ISABELLA BANK CORP
Form DEF 14A
March 21, 2016
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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.)
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ISABELLA BANK CORPORATION
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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 May 3, 2016

Notice is hereby given that the Annual Meeting of Shareholders of Isabella Bank Corporation will be held on Tuesday, May 3, 2016 at 5:00 p.m. Eastern Daylight Time, at the Comfort Inn Conference Center, 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 four directors.
2. 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 7, 2016 as the record date for determination of shareholders entitled to notice of, and to vote at, the meeting or any adjournments thereof.

By order of the Board of Directors
Debra Campbell, Secretary
Dated: March 21, 2016

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

MAIL	INTERNET	PHONE
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.	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.	1-800-690-6903 (toll-free): Have your proxy form in hand then follow the instructions.

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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 subsidiary, Isabella Bank. Isabella Bank Corporation refers solely to the parent holding company, and the “Bank” refers to 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 Tuesday, May 3, 2016 at 5:00 p.m. at the Comfort Inn Conference Center, 2424 S. Mission Street, Mt. Pleasant, Michigan, or at any adjournment or adjournments thereof, for the purposes set forth in the accompanying Notice of the Annual Meeting of Shareholders and in this Proxy Statement.

This Proxy Statement has been mailed on March 21, 2016 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 7, 2016 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 7, 2016, there were 7,804,287 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 execute a 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 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, Proposal 1 is not an item 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 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.

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Proposal 1-Election of Directors

The Board of Directors (the "Board") currently consists of twelve (12) members divided into three classes, with the directors in each class being elected for a term of three years. The Board increased from 11 members to 12 with the appointment of Gregory V. Varner to the Corporation's Board of Directors on August 26, 2015. At the Annual Meeting, Thomas L. Kleinhardt, Joseph LaFramboise, Sarah R. Opperman, and Gregory V. Varner, whose terms expire at the Annual Meeting, have been nominated for election to serve through the 2019 Annual Meeting.

Except as otherwise specified, proxies will be voted for election of the four 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 four 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 objective 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 possesses these qualities and provides a diverse complement of specific business skills and experience.

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 experience 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	G ar
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	X
Jae A. Evans	X	X		X	X			X		X	X
G. Charles Hubscher	X	X		X	X						
Thomas L. Kleinhardt	X			X	X		X	X		X	
Joseph LaFramboise	X			X	X		X			X	
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
Gregory V. Varner	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	Information Technology
David J. Maness	X[o]	X[o]	X[c]	X[o]
Dennis P. Angner				X
Dr. Jeffrey J. Barnes		X	X	
Richard J. Barz				
Jae A. Evans				X
G. Charles Hubscher		X	X	
Thomas L. Kleinhardt	X		X	
Joseph LaFramboise	X		X	X
W. Joseph Manifold	X[c]		X	X
W. Michael McGuire	X	X[c]	X	X[c]
Sarah R. Opperman	X		X	
Gregory V. Varner			X	

C — Chairperson
O — Ex-Officio

Director Nominees for Terms Ending in 2019

Thomas L. Kleinhardt (age 61) has been a director of the Bank since 1998 and of Isabella Bank Corporation since 2010. Mr. Kleinhardt is President of McGuire Chevrolet, active in the Clare Kiwanis Club, and the former coach of the girls Varsity Basketball team for both Farwell High School and Clare High School.

Joseph LaFramboise (age 66) 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 56) has been a director of the Bank and Isabella Bank Corporation since 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. Ms. Opperman is Chair of the CMU Board of Trustees. She also is a member of the CMU Development Board. She is a member of the Mid Michigan Health's Corporate Board of Directors and Vice Chair of the Fund Development Committee. Ms. Opperman also serves on the United Way of Midland County Board.

Gregory V. Varner (age 61) was appointed to the Boards of the Corporation and the Bank on August 26, 2015. Mr. Varner is the Research Director for the Michigan Bean Commission and currently serves as the Chair for the Breckenridge Division Board of the Bank. He received a Bachelor of Science in Agricultural Education and a Master of Science in Crop Science from Michigan State University.

Current Directors with Terms Ending in 2017

Dr. Jeffrey J. Barnes (age 54) 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 62) 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 former 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 62) 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.

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W. Joseph Manifold (age 64) has been a director of Isabella Bank Corporation since 2003 and of the Bank since 2010. Mr. Manifold retired as 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 President of the Mt. Pleasant Public Schools Board of Education.

Current Directors with Terms Ending in 2018

Dennis P. Angner (age 60) 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 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.

Richard J. Barz (age 67) 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 from 2010 to 2013 and President and Chief Executive Officer 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 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 59) 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 39 years of banking experience. He served as Chief Operations Officer of the Bank from June 2011 to 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, Inc. governing board. Mr. Evans is also past Vice Chair of the Carson City Hospital, was president of the Greenville Rotary Club, and past Chair of The Community Bankers of Michigan.

W. Michael McGuire (age 66) 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.

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

Other Named Executive Officers

Steven D. Pung (age 66), retired as President of the Bank effective December 30, 2015 after 36 years of service. Jerome E. Schwind (age 49), President and Chief Operating Officer of the Bank, has been employed by the Bank since 1999. David J. Reetz (age 55), Senior Vice President and Chief Lending Officer of the Bank, has been employed by the Bank since 1987. Peggy L. Wheeler (age 56), Senior Vice President of Operations of the Bank, has been employed by the Bank since 1977.

All officers serve at the pleasure of the Board.

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Corporate Governance

Director Independence

We have adopted the director independence standards as defined under of the NASDAQ Stock Market 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, Sarah R. Opperman, and Gregory V. Varner are 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 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, governance, and 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.

Committees of the Board of Directors and Meeting Attendance

The Board met 13 times during 2015 and all incumbent directors attended 75% or more of the meetings for which they were a member. The Board has an Audit Committee, a Nominating and Corporate Governance Committee, a Compensation and Human Resource Committee, and an Information Technology Committee.

Audit Committee

The Audit Committee is composed of independent directors. Information regarding the functions performed by the Audit 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 Audit Committee also consists of directors Kleinhardt, LaFramboise, Maness (ex-officio), and Opperman.

Nominating and Corporate Governance Committee

We have a standing Nominating and Corporate Governance Committee consisting of independent directors Barnes, Hubscher, Maness (ex-officio), and McGuire. The Nominating and Corporate Governance Committee held three meetings in 2015, with all committee members attending each meeting for which they were a member. 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. This 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. This 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.

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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 2017 Annual Meeting of Shareholders should be delivered no later than November 21, 2016. 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 the Board the compensation of the Chief Executive Officer and other executive officers, benefit plans, and the overall percentage increase in salaries. This Committee consists of independent directors Barnes, Hubscher, Kleinhardt, LaFramboise, Maness, Manifold, McGuire, Opperman, and Varner. The Compensation and Human Resource Committee held two meetings during 2015 with all committee members in attendance for which they were a member. This Committee is governed by a written charter approved by the Board that is available on the Bank's website: www.isabellabank.com.

Information Technology Committee

The Information Technology Committee is responsible for reviewing and monitoring information technology risks. Oversight includes customer data, physical and information security, disaster planning, equipment and programs, and the related audit process. This Committee consists of directors Angner, Evans, LaFramboise, Maness (ex-officio), Manifold, and McGuire and other members of senior management. The Information Technology Committee held four meetings during 2015 and all committee members attended 75% or more of the meetings for which they were a member.

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 2015 Audit Committee consisted of directors Kleinhardt, LaFramboise, Maness (ex-officio), Manifold, McGuire, and Opperman.*

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, 2015.

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 auditors 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 six meetings during 2015, and all committee members attended 75% or more of the meetings for which they were a member.

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, 2015 for filing with the Securities and Exchange Commission.

The Audit Committee has appointed Rehmann Robson LLC as the independent auditors for the 2016 audit.

Respectfully submitted,

W. Joseph Manifold, Audit Committee Chairperson
Thomas L. Kleinhardt
Joseph LaFramboise
David J. Maness (ex-officio)
W. Michael McGuire
Sarah R. Opperman

* In October 2015, as part of the Corporation's normal rotation of committee members, Ms. Opperman and Mr. Kleinhardt were appointed to the Audit Committee in place of Dr. Barnes and Mr. Hubscher. Dr. Barnes and Mr. Hubscher did not participate in the Audit Committee's review, discussion or recommendation with respect to matters

covered by the Audit Committee's report in this Proxy Statement.

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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. This Committee evaluates and approves our executive officer and senior management compensation plans, policies, and programs. The CEO recommends to this Committee an appropriate salary for the CFO and named executive officers based on their annual performance reviews and the officers' years of service along with competitive market data.

Compensation Objectives

The Compensation and Human Resource 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 this 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 Compensation and Human Resource 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 Compensation and Human Resource 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 2014, the Compensation and Human Resource Committee directly engaged the services of Blanchard Consulting Group, an independent compensation consulting firm, to assist with a total compensation review for the CEO, President and CFO, and executive officers of the Corporation. 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 2015 and 2013, the Compensation and Human Resource 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 Compensation and Human Resource Committee when establishing base salaries. We also believe it is best to pay a 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

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value. Competitive base salary encourages management to operate in a safe and sound manner even when incentive goals may prove unattainable.

The Compensation and Human Resource Committee's approach to determining the annual base salary of executive officers is to offer competitive salaries in comparison with other similar financial institutions. In 2014, this Committee utilized both an independent 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 23 midwest financial institutions in non-urban areas with comparable average assets size ($1 billion—$2.4 billion), number of branch locations, return on average assets, and nonperforming assets. The Michigan Bankers Association 2014 compensation survey was based on the compensation information provided by these organizations for 2013. 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 Compensation and Human Resource Committee targeted total compensation for the CEO, the President & CFO, and Bank President using ranges 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. The Michigan Bankers Association survey was utilized in 2015 and 2013 as well.

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 2015 were determined by reference to six performance measures that related to services performed in 2014. 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 Compensation and Human Resource Committee for the appropriate amount for each individual executive officer. This Committee reviews, modifies if necessary, and approves the recommendations of the CEO. This Committee also reviews the performance of the CEO. The Compensation and Human Resource 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; and
- Other strategic goals as established by the Board.

Each of the executive officers who were eligible to participate in 2014 accomplished their personal performance goals and were accordingly paid 35% of the 2014 Maximum Award in 2015.

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 15%);
- Loan growth (weighted 10%); and
- Net income for Investment & Trust Services (weighted 10%).

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The following chart provides the 2014 target for each corporate performance goal and the performance attained for each target.

Target	2014 Targets 25.00%	50.00%	75.00%	100.00%	2014 Performance (1)	Target % Obtained
Earnings per share	$1.65	$1.67	$1.70	$1.72	$1.77	100 %
Net operating expenses to average assets	1.74 %	1.71 %	1.68 %	1.65 %	1.75 %	—
FTE net interest margin, excluding loan fees	3.33 %	3.35 %	3.37 %	3.39 %	3.25 %	—
In market deposit growth	4.89 %	5.39 %	5.89 %	6.39 %	4.57 %	—
Loan growth	2.15 %	2.40 %	2.65 %	2.90 %	2.92 %	100 %
Net income for Investment & Trust Services	$728,900	$776,300	$826,800	$880,500	$725,000	—

(1) Adjusted for incentive calculation measures.

In 2015, we adopted the stock award incentive plan, an equity-based bonus plan. Under the plan, we may award stock bonuses to the CEO, President and CFO, and the Bank's president. The plan authorizes the issuance of vested stock to eligible employees worth up to 10% of the employee's annualized base wages, on a calendar year basis. The plan imposes several conditions on the issuance of stock awards and transfers of shares granted under the plan are restricted. The stock bonuses based on 2015 metrics will be awarded in 2016, similar to the annual performance incentives in which incentives are paid the subsequent year.

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 which was amended in 2015 to modify certain participants' benefits and to update certain plan provisions. 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 2015 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, the table outlining the change in pension value on page 13, and the "Nonqualified Deferred Compensation Table" appearing on page 14.

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"), a retirement bonus plan, a supplemental executive retirement plan, and a stock award incentive plan.

We provide a 401(k) plan, in which substantially all employees are eligible to participate. Employees may contribute up to 100% 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.

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.

In 2015 we adopted the supplemental executive retirement plan, a nonqualified deferred compensation plan, authorizing annual and discretionary credits to a participant's plan account. Credits are pursuant to a participant's agreement which sets forth the amount and timing of any annual credits and the vesting, payment, “clawback” and other terms to which the credits are subject.

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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
Gregory V. Varner

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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, 2015, for the CEO, CFO, our three other most highly compensated executive officers, and for one highly compensated executive officer who retired on December 30, 2015.

Summary Compensation Table

Name and principal position	Year	Salary ($)(1)	Bonus ($)	Change in pension value and nonqualified deferred compensation earnings ($)	All other compensation ($)(2)	Total ($)
Jae A. Evans	2015	$327,548	$17,894	$ 77,800	$ 40,629	$463,871
CEO	2014	302,472	10,698	65,000	36,703	414,873
Isabella Bank Corporation	2013	176,379	13,320	—	30,832	220,531
Dennis P. Angner	2015	$353,956	$20,818	$ 85,541	$ 30,014	$490,329
President and CFO	2014	365,542	19,809	259,016	26,582	670,949
Isabella Bank Corporation	2013	354,522	25,121	9,918	29,775	419,336
Steven D. Pung	2015	$261,595	$15,592	$ 34,088	$ 70,419	$381,694
President (retired)	2014	262,953	13,814	153,870	34,673	465,310
Isabella Bank	2013	227,675	6,003	6,629	29,589	269,896
Jerome E. Schwind	2015	$217,992	$13,839	$ (2,000)	$ 31,484	$261,315
President and COO	2014	219,176	9,316	16,000	28,766	273,258
Isabella Bank	2013	152,017	10,326	(9,000)	25,474	178,817
David J. Reetz	2015	$155,501	$10,082	$ 17,417	$ 22,747	$205,747
Sr. Vice President and CLO	2014	155,088	8,981	90,237	17,639	271,945
Isabella Bank	2013	133,537	10,598	(9,778)	16,604	150,961
Peggy L. Wheeler (3)	2015	$126,395	$8,119	$ 9,015	$ 14,762	$158,291
Sr. Vice President of Operations						
Isabella Bank						

(1) Salary amounts are paid on a bi-weekly basis which typically consists of 26 regular pay cycles during the calendar year. During the calendar year 2014, there was an additional bi-weekly pay cycle resulting in a total of 27 pays.

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

(3) Not a named executive officer prior to 2015.

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, 2015:

Name and principal position	Director and advisory board fees ($) 2015	2014	2013
Jae A. Evans	$27,550	$27,300	$675
Dennis P. Angner	45,950	45,700	46,525

Steven D. Pung	24,600	24,100	12,675
Jerome E. Schwind	—	—	1,200
David J. Reetz	—	—	—
Peggy L. Wheeler	—		

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The change in pension value and nonqualified 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 Bonus Plan. The following table provides the change in values for the last three fiscal years ended December 31, 2015:

	Pension plan ($)			Retirement plan ($)		
Name and principal position	2015	2014	2013	2015	2014	2013
Jae A. Evans	—	—	—	$77,800	$65,000	—
Dennis P. Angner	(17,000)	173,000	(70,000)	102,541	86,016	79,918
Steven D. Pung	29,000	126,000	(29,000)	5,088	27,870	35,629
Jerome E. Schwind	(2,000)	16,000	(9,000)	—	—	—
David J. Reetz	(9,000)	66,000	(32,000)	26,417	24,237	22,222
Peggy L. Wheeler	(8,000)			17,015		

Pension Benefits

The following table indicates the present value of accumulated benefits as of December 31, 2015 for each named executive officer in the summary compensation table.

Name	Plan name	Number of years of vesting service as of 01/01/15	Present value of accumulated benefit ($)	Payments during last fiscal year
Jae A. Evans	Isabella Bank Corporation Pension Plan	—		
	Isabella Bank Corporation Retirement Bonus Plan	N/A		
Dennis P. Angner	Isabella Bank Corporation Pension Plan	32	641,000	—
	Isabella Bank Corporation Retirement Bonus Plan	N/A	665,946	—
Steven D. Pung	Isabella Bank Corporation Pension Plan	36	631,000	—
	Isabella Bank Corporation Retirement Bonus Plan	N/A	259,493	—
Jerome E. Schwind	Isabella Bank Corporation Pension Plan	17	46,000	—
	Isabella Bank Corporation Retirement Bonus Plan	N/A		
David J. Reetz	Isabella Bank Corporation Pension Plan	29	212,000	—
	Isabella Bank Corporation Retirement Bonus Plan	N/A	202,559	—
Peggy L. Wheeler	Isabella Bank Corporation Pension Plan	37	183,000	—
	Isabella Bank Corporation Retirement Bonus Plan	N/A	140,654	—

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, David J. Reetz, and Peggy L. Wheeler 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

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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.

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, David J. Reetz, and Peggy L. Wheeler 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 Table

The following table shows information concerning non-qualified deferred compensation for 2015.

Name	Executive contributions in 2015 ($) (1)	Registrant contributions in 2015 ($) (2)	Aggregate earnings in 2015 ($) (3)	Aggregate balance at December 31, 2015 ($) (4)
Jae A. Evans	$13,775	$75,000	$4,438	$201,601
Dennis P. Angner	22,975	—	15,219	504,764
Steven D. Pung	24,000	—	2,573	93,651
Jerome E. Schwind	—	—	217	7,071
David J. Reetz	—	—	—	—
Peggy L. Wheeler	—	—	—	—

(1) The amounts shown in this column are the amounts deferred by the officers under the Deferred Compensation Plan for Directors (“Directors Plan”) and are included in the “Salary” column in the Summary Compensation Table above.

(2) The amounts shown in this column are the amounts we contributed to the officers’ account under the Isabella Bank Corporation Supplemental Executive Retirement Plan (“SERP”). These amounts are not included in the Summary Compensation Table.

(3) The amounts shown in this column are the earnings in the officers’ accounts under both the Directors Plan and the SERP. These amounts are not included in the Summary Compensation Table because the earnings are not preferential.

(4) The amounts shown in this column are the combined balance of the applicable executive officers’ accounts under the Directors Plan and the SERP.

Directors Plan. Under the Directors Plan, directors, including 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 from deferred fees under 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.

SERP. Under the SERP, we may promise deferred compensation benefits to employees who are members of a select group of management or highly compensated employees, which may include the named executive officers. The SERP authorizes us to make annual and discretionary credits to a participant’s SERP account pursuant to a participation agreement with the participant that sets forth the amount and timing of any annual credits and the vesting, payment, “clawback” and other terms to which the credits are subject.

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The SERP provides default terms that may be modified by a participant's participation agreement, including default vesting, interest and payment terms. Under the SERP's default vesting terms, a participant is initially unvested in the participant's SERP account and becomes 100% vested upon attaining normal retirement age, retirement, involuntary separation from service without cause, death, disability or a change in control. Special vesting rules apply to amounts that are credited after a change in control. Under the SERP's interest rule, a participant's account balance is credited with interest annually, the rate of which may be changed and is initially based on the average rate paid on certificates of deposit with Isabella Bank, updated annually. Under the SERP's default payment terms, a participant's vested and nonforfeited account balance will be paid in a single cash lump sum within 90 days after the first to occur of the participant's separation from service (subject to a 6-month delay for a "specified employee"), death, disability, or any date specified in the participant's participation agreement. The SERP also includes restrictive covenants that restrict a participant's ability to compete with us and certain other activities.

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, 2015.

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.

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
Jae A. Evans	$600,000	$300,000
Dennis P. Angner	616,000	308,000
Steven D. Pung	474,000	237,000
Jerome E. Schwind	436,000	218,000
David J. Reetz	311,000	155,500
Peggy L. Wheeler	253,000	126,500

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. Similarly, under the SERP each participant would become 100% vested in their SERP account upon a change in control. Also, following a change in control, if a participant is involuntarily terminated without cause or voluntarily terminates for good reason all uncredited annual credits would be credited to his or her SERP account. If termination took place on December 31, 2015, that would have resulted in a credit to Jae Evans' SERP account of $142,800.

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Director Compensation

The following table summarizes the compensation of each non-employee director who served on the Board during 2015.

Name	Fees paid in cash ($)(1)	Fees deferred under Directors Plan ($)(1)	Total fees earned ($)
Dr. Jeffrey J. Barnes	$—	$31,850	$31,850
Richard J. Barz	31,600	—	31,600
G. Charles Hubscher	—	39,100	39,100
Thomas L. Kleinhardt	—	36,750	36,750
Joseph LaFramboise	15,720	23,980	39,700
David J. Maness	26,273	26,273	52,546
W. Joseph Manifold	—	39,246	39,246
W. Michael McGuire	28,985	9,661	38,646
Sarah R. Opperman	33,900	—	33,900
Gregory V. Varner	—	23,858	23,858

(1) Directors electing to receive all fees in cash, resulting in no contributions to the Directors Plan, invest at least 25% of their board fees in our common stock under the DRIP Plan as described in our Directors Plan on page 14.

We paid $1,350 per board meeting plus a retainer of $10,000 to each member during 2015. Members of the Audit Committee were paid $650 per Audit Committee meeting attended. Members of the Nominating and Corporate Governance Committee were paid $350 per meeting attended. Members of the Information Technology Committee were paid $350 per meeting attended. The chairperson of the Board is paid a retainer of $35,000, the chairperson for the Audit Committee is paid a retainer of $5,000, and the vice chairperson for the Audit Committee is paid a retainer of $2,000.

Under the Directors Plan, upon a participant’s attainment of age 70, retirement from the Board, or the occurrence of certain other events, the participant is eligible to receive a lump-sum, in-kind distribution of all of the stock that is then credited to the participant's 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 supplement 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.

We transferred $366,881 to the Rabbi Trust in 2015, which held 19,401 shares of our common stock for settlement as of December 31, 2015. As of December 31, 2015, there were 180,616 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 $173,998 in 2015.

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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 7, 2016:

Name	# of shares of stock credited
Dennis P. Angner	16,882
Dr. Jeffrey J. Barnes	10,641
Richard J. Barz	—
Jae A. Evans	1,967
G. Charles Hubscher	15,114
Thomas L. Kleinhardt	22,046
Joseph LaFramboise	10,170
David J. Maness	25,682
W. Joseph Manifold	17,435
W. Michael McGuire	8,658
Sarah R. Opperman	2,008
Gregory V. Varner	5,944

Compensation and Human Resource Committee Interlocks and Insider Participation

In 2015, the Compensation and Human Resource Committee members were directors Barnes, Hubscher, Kleinhardt, LaFramboise, Maness, Manifold, McGuire, Opperman, and Varner. 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 $4,021,000 as of December 31, 2015. 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.

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Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information as of March 7, 2016 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 LLC P.O. Box 222 Mt. Pleasant, MI 48804-0222	401,684	5.15	%

(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 7, 2016.

The following table sets forth certain information as of March 7, 2016 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	39,318	0.49	%
Dr. Jeffrey J. Barnes	17,389	0.22	%
Richard J. Barz	31,653	0.40	%
Jae A. Evans	11,057	0.14	%
G. Charles Hubscher	177,015	2.23	%
Thomas L. Kleinhardt	74,372	0.94	%
Joseph LaFramboise	11,453	0.14	%
David J. Maness	29,933	0.38	%
W. Joseph Manifold	22,336	0.28	%
W. Michael McGuire	105,563	1.33	%
Sarah R. Opperman	6,462	0.08	%
Steven D. Pung	27,708	0.35	%
David J. Reetz	10,143	0.13	%
Jerome E. Schwind	1,822	0.02	%
Gregory V. Varner	6,924	0.09	%
Peggy L. Wheeler	10,044	0.13	%
All Directors, nominees and Executive Officers as a Group (16) persons	583,192	7.34	%

(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 7, 2016. Totals for directors include shares of stock credited under the Directors Plan as of March 7, 2016 as disclosed in the table on page 17. Totals for named executive officers Steven D. Pung and Jerome E. Schwind include shares of stock credited under the Directors Plan as of March 7, 2016 as follows: Mr. Pung, 3,132 shares; and Mr. Schwind, 236 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."

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Independent Registered Public Accounting Firm

The Audit Committee has appointed Rehmann Robson LLC as our independent auditors for the year ending December 31, 2016.

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:

	2015	2014
Audit fees	$286,388	$278,178
Audit related fees	32,560	18,760
Tax fees	28,484	24,210
Total	$347,432	$321,148

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.

The audit related fees are typically for various discussions related to the adoption and interpretation of new accounting pronouncements. During 2015, 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 SEC 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 2015 and 2014 without pre-approval.

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Shareholder Proposals
Any proposals which you intend to present at the next Annual Meeting must be received before November 21, 2016 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. At the 2015 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, 2015 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 the following: executive officer, Timothy M. Miller, filed two late reports for two reportable transactions.
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.
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 are 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 policy, 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 our business, including additional factors that could materially affect our consolidated 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 SEC 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
FRB: Federal Reserve Bank
FHLB: Federal Home Loan Bank
Freddie Mac: Federal Home Loan Mortgage Corporation
FTE: Fully taxable equivalent
GAAP: U.S. generally accepted accounting principles
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
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)
OMSR: Originated mortgage servicing rights
OREO: Other real estate owned
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
TDR: Troubled debt restructuring
XBRL: eXtensible Business Reporting Language

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Restatement of Previously Filed Reports (Dollars in thousands)

Overview of Restatement

In this report, certain prior period financial information has been restated due to an accounting correction. Impacted sections of this report include:

1. Selected Financial Data for the years ended December 31, 2014, 2013, 2012, and 2011;
2. Management's Discussion and Analysis as it relates to the years ended December 31, 2014, 2013, 2012, and 2011 and interim periods ended September 30, 2015, June 30, 2015, and March 31, 2015;
3. Financial Statements:
   a. Consolidated Balance Sheet as of December 31, 2014, Consolidated Statements of Income for the years ended December 31, 2014 and 2013, and Consolidated Statements of Cash Flows for the years ended December 31, 2014 and 2013; and
   b. Notes to Consolidated Financial Statements as of, and for the years ended, December 31, 2014 and 2013.

Background of Restatement

The necessary restatement was identified by management in the fourth quarter of 2015 during the course of our preparation of the consolidated financial statements and evaluation of financial results as of and for the year ended December 31, 2015. The restatements relate to the accounting for deferred costs associated with originating loans (under ASC 310-20) and the proper classification of the net deferred costs recorded in gross loans within the consolidated balance sheets and as a deferral of compensation expenses within the consolidated statements of income. Prior to December 31, 2015, loan origination cost deferrals (under ASC 310-20) were reported in loan interest and fee income instead of as a reduction of compensation and benefits, which is included in other noninterest expenses. Additionally, net deferred asset balances (under ASC 310-20) prior to December 31, 2015 were reported in other assets on the consolidated balance sheets instead of reported in gross loans. Amortization of the net deferred asset balance was recognized appropriately in loan interest and fee income.

Impact of Restatement

The overall impact of the restatement on our consolidated financial position and results of operations is not believed to be material and as such, previously filed Annual Reports on Form 10-K and Quarterly reports on Form 10-Q for the periods affected by the restatement have not been amended. The determination of materiality was, in part, concluded based on the following observations:

- No impact to net income for any prior periods;
- No impact to earnings per share, other stock data, or dividend data for any prior periods;
- No impact on total assets for any prior periods; and
- No impact on retained earnings or total equity for any prior periods.

The impact to the consolidated balance sheet as of December 31, 2014 was a $2,968 increase in gross loans and a $2,968 decline in other assets. There were no other changes to the consolidated balance sheets for any prior periods.

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The following table sets forth the effects of the restatement on items within the Consolidated Statements of Income. Since the restatement did not impact net income, pre-tax and adjustments net of tax are not included.

	December 31, 2014		December 31, 2013	
	Previously Reported	Restated	Previously Reported	Restated
Interest income				
Loans, including fees	$39,432	$36,629	$41,233	$37,575
All other interest income	14,519	14,519	12,843	12,843
Total interest income	53,951	51,148	54,076	50,418
Total interest expense	9,970	9,970	11,021	11,021
Net interest income	43,981	41,178	43,055	39,397
Provision for loan losses	(668)	(668)	1,111	1,111
Net interest income after provision for loan losses	44,649	41,846	41,944	38,286
Total noninterest income	9,325	9,325	10,175	10,175
Noninterest expenses				
Compensation and benefits	21,305	18,502	21,465	17,807
All other noninterest expenses	16,601	16,601	15,948	15,948
Total noninterest expenses	37,906	35,103	37,413	33,755
Federal income tax expense	2,344	2,344	2,196	2,196
Net income	$13,724	$13,724	$12,510	$12,510

As demonstrated above, loan interest and fee income and compensation and benefits were reduced by $2,803 and $3,658 during the years ended December 31, 2014 and 2013, respectively.
All amounts in this report affected by the restatement adjustments reflect such amounts as restated.

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Common Stock and Dividend Information

Our authorized common stock consists of 15,000,000 shares, of which 7,799,867 shares are issued and outstanding as of December 31, 2015. As of that date, there were 3,044 shareholders of record.

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

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 Common Shares	Sale Price	
		Low	High
2015			
First Quarter	81,754	$22.00	$23.50
Second Quarter	94,019	22.70	23.80
Third Quarter	143,183	22.75	23.85
Fourth Quarter	109,276	23.50	29.90
	428,232		
2014			
First Quarter	79,719	$22.25	$23.94
Second Quarter	72,142	22.44	23.50
Third Quarter	94,422	21.73	24.00
Fourth Quarter	67,771	22.10	23.99
	314,054		

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

	Per Share	
	2015	2014
First Quarter	$0.23	$0.22
Second Quarter	0.23	0.22
Third Quarter	0.24	0.22
Fourth Quarter	0.24	0.23
Total	$0.94	$0.89

We have adopted and publicly announced a common stock repurchase plan. The plan was last amended on September 23, 2015, to allow for the repurchase of an additional 200,000 shares of common stock after that date. 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 unaudited three month period ended December 31, 2015, with respect to our common stock repurchase plan:

	Common Shares Repurchased		Total Number of Common Shares Purchased as Part of Publicly Announced Plan or Program	Maximum Number of Common Shares That May Yet Be Purchased Under the Plans or Programs
	Number	Average Price Per Common Share		
Balance, September 30				198,436
October 1 - 31	22,923	$24.21	22,923	175,513
November 1 - 30	12,362	25.89	12,362	163,151
December 1 - 31	4,493	26.93	4,493	158,658
Balance, December 31	39,778	$25.04	39,778	158,658

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.

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 the Corporation's common stock and each index was $100 at December 31, 2010 and all dividends are reinvested.

Year	ISBA	NASDAQ	NASDAQ Banks
12/31/2010	$100.00	$100.00	$100.00
12/31/2011	142.50	99.23	89.54
12/31/2012	135.30	116.79	106.15
12/31/2013	153.50	163.38	150.00
12/31/2014	150.50	187.43	157.22
12/31/2015	207.70	200.70	170.99

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Results of Operations (Dollars in thousands except per share amounts)

The following table outlines the results of operations and provides certain key performance measures as of, and for the years ended, December 31:

	2015	2014	2013	2012	2011
INCOME STATEMENT DATA					
Interest income	$51,502	$51,148	$50,418	$53,123	$55,590
Interest expense	10,163	9,970	11,021	13,423	16,203
Net interest income	41,339	41,178	39,397	39,700	39,387
Provision for loan losses	(2,771)	(668)	1,111	2,300	3,826
Noninterest income	10,359	9,325	10,175	11,530	8,218
Noninterest expenses	36,051	35,103	33,755	34,361	32,215
Federal income tax expense	3,288	2,344	2,196	2,363	1,354
Net Income	$15,130	$13,724	$12,510	$12,206	$10,210
PER SHARE					
Basic earnings	$1.95	$1.77	$1.63	$1.61	$1.35
Diluted earnings	$1.90	$1.74	$1.59	$1.56	$1.31
Dividends	$0.94	$0.89	$0.84	$0.80	$0.76
Tangible book value*	$17.30	$16.59	$15.62	$14.72	$13.90
Quoted market value					
High	$29.90	$24.00	$26.00	$24.98	$24.45
Low	$22.00	$21.73	$21.12	$21.75	$17.10
Close*	$29.90	$22.50	$23.85	$21.75	$23.70
Common shares outstanding*	7,799,867	7,776,274	7,723,023	7,671,846	7,589,226
PERFORMANCE RATIOS					
Return on average total assets	0.95 %	0.90 %	0.86 %	0.88 %	0.79 %
Return on average shareholders' equity	8.33 %	8.06 %	7.67 %	7.60 %	6.74 %
Return on average tangible shareholders' equity	11.46 %	10.80 %	10.71 %	11.41 %	10.30 %
Net interest margin yield (FTE)	3.10 %	3.24 %	3.22 %	3.43 %	3.67 %
BALANCE SHEET DATA*					
Gross loans	$850,492	$836,550	$810,777	$774,627	$751,610
AFS securities	$660,136	$567,534	$512,062	$504,010	$425,120
Total assets	$1,668,112	$1,549,543	$1,493,137	$1,430,639	$1,337,925
Deposits	$1,164,563	$1,074,484	$1,043,766	$1,017,667	$958,164
Borrowed funds	$309,732	$289,709	$279,326	$241,001	$216,136
Shareholders' equity	$183,971	$174,594	$160,609	$164,489	$154,783
Gross loans to deposits	73.03 %	77.86 %	77.68 %	76.12 %	78.44 %
ASSETS UNDER MANAGEMENT*					
Loans sold with servicing retained	$287,029	$288,639	$293,665	$303,425	$302,636
Assets managed by our Investment and Trust Services Department	$405,109	$383,878	$351,420	$319,301	$297,393
Total assets under management	$2,360,250	$2,222,060	$2,138,222	$2,053,365	$1,937,954
ASSET QUALITY*					
Nonperforming loans to gross loans	0.09 %	0.50 %	0.42 %	1.00 %	0.95 %
Nonperforming assets to total assets	0.07 %	0.33 %	0.32 %	0.68 %	0.67 %
ALLL to gross loans	0.87 %	1.21 %	1.42 %	1.54 %	1.65 %
CAPITAL RATIOS*					

Shareholders' equity to assets	11.03	%	11.27	%	10.76	%	11.50	%	11.57	%
Tier 1 leverage	8.52	%	8.59	%	8.46	%	8.29	%	8.18	%
Common equity tier 1 capital	13.24	%	N/A		N/A		N/A		N/A	
Tier 1 risk-based capital	13.24	%	14.08	%	13.68	%	13.24	%	12.93	%
Total risk-based capital	13.96	%	15.19	%	14.93	%	14.49	%	14.18	%

* 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 2015	September 30 2015	June 30 2015	March 31 2015	December 31 2014	September 30 2014	June 30 2014	March 31 2014
Total interest income	$13,023	$ 12,967	$12,759	$12,753	$ 13,030	$ 12,800	$12,625	$12,693
Total interest expense	2,577	2,580	2,518	2,488	2,504	2,498	2,468	2,500
Net interest income	10,446	10,387	10,241	10,265	10,526	10,302	10,157	10,193
Provision for loan losses	(772)	(738)	(535)	(726)	(64)	(162)	(200)	(242)
Noninterest income	2,501	3,101	2,629	2,128	2,426	2,216	2,434	2,249
Noninterest expenses	9,885	9,161	8,330	8,675	8,923	8,831	8,534	8,815
Federal income tax expense	538	1,002	977	771	648	444	692	560
Net income	$3,296	$ 4,063	$4,098	$3,673	$ 3,445	$ 3,405	$3,565	$3,309
PER SHARE								
Basic earnings	$0.43	$ 0.52	$0.53	$0.47	$ 0.44	$ 0.44	$0.46	$0.43
Diluted earnings	0.41	0.51	0.52	0.46	0.44	0.43	0.45	0.42
Dividends	0.24	0.24	0.23	0.23	0.23	0.22	0.22	0.22
Quoted Market value*	29.90	23.69	23.75	22.90	22.50	23.60	22.95	23.00
Tangible book value*	17.30	17.06	17.17	16.84	16.59	16.33	16.08	15.82

* At end of period

Reclassifications and Restatements: Certain amounts previously reported in the Results of Operations section of this report have been either reclassified or restated to conform with the 2015 presentation. For a complete overview on restatements impacting the Results of Operations, see pages 4 and 52 of this report.

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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 this report.

Executive Summary

We reported record net income of $15,130 and earnings per common share of $1.95 for the year ended December 31, 2015. Our continued strong earnings have primarily been the result of increased interest income and continued improvement in credit quality. The improvement in credit quality resulted in a decline in the level of the ALLL in both amount and as a percentage of gross loans, resulting in a reversal of provision for loan losses of $2,771 for the year ended December 31, 2015. Net loan recoveries during 2015 were $71 as compared to net loan charge-offs $732 in 2014. Additionally, we continue to see reductions in loans classified as less than satisfactory.

During the year, total assets grew by 7.65% to $1,668,112, and assets under management increased to $2,360,250 which includes loans sold and serviced and assets managed by our Investment and Trust Services Department of $692,138. In 2015, we had total loan growth of $13,942 which was driven by commercial and agricultural loan growth of $26,301. This was partially offset by declines in both residential real estate and consumer loans of $12,359 as new loan originations were less than principal payments by borrowers.

We increased our AFS securities portfolio by $92,602 during 2015 to continue providing growth in our balance sheet to increase interest income. Our net yield on interest earning assets of 3.10% remains at historically low levels. While we expect the Federal Reserve Bank to increase short term interest rates in 2016, we do not anticipate any significant improvements in our net yield on interest earning assets as the rates paid on interest bearing liabilities will likely increase faster than those of interest earning assets. Net interest income will increase only through continued growth in loans, investments, and other income earning assets. We are committed to increasing earnings and dedicated to providing long term sustainable growth to enable us to increase shareholder value.

While we have been able to grow our commercial and agricultural loan portfolios, increasing our residential real estate and consumer loan portfolios has been more challenging. To generate growth in these portfolios, we are implementing new products, enhancing our marketing efforts, streamlining delivery channels for direct and indirect loans, and expanding our service area. These initiatives are designed to attract new customers while expanding our relationships with current customers to improve earnings.

Acquisitions

On July 31, 2015, we completed the acquisition of a branch from Flagstar Bank, FSB located in Saginaw, Michigan. In addition to real estate and equipment, we assumed deposit liabilities of $44,290 and recorded $156 of core deposit intangibles and $2,061 of goodwill, which represented the excess of the purchase price over the fair value of identifiable net assets acquired.

On August 28, 2015, we completed the acquisition of a branch from Independent Bank located in Midland, Michigan. In addition to real estate and equipment, we assumed $8,658 of deposit liabilities and recorded $50 of core deposit intangibles and $602 of goodwill, which represented the excess of the purchase price over the fair value of identifiable net assets acquired.

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. New regulations issued by the CFPB regarding consumer lending, including residential mortgage lending, have increased our compensation and outside advisor costs and this trend is expected to continue.

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 but will require us to hold more capital than we have historically.

Reclassifications and Restatements: Certain amounts previously reported in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of this report have been either reclassified or restated to conform with the 2015 presentation. For a complete overview on restatements impacting Management's Discussion and Analysis of Financial Condition and Results of Operations, see pages 4 and 52 of this report.

Other

We have not received any notices of regulatory actions as of February 19, 2016.

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” in Item 8. Financial Statements and Supplementary Data. 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 5 – Loans and ALLL” of the “Notes to Consolidated Financial Statements” in Item 8. Financial Statements and Supplementary Data.

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.

AFS securities are carried at fair value with changes in the fair value included as a component of other comprehensive income. Declines in the fair value of AFS securities below their cost that are other-than-temporary are reflected as realized losses in the consolidated statements of income. 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 investment securities are typically obtained from outside sources and applied to individual securities within the portfolio.

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Average Balances, Interest Rate, and Net Interest Income

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 periods indicated. All interest income is reported on a FTE basis using a 34% federal income tax rate. Loans in nonaccrual status, for the purpose of the following computations, are included in the average loan balances. FRB and FHLB restricted equity holdings are included in accrued income and other assets.

	Year Ended December 31								
	2015			2014			2013		
	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	$829,903	$35,853	4.32 %	$816,105	$36,629	4.49 %	$792,430	$37,575	4.74 %
Taxable investment securities	395,981	9,053	2.29 %	357,250	8,092	2.27 %	335,575	7,228	2.15 %
Nontaxable investment securities	205,242	9,870	4.81 %	194,751	9,877	5.07 %	165,774	8,294	5.00 %
Other	25,947	600	2.31 %	25,784	519	2.01 %	28,306	502	1.77 %
Total earning assets	1,457,073	55,376	3.80 %	1,393,890	55,117	3.95 %	1,322,085	53,599	4.05 %
NONEARNING ASSETS									
Allowance for loan losses	(9,275)			(10,973)			(11,877)		
Cash and demand deposits due from banks	17,925			18,552			18,162		
Premises and equipment	26,968			25,957			25,993		
Accrued income and other assets	98,805			94,754			94,077		
Total assets	$1,591,496			$1,522,180			$1,448,440		
INTEREST BEARING LIABILITIES									
Interest bearing demand deposits	$195,260	155	0.08 %	$191,750	157	0.08 %	$183,665	161	0.09 %
Savings deposits	293,703	449	0.15 %	260,469	374	0.14 %	242,777	366	0.15 %
Time deposits	433,409	5,246	1.21 %	448,971	5,764	1.28 %	456,774	6,613	1.45 %
Borrowed funds	295,641	4,313	1.46 %	274,080	3,675	1.34 %	251,590	3,881	1.54 %
Total interest bearing liabilities	1,218,013	10,163	0.83 %	1,175,270	9,970	0.85 %	1,134,806	11,021	0.97 %
NONINTEREST BEARING									

LIABILITIES								
Demand deposits	181,939			165,860			141,872		
Other	10,001			10,773			8,752		
Shareholders' equity	181,543			170,277			163,010		
Total liabilities and shareholders' equity	$1,591,496			$1,522,180			$1,448,440		
Net interest income (FTE)		$45,213			$45,147			$42,578	
Net yield on interest earning assets (FTE)			3.10 %			3.24 %			3.22 %

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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, which includes loan fees, 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. For analytical purposes, net interest income is adjusted to an FTE basis by adding the income tax savings from interest on tax exempt loans, and nontaxable investment 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 period's FTE rate.

Rate—change in the FTE rate multiplied by the previous period'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.

	2015 Compared to 2014 Increase (Decrease) Due to			2014 Compared to 2013 Increase (Decrease) Due to		
	Volume	Rate	Net	Volume	Rate	Net
Changes in interest income						
Loans	$612	$(1,388)	$(776)	$1,101	$(2,047)	$(946)
Taxable investment securities	885	76	961	480	384	864
Nontaxable investment securities	518	(525)	(7)	1,468	115	1,583
Other	3	78	81	(47)	64	17
Total changes in interest income	2,018	(1,759)	259	3,002	(1,484)	1,518
Changes in interest expense						
Interest bearing demand deposits	3	(5)	(2)	7	(11)	(4)
Savings deposits	50	25	75	26	(18)	8
Time deposits	(195)	(323)	(518)	(111)	(738)	(849)
Borrowed funds	301	337	638	329	(535)	(206)
Total changes in interest expense	159	34	193	251	(1,302)	(1,051)
Net change in interest margin (FTE)	$1,859	$(1,793)	$66	$2,751	$(182)	$2,569

Our net yield on interest earning assets remains at historically low levels. The persistent low interest rate environment coupled with an increase in the concentration of AFS securities as a percentage of earning assets has also placed downward pressure on net interest margin yield. While we anticipate that the FRB will increase short term interest rates in 2016, we do not expect any significant change in our net yield on interest earning assets as the rates paid on interest bearing liabilities will likely increase as fast as those of interest earning assets. Net interest income will increase only through continued balance sheet growth.

	Average Yield / Rate for the Three Month Periods Ended:				
	December 31 2015	September 30 2015	June 30 2015	March 31 2015	December 31 2014
Total earning assets	3.73 %	3.79 %	3.81 %	3.88 %	3.97 %
Total interest bearing liabilities	0.83 %	0.84 %	0.84 %	0.84 %	0.85 %
Net yield on interest earning assets (FTE)	3.04 %	3.09 %	3.11 %	3.18 %	3.26 %

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	Quarter to Date Net Interest Income (FTE)				
	December 31 2015	September 30 2015	June 30 2015	March 31 2015	December 31 2014
Total interest income (FTE)	$13,970	$13,919	$13,748	$13,742	$14,019
Total interest expense	2,577	2,580	2,518	2,488	2,504
Net interest income (FTE)	$11,393	$11,339	$11,230	$11,254	$11,515

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 incurred 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 risk 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 that reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

The following table summarizes our charge-offs, recoveries, provisions for loan losses, and ALLL balances as of, and for the unaudited three month periods ended:

	December 31 2015	September 30 2015	June 30 2015	March 31 2015	December 31 2014
Total charge-offs	$238	$210	$296	$160	$351
Total recoveries	210	148	231	386	115
Net loan charge-offs	28	62	65	(226)	236
Net loan charge-offs to average loans outstanding	—	0.01 %	0.01 %	(0.03)%	0.03 %
Provision for loan losses	$(772)	$(738)	$(535)	$(726)	$(64)
Provision for loan losses to average loans outstanding	(0.09)%	(0.09)%	(0.07)%	(0.09)%	(0.01)%
ALLL	$7,400	$8,200	$9,000	$9,600	$10,100
ALLL as a % of loans at end of period	0.87 %	0.98 %	1.08 %	1.17 %	1.21 %

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

	2015	2014	2013	2012	2011
ALLL at beginning of period	$10,100	$11,500	$11,936	$12,375	$12,373
Charge-offs					
Commercial and agricultural	134	590	907	1,672	1,984
Residential real estate	397	722	1,004	1,142	2,240
Consumer	373	316	429	542	552
Total charge-offs	904	1,628	2,340	3,356	4,776
Recoveries					
Commercial and agricultural	549	550	363	240	461
Residential real estate	220	197	181	122	177
Consumer	206	149	249	255	314
Total recoveries	975	896	793	617	952
Provision for loan losses	(2,771)	(668)	1,111	2,300	3,826
ALLL at end of period	7,400	10,100	11,500	11,936	12,375
Net loan charge-offs	$(71)	$732	$1,547	$2,739	$3,824
Net loan charge-offs to average loans outstanding	(0.01)%	0.09 %	0.20 %	0.36 %	0.51 %
ALLL as a% of loans at end of period	0.87 %	1.21 %	1.42 %	1.54 %	1.65 %

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As the level of net loans charged-off decline and credit quality indicators continue to improve, we have reduced the ALLL in
both amount and as a percentage of loans. While more volatile, loans individually evaluated for impairment have been relatively flat until the 4th quarter of 2015. The decline in loans collectively impaired illustrates the downward trend we are experiencing in our overall level of ALLL to gross loans. The following table illustrates our changes within the two main components of the ALLL.

	December 31 2015	September 30 2015	June 30 2015	March 31 2015	December 31 2014
ALLL					
Individually evaluated for impairment	$2,820	$3,217	$3,202	$3,361	$3,427
Collectively evaluated for impairment	4,580	4,983	5,798	6,239	6,673
Total	$7,400	$8,200	$9,000	$9,600	$10,100
ALLL to gross loans					
Individually evaluated for impairment	0.33 %	0.38 %	0.38 %	0.41 %	0.41 %
Collectively evaluated for impairment	0.54 %	0.60 %	0.70 %	0.76 %	0.80 %
Total	0.87 %	0.98 %	1.08 %	1.17 %	1.21 %

For further discussion of the allocation of the ALLL, see “Note 5 – Loans and ALLL” of the “Notes to Consolidated Financial Statements” in Item 8. Financial Statements and Supplementary Data.

Loans Past Due and Loans in Nonaccrual Status

Fluctuations in past due and nonaccrual status 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 status loans. We monitor all loans that are past due and in nonaccrual status for indications of additional deterioration.

	Total Past Due and Nonaccrual Loans as of December 31				
	2015	2014	2013	2012	2011
Commercial and agricultural	$2,247	$4,805	$3,621	$7,271	$7,420
Residential real estate	2,520	4,181	7,008	5,431	5,297
Consumer	31	138	259	199	186
Total	$4,798	$9,124	$10,888	$12,901	$12,903
Total past due and nonaccrual loans to gross loans	0.56 %	1.09 %	1.34 %	1.67 %	1.72 %

Declines in past due and nonaccrual status loans during 2015 are the result of improved loan performance. A summary of loans past due and in nonaccrual status, including the composition of the ending balance of nonaccrual status loans by type, is included in “Note 5 – Loans and ALLL” of the “Notes to Consolidated Financial Statements” in Item 8. Financial Statements and Supplementary Data.

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 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 status. The majority of new modifications result in terms that satisfy our criteria for continued interest accrual. TDRs that have been placed on 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, forgive interest, 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, 2015 or December 31, 2014.

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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 analysis of the ALLL estimation each reporting period to ensure its continued appropriateness.

The following tables provide a roll-forward of TDRs for the years ended December 31, 2014 and 2015:

	Accruing Interest		Nonaccrual		Total	
	Number of Loans	Balance	Number of Loans	Balance	Number of Loans	Balance
January 1, 2014	165	$24,423	15	$1,442	180	$25,865
New modifications	30	2,647	5	367	35	3,014
Principal advances (payments)	—	(1,501)	—	(254)	—	(1,755)
Loans paid-off	(32)	(2,964)	(3)	(90)	(35)	(3,054)
Partial charge-offs	—	(70)	—	(193)	—	(263)
Balances charged-off	(3)	(13)	(3)	(115)	(6)	(128)
Transfers to OREO	—	—	(5)	(338)	(5)	(338)
Transfers to accrual status	5	502	(5)	(502)	—	—
Transfers to nonaccrual status	(9)	(2,093)	9	2,093	—	—
December 31, 2014	156	20,931	13	2,410	169	23,341
New modifications	28	6,490	4	491	32	6,981
Principal advances (payments)	—	(1,205)	—	(1,002)	—	(2,207)
Loans paid-off	(26)	(5,227)	(7)	(597)	(33)	(5,824)
Partial charge-offs	—	—	—	(87)	—	(87)
Balances charged-off	(2)	(83)	—	—	(2)	(83)
Transfers to OREO	—	—	(6)	(796)	(6)	(796)
Transfers to accrual status	3	292	(3)	(292)	—	—
Transfers to nonaccrual status	(4)	(267)	4	267	—	—
December 31, 2015	155	$20,931	5	$394	160	$21,325

The following table summarizes our TDRs as of December 31:

	2015			2014			2013		
	Accruing Interest	Nonaccrual	Total	Accruing Interest	Nonaccrual	Total	Accruing Interest	Nonaccrual	Total
Current	$20,550	$ 146	$20,696	$20,012	$ 272	$20,284	$21,690	$ 1,189	$22,879
Past due 30-59 days	357	—	357	804	592	1,396	2,158	37	2,195
Past due 60-89 days	24	—	24	115	3	118	575	—	575
Past due 90 days or more	—	248	248	—	1,543	1,543	—	216	216
Total	$20,931	$ 394	$21,325	$20,931	$ 2,410	$23,341	$24,423	$ 1,442	$25,865

	2012			2011		
	Accruing Interest	Nonaccrual	Total	Accruing Interest	Nonaccrual	Total
Current	$16,301	$ 941	$17,242	$16,125	$ 514	$16,639
Past due 30-59 days	158	561	719	1,564	344	1,908
Past due 60-89 days	72	41	113	50	85	135
Past due 90 days or more	—	1,281	1,281	—	74	74
Total	$16,531	$ 2,824	$19,355	$17,739	$ 1,017	$18,756

Additional disclosures about TDRs are included in “Note 5 – Loans and ALLL” of the “Notes to Consolidated Financial Statements” in Item 8. Financial Statements and Supplementary Data.

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Impaired Loans

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

	2015			2014		
	Outstanding Balance	Unpaid Principal Balance	Valuation Allowance	Outstanding Balance	Unpaid Principal Balance	Valuation Allowance
TDRs						
Commercial real estate	$7,619	$7,858	$818	$10,222	$10,501	$1,276
Commercial other	188	199	11	715	945	4
Agricultural real estate	3,549	3,549	—	1,423	1,423	—
Agricultural other	519	519	2	66	186	—
Residential real estate senior liens	9,155	9,457	1,851	10,462	11,019	1,847
Residential real estate junior liens	133	133	28	246	246	49
Home equity lines of credit	127	427	—	153	453	46
Consumer secured	35	35	—	54	54	1
Total TDRs	21,325	22,177	2,710	23,341	24,827	3,223
Other impaired loans						
Commercial real estate	162	175	—	1,009	1,195	3
Commercial other	—	—	—	83	95	—
Agricultural real estate	—	—	—	106	106	—
Agricultural other	—	—	—	—	—	—
Residential real estate senior liens	841	1,308	108	1,183	1,763	168
Residential real estate junior liens	10	30	2	19	29	4
Home equity lines of credit	—	7	—	97	197	29
Consumer secured	—	—	—	10	10	—
Total other impaired loans	1,013	1,520	110	2,507	3,395	204
Total impaired loans	$22,338	$23,697	$2,820	$25,848	$28,222	$3,427

Additional disclosure related to impaired loans is included in “Note 5 – Loans and ALLL” of the “Notes to Consolidated Financial Statements” in Item 8. Financial Statements and Supplementary Data.

Nonperforming Assets

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

	2015	2014	2013	2012	2011
Nonaccrual status loans	$792	$4,044	$3,244	$7,303	$6,389
Accruing loans past due 90 days or more	—	148	142	428	760
Total nonperforming loans	792	4,192	3,386	7,731	7,149
Foreclosed assets	421	885	1,412	2,018	1,876
Total nonperforming assets	$1,213	$5,077	$4,798	$9,749	$9,025
Nonperforming loans as a % of total loans	0.09 %	0.50 %	0.42 %	1.00 %	0.95 %
Nonperforming assets as a % of total assets	0.07 %	0.33 %	0.32 %	0.68 %	0.67 %

After a loan is 90 days past due, it is placed on nonaccrual status unless it is well secured and in the process of collection. Upon transferring a loan 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 months of continued performance. Total nonperforming loans continue to improve with current levels reflecting historic lows.

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

	2015	2014	2013	2012	2011
Commercial and agricultural	$232	$1,995	$833	$2,325	$520
Residential real estate	162	262	609	499	497
Consumer	—	153	—	—	—
Total	$394	$2,410	$1,442	$2,824	$1,017

Additional disclosures about nonaccrual status loans are included in “Note 5 – Loans and ALLL”of the “Notes to Consolidated Financial Statements” in Item 8. Financial Statements and Supplementary Data.

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 we have identified all impaired loans as of December 31, 2015.

We believe that the level of the ALLL is appropriate as of December 31, 2015. We will continue to closely monitor overall credit quality indicators and our policies and procedures related to the analysis of the ALLL to ensure that the ALLL remains at the appropriate level.

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Noninterest Income and Noninterest Expenses

Significant noninterest account balances are highlighted in the following table with additional descriptions of significant fluctuations for the years ended December 31:

	2015	2014	Change $	%	2013	Change $	%
Service charges and fees							
ATM and debit card fees	$2,411	$2,084	$327	15.69 %	$1,944	$140	7.20 %
NSF and overdraft fees	1,855	2,156	(301)	(13.96)%	2,243	(87)	(3.88)%
Freddie Mac servicing fee	712	720	(8)	(1.11)%	737	(17)	(2.31)%
Service charges on deposit accounts	345	354	(9)	(2.54)%	373	(19)	(5.09)%
Net OMSR income (loss)	(14)	(36)	22	61.11 %	269	(305)	(113.38)%
All other	128	133	(5)	(3.76)%	116	17	14.66 %
Total service charges and fees	5,437	5,411	26	0.48 %	5,682	(271)	(4.77)%
Net gain on sale of mortgage loans	573	514	59	11.48 %	962	(448)	(46.57)%
Earnings on corporate owned life insurance policies	771	751	20	2.66 %	732	19	2.60 %
Net gains (losses) on sale of AFS securities	163	97	66	68.04 %	171	(74)	(43.27)%
Other							
Trust and brokerage advisory fees	2,161	2,069	92	4.45 %	1,858	211	11.36 %
Corporate Settlement Solutions joint venture	463	76	387	509.21 %	143	(67)	(46.85)%
Other	791	407	384	94.35 %	627	(220)	(35.09)%
Total other	3,415	2,552	863	33.82 %	2,628	(76)	(2.89)%
Total noninterest income	$10,359	$9,325	$1,034	11.09 %	$10,175	$(850)	(8.35)%

Significant changes in noninterest income are detailed below:

- ATM and debit card fees increased during 2015 as a result of marketing incentives. While we do not anticipate significant changes to our ATM and debit card fees, we do expect that fees will continue to increase in 2016 as the usage of ATM and debit cards continues to increase.
- NSF and overdraft fees fluctuate from period-to-period based on customer activity as well as the number of business days in the period. We anticipate NSF and overdraft fees in 2016 to approximate 2015 levels.
- Offering rates on residential mortgage loans, as well as the decline in loan demand, have been the most significant drivers behind fluctuations in the gain on sale of mortgage loans and net OMSR income (loss). Mortgage rates are expected to approximate current levels in the foreseeable future and purchase money mortgage activity is anticipated to increase as a result of our various initiatives to drive growth. As such, we anticipate increases in origination volumes and in turn, an increase in gains on sale of mortgage loans.
- We are continually analyzing our AFS securities for potential sale opportunities. These analyses identified several securities that made economic sense to sell in 2015, 2014, and 2013.
- In recent periods, we have invested considerable efforts to increase our market share in trust and brokerage advisory services. These efforts have translated into increases in trust fees and brokerage and advisory fees. We anticipate that these fees will continue to increase in 2016.
- The increase in earnings from our Corporate Settlement Solutions joint venture during 2015 can be attributed to their expansion of national sales and maintaining consistent margins with the increased sales volume.
- The fluctuations in all other income is spread throughout various categories, none of which are individually significant.

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Significant noninterest expense account balances are highlighted in the following table with additional descriptions of significant fluctuations for the years ended December 31:

			Change			Change	
	2015	2014	$	%	2013	$	%
Compensation and benefits							
Employee salaries	$13,760	$13,311	$449	3.37 %	$12,019	$1,292	10.75 %
Employee benefits	5,308	5,191	117	2.25 %	5,788	(597)	(10.31)%
Total compensation and benefits	19,068	18,502	566	3.06 %	17,807	695	3.90 %
Furniture and equipment							
Service contracts	2,932	2,542	390	15.34 %	2,277	265	11.64 %
Depreciation	1,949	1,850	99	5.35 %	1,889	(39)	(2.06)%
ATM and debit card fees	742	722	20	2.77 %	710	12	1.69 %
All other	116	59	57	96.61 %	69	(10)	(14.49)%
Total furniture and equipment	5,739	5,173	566	10.94 %	4,945	228	4.61 %
Occupancy							
Depreciation	728	701	27	3.85 %	667	34	5.10 %
Outside services	701	718	(17)	(2.37)%	671	47	7.00 %
Utilities	528	524	4	0.76 %	502	22	4.38 %
Property taxes	526	515	11	2.14 %	499	16	3.21 %
All other	351	340	11	3.24 %	314	26	8.28 %
Total occupancy	2,834	2,798	36	1.29 %	2,653	145	5.47 %
Other							
Director fees	827	775	52	6.71 %	819	(44)	(5.37)%
Audit and related fees	821	809	12	1.48 %	738	71	9.62 %
FDIC insurance premiums	813	842	(29)	(3.44)%	1,082	(240)	(22.18)%
Donations and community relations	808	1,004	(196)	(19.52)%	715	289	40.42 %
Marketing costs	491	427	64	14.99 %	416	11	2.64 %
Legal fees	464	320	144	45.00 %	359	(39)	(10.86)%
Education and travel	442	625	(183)	(29.28)%	502	123	24.50 %
Printing and supplies	405	367	38	10.35 %	396	(29)	(7.32)%
Postage and freight	377	397	(20)	(5.04)%	387	10	2.58 %
Consulting fees	364	349	15	4.30 %	315	34	10.79 %
Loan underwriting fees	347	361	(14)	(3.88)%	423	(62)	(14.66)%
State taxes	218	171	47	27.49 %	140	31	22.14 %
Amortization of deposit premium	169	183	(14)	(7.65)%	221	(38)	(17.19)%
Other losses	150	250	(100)	(40.00)%	109	141	129.36 %
Foreclosed asset and collection	53	122	(69)	(56.56)%	211	(89)	(42.18)%
All other	1,661	1,628	33	2.03 %	1,517	111	7.32 %
Total other	8,410	8,630	(220)	(2.55)%	8,350	280	3.35 %
Total noninterest expenses	$36,051	$35,103	$948	2.70 %	$33,755	$1,348	3.99 %

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Significant changes in noninterest expenses are detailed below:

- Employee salaries have increased as a result of normal merit increases and additional staffing required by our continued growth. The decline in employee benefits from 2013 to 2014, is related to health care costs as a result of lower than anticipated claims. Employee benefits are expected to increase moderately in future periods as a result of anticipated increases in health care costs.
- Service contracts include approximately $147 of conversion related costs incurred as a result of two branch acquisitions during the third quarter of 2015.
- FDIC insurance premiums were elevated in 2013 due to us receiving less of a refund for prepaid FDIC insurance premiums than we had anticipated. FDIC insurance premiums have returned to normalized levels and are anticipated to approximate current levels in 2016.
- We have consistently been a strong supporter of the various communities, schools, and charities in the markets we serve. We sponsor a foundation, which we established in 1996, that is funded by discretionary donations. The foundation provides centralized oversight for charitable donations to organizations that benefit our communities. Included in donations and community relations were discretionary donations to the foundation of $258, $500, and $200 for the years ended December 31, 2015, 2014, and 2013, respectively.
- Legal fees include approximately $133 of legal service expense incurred as a result of two branch acquisitions during the third quarter of 2015. Legal fees are expected to approximate 2014 levels in 2016.
- We place a strong emphasis on employee development through continuous education. Education and travel expenses vary from year to year based on the timing of various programs that our employees attend.
- Other losses increased significantly in 2014 primarily as a result of losses related to fraudulent activities associated with debit cards. Also contributing to losses in 2014 were losses related to the repurchase of loans that we previously sold to a third party. While other losses fluctuate from period to period, they are expected to approximate 2015 levels in 2016.
- The fluctuations in all other expenses are spread throughout various categories, none of which are individually significant.

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Analysis of Changes in Financial Condition

The following table shows the composition and changes in our balance sheet as of December 31:

	2015	2014	Change $	%
ASSETS				
Cash and cash equivalents	$21,569	$19,906	$1,663	8.35 %
AFS securities				
Amortized cost of AFS securities	654,348	561,893	92,455	16.45 %
Unrealized gains (losses) on AFS securities	5,788	5,641	147	2.61 %
AFS securities	660,136	567,534	92,602	16.32 %
Mortgage loans AFS	1,187	901	286	31.74 %
Loans				
Gross loans	850,492	836,550	13,942	1.67 %
Less allowance for loan and lease losses	7,400	10,100	(2,700)	(26.73)%
Net loans	843,092	826,450	16,642	2.01 %
Premises and equipment	28,331	25,881	2,450	9.47 %
Corporate owned life insurance policies	26,423	25,152	1,271	5.05 %
Accrued interest receivable	6,269	5,851	418	7.14 %
Equity securities without readily determinable fair values	22,286	20,076	2,210	11.01 %
Goodwill and other intangible assets	48,828	46,128	2,700	5.85 %
Other assets	9,991	11,664	(1,673)	(14.34)%
TOTAL ASSETS	$1,668,112	$1,549,543	$118,569	7.65 %
LIABILITIES AND SHAREHOLDERS’ EQUITY				
Liabilities				
Deposits	$1,164,563	$1,074,484	$90,079	8.38 %
Borrowed funds	309,732	289,709	20,023	6.91 %
Accrued interest payable and other liabilities	9,846	10,756	(910)	(8.46)%
Total liabilities	1,484,141	1,374,949	109,192	7.94 %
Shareholders’ equity	183,971	174,594	9,377	5.37 %
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY	$1,668,112	$1,549,543	$118,569	7.65 %

As shown above, total assets have increased $118,569 since December 31, 2014. During 2015, we increased our cost basis of AFS securities by $92,455 while loans grew by $13,942. Included in the increase in our AFS securities portfolio was $147 increase in unrealized gains. This balance sheet growth was funded by increases in both deposits (through branch acquisitions) and borrowed funds. While we do anticipate that generating quality loans will continue to be competitive, we expect that loans will continue to grow in 2016.

A discussion of changes in balance sheet amounts by major categories follows:

Cash and cash equivalents

Included in cash and cash equivalents are funds held with FRB which fluctuate from period-to-period.

AFS investment securities

The primary objective of our investing activities is to provide for safety of the principal invested. Secondary considerations include the need for earnings, liquidity, and our overall exposure to changes in interest rates. The current interest rate environment has made it almost impossible to increase net interest income without increasing earning assets. As deposit growth outpaced loan demand in recent periods, we deployed funds from deposit growth into purchases of AFS securities to provide additional interest income. We anticipate that future increases in our AFS securities will be in the form of mortgage-backed securities and collateralized mortgage obligations.

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The following is a schedule of the carrying value of AFS investment securities as of December 31:

	2015	2014	2013	2012	2011
Government sponsored enterprises	$24,345	$24,136	$23,745	$25,776	$397
States and political subdivisions	232,217	215,345	201,988	182,743	174,938
Auction rate money market preferred	2,866	2,619	2,577	2,778	2,049
Preferred stocks	3,299	6,140	5,827	6,363	5,033
Mortgage-backed securities	263,384	166,926	144,115	155,345	143,602
Collateralized mortgage obligations	134,025	152,368	133,810	131,005	99,101
Total	$660,136	$567,534	$512,062	$504,010	$425,120

Excluding those holdings in government sponsored enterprises and municipalities within the State of Michigan, there were no investments in securities of any one issuer that exceeded 10% of shareholders' equity. We have a policy prohibiting investments in securities that we deem are unsuitable due to their inherent credit or market risks. Prohibited investments include stripped mortgage backed securities, zero coupon bonds, nongovernment agency asset backed securities, and structured notes. Our holdings in mortgage-backed securities and collateralized mortgage obligations include only government agencies and government sponsored agencies as we hold no investments in private label mortgage-backed securities or collateralized mortgage obligations.

The following is a schedule of maturities of AFS investment securities and their weighted average yield as of December 31, 2015. Weighted average yields have been computed on an FTE basis using a tax rate of 34%. Our auction rate money market preferred is a long term floating rate instrument for which the interest rate is set at periodic auctions. At each successful auction, we have the option to sell the security at par value. Additionally, the issuers of auction rate securities generally have the right to redeem or refinance the debt. Because of their lack of contractual maturities, auction rate money market preferred and preferred stocks are not reported by a specific maturity group. Mortgage-backed securities and collateralized mortgage obligations are not reported by a specific maturity group due to their variable monthly payments. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations.

	Maturing									
	Within One Year		After One Year But Within Five Years		After Five Years But Within Ten Years		After Ten Years		Securities with Variable Monthly Payments or Noncontractual Maturities	
	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)
Government sponsored enterprises	$—	—	$23,963	1.45	$382	2.05	$—	—	$—	—
States and political subdivisions	30,217	2.01	71,489	4.75	96,489	4.22	34,022	4.91	—	—
Mortgage-backed securities	—	—	—	—	—	—	—	—	263,384	2.28
Collateralized mortgage obligations	—	—	—	—	—	—	—	—	134,025	2.35
Auction rate money market preferred	—	—	—	—	—	—	—	—	2,866	6.35
Preferred stocks	—	—	—	—	—	—	—	—	3,299	5.44
Total	$30,217	2.01	$95,452	3.92	$96,871	4.21	$34,022	4.91	$403,574	2.36

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Loans

Loans are the largest component of earning assets. The proper management of credit and market risk inherent in the loan portfolio is critical to our financial well-being. To control these risks, we have adopted strict underwriting standards. These standards include specific criteria against lending outside our defined market areas, lending limits to a single borrower, and strict loan to collateral value limits. We also monitor and limit loan concentrations to specific industries. We have no foreign loans and there were no concentrations greater than 10% of total loans that are not disclosed as a separate category in the following table.

The following table presents the composition of the loan portfolio for the years ended December 31:

	2015	2014	2013	2012	2011
Commercial	$448,381	$433,270	$393,164	$372,332	$366,440
Agricultural	115,911	104,721	92,589	83,606	74,645
Residential real estate	251,501	266,155	291,499	285,070	278,803
Consumer	34,699	32,404	33,525	33,619	31,722
Total	$850,492	$836,550	$810,777	$774,627	$751,610

The following table presents the change in the loan portfolio categories for the years ended December 31:

	2015		2014		2013	
	$ Change	% Change	$ Change	% Change	$ Change	% Change
Commercial	$15,111	3.49 %	$40,106	10.20 %	$20,832	5.60 %
Agricultural	11,190	10.69 %	12,132	13.10 %	8,983	10.74 %
Residential real estate	(14,654)	(5.51)%	(25,344)	(8.69)%	6,429	2.26 %
Consumer	2,295	7.08 %	(1,121)	(3.34)%	(94)	(0.28)%
Total	$13,942	1.67 %	$25,773	3.18 %	$36,150	4.67 %

While competition for commercial loans continues to be strong, we experienced growth in this segment of the portfolio during 2015 and anticipate strong growth in 2016. Residential real estate loans declined during 2015; however, we anticipate growth in 2016 as a result of initiatives designed to increase both loan volume and the number of originations.

Equity securities without readily determinable fair values

Included in equity securities without readily determinable fair values are restricted securities, which are carried at cost and investments in unconsolidated entities accounted for under the equity method of accounting (see “Note 1 – Nature of Operations and Summary of Significant Accounting Policies” and “Note 20 – Fair Value” of the “Notes to Consolidated Financial Statements” in Item 8. Financial Statements and Supplementary Data).

Deposits

Deposits are our primary source of funding. The following table presents the composition of the deposit portfolio as of December 31:

	2015	2014	2013	2012	2011
Noninterest bearing demand deposits	$191,376	$181,826	$158,428	$143,735	$119,072
Interest bearing demand deposits	212,666	190,984	192,089	181,259	163,653
Savings deposits	337,641	261,412	243,237	228,338	193,902
Certificates of deposit	324,101	339,824	362,473	376,790	395,777
Brokered certificates of deposit	73,815	72,134	56,329	55,348	54,326
Internet certificates of deposit	24,964	28,304	31,210	32,197	31,434
Total	$1,164,563	$1,074,484	$1,043,766	$1,017,667	$958,164

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The following table presents the change in the deposit categories for the years ended December 31:

	2015		2014		2013	
	$ Change	% Change	$ Change	% Change	$ Change	% Change
Noninterest bearing demand deposits	$9,550	5.25 %	$23,398	14.77 %	$14,693	10.22 %
Interest bearing demand deposits	21,682	11.35 %	(1,105)	(0.58)%	10,830	5.97 %
Savings deposits	76,229	29.16 %	18,175	7.47 %	14,899	6.52 %
Certificates of deposit	(15,723)	(4.63)%	(22,649)	(6.25)%	(14,317)	(3.80)%
Brokered certificates of deposit	1,681	2.33 %	15,805	28.06 %	981	1.77 %
Internet certificates of deposit	(3,340)	(11.80)%	(2,906)	(9.31)%	(987)	(3.07)%
Total	$90,079	8.38 %	$30,718	2.94 %	$26,099	2.56 %

Deposit demand continues to be driven by non-contractual deposits while certificates of deposit gradually decline. Our significant growth in savings deposits during 2015 is the result of our recent branch acquisitions. In 2016, growth is anticipated to continue to come in the form of non-contractual deposits, while certificates of deposit are expected to continue to decline but at a slower rate than the past 5 years. We look to retain and attract new customers with the recent branch acquisitions to provide growth in deposits in future periods.

The remaining maturity of time certificates and other time deposits of $100 or more as of December 31, 2015 was as follows:

Maturity	
Within 3 months	$37,988
Within 3 to 6 months	17,377
Within 6 to 12 months	50,180
Over 12 months	133,183
Total	$238,728

Borrowed Funds

Borrowed funds include FHLB advances and securities sold under agreements to repurchase. The balance of borrowed funds fluctuates from period to period based on our funding needs including changes in loans, investments, and deposits. To provide balance sheet growth, we utilize borrowings and brokered deposits to fund earning assets.

The following table presents borrowed funds balances for the years ended December 31:

	2015	2014	2013	2012	2011
FHLB advances	$235,000	$192,000	$162,000	$152,000	$142,242
Securities sold under agreements to repurchase without stated maturity dates	70,532	95,070	106,025	66,147	57,198
Securities sold under agreements to repurchase with stated maturity dates	—	439	11,301	16,284	16,696
Federal funds purchased	4,200	2,200	—	6,570	—
Total	$309,732	$289,709	$279,326	$241,001	$216,136

For additional disclosure related to borrowed funds, see “Note 10 – Borrowed Funds” of “Notes to Consolidated Financial Statements” in Item 8. Financial Statements and Supplementary Data.

Accrued interest payable and other liabilities

Included in accrued interest payable and other liabilities are obligations related to our defined benefit pension plan and obligations related to other employee benefits. For more information on the defined benefit pension plan and other employee benefits, see "Note 17 – Benefit Plans" of the “Notes to Consolidated Financial Statements” in Item 8. Financial Statements and Supplementary Data.

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Contractual Obligations and Loan Commitments

We have various financial obligations, including contractual obligations and commitments, which may require future cash payments. The following schedule summarizes our non-cancelable obligations and future minimum payments as of December 31, 2015:

	Minimum Payments Due by Period				
	Due in One Year or Less	After One Year But Within Three Years	After Three Years But Within Five Years	After Five Years	Total
Deposits					
Deposits with no stated maturity	$741,683	$—	$—	$—	$741,683
Certificates of deposit with stated maturities	191,858	153,099	56,895	21,028	422,880
Total deposits	933,541	153,099	56,895	21,028	1,164,563
Borrowed funds					
Short-term borrowings	74,732	—	—	—	74,732
Long-term borrowings	45,000	100,000	20,000	70,000	235,000
Total borrowed funds	119,732	100,000	20,000	70,000	309,732
Total contractual obligations	$1,053,273	$253,099	$76,895	$91,028	$1,474,295

We also have loan commitments that may impact liquidity. The following schedule summarizes our loan commitments and expiration dates by period as of December 31, 2015. Commitments to grant loans include residential mortgage loans with the majority being loans committed to be sold to the secondary market. Since many of these commitments historically have expired without being drawn upon, the total amount of these commitments does not necessarily represent our future cash requirements.

	Expiration Dates by Period				
	Due in One Year or Less	After One Year But Within Three Years	After Three Years But Within Five Years	After Five Years	Total
Unused commitments under lines of credit	$69,954	$35,488	$19,513	$9,457	$134,412
Commitments to grant loans	53,946	—	—	—	53,946
Commercial and standby letters of credit	915	—	—	—	915
Total loan commitments	$124,815	$35,488	$19,513	$9,457	$189,273

For additional disclosure related to Contractual Obligations and Loan Commitments, see "Note 13 – Off-Balance-Sheet Activities" of the "Notes to Consolidated Financial Statements" in Item 8. Financial Statements and Supplementary Data.

Capital

Capital consists solely of common stock, retained earnings, and accumulated other comprehensive income (loss). We are authorized to raise capital through dividend reinvestment, employee and director stock purchases, and shareholder stock purchases. Pursuant to these authorizations, we issued 216,700 shares or $5,201 of common stock during 2015, and 182,755 shares or $4,227 of common stock in 2014. We also offer the Directors Plan in which participants either directly purchase stock or purchase stock units through deferred fees, in lieu of cash payments. Pursuant to this plan, we increased shareholders' equity by $550 and $495 during 2015 and 2014, respectively.

We have a publicly announced common stock repurchase plan. Pursuant to this plan, we repurchased 193,107 shares or $4,590 of common stock compared to 135,630 shares or $3,122 during 2015 and 2014, respectively. As of December 31, 2015, we were authorized to repurchase up to an additional 158,658 shares of common stock.

The FRB has established minimum risk based capital guidelines. Pursuant to these guidelines, a framework has been established that assigns risk weights to each category of on and off-balance-sheet items to arrive at risk adjusted total assets. Regulatory capital is divided by the risk adjusted assets with the resulting ratio compared to the minimum standard to determine whether a corporation has adequate capital. On July 2, 2013, the FRB published revised BASEL III Capital standards for banks. The final rules redefine what is included or deducted from equity capital, changes risk weighting for certain on and

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off-balance sheet assets, increases the minimum required equity capital to be considered well capitalized, and introduces a capital cushion buffer. The rules, which are being gradually phased in between 2015 and 2019, are not expected to have a material impact on the Corporation but will require us to hold more capital than we have historically.

There are no significant regulatory constraints placed on our capital. The FRB's current recommended minimum primary capital to assets requirement is 6.00%. Our primary capital to adjusted average assets, or tier 1 leverage ratio, was 8.52% as of December 31, 2015.

Effective January 1, 2015, the minimum standard for primary, or tier 1, capital increased from 4.00% to 6.00%. The minimum standard for total capital remains at 8.00%. Also effective January 1, 2015 is the new common equity tier 1 capital ratio which has a minimum requirement of 4.50%. The following table sets forth the percentages required under the Risk Based Capital guidelines and our values as of December 31:

	2015		2014		Required	
Common equity tier 1 capital	13.24	%	N/A		4.50	%
Tier 1 capital	13.24	%	14.08	%	6.00	%
Tier 2 capital	0.72	%	1.11	%	2.00	%
Total Capital	13.96	%	15.19	%	8.00	%

Tier 2 capital, or secondary capital, includes only the ALLL. The percentage for the secondary capital under the required column is the maximum amount allowed from all sources.

The FRB and FDIC also prescribe minimum capital requirements for Isabella Bank. At December 31, 2015, the Bank exceeded these minimum capital requirements. For further information regarding the Bank's capital requirements, see "Note 16 – Minimum Regulatory Capital Requirements" of the "Notes to Consolidated Financial Statements" in Item 8. Financial Statements and Supplementary Data.

Fair Value

We utilize fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. AFS securities and certain liabilities are recorded at fair value on a recurring basis. Additionally, from time-to-time, we may be required to record at fair value other assets on a nonrecurring basis, such as mortgage loans AFS, foreclosed assets, OMSR, and certain other assets and liabilities. These nonrecurring fair value adjustments typically involve the application of lower of cost or market accounting or write-downs of individual assets.

For further information regarding fair value measurements, see "Note 1 – Nature of Operations and Summary of Significant Accounting Policies" and "Note 20 – Fair Value" of the "Notes to Consolidated Financial Statements" in Item 8. Financial Statements and Supplementary Data.

Interest Rate Sensitivity

Interest rate sensitivity is determined by the amount of earning assets and interest bearing liabilities repricing within a specific time period, and their relative sensitivity to a change in interest rates. We strive to achieve reasonable stability in the net interest margin through periods of changing interest rates. One tool we use to measure interest rate sensitivity is gap analysis. As shown in the following table, the gap analysis depicts our position for specific time periods and the cumulative gap as a percentage of total assets.

Fixed interest rate AFS securities are scheduled according to their contractual maturity. Fixed rate loans are included in the appropriate time frame based on their scheduled amortization. Variable rate loans, which totaled $168,534 as of December 31, 2015, are included in the time frame of their earliest repricing. Time deposit liabilities are scheduled based on their contractual maturity except for variable rate time deposits in the amount of $1,601 that are included in the 0 to 3 month time frame.

Savings and NOW accounts have no contractual maturity date and are believed by us to be predominantly noninterest rate sensitive. These accounts have been classified in the gap table according to their estimated withdrawal rates based upon our analysis of deposit decay over the past five years. We believe this decay experience is consistent with our expectation for the future. As of December 31, 2015, we had a positive cumulative gap within one year. A positive gap position results when more assets, within a specified time frame, have the potential to mature or reprice than liabilities.

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The following table shows the time periods and the amount of assets and liabilities available for interest rate repricing as of December 31, 2015. The interest rate sensitivity information for investment securities is based on the expected prepayments and call dates versus stated maturities. For purposes of this analysis, nonaccrual loans and the ALLL are excluded.

	0 to 3 Months	4 to 12 Months	1 to 5 Years	Over 5 Years
Interest sensitive assets				
AFS securities	$35,776	$112,916	$347,042	$164,402
Loans	204,408	79,477	409,031	156,784
Total	$240,184	$192,393	$756,073	$321,186
Interest sensitive liabilities				
Borrowed funds	$99,732	$20,000	$150,000	$40,000
Time deposits	60,100	132,001	209,751	21,028
Savings	42,141	26,360	103,694	165,446
NOW	2,936	8,805	40,641	160,284
Total	$204,909	$187,166	$504,086	$386,758
Cumulative gap	$35,275	$40,502	$292,489	$226,917
Cumulative gap as a % of assets	2.11 %	2.43 %	17.53 %	13.60 %

The following table shows the maturity of commercial and agricultural loans outstanding at December 31, 2015. Also provided are the amounts due after one year, classified according to the sensitivity to changes in interest rates.

	1 Year or Less	1 to 5 Years	Over 5 Years	Total
Commercial and agricultural	$78,188	$310,530	$175,574	$564,292
Interest sensitivity				
Loans maturing after one year that have:				
Fixed interest rates		$275,064	$168,591	
Variable interest rates		35,466	6,983	
Total		$310,530	$175,574	

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Liquidity

Liquidity is monitored regularly by our Market Risk Committee, which consists of members of senior management. The committee reviews projected cash flows, key ratios, and liquidity available from both primary and secondary sources.

Our primary sources of liquidity are cash and cash equivalents and AFS securities. These categories totaled $681,705 or 40.87% of assets as of December 31, 2015 as compared to $587,440 or 37.91% as of December 31, 2014. Liquidity is important for financial institutions because of their need to meet loan funding commitments, depositor withdrawal requests, and various other commitments including expansion of operations, investment opportunities, and payment of cash dividends. Liquidity varies significantly daily, based on customer activity.

Our primary source of funds is deposit accounts. We also have the ability to borrow from the FHLB, the FRB, and through various correspondent banks in the form of federal funds purchased and a line of credit. These funding methods typically carry a higher interest rate than traditional market deposit accounts. Some borrowed funds, including FHLB advances, FRB Discount Window advances, and repurchase agreements, require us to pledge assets, typically in the form of AFS securities or loans as collateral. As of December 31, 2015, we had available lines of credit of $121,960.

The following table summarizes our sources and uses of cash for the years ended December 31:

	2015	2014	$ Variance
Net cash provided by (used in) operating activities	$12,090	$17,562	$(5,472)
Net cash provided by (used in) investing activities	(113,499)	(74,826)	(38,673)
Net cash provided by (used in) financing activities	103,072	35,032	68,040
Increase (decrease) in cash and cash equivalents	1,663	(22,232)	23,895
Cash and cash equivalents January 1	19,906	42,138	(22,232)
Cash and cash equivalents December 31	$21,569	$19,906	$1,663

Quantitative and Qualitative Disclosures about Market Risk

Our primary market risks are interest rate risk and liquidity risk. We have no significant foreign exchange risk and do not utilize interest rate swaps or derivatives, except for interest rate locks and forward loan commitments, in the management of IRR. Any changes in foreign exchange rates or commodity prices would not have a significant impact on our interest income and cash flows.

IRR is the exposure of our net interest income to changes in interest rates. IRR results from the difference in the maturity or repricing frequency of a financial institution's interest earning assets and its interest bearing liabilities. IRR is the fundamental method by which financial institutions earn income and create shareholder value. Excessive exposure to IRR could pose a significant risk to our earnings and capital.

The FRB has adopted a policy requiring us to effectively manage the various risks that can have a material impact on our safety and soundness. The risks include credit, interest rate, liquidity, operational, and reputational. We have policies, procedures, and internal controls for measuring and managing these risks. Specifically, our Funds Management policy and procedures include defining acceptable types and terms of investments and funding sources, liquidity requirements, limits on investments in long term assets, limiting the mismatch in repricing opportunity of assets and liabilities, and the frequency of measuring and reporting to our Board.

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

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Our interest rate sensitivity is estimated by first forecasting the next 12 and 24 months of net interest income under an assumed environment of a constant balance sheet and constant market interest rates (base case). We then compare the results of various simulation analyses to the base case. At December 31, 2015, we projected the change in net interest income during the next 12 and 24 months assuming market interest rates were to immediately decrease by 100 basis points and increase by 100, 200, 300, and 400 basis points in a parallel fashion over the entire yield curve during the same time period. We did not project scenarios showing decreases in interest rates beyond 100 basis points as this is considered extremely unlikely given current interest rate levels. These projections were based on our assets and liabilities remaining static over the next 12 and 24 months, while factoring in probable calls and prepayments of certain investment securities and real estate residential and consumer loans. While it is extremely unlikely that interest rates would immediately increase to these levels, we feel that these extreme scenarios help us identify potential gaps and mismatches in the repricing characteristics of assets and liabilities. We regularly monitor our projected net interest income sensitivity to ensure that it remains within established limits.

The following tables summarize our interest rate sensitivity for 12 and 24 months as of:

	December 31, 2015									
	12 Months					24 Months				
Immediate basis point change assumption (short-term)	-100	+100	+200	+300	+400	-100	+100	+200	+300	+400
Percent change in net interest income vs. constant rates	(2.08)%	1.27 %	2.00 %	2.11 %	2.23 %	(1.77)%	2.00 %	3.47 %	4.02 %	4.39 %

	December 31, 2014									
	12 Months					24 Months				
Immediate basis point change assumption (short-term)	-100	+100	+200	+300	+400	-100	+100	+200	+300	+400
Percent change in net interest income vs. constant rates	(1.66)%	0.29 %	0.45 %	(3.18)%	(4.39)%	(1.83)%	0.25 %	1.04 %	(2.70)%	(3.98)%

Gap analysis, the secondary method to measure IRR, measures the cash flows and/or the earliest repricing of our interest bearing assets and liabilities. This analysis is useful for measuring trends in the repricing characteristics of the balance sheet. Significant assumptions are required in this process because of the embedded repricing options contained in assets and liabilities. Residential real estate and consumer loans allow the borrower to repay the balance prior to maturity without penalty, while commercial and agricultural loans have prepayment penalties. The amount of prepayments is dependent upon many factors, including the interest rate of a given loan in comparison to the current offering rates, the level of sales of used homes, and the overall availability of credit in the market place. Generally, a decrease in interest rates will result in an increase in cash flows from these assets. A significant portion of our securities are callable or have prepayment options. The call and prepayment options are more likely to be exercised in a period of decreasing interest rates. Savings and demand accounts may generally be withdrawn on request without prior notice. The timing of cash flows from these deposits is estimated based on historical experience. Certificates of deposit have penalties that discourage early withdrawals.

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The following tables provide information about assets and liabilities that are sensitive to changes in interest rates as of December 31, 2015 and December 31, 2014. The principal amounts of investments, loans, other interest earning assets, borrowings, and time deposits maturing were calculated based on the contractual maturity dates. Estimated cash flows for savings and NOW accounts are based on our estimated deposit decay rates.

	December 31, 2015													
	2016		2017		2018		2019		2020		Thereafter		Total		Fair Value
Rate sensitive assets														
Other interest bearing assets	$2,659		$100		$—		$—		$—		$—		$2,759		$2,758
Average interest rates	0.23	%	0.35	%	—		—		—		—		0.24	%	
AFS securities	$148,692		$120,692		$81,726		$73,541		$71,083		$164,402		$660,136		$660,136
Average interest rates	2.16	%	2.11	%	2.18	%	2.25	%	2.37	%	2.43	%	2.25	%	
Fixed interest rate loans (1)	$116,143		$130,873		$103,265		$83,457		$91,436		$156,784		$681,958		$670,864
Average interest rates	4.56	%	4.42	%	4.27	%	4.36	%	4.18	%	4.28	%	4.35	%	
Variable interest rate loans (1)	$61,672		$24,289		$24,359		$14,398		$16,842		$26,974		$168,534		$168,534
Average interest rates	4.08	%	4.12	%	4.19	%	3.45	%	3.40	%	3.69	%	3.92	%	
Rate sensitive liabilities														
Fixed rate borrowed funds	$104,732		$50,000		$50,000		$40,000		$10,000		$40,000		$294,732		$297,495
Average interest rates	0.47	%	1.56	%	2.16	%	2.35	%	1.98	%	2.67	%	1.55	%	
Variable rate borrowed funds	$15,000		$—		$—		$—		$—		$—		$15,000		$15,000
Average interest rates	0.62	%	—		—		—		—		—		0.62	%	
Savings and NOW accounts	$80,242		$42,064		$37,773		$33,950		$30,548		$325,730		$550,307		$550,307
Average interest rates	0.59	%	0.11	%	0.11	%	0.11	%	0.11	%	0.11	%	0.18	%	
Fixed interest rate certificates of deposit	$190,500		$89,689		$63,167		$23,883		$33,012		$21,028		$421,279		$419,828
Average interest rates	0.92	%	1.26	%	1.27	%	1.50	%	1.59	%	1.84	%	1.18	%	
Variable interest rate certificates of deposit	$1,358		$243		$—		$—		$—		$—		$1,601		$1,601
Average interest rates	0.49	%	0.40	%	—		—		—		—		0.48	%	

December 31, 2014

	2015	2016	2017	2018	2019	Thereafter	Total	Fair Value
Rate sensitive assets								
Other interest bearing assets	$1,748	$—	$100	$—	$—	$—	$1,848	$1,847
Average interest rates	0.36 %	—	0.35 %	—	—	—	0.36 %	
AFS securities	$109,261	$93,324	$80,147	$53,017	$47,112	$184,673	$567,534	$567,534
Average interest rates	2.22 %	2.26 %	2.32 %	2.39 %	2.46 %	2.62 %	2.41 %	
Fixed interest rate loans (1)	$121,996	$98,865	$128,954	$91,854	$71,293	$151,156	$664,118	$657,985
Average interest rates	4.78 %	4.83 %	4.53 %	4.32 %	4.47 %	4.25 %	4.52 %	
Variable interest rate loans (1)	$71,435	$26,938	$19,836	$13,929	$14,706	$25,588	$172,432	$172,432
Average interest rates	4.46 %	3.97 %	3.95 %	3.39 %	3.37 %	4.01 %	4.08 %	
Rate sensitive liabilities								
Fixed rate borrowed funds	$139,709	$10,000	$30,000	$40,000	$20,000	$50,000	$289,709	$293,401
Average interest rates	0.33 %	2.15 %	1.95 %	2.35 %	3.11 %	2.53 %	1.41 %	
Savings and NOW accounts	$40,395	$36,417	$32,717	$29,423	$26,487	$286,957	$452,396	$452,396
Average interest rates	0.11 %	0.11 %	0.11 %	0.11 %	0.11 %	0.10 %	0.11 %	
Fixed interest rate certificates of deposit	$216,852	$74,722	$56,391	$50,550	$22,901	$17,723	$439,139	$439,841
Average interest rates	0.96 %	1.66 %	1.47 %	1.31 %	1.48 %	1.77 %	1.25 %	
Variable interest rate certificates of deposit	$653	$470	$—	$—	$—	$—	$1,123	$1,123
Average interest rates	0.40 %	0.40 %	—	—	—	—	0.40 %	

(1) The fair value reported is exclusive of the allocation of the ALLL.

We do not believe that there has been a material change in the nature or categories of our primary market risk exposure, or the particular markets that present the primary risk of loss. As of the date of this report, we do not know of or expect there to be any material change in the general nature of our primary market risk exposure in the near term. As of the date of this report, we do not expect to make material changes in those methods in the near term. We may change those methods in the future to adapt to changes in circumstances or to implement new techniques.

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Report of Independent Registered Public Accounting Firm
Shareholders and Board of Directors
Isabella Bank Corporation
Mount Pleasant, Michigan

We have audited the accompanying consolidated balance sheets of Isabella Bank Corporation as of December 31, 2015 and 2014, and the related consolidated statements of changes in shareholders' equity, income, comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2015. We also have audited Isabella Bank Corporation's internal control over financial reporting as of December 31, 2015, based on criteria established in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Isabella Bank Corporation's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the effectiveness of Isabella Bank Corporation's internal control over financial reporting, based on our audits.

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

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Isabella Bank Corporation as of December 31, 2015 and 2014, and the consolidated results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion Isabella Bank Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

Rehmann Robson LLC
Saginaw, Michigan
March 9, 2016

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Consolidated Financial Statements
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	December 31	
	2015	2014
ASSETS		
Cash and cash equivalents		
Cash and demand deposits due from banks	$18,810	$18,058
Interest bearing balances due from banks	2,759	1,848
Total cash and cash equivalents	21,569	19,906
AFS securities (amortized cost of $654,348 in 2015 and $561,893 in 2014)	660,136	567,534
Mortgage loans AFS	1,187	901
Loans		
Commercial	448,381	433,270
Agricultural	115,911	104,721
Residential real estate	251,501	266,155
Consumer	34,699	32,404
Gross loans	850,492	836,550
Less allowance for loan and lease losses	7,400	10,100
Net loans	843,092	826,450
Premises and equipment	28,331	25,881
Corporate owned life insurance policies	26,423	25,152
Accrued interest receivable	6,269	5,851
Equity securities without readily determinable fair values	22,286	20,076
Goodwill and other intangible assets	48,828	46,128
Other assets	9,991	11,664
TOTAL ASSETS	$1,668,112	$1,549,543
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest bearing	$191,376	$181,826
NOW accounts	212,666	190,984
Certificates of deposit under $100 and other savings	521,793	456,774
Certificates of deposit over $100	238,728	244,900
Total deposits	1,164,563	1,074,484
Borrowed funds	309,732	289,709
Accrued interest payable and other liabilities	9,846	10,756
Total liabilities	1,484,141	1,374,949
Shareholders' equity		
Common stock — no par value 15,000,000 shares authorized; issued and outstanding 7,799,867 shares (including 19,401 shares held in the Rabbi Trust) in 2015 and 7,776,274 shares (including 13,934 shares held in the Rabbi Trust) in 2014	139,198	138,755
Shares to be issued for deferred compensation obligations	4,592	4,242
Retained earnings	39,960	32,103
Accumulated other comprehensive income (loss)	221	(506)
Total shareholders' equity	183,971	174,594
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$1,668,112	$1,549,543

The accompanying notes are an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Dollars in thousands except per share amounts)

	Common Stock					
	Common Shares Outstanding	Amount	Common Shares to be Issued for Deferred Compensation Obligations	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Totals
Balance, January 1, 2013	7,671,846	$136,580	$ 3,734	$19,168	$ 5,007	$164,489
Comprehensive income (loss)	—	—	—	12,510	(11,348)	1,162
Issuance of common stock	149,191	3,618	—	—	—	3,618
Common stock issued for deferred compensation obligations	—	—	—	—	—	—
Common stock transferred from the Rabbi Trust to satisfy deferred compensation obligations	—	140	(140)	—	—	—
Share-based payment awards under equity compensation plan	—	—	554	—	—	554
Common stock purchased for deferred compensation obligations	—	(383)	—	—	—	(383)
Common stock repurchased pursuant to publicly announced repurchase plan	(98,014)	(2,375)	—	—	—	(2,375)
Cash dividends paid ($0.84 per common share)	—	—	—	(6,456)	—	(6,456)
Balance, December 31, 2013	7,723,023	137,580	4,148	25,222	(6,341)	160,609
Comprehensive income (loss)	—	—	—	13,724	5,835	19,559
Issuance of common stock	182,755	4,227	—	—	—	4,227
Common stock issued for deferred compensation obligations	6,126	143	(143)	—	—	—
Common stock transferred from the Rabbi Trust to satisfy deferred compensation obligations	—	258	(258)	—	—	—
Share-based payment awards under equity compensation plan	—	—	495	—	—	495
Common stock purchased for deferred compensation obligations	—	(331)	—	—	—	(331)
Common stock repurchased pursuant to publicly announced repurchase plan	(135,630)	(3,122)	—	—	—	(3,122)
Cash dividends paid ($0.89 per common share)	—	—	—	(6,843)	—	(6,843)
Balance, December 31, 2014	7,776,274	138,755	4,242	32,103	(506)	174,594
Comprehensive income (loss)	—	—	—	15,130	727	15,857
Issuance of common stock	216,700	5,201	—	—	—	5,201
Common stock issued for deferred compensation obligations	—	—	—	—	—	—
	—	200	(200)	—	—	—

Common stock transferred from the Rabbi Trust to satisfy deferred compensation obligations						
Share-based payment awards under equity compensation plan	—	—	550	—	—	550
Common stock purchased for deferred compensation obligations	—	(368)	—	—	—	(368)
Common stock repurchased pursuant to publicly announced repurchase plan	(193,107)	(4,590)	—	—	—	(4,590)
Cash dividends paid ($0.94 per common share)	—	—	—	(7,273)	—	(7,273)
Balance, December 31, 2015	7,799,867	$139,198	$ 4,592	$39,960	$ 221	$183,971

The accompanying notes are an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands except per share amounts)

	Year Ended December 31		
	2015	2014	2013
Interest income			
Loans, including fees	$35,853	$36,629	$37,575
AFS securities			
Taxable	9,053	8,092	7,228
Nontaxable	5,996	5,911	5,132
Federal funds sold and other	600	516	483
Total interest income	51,502	51,148	50,418
Interest expense			
Deposits	5,850	6,295	7,140
Borrowings	4,313	3,675	3,881
Total interest expense	10,163	9,970	11,021
Net interest income	41,339	41,178	39,397
Provision for loan losses	(2,771)	(668)	1,111
Net interest income after provision for loan losses	44,110	41,846	38,286
Noninterest income			
Service charges and fees	5,437	5,411	5,682
Net gain on sale of mortgage loans	573	514	962
Earnings on corporate owned life insurance policies	771	751	732
Net gains (losses) on sale of AFS securities	163	97	171
Other	3,415	2,552	2,628
Total noninterest income	10,359	9,325	10,175
Noninterest expenses			
Compensation and benefits	19,068	18,502	17,807
Furniture and equipment	5,739	5,173	4,945
Occupancy	2,834	2,798	2,653
Other	8,410	8,630	8,350
Total noninterest expenses	36,051	35,103	33,755
Income before federal income tax expense	18,418	16,068	14,706
Federal income tax expense	3,288	2,344	2,196
NET INCOME	$15,130	$13,724	$12,510
Earnings per common share			
Basic	$1.95	$1.77	$1.63
Diluted	$1.90	$1.74	$1.59
Cash dividends per common share	$0.94	$0.89	$0.84

The accompanying notes are an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)

	Year Ended December 31		
	2015	2014	2013
Net income	$15,130	$13,724	$12,510
Unrealized gains (losses) on AFS securities			
Unrealized gains (losses) arising during the year	310	11,290	(18,971)
Reclassification adjustment for net realized (gains) losses included in net income	(163)	(97)	(171)
Net unrealized gains (losses)	147	11,193	(19,142)
Tax effect (1)	87	(3,684)	6,257
Unrealized gains (losses), net of tax	234	7,509	(12,885)
Change in unrecognized pension cost on defined benefit pension plan			
Change in unrecognized pension cost arising during the year	255	(2,836)	2,120
Reclassification adjustment for net periodic benefit cost included in net income	492	300	208
Net change in unrecognized pension cost	747	(2,536)	2,328
Tax effect	(254)	862	(791)
Change in unrealized pension cost, net of tax	493	(1,674)	1,537
Other comprehensive income (loss), net of tax	727	5,835	(11,348)
Comprehensive income (loss)	$15,857	$19,559	$1,162

(1) See “Note 18 – Accumulated Other Comprehensive Income (Loss)” in the accompanying notes to consolidated financial statements for tax effect reconciliation.

The accompanying notes are an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	Year Ended December 31		
	2015	2014	2013
OPERATING ACTIVITIES			
Net income	$15,130	$13,724	$12,510
Reconciliation of net income to net cash provided by operating activities:			
Provision for loan losses	(2,771)	(668)	1,111
Impairment of foreclosed assets	99	123	156
Depreciation	2,677	2,551	2,556
Amortization of OMSR	340	265	522
Amortization of acquisition intangibles	169	183	221
Net amortization of AFS securities	2,074	1,830	2,028
Net (gains) losses on sale of AFS securities	(163)	(97)	(171)
Net gain on sale of mortgage loans	(573)	(514)	(962)
Increase in cash value of corporate owned life insurance policies	(771)	(751)	(732)
Share-based payment awards under equity compensation plan	550	495	554
Deferred income tax (benefit) expense	1,692	207	(1,208)
Origination of loans held-for-sale	(42,887)	(28,135)	(53,632)
Proceeds from loan sales	43,174	28,852	57,123
Net changes in operating assets and liabilities which provided (used) cash:			
Accrued interest receivable	(418)	(409)	(215)
Other assets	(5,322)	(1,392)	1,792
Accrued interest payable and other liabilities	(910)	1,298	1,954
Net cash provided by (used in) operating activities	12,090	17,562	23,607
INVESTING ACTIVITIES			
Activity in AFS securities			
Sales	1,319	13,362	16,229
Maturities, calls, and principal payments	90,036	68,188	86,225
Purchases	(185,721)	(127,562)	(131,505)
Net loan principal (originations) collections	(15,029)	(27,876)	(39,369)
Proceeds from sales of foreclosed assets	1,523	1,775	2,122
Purchases of premises and equipment	(5,127)	(2,713)	(2,488)
Purchases of corporate owned life insurance policies	(500)	—	(1,092)
Proceeds from redemption of corporate owned life insurance policies	—	—	196
Net cash provided by (used in) investing activities	(113,499)	(74,826)	(69,682)

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CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(Dollars in thousands)

	Year Ended December 31		
	2015	2014	2013
FINANCING ACTIVITIES			
Net increase (decrease) in deposits	90,079	30,718	26,099
Net increase (decrease) in borrowed funds	20,023	10,383	38,325
Cash dividends paid on common stock	(7,273)	(6,843)	(6,456)
Proceeds from issuance of common stock	5,201	4,227	3,618
Common stock repurchased	(4,590)	(3,122)	(2,375)
Common stock purchased for deferred compensation obligations	(368)	(331)	(383)
Net cash provided by (used in) financing activities	103,072	35,032	58,828
Increase (decrease) in cash and cash equivalents	1,663	(22,232)	12,753
Cash and cash equivalents at beginning of period	19,906	42,138	29,385
Cash and cash equivalents at end of period	21,569	$19,906	$42,138
SUPPLEMENTAL CASH FLOWS INFORMATION:			
Interest paid	$10,176	$10,045	$11,139
Income taxes paid	3,493	1,454	2,093
SUPPLEMENTAL NONCASH INFORMATION:			
Transfers of loans to foreclosed assets	$1,158	$1,371	$1,672

The accompanying notes are an integral part of these consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands except per share amounts)
Note 1 – Nature of Operations and Summary of Significant Accounting Policies
BASIS OF PRESENTATION AND CONSOLIDATION: The consolidated financial statements include the accounts of Isabella Bank Corporation, a financial services holding company, and its wholly owned subsidiary, Isabella Bank. All intercompany balances and accounts have been eliminated in consolidation. References to "the Corporation," “Isabella,” “we,” “our,” “us,” and similar terms refer to the consolidated entity consisting of Isabella Bank Corporation and its subsidiary. Isabella Bank Corporation refers solely to the parent holding company, and Isabella Bank or the “Bank” refer to Isabella Bank Corporation’s subsidiary, Isabella Bank.
For additional information, see “Note 19 – Related Party Transactions.”
NATURE OF OPERATIONS: Isabella Bank Corporation is a financial services holding company offering a wide array of financial products and services in several mid-Michigan counties. Our banking subsidiary, Isabella Bank, offers banking services through 29 locations, 24 hour banking services locally and nationally through shared automatic teller machines, 24 hour online banking, mobile banking, and direct deposits to businesses, institutions, and individuals. Lending services offered include commercial loans, agricultural loans, residential real estate loans, and consumer loans. Deposit services include interest and noninterest bearing checking accounts, savings accounts, money market accounts, and certificates of deposit. Other related financial products include trust and investment services, safe deposit box rentals, and credit life insurance. Active competition, principally from other commercial banks, savings banks and credit unions, exists in all of our principal markets. Our results of operations can be significantly affected by changes in interest rates and changes in the local economic environment.
USE OF ESTIMATES: In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, we make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheet and reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.
Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the ALLL, the fair value of AFS investment securities, and the valuation of goodwill and other intangible assets.
FAIR VALUE MEASUREMENTS: Fair value refers to the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants in the market in which the reporting entity transacts such sales or transfers based on the assumptions market participants would use when pricing an asset or liability. Assumptions are developed based on prioritizing information within a fair value hierarchy that gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, such as the reporting entity’s own data. We may choose to measure eligible items at fair value at specified election dates.
For assets and liabilities recorded at fair value, it is our policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements for those financial instruments for which there is an active market. In cases where the market for a financial asset or liability is not active, we include appropriate risk adjustments that market participants would make for nonperformance and liquidity risks when developing fair value measurements. Fair value measurements for assets and liabilities for which limited or no observable market data exists are accordingly based primarily upon estimates, are often calculated based on the economic and competitive environment, the characteristics of the asset or liability and other factors. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results of current or future values.
We utilize fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Investment securities AFS are recorded at fair value on a recurring basis. Additionally, from time-to-time, we may be required to record other assets and liabilities at fair value on a nonrecurring basis, such as mortgage loans AFS, impaired loans, foreclosed assets, OMSR, goodwill, and certain other assets and liabilities. These nonrecurring fair value adjustments typically involve the application of lower of cost or market accounting or write-downs of individual assets.

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Fair Value Hierarchy

Under fair value measurement and disclosure authoritative guidance, we group assets and liabilities measured at fair value into three levels, based on the markets in which the assets and liabilities are traded, and the reliability of the assumptions used to determine fair value, based on the prioritization of inputs in the valuation techniques. These levels are:

Level 1:	Valuation is based upon quoted prices for identical instruments traded in active markets.
Level 2:	Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model based valuation techniques for which all significant assumptions are observable in the market.
Level 3:	Valuation is generated from model based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. Transfers between measurement levels are recognized at the end of reporting periods.

For further discussion of fair value considerations, refer to "Note 20 – Fair Value."

SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK: Most of our activities conducted are with customers located within the central Michigan area. A significant amount of our outstanding loans are secured by commercial and residential real estate. Other than these types of loans, there is no significant concentration to any other industry or any one customer.

CASH AND CASH EQUIVALENTS: For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks, federal funds sold, and other deposit accounts. Generally, federal funds sold are for a one day period. We maintain deposit accounts in various financial institutions which generally exceed federally insured limits or are not insured. We do not believe we are exposed to any significant interest, credit or other financial risk as a result of these deposits.

AFS SECURITIES: Purchases of investment securities are generally classified as AFS. However, we may elect to classify securities as either held to maturity or trading. Securities classified as AFS are recorded at fair value, with unrealized gains and losses, net of the effect of deferred income taxes, excluded from earnings and reported in other comprehensive income. Included in AFS securities are auction rate money market preferreds and preferred stocks. These investments are considered equity securities for federal income tax purposes, and as such, no estimated federal income tax impact is expected or recorded. Auction rate money market preferred securities and preferred stocks are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Realized gains and losses on the sale of AFS securities are determined using the specific identification method.

AFS securities are reviewed quarterly for possible OTTI. In determining whether an OTTI exists for debt securities, we assert that: (a) we do not have the intent to sell the security; and (b) it is more likely than not we will not have to sell the security before recovery of its cost basis. If these conditions are not met, we recognize an OTTI charge through earnings for the difference between the debt security's amortized cost basis and its fair value, and such amount is included in noninterest income. For debt securities that do not meet the above criteria, and we do not expect to recover the security's amortized cost basis, the security is considered other-than-temporarily impaired. For these debt securities, we separate the total impairment into the credit risk loss component and the amount of the loss related to market and other risk factors. In order to determine the amount of the credit loss for a debt security, we calculate the recovery value by performing a discounted cash flow analysis based on the current cash flows and future cash flows we expect to recover. The amount of the total OTTI related to the credit risk is recognized in earnings and is included in noninterest income. The amount of the total OTTI related to other risk factors is recognized as a component of other comprehensive income. For debt securities that have recognized an OTTI through earnings, if through subsequent evaluation there is a significant increase in the cash flow expected, the difference between the amortized cost basis and the cash flows expected to be collected is accreted as interest income.

AFS equity securities are reviewed for OTTI at each reporting date. This evaluation considers a number of factors including, but not limited to, the length of time and extent to which the fair value has been less than cost, the financial condition and near term prospects of the issuer, and our ability and intent to hold the securities until fair value recovers. If it is determined that we do not have the ability and intent to hold the securities until recovery or that there are conditions that indicate that a security may not recover in value then the difference between the fair value and the cost of the security is recognized in earnings and is included in noninterest income.

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LOANS: Loans that we have the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balance adjusted for any charge-offs, the ALLL, and any deferred fees or costs on originated loans. Interest income on loans is accrued over the term of the loan based on the principal amount outstanding. Loan origination fees and certain direct loan origination costs are capitalized and recognized as a component of interest income over the term of the loan using the level yield method.

The accrual of interest on agricultural, commercial and mortgage loans is discontinued at the time the loan is 90 days or more past due unless the credit is well secured and in the process of collection. Consumer loans are typically charged-off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. For loans that are placed on nonaccrual status or charged-off, all interest accrued in the current calendar year, but not collected, is reversed against interest income while interest accrued in prior calendar years, but not collected is charged against the ALLL. The interest on these loans is accounted for on the cash-basis, until qualifying for return to accrual status. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured. For impaired loans not classified as nonaccrual, interest income continues to be accrued over the term of the loan based on the principal amount outstanding.

ALLOWANCE FOR LOAN LOSSES: The ALLL is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when we believe the uncollectability of the loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

We evaluate the ALLL on a regular basis which is based upon our periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower’s ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The ALLL consists of specific, general, and unallocated components. The specific component relates to loans that are deemed to be impaired. For such loans that are also analyzed for specific allowance allocations, an allowance is established when the discounted cash flows or collateral value or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers non classified loans and is based on historical loss experience. An unallocated component is maintained to cover uncertainties that we believe affect our estimate of probable losses based on qualitative factors. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

Loans may be classified as impaired if they meet one or more of the following criteria:

1. There has been a charge-off of its principal balance;
2. The loan has been classified as a TDR; or
3. The loan is in nonaccrual status.

Impairment is measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan’s effective interest rate, the loan’s obtainable market price, or the fair value of the collateral, less cost to sell, if the loan is collateral dependent. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment.

LOANS HELD FOR SALE: Mortgage loans held for sale on the secondary market are carried at the lower of cost or fair value as determined by aggregating outstanding commitments from investors or current investor yield requirements. Net unrealized losses, if any, would be recognized as a component of other noninterest expenses.

Mortgage loans held for sale are sold with the mortgage servicing rights retained by us. The carrying value of mortgage loans sold is reduced by the cost allocated to the associated mortgage servicing rights. Gains or losses on sales of mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loans sold.

TRANSFERS OF FINANCIAL ASSETS: Transfers of financial assets, including mortgage loans and participation loans, are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is determined to be surrendered when 1) the assets have been legally isolated from us, 2) the transferee obtains the right

(free of conditions that constrain it from taking advantage of the right) to pledge or exchange the transferred assets, and 3) we do not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. Other than servicing, we have no substantive continuing involvement related to these loans.
SERVICING: Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. We have no purchased servicing rights. For sales of mortgage loans, a portion of the cost of originating the

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loan is allocated to the servicing right based on relative fair value. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses.
Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights into tranches based on predominant risk characteristics, such as interest rate, loan type, and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the capitalized amount for the tranche. If we later determine that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the valuation allowance may be recorded as an increase to income. Capitalized servicing rights are reported in other assets and are amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. The unpaid principal balance of mortgages serviced for others was $287,029 and $288,639 with capitalized servicing rights of $2,505 and $2,519 at December 31, 2015 and 2014, respectively.
Servicing fee income is recorded for fees earned for servicing loans for others. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. We recorded servicing fee revenue of $712, $720, and $737 related to residential mortgage loans serviced for others during 2015, 2014, and 2013, respectively, which is included in other noninterest income.
FORECLOSED ASSETS: Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at the lower of our carrying amount or fair value less estimated selling costs at the date of transfer, establishing a new cost basis. Any write-downs based on the asset’s fair value at the date of acquisition are charged to the ALLL. After foreclosure, property held for sale is carried at the lower of the new cost basis or fair value less costs to sell. Impairment losses on property to be held and used are measured at the amount by which the carrying amount of property exceeds its fair value. Costs relating to holding these assets are expensed as incurred. We periodically perform valuations and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of our carrying amount or fair value less costs to sell. Foreclosed assets of $421 and $885 as of December 31, 2015 and 2014, respectively, are included in other assets.
PREMISES AND EQUIPMENT: Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation which is computed principally by the straight-line method based upon the estimated useful lives of the related assets, which range from 3 to 40 years. Major improvements are capitalized and appropriately amortized based upon the useful lives of the related assets or the expected terms of the leases, if shorter, using the straight-line method. Maintenance, repairs and minor alterations are charged to current operations as expenditures occur. We annually review these assets to determine whether carrying values have been impaired.
EQUITY SECURITIES WITHOUT READILY DETERMINABLE FAIR VALUES: Included in equity securities without readily determinable fair values are our holdings in FHLB stock and FRB stock as well as our ownership interests in Corporate Settlement Solutions, LLC and Valley Financial Corporation. Our investment in Corporate Settlement Solutions, LLC, a title insurance company, was made in the 1st quarter of 2008. We are not the managing entity of Corporate Settlement Solutions, LLC, and account for our investment in that entity under the equity method of accounting. Valley Financial Corporation is the parent company of 1st State Bank in Saginaw, Michigan, which is a bank that opened in 2005. We made investments in Valley Financial Corporation in 2004 and in 2007.
Equity securities without readily determinable fair values consist of the following as of December 31:

	2015	2014
FHLB Stock	$11,700	$9,800
Corporate Settlement Solutions, LLC	7,249	6,936
FRB Stock	1,999	1,999
Valley Financial Corporation	1,000	1,000
Other	338	341
Total	$22,286	$20,076

EQUITY COMPENSATION PLAN: At December 31, 2015, the Directors Plan had 200,017 shares eligible to be issued to participants, for which the Rabbi Trust held 19,401 shares. We had 187,369 shares to be issued in 2014, with 13,934 shares held in the Rabbi Trust. Compensation costs relating to share based payment transactions are recognized as the services are

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rendered, with the cost measured based on the fair value of the equity or liability instruments issued (see "Note 17 – Benefit Plans"). We have no other equity-based compensation plans.

CORPORATE OWNED LIFE INSURANCE: We have purchased life insurance policies on key members of management. In the event of death of one of these individuals, we would receive a specified cash payment equal to the face value of the policy. Such policies are recorded at their cash surrender value, or the amount that can be realized on the balance sheet dates. Increases in cash surrender value in excess of single premiums paid are reported as other noninterest income.

As of December 31, 2015 and 2014, the present value of the post retirement benefits payable by us to the covered employees was estimated to be $2,853 and $2,782, respectively, and is included in accrued interest payable and other liabilities. The periodic policy maintenance costs were $71, $83, and $75 for 2015, 2014, and 2013, respectively and are included in other noninterest expenses.

ACQUISITION INTANGIBLES AND GOODWILL: We previously acquired branch facilities and related deposits in business combinations accounted for as a purchase. The acquisitions included amounts related to the valuation of customer deposit relationships (core deposit intangibles). Core deposit intangibles arising from acquisitions are included in goodwill and other intangible assets are being amortized over their estimated lives and evaluated for potential impairment on at least an annual basis. Goodwill, which represents the excess of the purchase price over identifiable assets, is not amortized but is evaluated for impairment on at least an annual basis. Acquisition intangibles and goodwill are typically qualitatively evaluated to determine if it is more likely than not that the carrying balance is impaired. If it is determined that the carrying balance is more likely than not to be impaired, we perform a cash flow valuation to determine the extent of the potential impairment. This valuation method requires a significant degree of our judgment. In the event the projected undiscounted net operating cash flows for these intangible assets are less than the carrying value, the asset is recorded at fair value as determined by the valuation model.

OFF BALANCE SHEET CREDIT RELATED FINANCIAL INSTRUMENTS: In the ordinary course of business, we have entered into commitments to extend credit, including commitments under credit card arrangements, home equity lines of credit, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded only when funded.

FEDERAL INCOME TAXES: Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax assets or liability is determined based on the tax effects of the temporary differences between the book and tax basis on the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws. Valuation allowances are established, where necessary, to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the year plus or minus the change during the year in deferred tax assets and liabilities.

We analyze our filing positions in the jurisdictions where we are required to file income tax returns, as well as all open tax years in these jurisdictions. We have also elected to retain our existing accounting policy with respect to the treatment of interest and penalties attributable to income taxes, and continue to reflect any charges for such, to the extent they arise, as a component of our noninterest expenses.

DEFINED BENEFIT PENSION PLAN: We maintain a noncontributory defined benefit pension plan, which was curtailed effective March 1, 2007. Defined benefit pension plan expenses are included in "compensation and benefits" on the consolidated statements of income and are funded consistent with the requirements of federal laws and regulations. The current benefit obligation is included in "accrued interest payable and other liabilities" on the consolidated balance sheets. Inherent in the determination of defined benefit pension costs are assumptions concerning future events that will affect the amount and timing of required benefit payments under the plan. These assumptions include demographic assumptions such as mortality, a discount rate used to determine the current benefit obligation and a long-term expected rate of return on plan assets. Net periodic benefit cost includes interest cost based on the assumed discount rate, an expected return on plan assets based on an actuarially derived market-related value of assets, and amortization of unrecognized net actuarial gains or losses. Actuarial gains and losses result from experience different from that assumed and from changes in assumptions (excluding asset gains and losses not yet reflected in market-related value). Amortization of actuarial gains and losses is included as a component of net periodic defined benefit pension cost.

For additional information, see "Note 17 – Benefit Plans."

MARKETING COSTS: Marketing costs are expensed as incurred (see “Note 11 – Other Noninterest Expenses”).

RECLASSIFICATIONS: Certain amounts reported in the 2014 and 2013 consolidated financial statements have been reclassified to conform with the 2015 presentation.

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RESTATEMENTS: In this report, certain prior period financial information has been restated due to an accounting correction. Impacted sections of the Consolidated Financial Statements include:

1. Consolidated Balance Sheet as of December 31, 2014, Consolidated Statements of Income for the years ended December 31, 2014 and 2013, and Consolidated Statements of Cash Flows for the years ended December 31, 2014 and 2013; and
2. Notes to Consolidated Financial Statements as of, and for the years ended, December 31, 2014 and 2013.

Background of Restatement

The necessary restatement was identified by management in the fourth quarter of 2015 during the course of our preparation of the consolidated financial statements and evaluation of financial results as of and for the year ended December 31, 2015. The restatements relate to the accounting for deferred costs associated with originating loans (under ASC 310-20) and the proper classification of the net deferred costs recorded in gross loans within the consolidated balance sheets and as a deferral of compensation expenses within the consolidated statements of income. Prior to December 31, 2015, loan origination cost deferrals (under ASC 310-20) were reported in loan interest and fee income instead of as a reduction of compensation and benefits, which is included in other noninterest expenses. Additionally, net deferred asset balances (under ASC 310-20) prior to December 31, 2015 were reported in other assets on the consolidated balance sheets instead of reported in gross loans. Amortization of the net deferred asset balance was recognized appropriately in loan interest and fee income.

Impact of Restatement

The overall impact of the restatement on our consolidated financial position and results of operations is not believed to be material and as such, previously filed Annual Reports on Form 10-K and Quarterly reports on Form 10-Q for the periods affected by the restatement have not been amended. The determination of materiality was, in part, concluded based on the following observations:

- No impact to net income for any prior periods;
- No impact to earnings per share, other stock data, or dividend data for any prior periods;
- No impact on total assets for any prior periods; and
- No impact on retained earnings or total equity for any prior periods.

The impact to the consolidated balance sheet as of December 31, 2014 was a $2,968 increase in gross loans and a $2,968 decline in other assets. There were no other changes to the consolidated balance sheets for any prior periods.

The following table sets forth the effects of the restatement on items within the Consolidated Statements of Income. Since the restatement did not impact net income, pre-tax and adjustments net of tax are not included.

	December 31, 2014		December 31, 2013	
	Previously Reported	Restated	Previously Reported	Restated
Interest income				
Loans, including fees	$39,432	$36,629	$41,233	$37,575
All other interest income	14,519	14,519	12,843	12,843
Total interest income	53,951	51,148	54,076	50,418
Total interest expense	9,970	9,970	11,021	11,021
Net interest income	43,981	41,178	43,055	39,397
Provision for loan losses	(668)	(668)	1,111	1,111
Net interest income after provision for loan losses	44,649	41,846	41,944	38,286
Total noninterest income	9,325	9,325	10,175	10,175
Noninterest expenses				
Compensation and benefits	21,305	18,502	21,465	17,807
All other noninterest expenses	16,601	16,601	15,948	15,948
Total noninterest expenses	37,906	35,103	37,413	33,755
Federal income tax expense	2,344	2,344	2,196	2,196
Net income	$13,724	$13,724	$12,510	$12,510

As demonstrated above, loan interest and fee income and compensation and benefits were reduced by $2,803 and $3,658 during the years ended December 31, 2014 and 2013, respectively.
All amounts in this report affected by the restatement adjustments reflect such amounts as restated.

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Note 2 – Computation of Earnings Per Common Share

Basic earnings per common share represents income available to common shareholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares that may be issued relate solely to outstanding shares in the Directors Plan, see “Note 17 – Benefit Plans.”

Earnings per common share have been computed based on the following:

	2015	2014	2013
Average number of common shares outstanding for basic calculation	7,775,988	7,734,161	7,694,392
Average potential effect of common shares in the Directors Plan (1)	177,988	171,393	168,948
Average number of common shares outstanding used to calculate diluted earnings per common share	7,953,976	7,905,554	7,863,340
Net income	$15,130	$13,724	$12,510
Earnings per common share			
Basic	$1.95	$1.77	$1.63
Diluted	$1.90	$1.74	$1.59

(1) Exclusive of shares held in the Rabbi Trust

Note 3 – Accounting Standards Updates

Recently Adopted Accounting Standards Updates

ASU No. 2014-04: “Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force)”

In January 2014, ASU No. 2014-04 amended ASC Topic 310, "Receivables" to provide clarification as to when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan. Specifically, the update defined physical possession to appropriately derecognize the loan and recognize the real estate as OREO. The adoption of this ASU did not have a significant impact on our operations or financial statement disclosures.

ASU No. 2014-11: “Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures”

In June 2014, ASU No. 2014-11 amended ASC Topic 860, “Transfers and Servicing” to address concerns that current accounting guidance distinguishes between repurchase agreements that settle at the same time as the maturity of the transferred financial asset and those that settle any time before maturity. The update changed the accounting for repurchase-to-maturity transactions to secured borrowing accounting and, for repurchase financing arrangements, separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which resulted in secured borrowing accounting for the repurchase agreement. The adoption of this ASU did not have a significant impact on our operations or financial statement disclosures.

Pending Accounting Standards Updates

ASU No. 2015-01: “Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items”

In January 2015, ASU No. 2015-01 amended ASC Topic 225, “Income Statement” to eliminate the concept of extraordinary items. The presentation and disclosure guidance for items that are unusual in nature or occur infrequently will be retained and will be expanded to include items that are both unusual in nature and infrequently occurring. The new authoritative guidance is effective for interim and annual periods beginning after December 15, 2015 and is not expected to have a significant impact on our operations or financial statement disclosures.

ASU No. 2015-02: “Consolidation (Topic 810): Amendments to the Consolidation Analysis”

In February 2015, ASU No. 2015-02 amended ASC Topic 810, “Consolidation” to provide consolidation guidance on legal entities when the reporting entity’s contractual rights do not give it the ability to act primarily on its own behalf, the reporting entity does not hold a majority of the legal entity’s voting rights, or the reporting entity is not exposed to a majority of the legal entity’s economic benefits or obligations. The amendments in this update affect reporting entities that are required to evaluate

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whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. Specifically, the amendments:

1. Modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities.
2. Eliminate the presumption that a general partner should consolidate a limited partnership.
3. Affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships.
4. Provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds.

The amendments of this update affect limited partnerships and similar legal entities including fees paid and fee arrangements on the primary beneficiary. The following three main provisions affect limited partnerships and similar legal entities:

1. There is an additional requirement that limited partnerships and similar legal entities must meet to qualify as voting interest entities. A limited partnership must provide partners with either substantive kick-out rights or substantive participating rights over the general partner to meet this requirement.
2. The specialized consolidation model and guidance for limited partnerships and similar legal entities have been eliminated. There is no longer a presumption that a general partner should consolidate a limited partnership.
3. For limited partnerships and similar legal entities that qualify as voting interest entities, a limited partner with a controlling financial interest should consolidate a limited partnership. A controlling financial interest may be achieved through holding a limited partner interest that provides substantive kick-out rights.

The new authoritative guidance is effective for interim and annual periods beginning after December 15, 2015 and is not expected to have a significant impact on our operations or financial statement disclosures.

ASU No. 2015-05: “Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement“

In April 2015, ASU No. 2015-05 amended ASC Topic 350, “Goodwill and Other” to provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance will not change GAAP for a customer’s accounting for service contracts. The new authoritative guidance is effective for interim and annual periods beginning after December 15, 2015 and is not expected to have a significant impact on our operations or financial statement disclosures.

ASU No. 2015-07: “Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)“

In May 2015, ASU No. 2015-07 amended ASC Topic 820, “Fair Value Measurement” to remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. The new authoritative guidance is effective for interim and annual periods beginning after December 15, 2015 and is not expected to have a significant impact on our operations or financial statement disclosures.

ASU No. 2015-14: “Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date“

In August 2015, ASU No. 2015-14 was issued to defer the effective date of ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” by one year. The new authoritative guidance is now effective for interim and annual periods beginning after December 15, 2017. The new authoritative guidance is not expected to have a significant impact on our operations or financial statement disclosures.

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ASU No. 2015-16: “Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments“

In September 2015, ASU No. 2015-16 was issued to require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The update requires that the acquirer record, in the same period’s financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. To simplify the accounting for adjustments made to provisional amounts recognized in a business combination, the amendments in this update eliminate the requirement to retrospectively account for those adjustments. The new authoritative guidance is effective for interim and annual periods beginning after December 15, 2015 and is not expected to have a significant impact on our operations or financial statement disclosures.

ASU No. 2016-01: “Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities“

In January 2016, ASU No. 2016-01 set forth the following: 1) requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income; 2) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment and when an impairment exists, an entity is required to measure the investment at fair value; 3) for public entities, eliminates the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (4) for public entities, requires the use of exit price notion when measuring the fair value of financial instruments for disclosure purposes; (5) requires an entity to present separately in other comprehensive income, the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; (6) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements; and (8) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. The new authoritative guidance is effective for interim and annual periods beginning after December 15, 2017 and is not expected to have a significant impact on our operations or financial statement disclosures.

Note 4 – AFS Securities

The amortized cost and fair value of AFS securities, with gross unrealized gains and losses, are as follows as of December 31:

	2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Government sponsored enterprises	$24,407	$13	$75	$24,345
States and political subdivisions	224,752	7,511	46	232,217
Auction rate money market preferred	3,200	—	334	2,866
Preferred stocks	3,800	—	501	3,299
Mortgage-backed securities	264,109	1,156	1,881	263,384
Collateralized mortgage obligations	134,080	1,136	1,191	134,025
Total	$654,348	$9,816	$4,028	$660,136

	2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Government sponsored enterprises	$24,597	$10	$471	$24,136
States and political subdivisions	209,153	6,986	794	215,345

Auction rate money market preferred	3,200	—	581	2,619
Preferred stocks	6,800	31	691	6,140
Mortgage-backed securities	165,888	2,042	1,004	166,926
Collateralized mortgage obligations	152,255	1,533	1,420	152,368
Total	$561,893	$10,602	$4,961	$567,534

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The amortized cost and fair value of AFS securities by contractual maturity at December 31, 2015 are as follows:

	Maturing					
	Due in One Year or Less	After One Year But Within Five Years	After Five Years But Within Ten Years	After Ten Years	Securities with Variable Monthly Payments or Noncontractual Maturities	Total
Government sponsored enterprises	$—	$24,029	$378	$—	$ —	$24,407
States and political subdivisions	30,174	69,245	92,561	32,772	—	224,752
Auction rate money market preferred	—	—	—	—	3,200	3,200
Preferred stocks	—	—	—	—	3,800	3,800
Mortgage-backed securities	—	—	—	—	264,109	264,109
Collateralized mortgage obligations	—	—	—	—	134,080	134,080
Total amortized cost	$30,174	$93,274	$92,939	$32,772	$ 405,189	$654,348
Fair value	$30,217	$95,452	$96,871	$34,022	$ 403,574	$660,136

Expected maturities for government sponsored enterprises and states and political subdivisions may differ from contractual maturities because issuers may have the right to call or prepay obligations.

As the auction rate money market preferred and preferred stocks have continual call dates, they are not reported by a specific maturity group. Because of their variable monthly payments, mortgage-backed securities and collateralized mortgage obligations are not reported by a specific maturity group.

A summary of the sales activity of AFS securities was as follows during the years ended December 31:

	2015	2014	2013
Proceeds from sales of AFS securities	$1,319	$13,362	$16,229
Gross realized gains (losses)	$163	$97	$171
Applicable income tax expense (benefit)	$55	$33	$58

The cost basis used to determine the realized gains or losses of AFS securities sold was the amortized cost of the individual investment security as of the trade date.

Information pertaining to AFS securities with gross unrealized losses at December 31 aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	2015				
	Less Than Twelve Months		Twelve Months or More		
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Total Unrealized Losses
Government sponsored enterprises	$—	$—	$75	$4,925	$75
States and political subdivisions	14	3,355	32	2,623	46
Auction rate money market preferred	—	—	334	2,866	334
Preferred stocks	—	—	501	3,299	501
Mortgage-backed securities	882	131,885	999	37,179	1,881
Collateralized mortgage obligations	415	53,441	776	26,717	1,191
Total	$1,311	$188,681	$2,717	$77,609	$4,028
Number of securities in an unrealized loss position:		36		26	62

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	2014				
	Less Than Twelve Months		Twelve Months or More		
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Total Unrealized Losses
Government sponsored enterprises	$—	$—	$471	$23,525	$471
States and political subdivisions	48	5,323	746	17,416	794
Auction rate money market preferred	—	—	581	2,619	581
Preferred stocks	—	—	691	3,109	691
Mortgage-backed securities	5	9,456	999	52,407	1,004
Collateralized mortgage obligations	105	29,435	1,315	39,540	1,420
Total	$158	$44,214	$4,803	$138,616	$4,961
Number of securities in an unrealized loss position:		22		72	94

As of December 31, 2015 and 2014, we conducted an analysis to determine whether any securities currently in an unrealized loss position, should be other-than-temporarily impaired. Such analyses considered, among other factors, the following criteria:

- Has the value of the investment declined more than what is deemed to be reasonable based on a risk and maturity adjusted discount rate?
- Is the investment credit rating below investment grade?
- Is it probable the issuer will be unable to pay the amount when due?
- Is it more likely than not that we will have to sell the security before recovery of its cost basis?
- Has the duration of the investment been extended?

During the three month period ended March 31, 2012, we had one state issued student loan auction rate AFS investment security (which is included in states and political subdivisions) that was downgraded by Moody's from A3 to Caa3. As a result of this downgrade, we engaged the services of an independent investment valuation firm to estimate the amount of credit losses (if any) related to this particular issue as of March 31, 2012. The evaluation calculated a range of estimated credit losses utilizing two different bifurcation methods:

1) Discounted Cash Flow Method
2) Credit Yield Analysis Method

The two methods were then weighted, with a higher weighting applied to the Discounted Cash Flow Method, to determine the estimated credit related impairment. As a result of this analysis, we recognized an OTTI of $282 in earnings in the three month period ended March 31, 2012.

A summary of key valuation assumptions used in the aforementioned analysis as of March 31, 2012, follows:

	Discounted Cash Flow Method
Ratings	
Fitch	Not Rated
Moody's	Caa3
S&P	A
Seniority	Senior
Discount rate	LIBOR + 6.35%

	Credit Yield Analysis Method
Credit discount rate	LIBOR + 4.00%
Average observed discounts based on closed transactions	14.00%

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To test for additional impairment of this security, we obtained investment valuations (from the same firm engaged to perform the initial valuation as of March 31, 2012) on a quarterly basis until the security was sold on November 25, 2015. Based on our analyses, no additional OTTI was recorded while the security was held. The following table provides a roll-forward of credit related impairment recognized in earnings for the years ended December 31:

	2015	2014	2013
Balance at beginning of year	$282	$282	$282
Additions to credit losses for which no previous OTTI was recognized	—	—	—
Reductions for credit losses realized on securities sold during the quarter	(282)	—	—
Balance at end of year	$—	$282	$282

Based on our analyses, the fact that we have asserted that we do not have the intent to sell AFS securities in an unrealized loss position, and considering it is unlikely that we will have to sell any AFS securities in an unrealized loss position before recovery of their cost basis, we do not believe that the values of any AFS securities were other-than-temporarily impaired as of December 31, 2015, or December 31, 2014.

Note 5 – Loans and ALLL

We grant commercial, agricultural, residential real estate, and consumer loans to customers situated primarily in Clare, Gratiot, Isabella, Mecosta, Midland, Montcalm, and Saginaw counties in Michigan. The ability of the borrowers to honor their repayment obligations is often dependent upon the real estate, agricultural, manufacturing, retail, gaming, tourism, higher education, and general economic conditions of this region. Substantially all of our consumer and residential real estate loans are secured by various items of property, while commercial loans are secured primarily by real estate, business assets, and personal guarantees; a portion of loans are unsecured.

Loans that we have the intent and ability to hold in our portfolio are reported at their outstanding principal balance adjusted for any charge-offs, the ALLL, and any deferred fees or costs. Interest income is accrued over the term of the loan based on the principal amount outstanding. Loan origination fees and certain direct loan origination costs are capitalized and recognized as a component of interest income over the term of the loan using the level yield method.

The accrual of interest on commercial, agricultural, and residential real estate loans is discontinued at the time the loan is 90 days or more past due unless the credit 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. Consumer loans are typically charged-off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual status or charged-off at an earlier date if collection of principal or interest is considered doubtful.

For loans that are placed on nonaccrual status or charged-off, all interest accrued in the current calendar year, but not collected, is reversed against interest income while interest accrued in prior calendar years, but not collected, is charged against the ALLL. Loans may be returned to accrual status after six months of continuous performance.

Commercial and agricultural loans include loans for commercial real estate, commercial operating loans, farmland and agricultural production, and states and political subdivisions. Repayment of these loans is dependent upon the successful operation and management of a business. We minimize our risk by limiting the amount of direct credit exposure to any one borrower to $15,000. Borrowers with direct credit needs of more than $15,000 are serviced through the use of loan participations with other commercial banks. Commercial and agricultural real estate loans commonly require loan-to-value limits of 80% or less. Depending upon the type of loan, past credit history, and current operating results, we may require the borrower to pledge accounts receivable, inventory, and property and equipment. Personal guarantees are generally required from the owners of closely held corporations, partnerships, and sole proprietorships. In addition, we require annual financial statements, prepare cash flow analyses, and review credit reports.

We offer adjustable rate mortgages, construction loans, and fixed rate residential real estate loans which have amortization periods up to a maximum of 30 years. We consider the anticipated direction of interest rates, balance sheet duration, the sensitivity of our balance sheet to changes in interest rates, and overall loan demand to determine whether or not to sell fixed rate loans to Freddie Mac.

Our lending policies generally limit the maximum loan-to-value ratio on residential real estate loans to 97% of the lower of the appraised value of the property or the purchase price, with the condition that private mortgage insurance is required on loans with loan-to-value ratios in excess of 80%.

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Underwriting criteria for residential real estate loans include:

- Evaluation of the borrower's ability to make monthly payments.
- Evaluation of the value of the property securing the loan.
- Ensuring the payment of principal, interest, taxes, and hazard insurance does not exceed 28% of a borrower's gross income.
- Ensuring all debt servicing does not exceed 36% of income.
- Verification of acceptable credit reports.
- Verification of employment, income, and financial information.

Appraisals are performed by independent appraisers and reviewed for appropriateness. All mortgage loan requests are reviewed by our mortgage loan committee or through a secondary market underwriting system; loans in excess of $500 require the approval of our Internal Loan Committee, the Executive Loan Committee, the Board of Directors' Loan Committee, or the Board of Directors.

Consumer loans include secured and unsecured personal loans. Loans are amortized for a period of up to 12 years based on the age and value of the underlying collateral. The underwriting emphasis is on a borrower's perceived intent and ability to pay rather than collateral value. No consumer loans are sold to the secondary market.

The ALLL is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the ALLL when we believe the uncollectability of the loan balance is confirmed. Subsequent recoveries, if any, are credited to the ALLL.

The appropriateness of the ALLL is evaluated on a quarterly basis and is based upon a periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The primary factors behind the determination of the level of the ALLL are specific allocations for impaired loans, historical loss percentages, as well as unallocated components. Specific allocations for impaired loans are primarily determined based on the difference between the loan's outstanding balance to the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral, less cost to sell. Historical loss allocations are calculated at the loan class and segment levels based on a migration analysis of the loan portfolio over the preceding five years. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A summary of changes in the ALLL and the recorded investment in loans by segments follows:

	Allowance for Loan Losses Year Ended December 31, 2015					
	Commercial	Agricultural	Residential Real Estate	Consumer	Unallocated	Total
January 1, 2015	$3,821	$216	$4,235	$645	$1,183	$10,100
Charge-offs	(89)	(45)	(397)	(373)	—	(904)
Recoveries	477	72	220	206	—	975
Provision for loan losses	(2,038)	86	(728)	44	(135)	(2,771)
December 31, 2015	$2,171	$329	$3,330	$522	$1,048	$7,400

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	Allowance for Loan Losses and Recorded Investment in Loans As of December 31, 2015					
	Commercial	Agricultural	Residential Real Estate	Consumer	Unallocated	Total
ALLL						
Individually evaluated for impairment	$829	$2	$1,989	$—	$—	$2,820
Collectively evaluated for impairment	1,342	327	1,341	522	1,048	4,580
Total	$2,171	$329	$3,330	$522	$1,048	$7,400
Loans						
Individually evaluated for impairment	$7,969	$4,068	$10,266	$35		$22,338
Collectively evaluated for impairment	440,412	111,843	241,235	34,664		828,154
Total	$448,381	$115,911	$251,501	$34,699		$850,492

	Allowance for Loan Losses Year Ended December 31, 2014					
	Commercial	Agricultural	Residential Real Estate	Consumer	Unallocated	Total
January 1, 2014	$6,048	$434	$3,845	$639	$534	$11,500
Charge-offs	(559)	(31)	(722)	(316)	—	(1,628)
Recoveries	550	—	197	149	—	896
Provision for loan losses	(2,218)	(187)	915	173	649	(668)
December 31, 2014	$3,821	$216	$4,235	$645	$1,183	$10,100

	Allowance for Loan Losses and Recorded Investment in Loans As of December 31, 2014					
	Commercial	Agricultural	Residential Real Estate	Consumer	Unallocated	Total
ALLL						
Individually evaluated for impairment	$1,283	$—				