ISABELLA BANK CORP
Form DEF 14A
April 10, 2009

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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.)

Filed by the Registrant þ
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Check the appropriate box:

o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
þ Definitive Proxy Statement
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ISABELLA BANK CORPORATION

(Name of Registrant as Specified In Its Charter)

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

NOTICE OF THE ANNUAL MEETING OF SHAREHOLDERS
To Be Held May 5, 2009

Notice is hereby given that the Annual Meeting of Shareholders of Isabella Bank Corporation will be held on Tuesday, May 5, 2009 at 5:00 p.m. Eastern Standard Time, at the Comfort Inn, 2424 S. Mission Street, Mount Pleasant, Michigan. The meeting is for the purpose of considering and acting upon the following:

1. The election of four directors.

2. Such other business as may properly come before the meeting, or any adjournment or adjournments thereof.

The Board of Directors has fixed April 1, 2009 as the record date for determination of shareholders entitled to notice of, and to vote at, the meeting or any adjournments thereof.

Your vote is important. Even if you plan to attend the meeting, please date and sign the enclosed proxy form, indicate your choice with respect to the matters to be voted upon, and return it promptly in the enclosed envelope. Note that if stock is held in more than one name, all parties should sign the proxy form.

By order of the Board of Directors

Debra Campbell, Secretary

Dated: April 10, 2009

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

PROXY STATEMENT

General Information

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of Isabella Bank Corporation (the Corporation) a Michigan financial holding company, to be voted at the Annual Meeting of Shareholders of the Corporation to be held on Tuesday, May 5, 2009 at 5:00 p.m. at the Comfort Inn, 2424 S. Mission Street, Mount Pleasant, Michigan, or at any adjournment or adjournments thereof, for the purposes set forth in the accompanying Notice of Annual Meeting of Shareholders and in this Proxy Statement.

This Proxy Statement has been mailed on April 10, 2009 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

The Board of Directors of the Corporation has fixed the close of business on April 1, 2009 as the record date for the determination of shareholders entitled to notice of, and to vote at, the Annual Meeting of Shareholders and any adjournment thereof. The Corporation has only one class of common stock and no preferred stock. As of April 1, 2009, there were 7,531,472 shares of common stock of the Corporation outstanding. Each outstanding share entitles the holder thereof to one vote on each separate matter presented for vote at the meeting. Shareholders may vote on matters that are properly presented at the meeting by either attending the meeting and casting a vote or by signing and returning the enclosed proxy. If the enclosed proxy is executed and returned, it may be revoked at any time before it is exercised at the meeting. All shareholders are encouraged to date and sign the enclosed proxy, indicate their choice with respect to the matters to be voted upon, and return it to the Corporation.

The Corporation will hold the Annual Meeting of Shareholders if holders of a majority of the Corporation s shares of common stock entitled to vote are represented in person or by proxy at the meeting. If a shareholder signs and returns the proxy, those shares will be counted to determine whether the Corporation has a quorum, even if the shareholder abstains or fails to vote on any of the proposals listed on the proxy.

If a shareholder s shares are held in the name of a nominee, and the shareholder does not tell the nominee how to vote the shares (referred to as broker non-votes), then the nominee can vote them as they see fit only on matters that are determined to be routine and not on any other proposal. Broker non-votes will be counted as present to determine if a quorum exists but will not be counted as present and entitled to vote on any non-routine proposals.

In the election of directors, director nominees receiving a plurality of votes cast at the meeting will be elected directors of the Corporation. Shares not voted, including broker non-votes, have no effect on the election of directors.

Election of Directors

The Board of Directors is divided into three classes, with the directors in each class being elected for a term of three years. At the Annual Meeting of Shareholders, four directors will be elected for terms ending with the annual meeting of shareholders in 2012.

Except as otherwise specified in the proxy, proxies will be voted for election of the four nominees named below. If a nominee becomes unable or unwilling to serve, proxies will be voted for such other person, if any, as shall be designated by the Board of Directors. However, the Corporation s management now knows of no reason to anticipate that this will occur. The four nominees for election as directors 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.

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Nominees for election and current directors are listed below. Also shown for each nominee and each current director is his or her principal occupation for the last five or more years, age and length of service as a director of the Corporation.

The Board of Directors recommends that shareholders vote FOR the election of each of the four director nominees nominated by the Board of Directors.

Director Nominees for Terms Ending in 2012

Dennis P. Angner (age 53) has been a director of the Corporation since 2000. He also serves as an ex-officio member of all of the Corporation s subsidiary Boards of Directors and the Finance and Planning Committee. Mr. Angner also serves on the Board of Financial Group Information Services. Mr. Angner has been President and CEO of the Corporation since December 30, 2001. Prior to his appointment as President and CEO, he served as Executive Vice President of the Corporation. Mr. Angner is the past Chair of the Michigan Bankers Association and has served on the Central Michigan American Red Cross board for over 20 years.

David J. Maness (age 55) has been a director of the Corporation since 2004, and serves on the Audit Committee, the Compensation and Human Resource Committee and is currently Chairperson on the Finance and Planning Committee. He also serves on the Board of Directors of Isabella Bank and is Chairperson of Financial Group Information Services. He is President of Maness Petroleum, a geological and geophysical consulting services company. Mr. Maness served as a school board member of the Mount Pleasant School board.

W. Joseph Manifold (age 57) has been a director of the Corporation since 2003, and serves on the Nominating and Corporate Governance Committee, the Compensation and Human Resource Committee, and serves as Chairperson of the Audit Committee. Mr. Manifold is a Certified Public Accountant and CFO of Federal Broach Holdings, a manufacturing company. Previously, he was a senior auditor with Ernst & Young Certified Public Accounting firm working principally on external bank audits and was CFO of the Delfield Corporation. Prior to joining Isabella Bank Corporation Mr. Manifold also served on the Isabella Community Credit Union Board and was Chair of the Mount Pleasant School board.

William J. Strickler (age 68) has been a director of the Corporation since 2002, and serves on the Nominating and Corporate Governance Committee, the Finance and Planning Committee, and the Compensation and Human Resource Committee. He has been a director of Isabella Bank since 1995 and is currently serving as Chairperson. Mr. Strickler is President of Michiwest Energy, an oil and gas producer. Prior to joining the Corporation and the Bank Board he served as a director of the National City Community Bank Board.

Current Directors with Terms Ending in 2010

James C. Fabiano (age 65) has been a director of Isabella Bank since 1979 and of the Corporation since 1988, of which he is currently serving as Chairperson and is an ex-officio member of all corporate committees. He also serves as an ex-officio member of all subsidiary Boards of Directors of the Corporation and serves as Chairperson of the Compensation and Human Resource Committee. Mr. Fabiano is Chairman and CEO of Fabiano Brothers, Inc., a wholesale beverage distributor operating in several counties throughout Michigan. Mr. Fabiano is a past recipient of the Mount Pleasant Area Chamber of Commerce Citizen of the year award. He is also a past Chairman of Central Michigan University board of trustees.

Dale D. Weburg (age 65) has served on the Board of the Corporation since 2000 and is a member of the Financial Group Information Services Board of Directors. He also serves as the Chairperson for the Nominating and Corporate Governance Committee, serves on the Audit Committee, and the Compensation and Human Resource Committee. He has been a director of the Breckenridge division of Isabella Bank since 1987, of which he is currently serving as Chairperson. Mr. Weburg is President of Weburg Farms, a cash crop farm operation. Mr. Weburg also serves as a trustee of the Board of Directors of Gratiot Health System.

Theodore W. Kortes (age 68) was appointed director of the Corporation on January 1, 2008, and serves on the Finance and Planning Committee and the Compensation and Human Resource Committee. He is a director and Chairperson of the Greenville division of Isabella Bank. Mr. Kortes was President and CEO of Greenville Community Bank and Greenville Community Financial Corporation since its founding in 1998, until his retirement in 2007.

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Current Directors with Terms Ending in 2011

Richard J. Barz (age 60) has been a director of the Corporation since 2002. He has been a director of Isabella Bank since 2000. Mr. Barz also serves on the Board of Financial Group Information Services and is a member of the Finance and Planning Committee. Mr. Barz has been President and CEO of Isabella Bank since December 30, 2001. Prior to his appointment as President and CEO he served as Executive Vice President of Isabella Bank.

Sandra L. Caul (age 65) has been a director of the Corporation since 2005. She currently serves as director of Isabella Bank, and serves on the Audit Committee, the Nominating and Corporate Governance Committee, and the Compensation and Human Resource Committee. Ms. Caul is Vice Chair of Central Michigan Community Hospital Board of Directors and is Chairperson of the Central Michigan American Red Cross. Ms. Caul retired in January 2005 as a state representative of the Michigan State House of Representatives. Ms. Caul is a registered nurse.

W. Michael McGuire (age 59) has been a director of the Corporation since 2007, and serves on the Audit Committee, Finance and Planning Committee, and the Compensation and Human Resource Committee. He is a director of the Farwell division of Isabella Bank. Mr. McGuire is currently an attorney and 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.

Each of the directors has been engaged in their stated professions for more than five years. The principal occupation of Dennis P. Angner is with the Corporation, and he has been employed by Isabella Bank and/or the Corporation since 1984. Other executive officers of the Corporation include: Richard J. Barz, President of Isabella Bank, an employee of Isabella Bank and/or the Corporation since 1972; Timothy M. Miller (age 58), President of the Breckenridge division of Isabella Bank, an employee of Breckenridge division and/or the Corporation since 1985; Peggy L. Wheeler (age 49), Senior Vice President and Controller of the Corporation, employed by Isabella Bank and/or the Corporation since 1977; and Steven D. Pung (age 59), Chief Operations Officer of Isabella Bank, employed by Isabella Bank and/or the Corporation since 1978. All officers of the Corporation serve at the pleasure of the Board of Directors.

Corporate Governance

Director Independence

The Corporation has adopted the director independence standards as defined in NASDAQ Marketplace Rule 4200(a)(15). The Board has determined that James C. Fabiano, Dale D. Weburg, David J. Maness, W. Joseph Manifold, William J. Strickler, Sandra L. Caul, W. Michael McGuire, and Ted W. Kortes are independent directors. Dennis P. Angner is not independent as he is employed as President and Chief Executive Officer of the Corporation. Richard J. Barz is not independent as he is employed as President and Chief Executive Officer of Isabella Bank.

Committees of the Board of Directors and Meeting Attendance

The Board of Directors of the Corporation met 14 times during 2008. All incumbent directors attended 75% or more of the meetings held in 2008. The Board of Directors has an Audit Committee, a Nominating and Corporate Governance Committee, a Compensation and Human Resource Committee, and a Finance and Planning Committee.

Audit Committee

The Audit Committee is composed of independent directors who meet the requirements for independence as defined in NASDAQ Marketplace Rule 4200(a)(15). Information regarding the functions performed by the Committee, its membership, and the number of meetings held during the year, is set forth in the Report of the Audit Committee included elsewhere in this annual proxy statement. The Audit Committee is governed by a written charter approved by the Board of Directors and was included as Appendix A to the Corporation s proxy statement for the 2008 Annual Shareholder s Meeting.

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In accordance with the provisions of the Sarbanes Oxley Act of 2002, Director Manifold meets the requirements of Audit Committee Financial Expert and has been so designated by the Board of Directors. The committee also consists of directors Caul, Fabiano, Maness, McGuire and Weburg.

Nominating and Corporate Governance Committee

The Corporation has a standing Nominating and Corporate Governance Committee consisting of independent directors who meet the requirements for independence as defined in NASDAQ Marketplace Rule 4200(a) (15). The Committee consists of directors Caul, Fabiano, Manifold, Strickler and Weburg. The Nominating and Corporate Governance Committee met as a full board and held two meetings in 2008, and all directors attended 75% or more of the meetings in 2008. The Board of Directors has approved a Nominating and Corporate Governance Committee Charter and it was included as Appendix B to the Corporation s proxy statement for the 2008 Annual Shareholder s Meeting. The Nominating and Corporate Governance Committee is responsible for evaluating and recommending individuals for nomination to the Board of Directors for approval. In making its selections and recommendations, the Nominating and Corporate Governance Committee considers a variety of factors, which generally include the candidate s personal and professional integrity, independence, business judgment, and communication skills.

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., Mount 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 recommended candidate for nomination. Recommendations for the 2010 Annual Meeting of Shareholders should be delivered no later than December 11, 2009. The Nominating and Corporate Governance Committee does not evaluate potential nominees for director differently based on whether they are recommended to the Nominating and Corporate Governance Committee by a shareholder or otherwise.

Compensation and Human Resource Committee

The Compensation and Human Resource Committee of the Corporation is responsible for reviewing and recommending to the Corporation s Board of Directors the compensation of the President and executive officers of the Corporation, benefit plans and the overall percentage increase in salaries. The committee consists of all independent directors, Fabiano, Caul, Kortes, McGuire, Maness, Manifold, Strickler, and Weburg. The Committee held one meeting during 2008 with all directors attending the meeting. This committee is governed by a written charter approved by the Board of Directors that was attached as Appendix A to the Corporation s proxy statement for the 2007 Annual Shareholder s Meeting.

Finance and Planning Committee

The Finance and Planning Committee evaluates new business opportunities and business acquisitions, assists management in establishing financial goals, reviews all strategic plans of subsidiaries to assure consistency with overall corporate goals, and reviews interest rate risks, credit risks and insurance coverage. The committee consists of directors Maness, Angner, Barz, Fabiano, Kortes, McGuire, and Strickler.

Communications with the Board

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

Code of Ethics

The Corporation has adopted a Code of Business Conduct and Ethics that is applicable to the Corporation s principal executive officer and the principal financial officer and controller. The Corporation s Code of Business Conduct and Ethics may be obtained free of charge by sending a request to Debra Campbell, Secretary, Isabella Bank Corporation, 401 N. Main St., Mount Pleasant, Michigan 48858.

Report of the Audit Committee

The Audit Committee oversees the Corporation s financial reporting process on behalf of the Board of Directors. The Committee consists of directors Fabiano, Caul, Maness, Manifold, McGuire, and Weburg.

The Audit Committee is responsible for pre-approving all auditing services and permitted non-audit services over $5,000 for the Corporation by its independent auditors or any other auditing or accounting firm, except as noted below. 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 of Directors.

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 the Corporation s internal control over financial reporting as of December 31, 2008.

The Audit Committee reviewed with the 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 the Corporation s 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 AU Section 380 Communication 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 accountants required by PCAOB Rule 3526, Communication with Audit Committees Concerning Independence, as may be modified or supplemented, and has discussed with the independent accountant the independent accountants independence.

The Audit Committee discussed with the Corporation s internal and independent auditors the overall scope and plans for their respective audits. The Audit Committee meets with the internal and independent auditors, with and without management present, to discuss the results of their examinations, their evaluations of the Corporation s internal controls and the overall quality of the Corporation s financial reporting process. The Audit Committee held four meetings during 2008, and all directors attended 75% or more of the meetings held in 2008.

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, 2008 for filing with the Securities and Exchange Commission. The Audit Committee has appointed Rehmann Robson as the independent auditors for the 2009 audit.

Respectfully submitted,

W. Joseph Manifold, Audit Committee Chairperson
James C. Fabiano
David J. Maness
Sandra L. Caul
W. Michael McGuire
Dale D. Weburg

Compensation Discussion and Analysis

The Compensation and Human Resource Committee (the Committee) is responsible for the compensation and benefits for the President and executive officers of the Corporation. The Committee evaluates and approves the executive officer and senior management compensation plans, policies and programs of the Corporation and its affiliates. The Committee also evaluates and establishes the compensation of the President and Chief Executive Officer of the Corporation. The President and Chief Executive Officer, Dennis P. Angner, conducts annual performance reviews for all Named Executive Officers, excluding himself. Mr. Angner recommends an appropriate salary increase to the Committee based on the performance review and the officer s years of service along with competitive market data.

Compensation Objectives

The Committee considers asset growth and earnings per share to be the primary ratios in measuring financial performance. The Corporation s 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. The Corporation believes that the performance of our executive officers in managing our business should be the basis for determining overall compensation. Consideration is also given to overall economic conditions and current competitive forces in the market place. The objectives of the Committee are to effectively balance salaries and potential compensation to an officer s individual management responsibilities and encourage them to realize their potential for future contributions to the Corporation. The objectives are designed to attract and retain high performing executive officers who will lead the Corporation while attaining the Corporation s earnings and performance goals.

What the Compensation Programs are Designed to Reward

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

Elements of Compensation

The Corporation s executive compensation program has consisted primarily of base salary and benefits, annual cash bonus incentives, stock awards, and participation in the Corporation s retirement plans.

Why Each of the Elements of Compensation is Chosen

Base Salary and Benefits are set to provide competitive levels of compensation to attract and retain officers with strong motivated leadership. Each officer s performance, current compensation and responsibilities within the Corporation are considered by the Committee when establishing base salaries. The Corporation also believes it is best to pay sufficient base salary because it believes an over-reliance on equity incentive compensation could potentially skew incentives toward short-term maximization of shareholder value as opposed to building long-term shareholder value. Base salary encourages management to operate the Corporation in a safe and sound manner even when incentive goals may prove unattainable.

Annual Performance Incentives are used to reward executive officers for the Corporation s overall financial performance. This element of the Corporation s compensation programs is included in the overall compensation in order to reward employees above and beyond their base salaries when the Corporation s performance and profitability exceed established annual targets. The inclusion of incentive compensation encourages management to be more creative, diligent and exhaustive in managing the Corporation to achieve specified financial goals.

Stock Awards are also provided as stock awards are the element of compensation that is most effective in aligning the financial interests of management with those of shareholders and because stock awards are a traditional

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and well-proven element of compensation among community banks and bank holding companies. These stock awards are granted pursuant to the Isabella Bank Corporation and Related Companies Deferred Compensation Plan for Directors (Directors Plan), under which eligible executive officers elect to defer their director fees, which deferred fees are then converted, on a quarterly basis, into shares of the Corporation s common stock. The Corporation has established a Trust to fund the Directors Plan. The directors of the Corporation and its subsidiaries are required to defer at least 25% of their earned board fees into the Directors Plan.

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

How the Corporation Chose Amounts for Each Element

The Committee s approach to determining the annual base salary of executive officers is to offer competitive salaries in comparison with other comparable financial institutions. The Committee utilized both an independent consultant to perform a compensation survey of similar sized Michigan based institutions for 2007 and compensation information provided by the Michigan Bankers Association for banks in the State of Michigan with assets over $500 million to provide salary ranges for its executive officers. 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 annual performance incentive is based on goals set on individual performance and recognition of individual performance. A subjective analysis is conducted by the Chief Executive Officer. The Chief Executive Officer makes a recommendation to the Committee for the appropriate amount for each individual executive officer. The Committee reviews, modifies, if necessary, and approves the recommendations of the Chief Executive Officer. The Committee reviews the performance of the Chief Executive Officer. The Committee uses the following factors as quantitative measures of corporate performance in determining annual cash bonus amounts to be paid.

- peer group financial performance compensation;
- 1 and 5 year shareholder returns;
- earnings per share and earnings per share growth;
- budgeted as compared to actual annual operating performance;
- community and industry involvement;
- results of audit and regulatory exams; and
- other strategic goals as established by the board of directors

While no particular weight is given to any specific factor, the Committee gives at least equal weight to the subjective analyses as described above.

Stock awards are granted pursuant to the Director s Plan, under which participants elect to defer their director fees, which director fees are then converted, on a quarterly basis, into shares of the Corporation s common stock based on the fair market value of a share of the Corporation s common stock at that time. Shares of stock credited to a participant s account under the Directors Plan are eligible for stock and cash dividends as payable.

Total compensation in 2008 was based on the committee targeting its executive officer s compensation to approximate the median of the ranges provided by independent consultants and Michigan Bankers Association surveys.

Retirement plans. In December 2006, the Board of Directors voted to curtail the defined benefit plan effective March 1, 2007. The effect of the curtailment was recognized in the first quarter of 2007 and the current participants accrued benefits were frozen as of March 1, 2007. Participation in the plan was limited to eligible employees as of December 31, 2006.

The Corporation has 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. As a result of the curtailment of the defined benefit plan noted above, the Corporation increased the contributions to the 401(k) plan effective January 1, 2007. The enhancement includes a discretionary 3.0% contribution for all eligible employees and matching contributions equal to 50% of the first 4.0% of an employee s compensation contributed to the Plan during the year.

The Corporation maintains a non-leveraged employee stock ownership plan (ESOP) which covers substantially all of its employees. The plan was frozen effective December 31, 2006 to new participants. Contributions to the plan are discretionary and approved by the Board of Directors.

The Corporation maintains a plan for officers to provide death benefits to each participant. Insurance policies, designed primarily to fund death benefits, have been purchased on the life of each participant with the Corporation as the sole owner and beneficiary of the policies.

The retirement bonus plan is a nonqualified plan of deferred compensation benefits for eligible employees effective January 1, 2007. An initial amount has been credited for each eligible employee as of January 1, 2007. Subsequent amounts will be credited on each allocation date thereafter as defined in the plan. The amount of the initial allocation and the annual allocation will be determined pursuant the payment schedule adopted at the sole and exclusive discretion of the Board of Directors, as set forth in the plan.

How Elements Fit into Overall Compensation Objectives

The elements of the Corporation s compensation are structured to reward past and current performance, continued service and motivate its leaders to excel in the future. The Corporation s salary compensation has generally been used to retain and attract motivated leadership. The Corporation intends to continually ensure salaries are sufficient to attract and retain exceptional officers. The Corporation s cash bonus incentive rewards current performance based upon personal and corporate goals and targets. The Corporation makes stock awards to motivate its officers to enhance value for shareholders by aligning the interests of management with those of its shareholders.

As part of its goal of attracting and retaining quality team members, the Corporation has developed employee benefit plans that make it stand out from the rest of the competition. Management feels that the combination of all of the plans listed above makes the Corporation s total compensation packages attractive.

Compensation and Benefits Committee Report

The following Report of the Compensation and Human Resource Committee 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 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 of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement and Annual Report on Form 10-K.

Submitted by the Compensation and Human Resource Committee of Isabella Bank Corporation s Board of Directors:

James C. Fabiano, Chairperson
Sandra L. Caul
Ted W. Kortes

David J. Maness
W. Joseph Manifold
W. Michael McGuire
William J. Strickler
Dale D. Weburg

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Executive Officers

Executive Officers of the Corporation are compensated in accordance with their employment with the applicable entity. The following table shows information on compensation earned from the Corporation or its subsidiaries for each of the last three fiscal years ended December 31, 2008, by the President and Chief Executive Officer, the Principal Financial Officer, and the corporation s three most highly compensated executive officers.

Summary Compensation Table

Name and principal position	Year	Salary ($)(1)	Bonus ($)(1)	Stock Awards ($)	Change in Pension Value and Non-Qualified Deferred Compensation Earnings ($)(2)	All Other Compensation ($)(3)	Total ($)
Dennis P. Angner	2008	$ 294,670	$ 9,450	$ 41,425	$ 28,089	$ 18,453	$ 392,087
President and CEO	2007	288,101	8,225	26,280	(7,000)	18,715	334,321
of Isabella Bank Corporation	2006	255,237	10,000	16,228	70,646	8,233	360,344
Peggy L. Wheeler	2008	105,000	3,500		13,000	2,216	123,716
Principal Financial Officer,	2007	100,000	3,000		(3,000)	2,023	102,023
Sr. Vice President	2006	88,500			14,339	685	103,524
and Controller of							
Isabella Bank Corporation							
Richard J. Barz	2008	300,785	9,100	32,490	72,622	22,697	437,694
Executive Vice President of	2007	274,706	7,875	18,125		23,226	323,932
Isabella Bank Corporation	2006	237,175	14,400	15,100	134,235	10,948	411,858
President and CEO							
Isabella Bank							
Timothy M. Miller	2008	160,145	3,200	6,715	3,411	14,127	187,598
Vice President of	2007	155,171		7,880	(1,000)	14,167	176,218
Isabella Bank Corporation	2006	149,117	3,567	7,223	17,030	5,778	182,715
President of the Breckenridge							
division of Isabella Bank							
Steven D. Pung(4)	2008	117,100	3,785	1,125	45,884	13,169	181,063
Sr. Vice President and COO	2007	108,100	3,625	1,800		14,194	127,719
Isabella Bank							

(1) Includes compensation voluntarily deferred under the Corporation s 401(k) plan. Directors fees paid in cash are also included, for calendar years 2008, 2007 and 2006 respectively as follows: Dennis P. Angner $14,670, $23,870 and $20,237; Richard J. Barz $25,785, $20,475 and $12,175; and Timothy M. Miller $17,445, $20,940 and $18,117.

(2) For 2006, approximately 75% of the change in the present value of the defined benefit is related to prior service, a decrease in the assumed discount rate, and a change in the actuarial mortality table. Amounts were determined using assumptions consistent with those used in the Corporation s consolidated financial statements. The Board of Directors approved a curtailment of this plan in December 2006 effective March 1, 2007. Assumptions were consistent with those that were presented in the consolidated financial statements.

(3) For all noted executives all other compensation includes 401(k) matching contributions. For Richard J. Barz and Steven D. Pung this also includes club dues and auto allowance. For Dennis P. Angner and Timothy M. Miller, this also includes auto allowance.

(4) Not a named executive officer prior to 2007.

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2008 Pension Benefits

The following table indicates the present value of accumulated benefits as of December 31, 2008 for each named executive in the summary compensation table.

Name	Plan Name	Number of Years of Credited Service as of 01/01/09 (#)	Present Value of Accumulated Benefit ($)	Payments During Last Fiscal Year
Dennis P. Angner	Isabella Bank Corporation Pension Plan	23	$ 297,000	$
	Isabella Bank Corporation Retirement Bonus Plan	23	177,570	
Peggy L. Wheeler	Isabella Bank Corporation Pension Plan	28	79,000	
	Isabella Bank Corporation Retirement Bonus Plan	28	46,134	
Richard J. Barz	Isabella Bank Corporation Pension Plan	35	625,000	
	Isabella Bank Corporation Retirement Bonus Plan	35	201,383	
Timothy M. Miller	Isabella Bank Corporation Pension Plan	6	64,000	
Steven D. Pung	Isabella Bank Corporation Pension Plan	28	313,000	
	Isabella Bank Corporation Retirement Bonus Plan	28	105,824	

Defined benefit pension plan. The Corporation sponsors the Isabella Bank Corporation Pension Plan, a frozen defined benefit pension plan. In December 2006, the Board of Directors voted to curtail the defined benefit plan effective March 1, 2007. The effect of the curtailment, which was recognized in the first quarter of 2007, froze the current participant s accrued benefits as of March 1, 2007 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 with the Corporation.

Annual contributions are made to the plan as required by accepted actuarial principles, applicable federal tax law, and expenses of 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, effective through December 31, 2006.

A participant may earn a benefit for up to 35 years of accredited service. Earned benefits are 100 percent 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.

Richard J. Barz, Timothy M. Miller, and Steven D. Pung are eligible for early retirement under the Isabella Bank Corporation Pension Plan. Under the provisions of the Plan, participants are eligible for early retirement after reaching the age of 55 with at least 5 years of service. The early retirement benefit amount is the accrued benefit payable at normal retirement date reduced by 5/9% for each of the first 60 months and 5/18% for each of the next 60 months that the benefit commencement date precedes the normal retirement date.

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

An initial amount has been credited for each eligible employee as of January 1, 2007. Subsequent amounts shall be credited on each allocation date thereafter as defined in the plan. The amount of the initial allocation and the

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annual allocation shall be determined pursuant to the payment schedule adopted by the sole and exclusive discretion of the Board of Directors, as set forth in the plan.

Richard J. Barz, Timothy M. Miller, and Steven D. Pung are eligible for early retirement under the Isabella Bank Corporation Retirement Bonus 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.

2008 Nonqualified Deferred Compensation

Name	Executive Contributions in Last FY ($)	Aggregate Earnings in Last FY ($)	Aggregate Balance at Last FYE ($)
Dennis P. Angner	$ 41,425	$ 1,269	$ 85,930
Peggy L. Wheeler			
Richard J. Barz	32,490	987	67,306
Timothy M. Miller	6,715	352	22,465
Steven D. Pung	1,125	98	6,042

The directors of the Corporation and its subsidiaries are required to defer at least 25% of their earned board fees into the Directors Plan and may defer up to 100% of their earned fees based on their annual election. These amounts are reflected in the 2008 nonqualified deferred compensation table above. Under the Directors Plan, these deferred fees are converted on a quarterly basis into shares of the Corporation s common stock based on the fair market value of shares of the Corporation s common stock at that time. Shares credited to a participant s account are eligible for stock and cash dividends as payable.

Distribution 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 the Corporation s common stock. Any Corporation common stock issued under the Directors Plan will be considered restricted stock under the Securities Act of 1933, as amended.

Potential Payments Upon Termination or Change in Control

The estimated pay outs payable to each named executive officer upon severance from employment, retirement, termination upon death or disability or termination following a change in control of the Corporation are described below. For all termination scenarios, the amounts assume such termination took place as of December 31, 2008.

Any Severance of Employment

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

Amounts accrued and vested through the Defined Benefit Pension Plan.

Amounts accrued and vested through the Retirement Bonus Plan.

Amounts deferred in the Directors Plan.

Unused vacation pay.

Retirement

In the event of the retirement of an executive officer, the officer would receive the benefits identified above. As of December 31, 2008, the named executive officers listed had no unused vacation days.

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Death or Disability

In the event of death or disability of an executive officer, in addition to the benefits listed above, the executive officer will also receive payments under the Corporation s life insurance plan or benefits under the Corporation s 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
Dennis P. Angner	$ 560,000	$ 140,000
Peggy L. Wheeler	210,000	105,000
Richard J. Barz	550,000	275,000
Timothy M. Miller	285,400	142,700
Steven D. Pung	234,200	117,100

Change in Control

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

Director Compensation

The following table summarizes the Compensation of each non-employee director who served on the Board of Directors during 2008.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Change in Pension Value and Non-Qualified Deferred Compensation Earnings ($)	Total ($)
Sandra Caul	$	$ 37,450	$ (174,451)	$ (137,001)
James Fabiano		47,750	(482,948)	(435,198)
Ted Kortes	18,737	12,038	(3,429)	27,346
David Maness		40,325	(79,544)	(39,219)
W. Joseph Manifold		25,350	(55,389)	(30,039)
W. Michael McGuire		30,275	(34,439)	(4,164)

William Strickler	51,499	(215,151)	(163,652)
Dale Weburg	32,435	(111,175)	(78,740)

The Corporation paid a $6,000 retainer plus $950 per board meeting to its directors during 2008 and $225 per committee meeting attended.

The Corporation sponsors a nonqualified deferred compensation plan for directors (the Directors Plan), pursuant to which the directors of the Corporation and its subsidiaries are required to defer at least 25% of their earned board fees. Under the Directors Plan, deferred directors fees are converted on a quarterly basis into shares of the Corporation s common stock, based on the fair market value of a share of the Corporation s common stock at that time. Shares of stock credited to a participant s account are eligible for cash and stock dividends as payable. Participants deferred $483,405 under the Directors Plan in 2008.

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 his or her 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.

The Corporation established a Trust effective as of January 1, 2008 to fund the Directors Plan. The Trust is an irrevocable grantor trust to which the Corporation may contribute assets for the limited purpose of funding a nonqualified deferred compensation plan. Although the Corporation may not reach the assets of the Trust for any purpose other than meeting its obligations under the Directors Plan, the assets of the Trust remain subject to the claims of the Corporation s creditors. The Corporation may contribute cash or common stock to the Trust from time to time for the sole purpose of funding the Directors Plan. The Trust will use any cash that the Corporation may contribute to it to purchase shares of the Corporation s common stock on the open market through the Corporation s brokerage services department.

The Corporation transferred $248,693 to the Rabbi Trust in 2008, which held 5,248 shares of the Corporation s common stock for settlement as of December 31, 2008. As of December 31, 2008, there were 186,766 shares of stock credited to participants accounts as adjusted for the 10% stock dividend paid on February 29, 2008, 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 Trust. All amounts are unsecured claims against the Corporation s general assets. The net cost of this benefit to the Corporation was $119,616 in 2008.

The following table displays the number of equity shares granted pursuant to the terms of the Directors Plan as of December 31, 2008:

Name	**# of Shares of Stock Granted**
Dennis P Angner	2,368
Richard J Barz	1,845
Sandra Caul	13,074
James Fabiano	35,657
Ted Kortes	338
David Maness	6,186
W. Joseph Manifold	4,142
W. Michael McGuire	2,813
William J Strickler	16,191
Dale Weburg	8,382

Compensation and Human Resource Committee Interlocks and Insider Participation

The Compensation and Human Resource Committee of the Corporation is responsible for reviewing and recommending to the Corporation s Board of Directors the compensation of the President and executive officers of the Corporation, benefit plans and the overall percentage increase in salaries. The committee consists of directors Fabiano, Caul, Kortes, McGuire, Maness, Manifold, Strickler, and Weburg.

Indebtedness of and Transactions with Management

Certain directors and officers of the Corporation and members of their families were loan customers of Isabella Bank, or have been directors or officers of corporations, or partners of partnerships which have had transactions with the subsidiary Bank. In management s opinion, all such transactions are made in the ordinary course of business and are 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 $4,011,000 as of December 31, 2008. The Corporation addresses transactions with related parties in its *Code of Business Conduct and Ethics* policy**.** Conflicts of interest are prohibited as a matter of Corporation policy, except under guidelines approved by the Board of Directors or committees of the Board.

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Security Ownership of Certain Beneficial Owners and Management

As of April 1, 2009 the Corporation does not have any person who is known to the Corporation to be the beneficial owner of more than 5% of the common stock of the Corporation.

The following table sets forth certain information as of April 1, 2009 as to the common stock of the Corporation owned beneficially by each director and director nominee, by each named executive officer, and by all directors, director nominees and executive officers of the Corporation as a group. The shares to be granted from stock awards are not included in the table below.

	Amount and Nature of Beneficial Ownership			
Name of Owner	**Sole Voting and Investment Powers**	**Shared Voting and Investment Powers**	**Total Beneficial Ownership**	**Percentage of Common Stock Outstanding**
Dennis P. Angner*	20,946		20,946	0.28%
Richard J Barz*	23,915		23,915	0.32%
Sandra L. Caul		10,242	10,242	0.14%
James C. Fabiano	250,930	6,059	256,989	3.42%
Theodore W. Kortes		15,115	15,115	0.20%
W. Joseph Manifold	543		543	0.01%
W. Michael McGuire	6,177		6,177	0.08%
David J. Maness	429	951	1,381	0.02%
William J. Strickler	78,126	13,029	91,154	1.21%
Dale D. Weburg	25,642	29,969	55,611	0.74%
Timothy M. Miller	77	2,946	3,024	0.04%
Steven D. Pung	12,752	7,160	19,912	0.26%
Peggy L. Wheeler	5,730	2,256	7,986	0.11%
All Directors, nominees and Executive Officers as a Group (13 persons)	425,268	87,727	512,995	6.83%

* Trustees of the ESOP who vote ESOP stock.

Independent Registered Public Accounting Firm

The Audit Committee has appointed Rehmann Robson as the independent auditors of the Corporation for the year ending December 31, 2009.

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

Fees for Professional Services Provided by Rehmann Robson P.C.

The following table shows the aggregate fees billed by Rehmann Robson for the audit and other services provided to the Corporation for 2008 and 2007.

	2008	2007
Audit Fees	$ 238,275	$ 371,860
Audit Related Fees	52,415	31,365
Tax Fees	65,257	28,750
Other Professional Services Fees	15,098	16,450
Total	$ 371,045	$ 448,425

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The audit fees were for performing the integrated audit of the Corporation s consolidated annual financial statements, and the audit of internal control over financial reporting, review of interim quarterly financial statements included in the Corporation s Forms 10-Q, auditing of the Corporation s employee benefit plans and services that are normally provided by Rehmann Robson in connection with statutory and regulatory filings or engagements. The audit fees have steadily declined over the past few years as a result of the centralization of corporate processes and diligently working on improving efficiencies related to Sarbanes Oxley (SOX) compliance.

The audit related fees for 2008 and 2007 were for regulatory filings and procedures related to the acquisition of Greenville Community Financial Corporation and for various discussions related to the adoption and interpretation of new accounting pronouncements.

The tax fees were for the preparation of the Corporation and its subsidiaries state and federal tax returns and for consultation with the Corporation on various tax matters. The increase in the 2008 tax fees is primarily related to tax consulting for an audit conducted by the State of Michigan for Single Business Tax (SBT), the 2007 Greenville Community Financial Corporation final tax return preparation, and tax consulting related to the joint venture with CT/IBT Title (refer to Note 2 of the Corporation s consolidated financial statement).

The Audit Committee has considered whether the services provided by Rehmann Robson, other than the audit fees, are compatible with maintaining Rehmann Robson 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 must be approved in advance by the Audit Committee. As permitted by the SEC s rules, the Audit Committee has authorized its Chairperson to pre-approve audit, audit-related, tax and non-audit services, provided that such approved service is reported to the full Audit Committee at its next meeting.

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

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

Applicable SEC rules and regulations permit waiver of the pre-approval requirements for services other than audit, review or attest services if certain conditions are met. Out of the services characterized above as Audit-Related, Tax and Professional Services, none were billed pursuant to these provisions in 2008 and 2007 without pre-approval.

Shareholder Proposals

Any proposals which shareholders of the Corporation intend to present at the next annual meeting of the Corporation must be received before December 11, 2009 to be considered for inclusion in the Corporation s proxy statement and proxy for that meeting. Proposals should be made in accordance with Securities and Exchange Commission Rule 14a-8.

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Directors Attendance at the Annual Meeting of Shareholders

The Corporation s directors are encouraged to attend the annual meeting of shareholders. At the 2008 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 the Corporation s directors and certain officers and persons who own more than ten percent of the Corporation s common stock, to file with the SEC initial reports of ownership and reports of changes in ownership of the Corporation s common stock. These officers, directors, and greater than ten percent shareholders are required by SEC regulation to furnish the Corporation with copies of these reports.

To the Corporation s knowledge, based solely on review of the copies of such reports furnished to the Corporation, during the year ended December 31, 2008 all Section 16(a) filing requirements were satisfied, with respect to the applicable officers, directors, and greater than 10 percent beneficial owners.

Other Matters

The cost of soliciting proxies will be borne by the Corporation. In addition to solicitation by mail, officers and other employees of the Corporation 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

Management of the Corporation does 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

Isabella Bank Corporation

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SUMMARY OF SELECTED FINANCIAL DATA

	2008	2007	2006	2005	2004
	(Dollars in thousands except per share data)				
INCOME STATEMENT DATA					
Total interest income	$ 61,385	$ 53,972	$ 44,709	$ 36,882	$ 33,821
Net interest income	35,779	28,013	24,977	23,909	23,364
Provision for loan losses	9,500	1,211	682	777	735
Net income	4,101	7,930	7,001	6,776	6,645
BALANCE SHEET DATA					
End of year assets	$ 1,139,263	$ 957,282	$ 910,127	$ 741,654	$ 678,034
Daily average assets	1,113,102	925,631	800,174	700,624	675,157
Daily average deposits	817,041	727,762	639,046	576,091	567,145
Daily average loans/net	708,434	596,739	515,539	459,310	430,854
Daily average equity	143,626	119,246	91,964	74,682	70,787
PER SHARE DATA(1)					
Earnings per share					
Basic	$ 0.55	$ 1.14	$ 1.12	$ 1.14	$ 1.13
Diluted	0.53	1.11	1.09	1.14	1.13
Cash dividends	0.65	0.62	0.58	0.55	0.52
Book value (at year end)	17.89	17.58	16.61	13.44	12.25
FINANCIAL RATIOS					
Shareholders equity to assets (at year end)	11.80%	12.86%	12.72%	10.91%	10.71%
Return on average equity	2.86	6.65	7.61	9.07	9.39
Return on average tangible equity	4.41	8.54	8.31	9.12	10.01
Cash dividend payout to net income	118.82	54.27	53.92	48.02	46.20
Return on average assets	0.37	0.86	0.87	0.97	0.98

	2008				2007			
	4th	3rd	2nd	1st	4th	3rd	2nd	1st
Quarterly Operating Results:								
Total interest income	$ 15,099	$ 15,401	$ 15,359	$ 15,526	$ 13,747	$ 13,794	$ 13,539	$ 12,892
Interest expense	5,836	6,309	6,379	7,082	6,466	6,690	6,554	6,249
Net interest income	9,263	9,092	8,980	8,444	7,281	7,104	6,985	6,643
Provision for loan losses	5,725	975	1,593	1,207	593	268	224	126
Noninterest income	1,130	2,377	1,778	2,517	2,605	2,719	2,227	2,411
Noninterest expenses	8,377	7,430	7,341	7,556	6,597	6,995	6,833	6,804
Net (loss) income	(2,041)	2,524	1,691	1,927	2,268	2,096	1,756	1,810
Per Share of Common Stock:(1)								

Earnings (loss) per share																
Basic	$	(0.28)	$	0.34	$	0.23	$	0.26	$	0.33	$	0.30	$	0.25	$	0.26
Diluted		(0.27)		0.33		0.22		0.25		0.32		0.29		0.25		0.25
Cash dividends		0.29		0.12		0.12		0.12		0.29		0.11		0.11		0.11
Book value (at quarter end)		17.89		18.78		18.75		19.07		17.58		17.38		17.04		16.77

(1) Retroactively restated for the 10% stock dividend, paid on February 29, 2008.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Board of Directors
Isabella Bank Corporation
Mt. Pleasant, Michigan

We have audited the accompanying consolidated balance sheets of ***Isabella Bank Corporation*** as of December 31, 2008 and 2007, 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, 2008. We also have audited ***Isabella Bank Corporation s*** internal control over financial reporting as of December 31, 2008, based on criteria established in the *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). ***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 the ***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.

As described in Note 1 to the consolidated financial statements, effective January 1, 2008 the Corporation adopted EITF Issue No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*. Also, as described in Notes 17 and 20 to the consolidated financial statements, effective January 1, 2007 the Corporation elected the early adoption of Statements of Financial

Accounting Standards (SFAS) No. s 159, *The Fair Value Option for Financial Assets and Financial Liabilities,* and 157, *Fair Value Measurements,* and effective December 31, 2006 changed its method of accounting for defined benefit pension and other postretirement plans in accordance with SFAS No. 158, *Employer s Accounting for Defined Benefit Pension and Other Postretirement Plans.*

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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, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008 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, 2008, based on the criteria established in the *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

Rehmann Robson, P.C.

Saginaw, Michigan
March 6, 2009

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CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

	December 31 2008	December 31 2007
	(Dollars in thousands)	
ASSETS		
Cash and demand deposits due from banks	$ 23,554	$ 25,583
Trading securities	21,775	25,064
Investment securities available for sale (amortized cost of $248,741 in 2008 and $212,285 in 2007)	246,455	213,127
Mortgage loans available for sale	898	2,214
Net loans		
Loans	735,385	612,687
Less allowance for loan losses	11,982	7,301
Total net loans	**723,403**	**605,386**
Premises and equipment	23,231	22,516
Corporate-owned life insurance policies	16,152	13,195
Accrued interest receivable	6,322	5,948
Acquisition intangibles and goodwill, net	47,804	27,010
Equity securities without readily determinable fair values	17,345	7,353
Other assets	12,324	9,886
Total assets	**$ 1,139,263**	**$ 957,282**
LIABILITIES AND SHAREHOLDERS EQUITY		
Deposits		
Noninterest bearing	$ 97,546	$ 84,846
NOW accounts	113,973	105,526
Certificates of deposit and other savings	422,689	410,782
Certificates of deposit over $100,000	141,422	132,319
Total deposits	**775,630**	**733,473**
Other borrowed funds ($23,130 in 2008 and 7,523 in 2007 at fair value)	222,350	92,887
Escrow funds payable		1,912
Accrued interest and other liabilities	6,807	5,930
Total liabilities	**1,004,787**	**834,202**
Shareholders Equity		
Common stock no par value 15,000,000 shares authorized; outstanding 7,518,856 (including 5,248 shares to be issued) in 2008 and 6,364,120 in 2007	133,602	112,547
Shares to be issued for deferred compensation obligations	4,015	3,772
Retained earnings	2,428	7,027

Accumulated other comprehensive loss	(5,569)	(266)
Total shareholders equity	**134,476**	**123,080**
Total liabilities and shareholders equity	**$ 1,139,263**	**$ 957,282**

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

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

	Year Ended December 31		
	2008	2007	2006
	(Dollars in thousands)		
Number of Shares of Common Stock Outstanding			
Balance at beginning of year	6,364,120	6,335,861	4,974,715
Common stock dividends	687,599		497,299
Shares issued in exchange for bank acquisition	514,809		797,475
Other issuances of common stock	100,664	71,479	66,372
Common stock repurchased	(148,336)	(43,220)	
Balance end of year	**7,518,856**	**6,364,120**	**6,335,861**
Common Stock			
Balance at beginning of year	$ 112,547	$ 111,648	$ 69,592
Common stock dividends (10)%	30,256		20,887
Regulatory capital transfer	(28,000)		(12,000)
Issuances of common stock in exchange for bank acquisition	22,652		30,448
Issuance of common stock	2,836	2,780	2,721
Common stock purchased for deferred compensation obligations	(249)		
Common stock repurchased	(6,440)	(1,881)	
Balance end of year	**133,602**	**112,547**	**111,648**
Shares to be issued for deferred compensation obligations			
Balance at beginning of year	3,772	3,137	2,704
Share-based payment awards under equity compensation plan	603	758	470
Issuance of common stock	(360)	(123)	(37)
Balance end of year	**4,015**	**3,772**	**3,137**
Retained Earnings			
Balance at beginning of year	7,027	4,451	10,112
Adjustment to initially apply FASB Statement No. 159, net of tax		(1,050)	
Adjustment to initially apply EITF 06-4, net of tax	(1,571)		
Net income	4,101	7,930	7,001
Common stock dividends (10)%	(30,256)		(20,887)
Regulatory capital transfer	28,000		12,000
Cash dividends ($0.65 per share in 2008, $0.62 per share in 2007, $0.58 per share in 2006)	(4,873)	(4,304)	(3,775)
Balance end of year	**2,428**	**7,027**	**4,451**
Accumulated Other Comprehensive Loss			
Balance at beginning of year	(266)	(3,487)	(1,506)
Cumulative adjustment to initially apply the fair value option of FASB Statement No. 159, net of tax		827	
Cumulative adjustment to initially apply FASB Statement No. 158, net of tax			(2,728)

Other comprehensive (loss) income	(5,303)	2,324	747
Balance end of year	**(5,569)**	**(266)**	**(3,487)**
Total shareholders equity end of year	**$ 134,476**	**$ 123,080**	**$ 115,749**

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

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CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31		
	2008	2007	2006
	(Dollars in thousands except per share data)		
Interest Income			
Loans, including fees	$ 49,674	$ 43,808	$ 36,575
Investment securities			
Taxable	5,433	3,751	4,948
Nontaxable	4,642	3,657	2,797
Trading account securities	1,093	2,097	
Federal funds sold and other	543	659	389
Total interest income	**61,385**	**53,972**	**44,709**
Interest Expense			
Deposits	19,873	22,605	17,164
Borrowings	5,733	3,354	2,568
Total interest expense	**25,606**	**25,959**	**19,732**
Net interest income	**35,779**	**28,013**	**24,977**
Provision for loan losses	9,500	1,211	682
Net interest income after provision for loan losses	**26,279**	**26,802**	**24,295**
Noninterest Income			
Service charges and fees	6,370	5,894	5,490
Title insurance revenue (Note 2)	234	2,192	2,389
Gain on sale of mortgage loans	249	209	207
Net gain on trading securities	245	460	
Other	704	1,207	1,012
Total noninterest income	**7,802**	**9,962**	**9,098**
Noninterest Expenses			
Compensation and benefits	16,992	15,618	13,869
Occupancy	2,035	1,766	1,730
Furniture and equipment	3,849	3,297	2,868
Other	7,828	6,548	6,006
Total noninterest expenses	**30,704**	**27,229**	**24,473**
Income before federal income tax (benefit) expense	**3,377**	**9,535**	**8,920**
Federal income tax (benefit) expense	(724)	1,605	1,919
Net income	**$ 4,101**	**$ 7,930**	**$ 7,001**
Earnings per share			
Basic	**$ 0.55**	**$ 1.14**	**$ 1.12**

Diluted	**$**	**0.53**	**$**	**1.11**	**$**	**1.09**

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

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31		
	2008	**2007**	**2006**
	(Dollars in thousands)		
Net income	**$ 4,101**	**$ 7,930**	**$ 7,001**
Unrealized holding gains on available-for-sale securities:			
Unrealized (losses) gains arising during the year	(3,104)	614	1,020
Reclassification adjustment for net realized (gains) losses included in net income	(24)	19	112
Net unrealized (losses) gains	(3,128)	633	1,132
Tax effect	(643)	(216)	(385)
Unrealized (losses) gains, net of tax	(3,771)	417	747
(Increase) reduction of unrecognized pension cost	(2,320)	2,890	
Tax effect	788	(983)	
Net unrealized (loss) gain on defined benefit pension plan	(1,532)	1,907	
Other comprehensive (loss) income, net of tax	**(5,303)**	**2,324**	**747**
Comprehensive income	**$ (1,202)**	**$ 10,254**	**$ 7,748**

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

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Year Ended December 31		
	2008	2007	2006
	(Dollars in thousands)		
Operating activities			
Net income	$ 4,101	$ 7,930	$ 7,001
Reconciliation of net income to cash provided by (used in) operations:			
Provision for loan losses	9,500	1,211	682
Provision for foreclosed asset losses	231	109	
Depreciation	2,171	1,960	1,852
Amortization and impairment of mortgage servicing rights	346	201	184
Amortization of acquisition intangibles	415	278	160
Net amortization of investment securities	356	216	705
Realized (gain) loss on sale of available-for-sale investment securities	(24)	19	112
Unrealized gains on trading securities	(245)	(460)	
Unrealized losses on borrowings measured at fair value	641	66	
Earnings on corporate owned life insurance policies	(616)	(432)	(404)
Share-based payment awards under equity compensation plan	603	758	470
Deferred income tax (benefit) expense	(1,812)	301	274
Net changes in operating assets and liabilities which provided (used) cash, net in 2008 and 2006 of bank acquisitions and of the 2008 joint venture formation:			
Trading securities	8,513	53,235	
Loans held for sale	1,316	520	(1,990)
Accrued interest receivable	226	(183)	(626)
Other assets	(3,565)	(4,667)	(1,424)
Escrow funds payable	(46)	(504)	(7,407)
Accrued interest and other liabilities	(1,450)	(171)	(1,378)
Net cash provided by (used in) operating activities	**20,661**	**60,387**	**(1,789)**
Investing activities			
Activity in available-for-sale securities			
Maturities, calls, and sales	66,387	54,997	57,577
Purchases	(96,168)	(132,115)	(70,140)
Loan principal originations, net	(42,700)	(24,455)	(44,805)
Proceeds from sales of foreclosed assets	2,310	662	524
Purchases of premises and equipment	(2,990)	(3,722)	(2,467)
Bank acquisition, net of cash acquired	(9,465)		(2,713)
Cash contributed to title company joint venture formation	(4,542)		
Purchase of corporate owned life insurance policies	(1,560)		(499)
Net cash used in investing activities	**(88,728)**	**(104,633)**	**(62,523)**
Financing activities			
Net (decrease) increase in deposits	(47,892)	7,633	60,024
Net increase in other borrowed funds	123,016	34,365	6,138
Cash dividends paid on common stock	(4,873)	(4,304)	(3,775)

Proceeds from issuance of common stock		2,476		2,657		2,459
Common stock repurchased		(6,440)		(1,881)		
Common stock purchased for deferred compensation obligations		(249)				
Net cash provided by (used in) financing activities		**66,038**		**38,470**		**64,846**
(Decrease) increase in cash and cash equivalents		**(2,029)**		**(5,776)**		**534**
Cash and cash equivalents at beginning of year		25,583		31,359		30,825
Cash and cash equivalents at end of year	**$**	**23,554**	**$**	**25,583**	**$**	**31,359**
Supplemental cash flows information:						
Interest paid	$	25,556	$	25,872	$	19,392
Federal income taxes paid		1,155		1,776		1,516
Transfer of loans to foreclosed assets		3,398		1,295		433

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

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 (the Corporation), a financial services holding company, and its wholly owned subsidiaries, Isabella Bank (the Bank), Financial Group Information Services, and IB&T Employee Leasing, LLC. All intercompany balances and accounts have been eliminated in consolidation.

Nature of Operations:

Isabella Bank Corporation is a financial services holding company offering a wide array of financial products and services in mid-Michigan. Its banking subsidiary, Isabella Bank, offers banking services through 24 locations, 24-hour banking services locally and nationally through shared automatic teller machines, 24- hour online banking, and direct deposits to businesses, institutions, and individuals. Lending services offered include commercial real estate loans and lines of credit, agricultural loans, residential real estate loans, consumer loans, student loans, and credit cards. Deposit services include interest and noninterest bearing checking accounts, savings accounts, money market accounts, and certificates of deposit. Other related financial products include trust 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 the Bank s principal markets. The Corporation s results of operations can be significantly affected by changes in interest rates or changes in the local economic environment.

In April 2007, the Corporation consolidated the charters of FSB Bank and Isabella Bank. The consolidation into a single charter helped to further reduce operating expenses through the elimination of duplications in memberships, licensing, service contracts, compliance, computer platforms, and computer processing. The legal reorganization had no effect on the Corporation s consolidated financial statements (See Note 23 Operating Segments).

On January 1, 2008, the Corporation acquired 100 percent of Greenville Community Financial Corporation (GCFC). As a result of this acquisition, Greenville Community Bank, a wholly-owned subsidiary of GCFC, merged with and into the Bank (see Note 2 Business Combinations and Joint Venture Formation).

On March 1, 2008, IBT Title and Insurance Agency, Inc. (IBT Title), a wholly owned subsidiary of Isabella Bank Corporation, merged its assets and liabilities with Corporate Title Agency, LLC (Corporate Title), a third-party title business based in Traverse City, Michigan, to form CT/IBT Title Agency, LLC. As a result of this transaction, the Corporation became a 50 percent joint venture owner in CT/IBT Title Agency, LLC. The joint venture is accounted for as an equity investment. The purpose of this joint venture was to help IBT Title and Insurance Agency, Inc. expand its service area and to take advantage of economies of scale (see Note 2 Business Combinations and Joint Venture Formation).

Financial Group Information Services provides information technology services to Isabella Bank Corporation and its subsidiaries.

IB&T Employee Leasing provides payroll services, benefit administration, and other human resource services to Isabella Bank Corporation and its subsidiaries.

Use of Estimates:

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to 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 allowance for loan losses, the fair value of investment securities, the valuation of real estate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

acquired in connection with foreclosures or in satisfaction of loans, valuation of goodwill and intangible assets, determinations of assumptions in accounting for the defined benefit pension plan, and other post-retirement liabilities. In connection with the determination of the allowance for loan losses and the carrying value of foreclosed real estate, management obtains independent appraisals for significant properties.

Significant Group Concentrations of Credit Risk:

Most of the Corporation s activities conducted are with customers located within the central Michigan area. A significant amount of its outstanding loans are secured by real estate or are made to finance agricultural production. Other than these types of loans, there is no significant concentration to any other industry or 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, all of which have original maturity dates within ninety days. Generally, federal funds sold are for a one day period. The Corporation maintains deposit accounts in various financial institutions which generally exceed federally insured limits or are not insured.

Trading Securities:

Effective January 1, 2007, in conjunction with the early adoption of the fair value option of SFAS No. 159 (see Note 20), the Corporation engages in trading activities for its own account. Securities that are held principally for resale in the near term are recorded in the trading assets account at fair value with unrealized changes in fair value recorded in noninterest income. Interest and dividends are included in net interest income.

Available-For-Sale Investment Securities:

Securities classified as available-for-sale , other than money market preferred securities, 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. Available for-sale money market preferred securities are recorded at fair value, with unrealized gains and losses, considered not other-than-temporary, 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. Declines in the fair value of available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In determining whether other-than-temporary impairment (OTTI) losses exist, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the positive intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value (see Note 4). Realized gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Loans:

Loans that management has 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 allowance for loans losses, 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 constant yield method.

The accrual of interest on mortgage and commercial 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. Credit card loans and other personal 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For loans that are placed on non-accrual 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 allowance for loan losses. The interest on these loans is accounted for on the cash-basis or cost-recovery method, 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 allowance for loan losses 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 management believes the uncollectibility of the loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management s periodic review of the collectibility 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 allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as either doubtful, substandard or special mention. For such loans that are also classified as impaired, 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 management believes affect its 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.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstance surrounding the loan and the borrower, including the length of the delay, the reason for the delay, the borrower s prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and commercial real estate loans 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 if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Corporation does not separately identify individual consumer and residential loans for impairment disclosures.

Loans Held for Sale:

Mortgage loans originated and intended for sale in 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, are recognized through a valuation allowance by charges to income.

Mortgage loans held for sale can be sold with the mortgage servicing rights retained by the Bank or sold to the investor. 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Transfers of Financial Assets:

Transfers of financial assets, including held for sale mortgage loans, as described above, 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 isolated from the Bank, 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) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Servicing:

Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. The Corporation has no purchased servicing rights. For sales of mortgage loans, a portion of the cost of originating the 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 the Corporation later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income. Capitalized servicing rights are reported in other assets and are amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

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. The amortization of mortgage servicing rights is netted against loan servicing fee income, a component of noninterest income.

Loans Acquired Through Transfer:

American Institute of Certified Public Accountants Statement of Position (SOP) 03-3 requires that a valuation allowance for loans acquired in a transfer, including in a business combination, reflect only losses incurred after acquisition, and should not be recorded at acquisition. It applies to any loan acquired in a transfer that shows evidence of credit quality deterioration since it was originated. The effect on results of operations and financial position of the Corporation s acquisition of the allowance for loan losses carried over from Farwell State Savings Bank (Farwell) (see Note 2) was not material in 2006 due to the limited number of troubled loans held by Farwell. Included in the fair value adjustments of nonintangible net assets acquired from Greenville Community Financial Corporation (GCFC), was a reduction in the allowance for loan losses of $437. The $437 represented the identified impairments in GCFC s loan portfolio as of December 31, 2007 (see Note 2).

Foreclosed Assets:

Assets acquired through, or in lieu, of loan foreclosure are initially recorded at the lower of the Bank s 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 allowance for loan losses. 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. Valuations are

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

periodically performed by management, 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 the Bank s carrying amount or fair value less costs to sell. Foreclosed assets of $2,923 and $1,376 are included in Other Assets on the accompanying consolidated balance sheets at December 31, 2008 and 2007, respectively.

Off-Balance-Sheet Credit Related Financial Instruments:

In the ordinary course of business, the Corporation has 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.

Premises and Equipment:

Land is carried at cost. Buildings and equipment are carried at cost less accumulated depreciation. Depreciation is computed principally by the straight line method based upon the useful lives of the assets which generally range from 5 to 30 years. Maintenance, repairs and minor alterations are charged to current operations as expenditures occur and major improvements are capitalized.

Equity Securities Without Readily Determinable Fair Values:

Included in equity securities without readily determinable fair values are restricted securities of $9,340 in 2008 and $6,253 in 2007. Restricted securities include stock of the Federal Reserve Bank and the Federal Home Loan Bank, which are carried at cost and have no contractual maturity. Also included as of December 31, 2008 is the Corporation s investment in CT/IBT Title Agency, LLC, which was $6,905 at that date (see Note 2 Business Combinations and Joint Venture Formation).

Stock Compensation Plans:

In accordance with Statement of Financial Accounting Standard (SFAS) No. 123(revised 2004), *Share-Based Payment* , compensation costs relating to share-based payment transactions are recognized in the financial statements and the cost is measured based on the fair value of the equity or liability instruments issued. SFAS No. 123(R) covers a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. Compensation expense is based on the fair value of the awards, which is generally the market price of the stock on the measurement date and is recognized ratably over the service period of the award, which is usually the vesting period.

SFAS 123(R) applies to new awards and awards modified, repurchased, or cancelled after January 1, 2006. Compensation cost related to the non-vested portion of the awards outstanding as of December 31, 2005 was based on the grant date fair value of those awards as calculated under the original provisions of SFAS No. 123; that is, the Corporation was not required to re-measure the grant date fair value estimate of the unvested portion of awards granted prior to the effective date of SFAS No. 123(R).

Corporate Owned Life Insurance:

The Corporation has purchased life insurance policies on key members of management. In the event of death of one of these individuals, the Corporation 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.

Emerging Issues Task Force (EITF) Issue No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements,* ratified by the FASB in September, 2006, requires that policyholders recognize a liability for any postretirement benefits provided through

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the Corporation s program. As of December 31, 2008, the present value of the nature and amount of post retirement benefits promised by the Corporation to the covered employees is estimated to be $2,460. The periodic policy maintenance costs were $85 for 2008.

Acquisition Intangibles and Goodwill:

Isabella Bank previously acquired branch facilities and related deposits in business combinations accounted for as a purchase. During October 2006, Isabella Bank Corporation acquired Farwell State Savings Bank (Farwell) resulting in identified core deposit intangibles and goodwill (see Note 2). On January 1, 2008, Isabella Bank acquired Greenville Community Financial Corporation (GCFC) resulting in identified core deposit intangibles and goodwill (see Note 2). The acquisition of the branches included amounts related to the valuation of customer deposit relationships (core deposit intangibles). Such core deposit intangibles are included in other assets and are being amortized on the straight line basis over nine years. Core deposit intangibles arising from the acquisition of Farwell are being amortized on a 10 year sum-of-year s digits amortization schedule. Core deposit intangibles arising from the acquisition of GCFC are being amortized on a 15 year sum-of-year s digits amortization schedule. Goodwill is included in other assets and is not amortized but is evaluated for impairment at least annually, or on an interim basis if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below the carrying value.

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 bases on the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

Advertising Costs:

Advertising costs are expensed as incurred (see Note 11).

Computation of Earnings Per Share:

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares issued during the period, which includes shares held in the Rabbi Trust controlled by the Corporation (see Note 17). Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustments to income that would result from the assumed issuance. Potential common shares that may be issued by the Corporation relate solely to outstanding shares in the Corporation s Deferred Director fee plan (see Note 17).

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

	2008	**2007**	**2006**
Average number of common shares issued*	7,492,677	6,973,508	6,269,465
Effect of shares in the Deferred Director fee plan*	184,473	197,055	181,280

Average number of common shares outstanding used to calculate diluted earnings per common share	7,677,150	7,170,563	6,450,745
Net Income	$ 4,101	$ 7,930	$ 7,001
Earnings per share			
Basic	$ 0.55	$ 1.14	$ 1.12
Diluted	$ 0.53	$ 1.11	$ 1.09

* As adjusted for the 10% stock dividend paid February 29, 2008

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Reclassifications:

Certain amounts reported in the 2007 and 2006 consolidated financial statements have been reclassified to conform with the 2008 presentation.

Recent Accounting Pronouncements:

In September of 2006, EITF Issue No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*, was ratified by the Financial Accounting Standards Board (FASB). The EITF reached a consensus that for an endorsement split-dollar life insurance arrangement within the scope of this Issue, an employer should recognize a liability for future benefits. The Corporation has purchased corporation-owned life insurance on certain of its employees. The cash surrender value of these policies is carried as an asset on the consolidated balance sheets. These life insurance policies are generally subject to endorsement split-dollar life insurance arrangements. These arrangements were designed to provide a pre-and postretirement benefit for senior officers of the Corporation. The Corporation adopted EITF Issue No. 06-4 effective January 1, 2008 and as a result recorded an initial liability of $2,375. To establish this liability, the Corporation recorded a one time charge of $1,571, net of tax, directly to retained earnings at that date.

On March 19, 2008, the FASB issued Statement of Financial Accounting Standards No. 161 (SFAS No. 161) *Disclosures about Derivative Instruments and Hedging Activities.* The objective of SFAS No. 161 is to enhance disclosures about an entity s derivative and hedging activities and thereby improve the transparency of financial reporting. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008 and is not expected to have a significant impact on the Corporation s consolidated financial statements.

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162 (SFAS No. 162) *The Hierarchy of Generally Accepted Accounting Principles.* The objective of SFAS No. 162 is to identify the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). SFAS No. 162 is effective 60 days following the SEC s approval of the Public Company Accounting