objectives

Individual elements of our compensation objectives are structured to reward strong financial performance, continued service, and to incentivize our leaders to excel in the future. We continually review our compensation objectives to ensure that they are sufficient to attract and retain exceptional officers.

Why Each of the Elements of Compensation is Chosen and How We Determine Amounts for Each Element

Base Salaries, which include director fees for certain executive officers, are set to provide competitive levels of compensation to attract and retain officers with strong leadership skills. Each officer's performance, current compensation, and responsibilities are considered by the Committee when establishing base salaries. We also believe it is best to pay sufficient base salary because we believe an over-reliance on equity incentive compensation could potentially skew incentives toward short-term maximization of shareholder value as opposed to building long-term shareholder value. Competitive base salary encourages management to operate in a safe and sound manner even when incentive goals may prove unattainable.

The Committee's approach to determining the annual base salary of executive officers is to offer competitive salaries in comparison with other comparable financial institutions. In prior years, the Committee utilized both an independent

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compensation consultant, Blanchard Consulting Group, and a survey prepared by the Michigan Bankers Association of similar sized Michigan based financial institutions. The independent compensation consultant established a benchmark peer group of 15 midwest financial institutions in non-urban areas with comparable average assets size ($900 million—$2 billion), number of branch locations, return on average assets (year-ended 2011 ROAA of .38% or greater), and nonperforming assets. The Michigan Bankers Association 2012 compensation survey was based on the compensation information provided by these organizations for 2011. Specific factors used to decide where an executive officer's salary should be within the established range include the historical financial performance, financial performance outlook, years of service, and job performance. The Committee targeted total compensation for the CEO, the President & CFO, and Bank President to approximate the median of the range obtained from the Michigan Bankers Association compensation survey as well as any ranges obtained from the independent compensation consultant. Compensation for other named executive officers was based on the ranges provided by the Michigan Bankers Association survey.

Annual Performance Incentives are used to reward executive officers based on our overall financial performance. This element of the compensation program is included in the overall compensation in order to reward employees above and beyond their base salaries when our performance and profitability exceed established annual targets. The inclusion of this modest incentive encourages management to be creative and diligent in managing to achieve specific financial goals without incurring inordinate risks. Annual performance incentives paid in 2013 were determined by reference to seven performance measures that related to services performed in 2012. The maximum award that may be granted to each eligible employee equals 10% of the employee's base salary (the "Maximum Award").

The payment of 35% of the Maximum Award ("personal performance goals") is based on the achievement of goals set for each individual. An analysis is conducted by the CEO. The CEO makes a recommendation to the Committee for the appropriate amount for each individual executive officer. The Committee reviews, modifies if necessary, and approves the recommendations of the CEO. The Committee reviews the performance of the CEO. The Committee uses the following factors as quantitative measures of corporate performance in determining annual cash bonus amounts to be paid:

- Peer group financial performance compensation
- 1 and 5 year shareholder returns
- Earnings per share and earnings per share growth
- Budgeted as compared to actual annual operating performance
- Community and industry involvement
- Results of audit and regulatory exams
- Other strategic goals as established by the Board

Each of the executive officers who were eligible to participate in 2012 accomplished their personal performance goals and were accordingly paid 35% of the 2012 Maximum Award in 2013.

The payment of the remaining 65% of the Maximum Award ("corporate performance goals") was conditioned on the achievement of targets in the following six categories:

- Earnings per share (weighted 40%).
- Net operating expenses to average assets (weighted 15%).
- Fully Taxable Equivalent ("FTE") net interest margin, excluding loan fees (weighted 10%).
- In-market deposit growth (weighted 10%).
- Loan growth (weighted 15%).
- Exceeding peer group return on average assets (weighted 10%).

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The following chart provides the 2012 target for each corporate performance goal, as well as the performance attained for each target.

Target	2012 Targets 25.00%	50.00%	75.00%	100.00%	2012 Performance (1)	Target % Obtained
Earning per share	$1.50	$1.53	$1.55	$1.57	$1.59	100 %
Net operating expenses to average assets	1.60 %	1.57 %	1.54 %	1.51 %	1.45 %	100 %
FTE Net Interest Margin	3.46 %	3.48 %	3.50 %	3.52 %	3.46 %	25 %
In market deposit growth	4.50 %	5.00 %	5.50 %	6.00 %	6.10 %	100 %
Loan growth	3.00 %	3.50 %	4.00 %	4.50 %	1.46 %	— %
Exceeding peer group return on average assets	1.32 %	1.35 %	1.39 %	1.42 %	1.37 %	50 %

(1) Adjusted for incentive calculation measures.

Benefits and Perquisites. Executive officers are eligible for all of the benefits made available to full-time employees (such as health insurance, group term life insurance and disability insurance) on the same basis as other full-time employees and are subject to the same sick leave and other employee policies.

We also provide our executive officers with certain additional perquisites, which we believe are appropriate in order to attract and retain the proper quality of talent for these positions and to recognize that similar executive perquisites are commonly offered by comparable financial institutions. We maintain a plan for qualified officers to provide death benefits to each participant. Insurance policies, designed primarily to fund death benefits, have been purchased on the life of each participant with the Bank as the sole owner and beneficiary of the policies. We believe that perquisites provided to our executive officers in 2013 represented a reasonable percentage of each executive’s total compensation package and are consistent, in the aggregate, with perquisites provided to executive officers of comparable financial institutions. A description and the cost of these perquisites are included in footnote 1 in the “Summary Compensation Table” appearing on page 12 and in the table outlining the change in pension value and non-qualified deferred compensation earnings table appearing on page 13.

Retirement Plans. Our retirement plans are designed to assist executives in providing themselves with a financially secure retirement. The retirement plans include a 401(k) plan, a frozen defined benefit pension plan, a frozen non-leveraged employee stock ownership plan (ESOP), and a retirement bonus plan.

We have a 401(k) plan, in which substantially all employees are eligible to participate. Employees may contribute up to 50% of their compensation subject to certain limits based on federal tax laws. The plan was amended in 2013 to provide a matching safe harbor contribution for all eligible employees equal to 100% of the first 5.0% of an employee's compensation contributed to the Plan during the year. Employees are 100% vested in the safe harbor matching contributions.

For 2012 and 2011, we made a 3.0% safe harbor contribution for all eligible employees and matching contributions equal to 50% of the first 4.0% of an employee’s compensation contributed to the Plan during the year. Employees were 100% vested in the safe harbor contributions and were 0% vested through their first two years of employment and were 100% vested after 6 years of service for matching contributions.

Our defined benefit pension plan was curtailed effective March 1, 2007 and the current participants’ accrued benefits were frozen as of that date. Participation in the plan was limited to eligible employees as of December 31, 2006.

Our non-leveraged ESOP was frozen effective December 31, 2006 to new participants. Contributions to the plan are discretionary and approved by the Board.

The retirement bonus plan is a nonqualified plan of deferred compensation benefits for eligible employees effective January 1, 2007. Benefit amounts are determined pursuant to the payment schedule adopted at the sole and exclusive discretion of the Board.

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Compensation and Human Resource Committee Report

The Compensation and Human Resource Committee Report does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Corporation filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Corporation specifically incorporates this Report by reference therein.

The Compensation and Human Resource Committee, which includes all of the independent directors of the Board, has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of SEC Regulation S-K with management, and based on such review and discussion, the Compensation and Human Resource Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement and the Annual Report on Form 10-K.

Submitted by the Compensation and Human Resource Committee of the Board:

David J. Maness, Chairperson
Dr. Jeffrey J. Barnes
G. Charles Hubscher
Thomas L. Kleinhardt
Joseph LaFramboise
W. Joseph Manifold
W. Michael McGuire
Sarah R. Opperman

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Executive Officers

Executive officers are compensated in accordance with their employment with the applicable entity. The following table shows information on compensation earned in each of the last three fiscal years ended December 31, 2013, for the CEO, the retired CEO, the CFO, and our three other most highly compensated executive officers.

Summary Compensation Table

Name and principal position	Year	Salary ($)	Bonus ($)	Change in pension value and non-qualified deferred compensation earnings ($)	All other compensation ($)(1)	Total ($)
Richard J. Barz	2013	$406,522	$28,358	$ (2,860)	$ 35,771	$467,791
CEO (retired)	2012	396,325	25,106	123,578	35,615	580,624
Isabella Bank Corporation	2011	375,225	26,535	181,143	37,627	620,530
Jae A. Evans (2)	2013	$176,379	$13,320	$ —	$ 30,832	$220,531
CEO	2012					
Isabella Bank Corporation	2011					
Dennis P. Angner	2013	$354,522	$25,121	$ 9,918	$ 29,775	$419,336
President and CFO	2012	357,335	23,628	131,266	28,208	540,437
Isabella Bank Corporation	2011	355,625	26,100	163,672	28,542	573,939
Steven D. Pung	2013	$227,675	$6,003	$ 6,629	$ 29,589	$269,896
President	2012	195,128	13,333	67,361	30,111	305,933
Isabella Bank	2011	167,362	12,719	98,915	27,732	306,728
Jerome E. Schwind (2)	2013	$152,017	$10,326	$ (9,000)	$ 25,474	$178,817
Executive Vice President and COO	2012					
Isabella Bank	2011					
David J. Reetz	2013	$133,537	$10,598	$ (9,778)	$ 16,604	$150,961
Sr. Vice President and CLO	2012	129,397	9,708	45,361	17,138	201,604
Isabella Bank	2011	125,640	8,612	61,944	15,077	211,273

(1) For all named executives all other compensation includes 401(k) matching contributions. For Richard J. Barz, Jae A. Evans, Steven D. Pung, and David J. Reetz this also includes club dues and auto allowance. For Dennis P. Angner and Jerome E. Schwind, this also includes auto allowance.

(2) Not a named executive officer prior to 2013.

Executive officer salary includes compensation voluntarily deferred under our 401(k) plan. Director and advisory board fees are also included and are displayed in the following table for each the last three fiscal years ended December 31, 2013:

Name and principal position	Director and advisory board fees ($) 2013	2012	2011
Richard J. Barz	$46,525	$51,325	$50,225
Jae A. Evans	675		
Dennis P. Angner	46,525	51,325	49,625
Steven D. Pung	12,675	900	900

Jerome E. Schwind	1,200		
David J. Reetz	N/A	N/A	N/A

The change in pension value and non-qualified deferred compensation earnings, listed in the summary compensation table, represents the aggregate non-cash change in the actuarial present value of the noted executive's accumulated benefit under the Isabella Bank Corporation Pension Plan and also includes the non-cash change in the Isabella Bank Corporation Retirement

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Bonus Plan. The following table provides the change in values for the last three fiscal years ended December 31, 2013:

	Pension plan ($)			Retirement plan ($)		
Name and principal position	2013	2012	2011	2013	2012	2011
Richard J. Barz	$(47,000)	$83,000	$143,000	$44,140	$40,578	$38,143
Jae A. Evans	N/A			N/A		
Dennis P. Angner	(70,000)	64,000	109,000	79,918	67,266	54,672
Steven D. Pung	(29,000)	44,000	77,000	35,629	23,361	21,915
Jerome E. Schwind	(9,000)			N/A		
David J. Reetz	(32,000)	25,000	43,000	22,222	20,361	18,944

Pension Benefits

The following table indicates the present value of accumulated benefits as of December 31, 2013 for each named executive in the summary compensation table.

Name	Plan name	Number of years of vesting service as of 01/01/13 (#)	Present value of accumulated benefit ($)	Payments during last fiscal year
Richard J. Barz	Isabella Bank Corporation Pension Plan	42	$941,000	$—
	Isabella Bank Corporation Retirement Bonus Plan	42	393,792	—
Jae A. Evans	Isabella Bank Corporation Pension Plan	N/A		
	Isabella Bank Corporation Retirement Bonus Plan	N/A		
Dennis P. Angner	Isabella Bank Corporation Pension Plan	30	485,000	—
	Isabella Bank Corporation Retirement Bonus Plan	30	477,389	—
Steven D. Pung	Isabella Bank Corporation Pension Plan	35	476,000	—
	Isabella Bank Corporation Retirement Bonus Plan	35	226,535	—
Jerome E. Schwind	Isabella Bank Corporation Pension Plan	15	32,000	—
	Isabella Bank Corporation Retirement Bonus Plan	N/A		
David J. Reetz	Isabella Bank Corporation Pension Plan	27	155,000	—
	Isabella Bank Corporation Retirement Bonus Plan	27	151,905	—

Defined benefit pension plan. We sponsor the Isabella Bank Corporation Pension Plan, a frozen defined benefit pension plan. The curtailment, which was effective March 1, 2007, froze the current participant's accrued benefits as of that date and limited participation in the plan to eligible employees as of December 31, 2006. Due to the curtailment of the plan, the number of years of credited service was frozen. As such, the years of credited service for the plan may differ from the participant's actual years of service.

Annual contributions are made to the plan as required by accepted actuarial principles, applicable federal tax laws, and to pay expenses related to operating and maintaining the plan. The amount of contributions on behalf of any one participant cannot be separately or individually computed.

Pension plan benefits are based on years of service and the employees' five highest consecutive years of compensation out of the last ten years of service, through December 31, 2006.

A participant may earn a benefit for up to 35 years of accredited service. Earned benefits are 100% vested after five years of service. Benefit payments normally start when a participant reaches age 65. A participant with more than five years of service may elect to take early retirement benefits anytime after reaching age 55. Benefits payable under early retirement are reduced actuarially for each month prior to age 65 in which benefits begin.

Dennis P. Angner and Steven D. Pung are eligible for early retirement under the plan. Under the provisions of the plan, participants are eligible for early retirement after reaching the age of 55 with at least 5 years of service. The early retirement benefit amount is the accrued benefit payable at normal retirement date reduced by 5/9% for each of the first 60 months and 5/18% for each of the next 60 months that the benefit commencement date precedes the normal retirement date.

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Retirement bonus plan. We sponsor the Isabella Bank Corporation Retirement Bonus Plan. This nonqualified plan is intended to provide eligible employees with additional retirement benefits. To be eligible, the employee needed to be an employee on January 1, 2007, and be a participant in our frozen Executive Supplemental Income Agreement. Participants must also be an officer with at least 10 years of service as of December 31, 2006. We have sole and exclusive discretion to add new participants to the plan by authorizing such participation pursuant to action of the Board.

An initial amount was credited for each eligible employee as of January 1, 2007. Subsequent amounts have been credited on each allocation date thereafter as defined in the plan. The amount of the initial allocation and the annual allocation shall be determined pursuant to the payment schedule adopted at our sole and exclusive discretion, as set forth in the plan.

Dennis P. Angner and Steven D. Pung are eligible for early retirement under the plan. Under the provisions of the plan, participants are eligible for early retirement upon attaining 55 years of age. There is no difference between the calculation of benefits payable upon early retirement and normal retirement.

Nonqualified Deferred Compensation

Name	Executive contributions in 2013 ($)	Aggregate earnings in 2013 ($)	Aggregate balance at December 31, 2013 ($)
Richard J. Barz	$24,800	$8,224	$247,250
Jae A. Evans	675	560	16,536
Dennis P. Angner	29,400	10,797	323,482
Steven D. Pung	12,675	604	22,273
Jerome E. Schwind	1,200	175	5,225
David J. Reetz	N/A	N/A	N/A

Under the Deferred Compensation Plan for Directors ("Directors Plan"), named executive officers who serve as directors, are required to invest at least 25% of their board fees in our common stock and may invest up to 100% of their earned fees based on their annual election. These amounts are reflected in the above table. These stock investments can be made either through deferred fees or through the purchase of shares through the Isabella Bank Corporation Stockholder Dividend Reinvestment and Employee Stock Purchase Plan ("DRIP Plan"). Deferred fees, under the Directors Plan, are converted on a quarterly basis into shares of our common stock based on the fair market value of shares at that time. Shares credited to a participant’s account are eligible for stock and cash dividends as paid. DRIP Plan shares are purchased on a monthly basis pursuant to the DRIP Plan.

Distribution of deferred fees from the Directors Plan occurs when the participant retires from the Board, attains age 70, or upon the occurrence of certain other events. Distributions must take the form of shares of our common stock. Any common stock issued under deferred fees from the Directors Plan will be considered restricted stock under the Securities Act of 1933, as amended. Common stock purchased through the DRIP Plan are not considered restricted stock under the Securities Act of 1933, as amended.

Potential Payments Upon Termination or Change in Control

The estimated amounts payable to each named executive officer upon severance from employment, retirement, termination upon death or disability or termination following a change in control are described below. For all termination scenarios, the amounts assume such termination took place as of December 31, 2013.

Any Severance of Employment

Regardless of the manner in which a named executive officer’s employment terminates, he or she is entitled to receive amounts earned during his or her term of employment. Such amounts include:

- Amounts accrued and vested through the Defined Benefit Pension Plan.
- Amounts accrued and vested through the Retirement Bonus Plan.
- Amounts deferred in the Directors Plan.
- Unused vacation pay.

Retirement

In the event of the retirement of an executive officer, the officer would receive the benefits identified above. As of December 31, 2013, the named executive officers listed had no unused vacation days.

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Death or Disability

In the event of death or disability of an executive officer, in addition to the benefits listed above, the executive officer will also receive payments under our life insurance plan or under our disability plan as appropriate.

In addition to potential payments upon termination available to all employees, the estates for the executive officers listed below would receive the following payments upon death:

Name	While an Active Employee	Subsequent to Retirement
Richard J. Barz	N/A	$360,000
Jae A. Evans	$351,400	175,700
Dennis P. Angner	616,000	308,000
Steven D. Pung	430,000	215,000
Jerome E. Schwind	301,600	150,800
David J. Reetz	267,000	133,500

Change in Control

We currently do not have a change in control agreement with any of the executive officers; provided, however, pursuant to the Retirement Bonus Plan each participant would become 100% vested in their benefit under the plan if, following a change in control, they voluntarily terminate employment or are terminated without just cause.

Director Compensation

The following table summarizes the Compensation of each non-employee director who served on the Board during 2013.

Name	Fees paid in cash ($)	Fees deferred under Directors Plan ($)	Total fees earned ($)
Dr. Jeffrey J. Barnes	$—	$28,575	$28,575
Sandra L. Caul	30,950	—	30,950
G. Charles Hubscher	—	36,350	36,350
Thomas L. Kleinhardt	—	39,025	39,025
Joseph LaFramboise	15,120	21,905	37,025
Wilson C. Lauer	18,263	6,087	24,350
David J. Maness	—	50,550	50,550
W. Joseph Manifold	—	34,550	34,550
W. Michael McGuire	27,862	10,963	38,825
Sarah R. Opperman	—	29,050	29,050

We paid $1,350 per board meeting plus a retainer of $7,500 to each member during 2013. Members of the Audit Committee were paid $600 per audit committee meeting attended. Members of the Nominating and Corporate Governance Committee were paid $300 per meeting attended. The chairperson of the Board is paid a retainer of $33,000 and the chairperson for the Audit Committee is paid a retainer of $4,000.

Under the Directors Plan, upon a participant’s attainment of age 70, retirement from the Board, or the occurrence of certain other events, they are eligible to receive a lump-sum, in-kind distribution of all of the stock that is then credited to their account. The plan does not allow for cash settlement. Stock issued under the Directors Plan is restricted stock under the Securities Act of 1933, as amended.

We established a Rabbi Trust to fund the Directors Plan. The Rabbi Trust is an irrevocable grantor trust to which we may contribute assets for the limited purpose of funding a nonqualified deferred compensation plan. Although we may not reach the assets of the Rabbi Trust for any purpose other than meeting its obligations under the Directors Plan, the assets of the Rabbi Trust remain subject to the claims of our creditors. We may contribute cash or common stock to the Rabbi Trust from time to time for the sole purpose of funding the Directors Plan. The Rabbi Trust will use any cash that we may contribute to purchase shares of our common stock on the open market through our brokerage services department.

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We transferred $409,163 to the Rabbi Trust in 2013, which held 12,761 shares of our common stock for settlement as of December 31, 2013. As of December 31, 2013, there were 172,550 shares of stock credited to participants' accounts, which credits are unfunded as of such date to the extent that they are in excess of the stock and cash that has been credited to the Rabbi Trust. All amounts are unsecured claims against our general assets. The net cost of this benefit was $147,480 in 2013.

The following table displays the cumulative number of equity shares credited to the accounts of current directors pursuant to the terms of the Directors Plan as of March 17, 2014:

Name	# of shares of stock credited
Dennis P. Angner	13,563
Dr. Jeffrey J. Barnes	7,324
Richard J. Barz	—
Jae A. Evans	693
G. Charles Hubscher	10,923
Thomas L. Kleinhardt	17,534
Joseph LaFramboise	7,618
David J. Maness	21,682
W. Joseph Manifold	13,139
W. Michael McGuire	7,201
Sarah R. Opperman	1,860

Compensation and Human Resource Committee Interlocks and Insider Participation

In 2013, the Compensation and Human Resource Committee members were directors Barnes, Caul, Hubscher, Kleinhardt, LaFramboise, Lauer, Maness, Manifold, McGuire and Opperman. No executive officer of the Corporation serves on any board of directors or compensation committee of any entity that compensates any member of the Compensation and Human Resource Committee.

Indebtedness of and Transactions with Management

Certain directors and officers and members of their families were loan customers of the Bank, or have been directors or officers of corporations, members or managers of limited liability companies, or partners of partnerships which have had transactions with the Bank. In our opinion, all such transactions were made in the ordinary course of business and were substantially on the same terms, including collateral and interest rates, as those prevailing at the same time for comparable transactions with customers not related to the Bank. These transactions do not involve more than normal risk of collectability or present other unfavorable features. Total loans to these customers were approximately $4,178,000 as of December 31, 2013. We address transactions with related parties in our Code of Business Conduct and Ethics Policy. Conflicts of interest are prohibited, except under board approved guidelines.

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information as of March 17, 2014 as to the common stock of the Corporation owned of record or beneficially by any person who is known to the Corporation to be the beneficial owner of more than 5% of the common stock of the Corporation.

Name and Address of Owner	Amount and Nature of Beneficial Ownership (1)	Percent of Class	
McGuirk Investments P.O. Box 222 Mt. Pleasant, MI 48804-0222	413,007	5.36	%

(1) Beneficial ownership is defined by rules of the SEC and includes shares that the person has or shares voting or investment power over and shares that the person has a right to acquire within 60 days from March 17, 2014.

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The following table sets forth certain information as of March 17, 2014 as to our common stock owned beneficially by each director and director nominee, by each named executive officer, and by all directors, director nominees and executive officers as a group.

Name of Owner	Amount and Nature of Beneficial Ownership (1)	Percent of Class	
Dennis P. Angner	33,648	0.43	%
Dr. Jeffrey J. Barnes	13,575	0.17	%
Richard J. Barz	30,697	0.39	%
Jae A. Evans	9,192	0.12	%
G. Charles Hubscher	45,603	0.58	%
Thomas L. Kleinhardt	66,719	0.85	%
Joseph LaFramboise	8,821	0.11	%
David J. Maness	23,636	0.30	%
W. Joseph Manifold	17,989	0.23	%
W. Michael McGuire	78,131	1.00	%
Sarah R. Opperman	2,973	0.04	%
Steven D. Pung	21,002	0.27	%
David J. Reetz	9,343	0.12	%
Jerome E. Schwind	1,163	0.01	%
All Directors, nominees and Executive Officers as a Group (14) persons	362,492	4.62	%

(1) Beneficial ownership is defined by rules of the SEC and includes shares that the person has or shares voting or investment power over and shares that the person has a right to acquire within 60 days from March 17, 2014. Totals for directors include shares of stock credited under the Directors Plan as of March 17, 2014 as disclosed in the table on page 16 above. Totals for named executive officers Steven D. Pung and Jerome E. Schwind include shares of stock credited under the Directors Plan as of March 17, 2014 as follows: Mr. Pung, 934 shares; and Mr. Schwind, 219 shares. Participants in the Directors Plan have a right to acquire shares credited to their accounts upon a distributable event. A description of the Directors Plan under which these shares of stock were issued is set forth above in "Director Compensation."

Independent Registered Public Accounting Firm

The Audit Committee has appointed Rehmann Robson LLC as our independent auditors for the year ending December 31, 2014.

A representative of Rehmann Robson LLC is expected to be present at the Annual Meeting to respond to appropriate questions from shareholders and to make any comments Rehmann Robson LLC believes are appropriate.

Fees for Professional Services Provided by Rehmann Robson LLC

The following table shows the aggregate fees billed by Rehmann Robson LLC for the audit and other services provided for:

	2013	2012
Audit fees	$271,380	$263,180
Audit related fees	29,425	28,250
Tax fees	27,095	25,950
Total	$327,900	$317,380

The audit fees were for performing the integrated audit of our consolidated annual financial statements and the internal control attestation report related to the Federal Deposit Insurance Corporation Improvement Act, review of interim quarterly financial statements included in our Forms 10-Q, and services that are normally provided by Rehmann Robson LLC in connection with statutory and regulatory filings or engagements.

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The audit related fees are typically for various discussions related to the adoption and interpretation of new accounting pronouncements. During 2013, this includes fees for procedures related to nonrecurring regulatory filings. Also included are fees for auditing of our employee benefit plans.

The tax fees were for the preparation of our state and federal tax returns and for consultation on various tax matters.

The Audit Committee has considered whether the services provided by Rehmann Robson LLC, other than the audit fees, are compatible with maintaining Rehmann Robson LLC's independence and believes that the other services provided are compatible.

Pre-Approval Policies and Procedures

All audit and non-audit services over $5,000 to be performed by Rehmann Robson LLC must be approved in advance by the Audit Committee if those fees are reasonably expected to exceed 5.0% of the current year agreed upon fee for independent audit services. As permitted by the SEC's rules, the Audit Committee has authorized its chairperson to pre-approve audit, audit-related, tax and non-audit services, provided that such approved service is reported to the full Audit Committee at its next meeting.

As early as practicable in each calendar year, the independent auditor provides to the Audit Committee a schedule of the audit and other services that the independent auditor expects to provide or may provide during the next twelve months. The schedule will be specific as to the nature of the proposed services, the proposed fees, timing, and other details that the Audit Committee may request. The Audit Committee will by resolution authorize or decline the proposed services. Upon approval, this schedule will serve as the budget for fees by specific activity or service for the next twelve months.

A schedule of additional services proposed to be provided by the independent auditor, or proposed revisions to services already approved, along with associated proposed fees, may be presented to the Audit Committee for their consideration and approval at any time. The schedule will be specific as to the nature of the proposed service, the proposed fee, and other details that the Audit Committee may request. The Audit Committee will by resolution authorize or decline authorization for each proposed new service.

Applicable SEC rules and regulations permit waiver of the pre-approval requirements for services other than audit, review or attest services if certain conditions are met. Out of the services characterized above as audit-related, tax and professional services, none were billed pursuant to these provisions in 2013 and 2012 without pre-approval.

Shareholder Proposals

Any proposals which you intend to present at the next annual meeting must be received before December 1, 2014 to be considered for inclusion in our proxy statement and proxy for that meeting. Proposals should be made in accordance with Securities and Exchange Commission Rule 14a-8.

Directors' Attendance at the Annual Meeting of Shareholders

Our directors are encouraged to attend the annual meeting of shareholders. At the 2013 annual meeting, all directors were in attendance.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires our directors and certain officers and persons who own more than 10% of our common stock, to file with the SEC initial reports of ownership and reports of changes in ownership of our common stock. These officers, directors, and greater than 10% shareholders are required by SEC regulation to furnish us with copies of these reports.

To our knowledge, based solely on review of the copies of such reports furnished, during the year ended December 31, 2013 all Section 16(a) filing requirements were satisfied, with respect to the applicable officers, directors, and greater than 10% beneficial owners with the exception of executive officers Steven D. Pung and David J. Reetz. Executive officers Pung and Reetz filed their Form 3s late on January 10, 2014.

Other Matters

We will bear the cost of soliciting proxies. In addition to solicitation by mail, officers and other employees may solicit proxies by telephone or in person, without compensation other than their regular compensation.

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As to Other Business Which May Come Before the Meeting

We do not intend to bring any other business before the meeting for action. However, if any other business should be presented for action, it is the intention of the persons named in the enclosed form of proxy to vote in accordance with their judgment on such business.

By order of the Board of Directors

Debra Campbell, Secretary

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Forward Looking Statements

This report contains certain forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We intend such forward looking statements to be covered by the safe harbor provisions for forward looking statements contained in the Private Securities Litigation Reform Act of 1995, and is included in this statement for purposes of these safe harbor provisions. Forward looking statements, which are based on certain assumptions and describe future plans, strategies and expectations, are generally identifiable by use of the words “believe,” “expect,” “intend,” “anticipate,” “estimate,” “project
similar expressions. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations and future prospects include, but are not limited to, changes in: interest rates, general economic conditions, monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the FRB, the quality or composition of the loan or investment portfolios, demand for loan products, fluctuation in the value of collateral securing our loan portfolio, deposit flows, competition, demand for financial services in our market area, and accounting principles, policies and guidelines. These risks and uncertainties should be considered in evaluating forward looking statements and undue reliance should not be placed on such statements. Further information concerning Isabella Bank Corporation and its business, including additional factors that could materially affect our financial results, is included in our filings with the SEC.

The acronyms and abbreviations identified below may be used throughout this report, or in our other filings. You may find it helpful to refer back to this page while reading this report.

AFS: Available-for-sale
ALLL: Allowance for loan and lease losses
AOCI: Accumulated other comprehensive income (loss)
ASC: FASB Accounting Standards Codification
ASU: FASB Accounting Standards Update
ATM: Automated Teller Machine
BHC Act: Bank Holding Company Act of 1956
CFPB: Consumer Financial Protection Bureau
CIK: Central Index Key
CRA: Community Reinvestment Act
DIF: Deposit Insurance Fund
DIFS: Department of Insurance and Financial Services
Directors Plan: Isabella Bank Corporation and Related Companies Deferred Compensation Plan for Directors
Dividend Reinvestment Plan: Isabella Bank Corporation Stockholder Dividend Reinvestment Plan and Employee Stock Purchase Plan
Dodd-Frank Act: Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
ESOP: Employee stock ownership plan
Exchange Act: Securities Exchange Act of 1934
FASB: Financial Accounting Standards Board
FDI Act: Federal Deposit Insurance Act
FDIC: Federal Deposit Insurance Corporation
FFIEC: Federal Financial Institutions Examinations Council
Fitch: Fitch Ratings
FRB: Federal Reserve Bank
FHLB: Federal Home Loan Bank
Freddie Mac: Federal Home Loan Mortgage Corporation
GLB Act: Gramm-Leach-Bliley Act of 1999
IFRS: International Financial Reporting Standards
IRR: Interest rate risk
JOBS Act: Jumpstart our Business Startups Act
LIBOR: London Interbank Offered Rate
Moody’s: Moody’s Investors Service, Inc
N/A: Not applicable
N/M: Not meaningful
NASDAQ: NASDAQ Stock Market Index
NASDAQ Banks: NASDAQ Bank Stock Index
NAV: Net asset value
NOW: Negotiable order of withdrawal
NSF: Non-sufficient funds
OCI: Other comprehensive income (loss)
OMSRs: Originated mortgage servicing rights
OREO: Other real estate owned
OTC: Over-the-Counter
OTTI: Other-than-temporary impairment
PBO: Projected benefit obligation
PCAOB: Public Company Accounting Oversight Board
Rabbi Trust: A trust established to fund the Directors Plan
SEC: U.S. Securities & Exchange Commission
SOX: Sarbanes-Oxley Act of 2002
S&P: Standard & Poor's
TDR: Troubled debt restructuring

FTE: Fully taxable equivalent
GAAP: U.S. generally accepted accounting principles
XBRL: eXtensible Business Reporting Language

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Common Stock and Dividend Information

Our common stock is traded in the over the counter market. The common stock is quoted on the OTCQB market tier of the OTC Markets Group Inc.'s ("OTC Markets") electronic quotation system (www.otcmarkets.com) under the symbol "ISBA". Other trades in the common stock occur in privately negotiated transactions from time-to-time of which we may have little or no information.

Our authorized common stock consists of 15,000,000 shares, of which 7,723,023 shares are issued and outstanding as of December 31, 2013. As of that date, there were 3,080 shareholders of record.

We have reviewed the information available as to the range of reported high and low bid quotations, including high and low bid information as reported by OTC Markets. The following table sets forth our compilation of that information for the periods indicated. Price information obtained from OTC Markets reflects inter-dealer prices, without retail mark-up, mark-down, or commissions and may not necessarily represent actual transactions. The following compiled data is provided for information purposes only and should not be viewed as indicative of the actual or market value of our common stock.

	Number of Shares	Sale Price Low	High
2013			
First Quarter	54,741	$21.79	$25.10
Second Quarter	65,865	24.78	26.00
Third Quarter	105,540	23.49	25.50
Fourth Quarter	116,052	21.20	24.84
	342,198		
2012			
First Quarter	64,873	$22.15	$24.25
Second Quarter	63,656	23.45	24.98
Third Quarter	97,706	22.50	24.90
Fourth Quarter	87,966	21.60	23.45
	314,201		

The following table sets forth the cash dividends paid for the following quarters:

	Per Share 2013	2012
First Quarter	$0.21	$0.20
Second Quarter	0.21	0.20
Third Quarter	0.21	0.20
Fourth Quarter	0.21	0.20
Total	$0.84	$0.80

We have adopted and publicly announced a common stock repurchase plan. The plan was last amended on October 23, 2013, to allow for the repurchase of an additional 150,000 shares of common stock. These authorizations do not have expiration dates. As shares are repurchased under this plan, they are retired and revert back to the status of authorized, but unissued shares.

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The following table provides information for the three month period ended December 31, 2013, with respect to the common stock repurchase plan:

	Shares Repurchased		Total Number of Shares Purchased as Part of Publicly Announced Plan or Program	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
	Number	Average Price Per Share		
Balance, September 30				11,441
October 1 - 23	4,400	$23.86	4,400	7,041
Additional Authorization (150,000 shares)				157,041
October 24 - 31	4,950	23.84	4,950	152,091
November 1 - 30	7,022	23.50	7,022	145,069
December 1 - 31	7,673	22.42	7,673	137,396
Balance, December 31	24,045	$23.29	24,045	137,396

Information concerning securities authorized for issuance under equity compensation plans appears under Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters included in our Annual Report on Form 10-K.

Stock Performance

The following graph compares the cumulative total shareholder return on our common stock for the last five years with the cumulative total return on (1) NASDAQ, which is comprised of all United States common shares traded on the NASDAQ and (2) the NASDAQ Banks, which is comprised of bank and bank holding company common shares traded on the NASDAQ over the same period. The graph assumes the value of an investment in ISBA and each index was $100 at December 31, 2008 and all dividends are reinvested.

Year	ISBA	NASDAQ	NASDAQ Banks
12/31/2008	$100.00	$100.00	$100.00
12/31/2009	77.10	145.05	83.58
12/31/2010	73.40	171.14	95.29
12/31/2011	104.50	169.83	85.32
12/31/2012	99.30	199.89	101.15
12/31/2013	112.60	279.62	142.93

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Summary of Selected Financial Data
(Dollars in thousands except per share amounts)

	2013	2012	2011	2010	2009
INCOME STATEMENT DATA					
Interest income	$54,076	$56,401	$57,905	$57,217	$58,105
Interest expense	11,021	13,423	16,203	17,204	19,839
Net interest income	43,055	42,978	41,702	40,013	38,266
Provision for loan losses	1,111	2,300	3,826	4,857	6,093
Noninterest income	10,175	11,530	8,218	9,300	10,156
Noninterest expenses	37,413	37,639	34,530	33,807	33,683
Federal income tax expense	2,196	2,363	1,354	1,604	846
Net income	$12,510	$12,206	$10,210	$9,045	$7,800
PER SHARE					
Basic earnings	$1.63	$1.61	$1.35	$1.20	$1.04
Diluted earnings	1.59	1.56	1.31	1.17	1.01
Dividends	0.84	0.80	0.76	0.72	0.70
Market value*	23.85	21.75	23.70	17.30	18.95
Tangible book value*	15.62	14.72	13.90	13.22	12.67
BALANCE SHEET DATA					
At end of period					
Loans	$808,037	$772,753	$750,291	$735,304	$723,316
Total assets	1,493,137	1,430,639	1,337,925	1,225,810	1,143,944
Deposits	1,043,766	1,017,667	958,164	877,339	802,652
Shareholders' equity	160,609	164,489	154,783	145,161	140,803
Average balance					
Loans	$790,132	$754,304	$743,441	$725,534	$725,299
Total assets	1,448,440	1,381,083	1,287,195	1,182,930	1,127,634
Deposits	1,025,088	984,927	927,186	840,392	786,714
Shareholders’ equity	163,010	160,682	151,379	145,304	137,910
PERFORMANCE RATIOS					
Return on average total assets	0.86 %	0.88 %	0.79 %	0.76 %	0.69 %
Return on average shareholders' equity	7.67 %	7.60 %	6.74 %	6.22 %	5.66 %
Return on average tangible equity	10.71 %	11.41 %	10.30 %	9.51 %	8.53 %
Net interest margin yield (FTE)	3.50 %	3.70 %	3.87 %	4.04 %	4.06 %
Loan to deposit*	77.42 %	75.93 %	78.31 %	83.81 %	90.12 %
Nonperforming loans to total loans*	0.42 %	1.00 %	0.95 %	0.83 %	1.28 %
Nonperforming assets to total assets*	0.32 %	0.68 %	0.67 %	0.67 %	0.91 %
ALLL to nonperforming loans*	339.63 %	154.39 %	173.10 %	202.97 %	139.71 %
CAPITAL RATIOS					
Shareholders' equity to assets*	10.76 %	11.50 %	11.57 %	11.84 %	12.31 %
Tier 1 capital to average assets*	8.46 %	8.29 %	8.18 %	8.24 %	8.60 %
Tier 1 risk-based capital*	13.67 %	13.23 %	12.92 %	12.44 %	12.80 %
Total risk-based capital*	14.92 %	14.48 %	14.17 %	13.69 %	14.06 %

* At end of year

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The following table outlines our interim results of operations and key performance measures as of, and for the unaudited periods ended:

	Quarter to Date							
	December 31 2013	September 30 2013	June 30 2013	March 31 2013	December 31 2012	September 30 2012	June 30 2012	March 31 2012
Total interest income	$13,603	$ 13,505	$13,440	$13,528	$ 13,845	$ 14,164	$14,188	$14,204
Total interest expense	2,683	2,736	2,781	2,821	3,051	3,239	3,429	3,704
Net interest income	10,920	10,769	10,659	10,707	10,794	10,925	10,759	10,500
Provision for loan losses	245	351	215	300	1,200	200	439	461
Noninterest income	2,130	2,862	2,736	2,447	2,686	2,759	2,544	3,541
Noninterest expenses	9,578	9,320	9,324	9,191	9,750	9,128	9,188	9,573
Federal income tax expense	303	674	643	576	19	899	672	773
Net income	$2,924	$ 3,286	$3,213	$3,087	$ 2,511	$ 3,457	$3,004	$3,234
PER SHARE								
Basic earnings	$0.38	$ 0.43	$0.42	$0.40	$ 0.33	$ 0.45	$0.40	$0.43
Diluted earnings	0.37	0.42	0.41	0.39	0.32	0.44	0.39	0.41
Dividends	0.21	0.21	0.21	0.21	0.20	0.20	0.20	0.20
Market value*	23.85	24.85	24.75	25.00	21.75	22.50	24.85	24.00
Tangible book value*	15.62	15.43	15.19	14.95	14.72	14.65	14.37	14.15

* At end of period

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Management's Discussion and Analysis of Financial Condition and Results of Operations

ISABELLA BANK CORPORATION FINANCIAL REVIEW

(Dollars in thousands except per share amounts)

The following is management’s discussion and analysis of the financial condition and results of our operations. This discussion and analysis is intended to provide a better understanding of the consolidated financial statements and statistical data included elsewhere in our Annual Report on Form 10-K.

Executive Summary

During 2013, we earned a record $12,510, which was an increase of $304 from 2012. We enjoyed loan growth of $35,284 and an improvement in credit quality indicators. As of December 31, 2013, our total assets were $1.49 billion, and assets under management - which included loans sold and serviced, and assets managed by our Investment and Trust Services Department of $645.09 million - were $2.14 billion, which was a 4.13% increase in assets under management from December 31, 2012.

While competition for high quality loans has been intense, we have not relaxed our underwriting standards and we remain committed to core community banking principles and long term sustainable growth. This focus has enabled us to continue to meet the needs of the communities we serve, which translates into increased shareholder value. Our loan quality remains sound as evidenced by the relatively low percentage of loans classified as nonperforming. As of December 31, 2013, our ratio of nonperforming loans to total loans was 0.42%. In comparison, the average percentage for all bank holding companies in our peer group was 1.71% as of September 30, 2013 (peer group ratios are not yet available for December 31, 2013). In addition, our risk based capital to risk adjusted total assets ratio of 14.92% as of December 31, 2013 compares favorably to the 8.00% ratio required to be classified as adequately capitalized under the Federal Reserve Board's risk based capital rules.

In August 2013, we opened our latest branch in Big Rapids, Michigan. We are excited about our newest branch's growth potential and the new relationships that we have established. The new location has complemented our existing Big Rapids office and will provide additional shareholder value for years to come.

In order to preserve our culture and provide strong leadership for the future we emphasize succession planning. We have made significant investments in employee development and as a result, we have a tremendous amount of leadership and professional strength throughout our organization. The selection of Jae A. Evans, previously Isabella Bank's Chief Operations Officer, as Richard J. Barz's successor as CEO of Isabella Bank Corporation effective January 1, 2014 was no exception to this commitment. Mr. Evans has been with the Bank since 2008 and has more than 36 years of banking experience. Prior to his position as Chief Operations Officer, Mr. Evans served as the president of the Greenville Division of Isabella Bank. Mr. Barz continues to serve on the Board of Directors for both Isabella Bank and Isabella Bank Corporation.

Recent Legislation

The Health Care and Education Act of 2010, the Patient Protection and Affordable Care Act, the Dodd-Frank Act, and the JOBS Act, have already had, and are expected to continue to have, a negative impact on our operating results. Of these four acts, the Dodd-Frank Act has had the most significant impact. The Dodd-Frank Act established the CFPB which has made significant changes in the regulation of financial institutions aimed at strengthening the oversight of the federal government over the operation of the financial services sector and increasing the protection of consumers. As a result of the implementation of some of the provisions, we have had increases in operational costs and this trend is expected to continue.

The CFPB has begun to issue substantial proposed and final rules regarding consumer lending, including residential mortgage lending. These rules will likely further increase our compensation and outside advisor costs to ensure our compliance with the new regulations. In addition to increased costs, we anticipate that residential mortgage volume will likely decline in 2014 due to the strict underwriting standards that have removed business judgment from the underwriting process.

On July 2, 2013, the FRB published revised BASEL III Capital standards for banks. The rules redefine what is included or deducted from equity capital, changes risk weighting for certain on and off-balance sheet assets, increases the minimum required equity capital to be considered well capitalized, and introduces a capital cushion buffer. The rules, which will be gradually phased in between 2015 and 2019, are not expected to have a material impact on the

Corporation.

Other

We have not received any notices of regulatory actions as of February 28, 2014.

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CRITICAL ACCOUNTING POLICIES

Our significant accounting policies are set forth in "Note 1 – Nature of Operations and Summary of Significant Accounting Policies" of the Notes to Consolidated Financial Statements. Of these significant accounting policies, we consider our policies regarding the ALLL, acquisition intangibles and goodwill, and the determination of the fair value and assessment of OTTI of investment securities to be our most critical accounting policies.

The ALLL requires our most subjective and complex judgment. Changes in economic conditions can have a significant impact on the ALLL and, therefore, the provision for loan losses and results of operations. We have developed policies and procedures for assessing the appropriateness of the ALLL, recognizing that this process requires a number of assumptions and estimates with respect to our loan portfolio. Our assessments may be impacted in future periods by changes in economic conditions, and the discovery of information with respect to borrowers which is not known to us at the time of the issuance of the consolidated financial statements. For additional discussion concerning our ALLL and related matters, see the detailed discussion to follow under the caption "Allowance for Loan and Lease Losses" and "Note 6 – Loans and ALLL" of the Notes to Consolidated Financial Statements.

U.S. generally accepted accounting principles require that we determine the fair value of the assets and liabilities of an acquired entity, and record their fair value on the date of acquisition. We employ a variety of measures in the determination of the fair value, including the use of discounted cash flow analysis, market appraisals, and projected future revenue streams. For certain items that we believe we have the appropriate expertise to determine the fair value, we may choose to use our own calculations of the value. In other cases, where the value is not easily determined, we consult with outside parties to determine the fair value of the identified asset or liability. Once valuations have been adjusted, the net difference between the price paid for the acquired entity and the net value of assets acquired on our balance sheet, including identifiable intangibles, is recorded as goodwill. Acquisition intangibles and goodwill are qualitatively evaluated to determine if it is more likely than not that the carrying balance is impaired on at least an annual basis.

We currently have both AFS and trading investment securities that are carried at fair value. Changes in the fair value of AFS investment securities are included as a component of other comprehensive income, while declines in the fair value of these securities below their cost that are other-than-temporary are reflected as realized losses in the consolidated statements of income. The change in value of trading investment securities is included in current earnings. We evaluate AFS securities for indications of losses that are considered other-than-temporary, if any, on a regular basis. The market values for AFS and trading investment securities are typically obtained from outside sources and applied to individual securities within the portfolio.

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Distribution of Assets, Liabilities, and Shareholders' Equity; Interest Rates and Interest Differential

The following schedules present the daily average amount outstanding for each major category of interest earning assets, nonearning assets, interest bearing liabilities, and noninterest bearing liabilities for the last three years. These schedules also present an analysis of interest income and interest expense for the years indicated. All interest income is reported on a FTE basis using a 34% federal income tax rate. Nonaccruing loans, for the purpose of the following computations, are included in the average loan amounts outstanding. FRB and FHLB restricted equity holdings are included in accrued income and other assets.

	Year Ended December 31								
	2013			2012			2011		
	Average Balance	Tax Equivalent Interest	Average Yield / Rate	Average Balance	Tax Equivalent Interest	Average Yield / Rate	Average Balance	Tax Equivalent Interest	Average Yield / Rate
INTEREST EARNING ASSETS									
Loans	$790,132	$41,233	5.22 %	$754,304	$43,396	5.75 %	$743,441	$45,463	6.12 %
Taxable investment securities	335,575	7,228	2.15 %	309,681	7,555	2.44 %	235,437	6,941	2.95 %
Nontaxable investment securities	165,774	8,294	5.00 %	145,502	7,941	5.46 %	136,356	7,847	5.75 %
Trading account securities	1,071	55	5.14 %	2,624	142	5.41 %	5,087	286	5.62 %
Other	27,235	447	1.64 %	33,359	486	1.46 %	37,539	506	1.35 %
Total earning assets	1,319,787	57,257	4.34 %	1,245,470	59,520	4.78 %	1,157,860	61,043	5.27 %
NONEARNING ASSETS									
ALLL	(11,877)			(12,408)			(12,522)		
Cash and demand deposits due from banks	18,162			19,409			20,195		
Premises and equipment	25,993			25,244			24,397		
Accrued income and other assets	96,375			103,368			97,265		
Total assets	$1,448,440			$1,381,083			$1,287,195		
INTEREST BEARING LIABILITIES									
Interest bearing demand deposits	$183,665	161	0.09 %	$170,851	204	0.12 %	$152,530	189	0.12 %
Savings deposits	242,777	366	0.15 %	214,958	451	0.21 %	192,999	488	0.25 %
Time deposits	456,774	6,613	1.45 %	473,675	8,476	1.79 %	467,931	10,258	2.19 %
Borrowed funds	251,590	3,881	1.54 %	225,689	4,292	1.90 %	198,828	5,268	2.65 %
Total interest bearing liabilities	1,134,806	11,021	0.97 %	1,085,173	13,423	1.24 %	1,012,288	16,203	1.60 %

NONINTEREST BEARING LIABILITIES								
Demand deposits	141,872			125,443			113,726		
Other	8,752			9,785			9,802		
Shareholders' equity	163,010			160,682			151,379		
Total liabilities and shareholders' equity	$1,448,440			$1,381,083			$1,287,195		
Net interest income (FTE)		$46,236			$46,097			$44,840	
Net yield on interest earning assets (FTE)			3.50 %			3.70 %			3.87 %

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Net Interest Income

Net interest income is the amount by which interest income on earning assets exceeds the interest expenses on interest bearing liabilities. Net interest income is influenced by changes in the balance and mix of assets and liabilities and market interest rates. We exert some control over these factors; however, FRB monetary policy and competition have a significant impact. Interest income includes loan fees of $3,182 in 2013, $3,178 in 2012, and $2,385 in 2011. For analytical purposes, net interest income is adjusted to an FTE basis by adding the income tax savings from interest on tax exempt loans, AFS securities, and trading securities, thus making year to year comparisons more meaningful.

Volume and Rate Variance Analysis

The following table sets forth the effect of volume and rate changes on interest income and expense for the periods indicated. For the purpose of this table, changes in interest due to volume and rate were determined as follows:

Volume—change in volume multiplied by the previous year's rate.

Rate—change in the FTE rate multiplied by the previous year's volume.

The change in interest due to both volume and rate has been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each.

	2013 Compared to 2012 Increase (Decrease) Due to			2012 Compared to 2011 Increase (Decrease) Due to		
	Volume	Rate	Net	Volume	Rate	Net
Changes in interest income						
Loans	$1,996	$(4,159)	$(2,163)	$656	$(2,723)	$(2,067)
Taxable AFS securities	601	(928)	(327)	1,945	(1,331)	614
Nontaxable AFS securities	1,049	(696)	353	511	(417)	94
Trading securities	(80)	(7)	(87)	(134)	(10)	(144)
Other	(96)	57	(39)	(59)	39	(20)
Total changes in interest income	3,470	(5,733)	(2,263)	2,919	(4,442)	(1,523)
Changes in interest expense						
Interest bearing demand deposits	14	(57)	(43)	22	(7)	15
Savings deposits	53	(138)	(85)	52	(89)	(37)
Time deposits	(293)	(1,570)	(1,863)	124	(1,906)	(1,782)
Borrowed funds	457	(868)	(411)	647	(1,623)	(976)
Total changes in interest expense	231	(2,633)	(2,402)	845	(3,625)	(2,780)
Net change in interest margin (FTE)	$3,239	$(3,100)	$139	$2,074	$(817)	$1,257

As shown in the following table, we experienced significant downward pressure on our net yield on interest earning assets over the past 12 months. This pressure is a direct result of FRB monetary policy which has reduced yields on interest earning assets more than rates on interest bearing liabilities. The persistent low interest rate environment coupled with an increase in the concentration of AFS securities and trading securities as a percentage of earnings assets has also placed downward pressure on net interest margin yield.

	Average Yield / Rate for the Three Month Periods Ended:				
	December 31 2013	September 30 2013	June 30 2013	March 31 2013	December 31 2012
Total earning assets	4.30 %	4.31 %	4.35 %	4.41 %	4.61 %
Total interest bearing liabilities	0.94 %	0.96 %	0.99 %	1.01 %	1.12 %
Net yield on interest earning assets (FTE)	3.50 %	3.48 %	3.50 %	3.54 %	3.65 %

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While there have been increases in long term interest rates, short and medium term interest rates continue to be at historically low levels. We do not anticipate any significant changes in net interest margin yield in the near future. Despite the challenging current interest rate environment, we anticipate net interest income and the net yield on interest earning assets (FTE) will modestly increase as most interest earning assets have already repriced at lower rates while some interest bearing liabilities will likely reprice at lower interest rates in coming periods. As shown in in the following table net interest income in the fourth quarter of 2013 exceeded net interest income in each of the previous four quarters.

	Quarter to Date Net Interest Income				
	December 31 2013	September 30 2013	June 30 2013	March 31 2013	December 31 2012
Total interest income	$13,603	$ 13,505	$13,440	$13,528	$13,845
Total interest expense	2,683	2,736	2,781	2,821	3,051
Net interest income	$10,920	$ 10,769	$10,659	$10,707	$10,794

Allowance for Loan and Lease Losses

The viability of any financial institution is ultimately determined by its management of credit risk. Loans represent our single largest concentration of risk. The ALLL is our estimation of losses within the existing loan portfolio. We allocate the ALLL throughout the loan portfolio based on our assessment of the underlying risks associated with each loan segment. Our assessments include allocations based on specific impairment valuation allowances, historical charge-offs, internally assigned credit ratings, and past due and nonaccrual balances. A portion of the ALLL is not allocated to any one loan segment, but is instead a reflection of other qualitative risks within the loan portfolio.

The following table summarizes our charge-off and recovery activity for the years ended December 31:

	2013	2012	2011	2010	2009
ALLL at beginning of period	$11,936	$12,375	$12,373	$12,979	$11,982
Loans charged-off					
Commercial and agricultural	907	1,672	1,984	3,731	3,081
Residential real estate	1,004	1,142	2,240	2,524	2,627
Consumer	429	542	552	596	934
Total loans charged-off	2,340	3,356	4,776	6,851	6,642
Recoveries					
Commercial and agricultural	363	240	461	453	623
Residential real estate	181	122	177	638	546
Consumer	249	255	314	297	377
Total recoveries	793	617	952	1,388	1,546
Provision for loan losses	1,111	2,300	3,826	4,857	6,093
ALLL at end of period	$11,500	$11,936	$12,375	$12,373	$12,979
Net loans charged-off	$1,547	$2,739	$3,824	$5,463	$5,096
Net loans charged-off to average loans outstanding	0.20 %	0.36 %	0.51 %	0.75 %	0.70 %
ALLL as a % of loans at end of period	1.42 %	1.54 %	1.65 %	1.68 %	1.79 %

The following table summarizes our charge-off and recovery activity for the three months ended:

	December 31 2013	September 30 2013	June 30 2013	March 31 2013	December 31 2012
Total loans charged-off	$497	$602	$719	$522	$1,469
Total recoveries	152	151	295	195	143
Net loans charged-off	345	451	424	327	1,326
Net loans charged-off to average loans outstanding	0.04 %	0.06 %	0.05 %	0.04 %	0.17 %
Provision for loan losses	$245	$351	$215	$300	$1,200

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As the level of net loans charged-off has continued to decline since 2008, we have been able to gradually reduce the ALLL in both amount and as a percentage of loans. We anticipate 2014 net loans charged-off to approximate 2013 levels and, as such, we anticipate that the ALLL will approximate current levels. While overall net loans charged-off is likely to remain at current levels in the near future, charge-offs on residential real estate loans are anticipated to increase slightly as a percentage of net loans charged-off due to increased foreclosures as a result of the impact of the CFPB ability to repay rules. For further discussion of the allocation of the ALLL, see “Note 6 – Loans and ALLL” of the Notes to Consolidated Financial Statements.

Loans Past Due and Loans in Nonaccrual Status

Increases in past due and nonaccrual loans can have a significant impact on the ALLL. To determine the potential impact, and corresponding estimated losses, we analyze our historical loss trends on loans past due greater than 30 days and nonaccrual loans. We monitor all loans that are past due and in nonaccrual status for indicators of additional deterioration.

	Total Past Due and Nonaccrual				
	December 31 2013	September 30 2013	June 30 2013	March 31 2013	December 31 2012
Commercial and agricultural	$3,621	$5,371	$4,962	$8,713	$7,271
Residential real estate	7,008	6,339	5,080	4,077	5,431
Consumer	259	152	104	212	199
Total	$10,888	$11,862	$10,146	$13,002	$12,901

	Total Past Due and Nonaccrual as of December 31				
	2013	2012	2011	2011	2009
Commercial and agricultural	$3,621	$7,271	$7,420	$9,606	$8,839
Residential real estate	7,008	5,431	5,297	8,119	10,296
Consumer	259	199	186	309	460
Total	$10,888	$12,901	$12,903	$18,034	$19,595

A summary of loans past due and in nonaccrual status, including the composition of the ending balance of nonaccrual loans by type, is included in “Note 6 – Loans and ALLL” of the Notes to Consolidated Financial Statements.

Troubled Debt Restructurings

We have taken a proactive approach to avoid foreclosures on borrowers who are willing to work with us in modifying their loans, thus making them more affordable. While this approach has allowed certain borrowers to develop a payment structure that will allow them to continue making payments in lieu of foreclosure, it has contributed to a significant increase in the level of loans classified as TDRs. The implementation of ASU No. 2011-02 “A Creditor’s Determination of Whether a Restructuring Is a Troubled Debt Restructuring” has also contributed to the increased level of TDRs. The modifications have been successful for us and our customers as very few of the modified loans have resulted in foreclosures. At the time of the TDR, the loan is reviewed to determine whether or not to classify the loan as accrual or nonaccrual. The majority of new modifications result in terms that satisfy our criteria for continued interest accrual. TDRs that have been placed in nonaccrual status may be placed back on accrual status after six months of continued performance.

We restructure debt with borrowers who due to temporary financial difficulties are unable to service their debt under the original terms. We may extend the amortization period, reduce interest rates, forgive principal, or a combination of these modifications. Typically, the modifications are for a period of five years or less. There were no TDRs that were Government sponsored as of December 31, 2013 or December 31, 2012.

Losses associated with TDRs, if any, are included in the estimation of the ALLL in the quarter in which a loan is identified as a TDR, and we review the ALLL estimation each reporting period to ensure its continued appropriateness.

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The following table provides a roll-forward of TDRs for the years ended December 31, 2012 and 2013:

	Accruing Interest Number of Loans	Accruing Interest Balance	Nonaccrual Number of Loans	Nonaccrual Balance	Total Number of Loans	Total Balance
January 1, 2012	112	$17,739	12	$1,017	124	$18,756
New modifications	58	10,149	9	1,217	67	11,366
Principal payments	—	(1,578)	—	(287)	—	(1,865)
Loans paid-off	(40)	(7,719)	(4)	(158)	(44)	(7,877)
Partial charge-off	—	(231)	—	(40)	—	(271)
Balances charged-off	(2)	(140)	(4)	(100)	(6)	(240)
Transfers to OREO	(2)	(134)	(5)	(380)	(7)	(514)
Transfers to accrual status	2	131	(2)	(131)	—	—
Transfers to nonaccrual status	(13)	(1,686)	13	1,686	—	—
December 31, 2012	115	16,531	19	2,824	134	19,355
New modifications	76	12,192	5	424	81	12,616
Principal payments	—	(891)	—	(292)	—	(1,183)
Loans paid-off	(17)	(2,844)	(6)	(800)	(23)	(3,644)
Partial charge-off	—	(79)	—	(477)	—	(556)
Balances charged-off	(3)	(167)	(1)	(27)	(4)	(194)
Transfers to OREO	(1)	(33)	(7)	(496)	(8)	(529)
Transfers to accrual status	2	133	(2)	(133)	—	—
Transfers to nonaccrual status	(7)	(419)	7	419	—	—
December 31, 2013	165	$24,423	15	$1,442	180	$25,865

The following table summarizes our TDRs as of December 31:

	2013 Accruing Interest	2013 Nonaccrual	2013 Total	2012 Accruing Interest	2012 Nonaccrual	2012 Total	2011 Accruing Interest	2011 Nonaccrual	2011 Total
Current	$21,690	$1,189	$22,879	$16,301	$941	$17,242	$16,125	$514	$16,639
Past due 30-59 days	2,158	37	2,195	158	561	719	1,564	344	1,908
Past due 60-89 days	575	—	575	72	41	113	50	85	135
Past due 90 days or more	—	216	216	—	1,281	1,281	—	74	74
Total	$24,423	$1,442	$25,865	$16,531	$2,824	$19,355	$17,739	$1,017	$18,756

	2010 Accruing Interest	2010 Nonaccrual	2010 Total	2009 Accruing Interest	2009 Nonaccrual	2009 Total
Current	$4,798	$499	$5,297	$2,754	$786	$3,540
Past due 30-59 days	175	26	201	107	80	187
Past due 60-89 days	102	—	102	—	824	824
Past due 90 days or more	—	163	163	—	426	426
Total	$5,075	$688	$5,763	$2,861	$2,116	$4,977

Additional disclosures about TDRs are included in “Note 6 – Loans and ALLL” of the Notes to Consolidated Financial Statements.

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Impaired Loans

The following is a summary of information pertaining to impaired loans as of December 31:

	2013			2012		
	Outstanding Balance	Unpaid Principal Balance	Valuation Allowance	Outstanding Balance	Unpaid Principal Balance	Valuation Allowance
TDRs						
Commercial real estate	$10,663	$11,193	$1,585	$9,227	$9,640	$1,333
Commercial other	1,310	1,340	62	1,167	1,197	38
Agricultural real estate	1,459	1,459	30	91	91	32
Agricultural other	79	199	—	569	689	59
Residential real estate senior liens	12,266	12,841	2,010	8,224	8,670	1,429
Residential real estate junior liens	20	20	4	21	57	4
Consumer secured	68	69	—	56	56	—
Total TDRs	25,865	27,121	3,691	19,355	20,400	2,895
Other impaired loans						
Commercial real estate	1,707	2,193	330	1,817	2,304	320
Commercial other	136	217	58	2,245	2,376	359
Agricultural other	—	—	—	63	63	—
Residential real estate senior liens	1,795	2,473	268	2,226	3,002	354
Residential real estate junior liens	28	45	5	51	61	9
Home equity lines of credit	193	493	—	182	482	—
Consumer secured	51	79	—	19	28	—
Total other impaired loans	3,910	5,500	661	6,603	8,316	1,042
Total impaired loans	$29,775	$32,621	$4,352	$25,958	$28,716	$3,937

Additional disclosure related to impaired loans is included in “Note 6 – Loans and ALLL” of the Notes to Consolidated Financial Statements.

Nonperforming Assets

The following table summarizes our nonperforming assets as of December 31:

	2013		2012		2011		2010		2009	
Nonaccrual loans	$3,244		$7,303		$6,389		$5,610		$8,522	
Accruing loans past due 90 days or more	142		428		760		486		768	
Total nonperforming loans	3,386		7,731		7,149		6,096		9,290	
Foreclosed assets	1,412		2,018		1,876		2,067		1,157	
Total nonperforming assets	$4,798		$9,749		$9,025		$8,163		$10,447	
Nonperforming loans as a % of total loans	0.42	%	1.00	%	0.95	%	0.83	%	1.28	%
Nonperforming assets as a % of total assets	0.32	%	0.68	%	0.67	%	0.67	%	0.91	%

After a loan is 90 days past due, it is generally placed in nonaccrual status unless it is well secured and in the process of collection. Upon transferring the loans to nonaccrual status, we perform an evaluation to determine the net realizable value of the underlying collateral. This evaluation is used to help determine if any charge-offs are necessary. Loans may be placed back on accrual status after six months of continued performance.

Included in the nonaccrual loan balances above were loans currently classified as TDRs as of December 31:

	2013	2012	2011	2010	2009
Commercial and agricultural	$833	$2,325	$520	$115	$1,692
Residential real estate	609	499	497	573	424

Total	$1,442	$2,824	$1,017	$688	$2,116

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Nonaccrual TDRs increased in 2012 as a result of two large TDRs that were granted during the year. These relationships had a balance of $756 and $1,710 as of December 31, 2013 and 2012, respectively.

The following table lists individually significant commercial and agricultural loan relationships in nonaccrual status. To be classified as individually significant, the recorded investment in nonaccrual loans to each borrower must have exceeded $1,000 as of the end of each period.

	2013			2012			2011		
	Outstanding Balance		Specific Allocation	Outstanding Balance		Specific Allocation	Outstanding Balance	Specific Allocation	
Borrower 1	$—		$—	$—	(A)	$—	$1,014	$—	(C)
Borrower 2	—		—	—	(B)	—	1,900	—	(D)
Borrower 3	—	(A)	—	2,077		359	—	—	
Borrower 4	—		—	—		—	—	—	
Others not individually significant	3,244			5,226			3,475		
Total	$3,244			$7,303			$6,389		

	2010			2009		
	Outstanding Balance		Specific Allocation	Outstanding Balance	Specific Allocation	
Borrower 1	$—		$—	$—	$—	
Borrower 2	2,679		345	—	—	
Borrower 3	—		—	—	—	
Borrower 4	—	(B)	—	1,800	—	(D)
Others not individually significant	2,931			6,722		
Total	$5,610			$8,522		

A - Transferred to accrual status.

B - Loan was partially charged-off with the remaining outstanding balance paid off by the customer.

C - No specific allocation as the net realizable value of the loan's underlying collateral value exceeded the loan's carrying balance.

D - No specific allocation established for this loan as it was charged down to reflect the current fair value of the underlying real estate.

Additional disclosures about nonaccrual loans are included in "Note 6 – Loans and ALLL" of the Notes to Consolidated Financial Statements.

We continue to devote considerable attention to identifying impaired loans and adjusting the net carrying value of these loans to their current net realizable values through the establishment of a specific reserve or the recording of a charge-off. We believe that all loans deemed to be impaired have been identified.

We believe that the level of the ALLL is appropriate as of December 31, 2013 and we will continue to closely monitor overall credit quality and our policies and procedures related to the analysis of the ALLL to ensure that the ALLL remains appropriate.

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Noninterest Income and Noninterest Expenses

Noninterest income consists of service charges and fees, gains on sale of mortgage loans, earnings on corporate owned life insurance policies, gains and losses on sales of AFS securities, and other income. Significant account balances are highlighted in the following table with additional descriptions of significant fluctuations for the years ended December 31:

			Change			Change	
	2013	2012	$	%	2011	$	%
Service charges and fees							
NSF and overdraft fees	$2,243	$2,367	$(124)	(5.24)%	$2,500	$(133)	(5.32)%
ATM and debit card fees	1,944	1,874	70	3.74%	1,736	138	7.95%
Trust fees	1,154	1,061	93	8.77%	979	82	8.38%
Freddie Mac servicing fee	737	757	(20)	(2.64)%	732	25	3.42%
Service charges on deposit accounts	373	337	36	10.68%	324	13	4.01%
Net OMSRs income (loss)	269	(89)	358	N/M	(293)	204	(69.62)%
All other	116	125	(9)	(7.20)%	140	(15)	(10.71)%
Total service charges and fees	6,836	6,432	404	6.28%	6,118	314	5.13%
Gain on sale of mortgage loans	962	1,576	(614)	(38.96)%	538	1,038	N/M
Earnings on corporate owned life insurance policies	732	698	34	4.87			