ISABELLA BANK CORP
Form DEF 14A
March 20, 2017
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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 ý Filed by a Party other than the Registrant ¨
Check the appropriate box:

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

ISABELLA BANK CORPORATION
(Name of Registrant as Specified In Its Charter)
(Name of Person(s) Filing Proxy Statement, if other than the Registrant)
Payment of Filing Fee (Check the appropriate box):

ý No fee required.
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ISABELLA BANK CORPORATION
401 N. Main St.
Mt. Pleasant, Michigan 48858
NOTICE OF THE ANNUAL MEETING OF SHAREHOLDERS
To Be Held May 2, 2017

Notice is hereby given that the Annual Meeting of Shareholders of Isabella Bank Corporation will be held on Tuesday, May 2, 2017 at 5:00 p.m. Eastern Daylight Time, at the Comfort Inn Conference Center, 2424 S. Mission Street, Mt. Pleasant, Michigan. The meeting is for the purpose of considering and acting upon the following items of business:

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

The Board of Directors has fixed March 6, 2017 as the record date for determination of shareholders entitled to notice of, and to vote at, the meeting or any adjournments thereof.
By order of the Board of Directors
Debra Campbell, Secretary
Dated: March 20, 2017

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

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

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

PROXY STATEMENT

General Information

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

This Proxy Statement is furnished in connection with the solicitation of proxies, to be voted at our Annual Meeting of Shareholders (the “Annual Meeting”) which is to be held on Tuesday, May 2, 2017 at 5:00 p.m. at the Comfort Inn Conference Center, 2424 S. Mission Street, Mt. Pleasant, Michigan, or at any adjournment or adjournments thereof, for the purposes set forth in the accompanying Notice of the Annual Meeting of Shareholders and in this Proxy Statement.

This Proxy Statement has been mailed on March 20, 2017 to all holders of record of common stock as of the record date. If a shareholder’s shares are held in the name of a broker, bank, or other nominee, then that party should give the shareholder instructions for voting the shareholder’s shares.

Voting at the Meeting

We have fixed the close of business on March 6, 2017 as the record date for the determination of shareholders entitled to notice of, and to vote at, the Annual Meeting and any adjournment thereof. We have only one class of common stock and no preferred stock. As of March 6, 2017, there were 7,832,108 shares of stock outstanding. Each outstanding share entitles the holder thereof to one vote on each separate matter presented for vote at the meeting. You may vote on matters that are properly presented at the Annual Meeting by attending the meeting and casting a vote, signing and returning the enclosed proxy, voting on the internet, or voting by phone. You may change your vote or revoke your proxy at any time before it is voted at the Annual Meeting by filing with the Corporation an instrument revoking it, filing a duly executed proxy bearing a later date (including a proxy given over the internet or by phone) or by attending the meeting and electing to vote in person. You are encouraged to vote by mail, internet, or phone.

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

Your broker may not vote on Proposals 1-3 if you do not furnish instructions for such proposals. You should use the voting instruction card provided by us to instruct the broker to vote the shares, or else your shares will be considered “broker non-votes.” Broker non-votes are shares held by brokers or nominees as to which voting instructions have not been received from the shares’ beneficial owner or the individual entitled to vote those shares and the broker or nominee does not have discretionary voting power under rules applicable to broker-dealers. Under these rules, Proposals 1-3 are not items on which brokerage firms may vote in their discretion on your behalf unless you have furnished voting instructions.

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

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

In voting on the advisory, non-binding proposal to approve the frequency of the advisory vote on executive compensation described in this proxy statement, a shareholder may vote for one year, two years or three years or may abstain from voting. The option of one year, two years or three years that receives a plurality of votes cast by shareholders will be the frequency for the advisory vote on executive compensation that has been selected by shareholders. While this vote is also required by law, it will neither be binding on the Board of Directors, nor will it create or imply any change in the fiduciary duties of, or impose any additional fiduciary duty on the Board of Directors. In counting votes on the advisory, non-binding proposal to approve the

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frequency of the advisory vote on executive compensation, abstentions and broker non-votes will have no effect on the outcome of the vote.

Proposal 1 - Election of Directors

The Board of Directors (the "Board") currently consists of twelve (12) members divided into three classes, with the directors in each class being elected for a term of three years. At the Annual Meeting, Dr. Jeffrey J. Barnes, G. Charles Hubscher, David J. Maness, and W. Joseph Manifold, whose terms expire at the Annual Meeting, have been nominated for election to serve through the 2020 Annual Meeting.

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

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

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

Director Qualifications

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

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

Each nominee and current director possesses these qualities and provides a diverse complement of specific business skills and experience.

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

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

W. Michael McGuire							
Sarah R. Opperman	X	X	X	X	X		X
Gregory V. Varner	X	X	X		X	X	

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

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

C — Chairperson
O — Ex-Officio

Director Nominees for Terms Ending in 2020

Dr. Jeffrey J. Barnes (age 55) has been a director of the Bank since 2007 and of Isabella Bank Corporation since 2010. Dr. Barnes is a physician and shareholder in LO Eye Care PC. He is a former member of the Central Michigan Community Hospital Board of Directors.

G. Charles Hubscher (age 63) has been a director of the Bank since 2004 and of Isabella Bank Corporation since 2010. Mr. Hubscher is President of Hubscher and Son, Inc., a sand and gravel producer. He is a former director of the National Stone and Gravel Association, the Michigan Aggregates Association, serves on the Board of Trustees for the Mt. Pleasant Area Community Foundation, and is a member of the Zoning Board of Appeals for Deerfield Township.

David J. Maness (age 63) has been a director of the Bank since 2003 and of Isabella Bank Corporation since 2004. Mr. Maness has served as Chairman of the Board for the Corporation and the Bank since 2010. He is President of Maness Petroleum, a geological and geophysical consulting services company. Mr. Maness is currently serving as a director for the Michigan Oil & Gas Association, and he previously served on the Mt. Pleasant Public Schools Board of Education.

W. Joseph Manifold (age 65) has been a director of Isabella Bank Corporation since 2003 and of the Bank since 2010. Mr. Manifold retired as CFO of Federal Broach Holdings LLC, a holding company which operates several manufacturing companies. Previously, he was a senior manager with Ernst & Young Certified Public Accounting firm working principally on external bank audits and was CFO of the Delfield Company. Prior to joining the Board, Mr. Manifold served on the Isabella Community Credit Union Board and was President of the Mt. Pleasant Public Schools Board of Education.

Current Directors with Terms Ending in 2018

Dennis P. Angner (age 61) has been a director of Isabella Bank Corporation and the Bank since 2000. Mr. Angner has been principally employed by the Corporation since 1984 and has served as President of Isabella Bank Corporation since December 30, 2001 and CFO since January 1, 2010. Mr. Angner served as Chief Executive Officer of Isabella Bank Corporation from December 30, 2001 through December 31, 2009. He is a past Chair of the Michigan Bankers Association and is currently serving as Chairman of its taxation committee, is a member of the American Bankers Association Government Relations Council, and served on the Central Michigan American Red Cross Board for over 20 years.

Richard J. Barz (age 68) has been a director of the Bank since 2000 and of Isabella Bank Corporation since 2002. Mr. Barz retired as Chief Executive Officer of Isabella Bank Corporation on December 31, 2013 after over 41 years of service with the Corporation. Mr. Barz was Chief Executive Officer of Isabella Bank Corporation from 2010 to 2013 and President and Chief Executive Officer of the Bank from 2001 to July 2012. Mr. Barz has been very active in community organizations and events. He is a past Chairman of the Central Michigan Community Hospital Board of Directors, is the current Chairman of the Middle Michigan Development Corporation Board of Directors, and serves on several boards and committees for Central Michigan University and various volunteer organizations throughout mid-Michigan.

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Jae A. Evans (age 60) was appointed a director of Isabella Bank Corporation and the Bank and elected Chief Executive Officer of Isabella Bank Corporation effective January 1, 2014. Mr. Evans has been employed by the Corporation since 2008 and has over 40 years of banking experience. He served as Chief Operations Officer of the Bank from June 2011 to December 31, 2013 and President of the Greenville Division of the Bank from January 1, 2008 to June 2011. Mr. Evans currently serves as a board member for The Community Bankers of Michigan, Art Reach of Mid Michigan, McLaren Central Michigan, is an incoming board member of the Central Michigan University Advancement Board, and is the Chair of the EightCAP, Inc. governing board. Mr. Evans is also past Vice Chair of the Carson City Hospital, was president of the Greenville Rotary Club, and past Chair of The Community Bankers of Michigan.

W. Michael McGuire (age 67) has been a director of Isabella Bank Corporation since 2007 and of the Bank since January 1, 2010. Mr. McGuire, an attorney, retired in August 2013 as the Director of the Office of the Corporate Secretary and Assistant Secretary of The Dow Chemical Company, a manufacturer of chemicals, plastics and agricultural products, headquartered in Midland, Michigan.

Current Directors with Terms Ending in 2019

Thomas L. Kleinhardt (age 62) has been a director of the Bank since 1998 and of Isabella Bank Corporation since 2010. Mr. Kleinhardt is President of McGuire Chevrolet, active in the Clare Kiwanis Club, and the former coach of the girls Varsity Basketball team for both Farwell High School and Clare High School.

Joseph LaFramboise (age 67) has been a director of the Bank since 2007 and of Isabella Bank Corporation since 2010. He is a retired Sales and Marketing Executive of Ford Motor Company. Mr. LaFramboise is an Ambassador of Eagle Village in Evart, Michigan.

Sarah R. Opperman (age 57) has been a director of the Bank and Isabella Bank Corporation since 2012. Ms. Opperman is the owner of Opperman Consulting, LLC. She previously was employed for 28 years by The Dow Chemical Company, where she held leadership roles in public and government affairs. Ms. Opperman is a member of the Central Michigan University Advancement Board. She also is Chair of the MidMichigan Health Foundation and serves as Treasurer on the United Way of Midland County Board.

Gregory V. Varner (age 62) was appointed to the Boards of the Corporation and the Bank on August 26, 2015. Mr. Varner is the Research Director for the Michigan Bean Commission and currently serves as the Chair for the Breckenridge Division Board of the Bank. He received a Bachelor of Science in Agricultural Education and a Master of Science in Crop Science from Michigan State University.

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

Other Named Executive Officers

Jerome E. Schwind (age 50), President and Chief Operating Officer of the Bank, has been employed by the Bank since 1999. David J. Reetz (age 56), Senior Vice President and Chief Lending Officer of the Bank, has been employed by the Bank since 1987. Peggy L. Wheeler (age 57), Senior Vice President of Operations of the Bank, has been employed by the Bank since 1977.

All officers serve at the pleasure of the Board.

Proposal 2 - Advisory Vote on Executive Compensation

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

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

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

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

- Each member of the Compensation and Human Resource Committee is independent under the NASDAQ listing requirements;
- The Compensation and Human Resource Committee continually monitors the Corporation's performance and adjusts compensation practices accordingly; and
- The Compensation and Human Resource Committee regularly assesses the Corporation's individual and total compensation programs against peer companies, the general marketplace and other industry data points.

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

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

Proposal 3 - Frequency of Advisory Votes On Executive Compensation

In accordance with Section 14A of the Exchange Act, the Corporation is providing a shareholder advisory vote to approve the compensation of our named executive officers (the say-on-pay advisory vote in Proposal 2 above) this year and will do so at least once every three years thereafter. Pursuant to Section 14A of the Exchange Act, at the 2017 Annual Meeting, the Corporation is also asking shareholders to vote on whether future say-on-pay advisory votes on executive compensation should occur every year, every two years or every three years.

After careful consideration, the Board of Directors recommends that future shareholder say-on-pay advisory votes on executive compensation be conducted every three years.

Although the Board of Directors recommends a say-on-pay vote every three years, shareholders will be able to specify one of four choices for this proposal on the proxy card: one year, two years, three years or abstain. Shareholders are not voting to approve or disapprove the Board of Directors' recommendation. Although this advisory vote regarding the frequency of say-on-pay votes is non-binding on the Board of Directors, the Board of Directors and the Compensation and Human Resource Committee will review the voting results and take them into consideration when deciding how often to conduct future say-on-pay shareholder advisory votes.

Unless otherwise instructed, validly executed proxies will be voted "FOR" the Three Year frequency option.

We unanimously recommend that you vote FOR the Three Year frequency option.

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Corporate Governance

Director Independence

We have adopted the director independence standards as defined under of the NASDAQ listing requirements. We have determined that Dr. Jeffrey J. Barnes, Richard J. Barz, G. Charles Hubscher, Thomas L. Kleinhardt, Joseph LaFramboise, David J. Maness, W. Joseph Manifold, W. Michael McGuire, Sarah R. Opperman, and Gregory V. Varner are independent directors. Jae A. Evans is not independent as he is employed as CEO of Isabella Bank Corporation. Dennis P. Angner is not independent as he is employed as President and CFO of Isabella Bank Corporation.

Board Leadership Structure and Risk Oversight

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

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

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

Committees of the Board of Directors and Meeting Attendance

The Board met 13 times during 2016 and all incumbent directors attended 75% or more of the meetings for which they were a member. The Board has an Audit Committee, a Nominating and Corporate Governance Committee, a Compensation and Human Resource Committee, and an Information Technology Committee.

Audit Committee

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

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

Nominating and Corporate Governance Committee

We have a standing Nominating and Corporate Governance Committee consisting of independent directors Barnes, Hubscher, Maness (ex-officio), and McGuire. The Nominating and Corporate Governance Committee held two meetings in 2016, with all committee members attending each meeting for which they were a member. The Board has approved a Nominating and Corporate Governance Committee Charter which is available on the Bank's website: www.isabellabank.com.

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

The Nominating and Corporate Governance Committee will consider, as potential nominees, persons recommended by shareholders. Recommendations should be submitted in writing to the Secretary of the Corporation, 401 N. Main

St., Mt. Pleasant, Michigan 48858 and include the shareholder's name, address and number of shares of the Corporation owned by the

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shareholder. The recommendation should also include the name, age, address and qualifications of the candidate. Recommendations for the 2018 Annual Meeting of Shareholders should be delivered no later than November 20, 2017. The Nominating and Corporate Governance Committee evaluates all potential director nominees in the same manner, whether the nominations are received from a shareholder, or otherwise.

Compensation and Human Resource Committee

The Compensation and Human Resource Committee is responsible for reviewing and recommending to the Board the compensation of the Chief Executive Officer and other executive officers, benefit plans, and the overall percentage increase in salaries. This Committee consists of independent directors Barnes, Barz, Hubscher, Kleinhardt, LaFramboise, Maness, Manifold, McGuire, Opperman, and Varner. The Compensation and Human Resource Committee held two meetings during 2016 with all committee members in attendance for which they were a member. This Committee is governed by a written charter approved by the Board that is available on the Bank’s website: www.isabellabank.com.

Information Technology Committee

The Information Technology Committee is responsible for reviewing and monitoring information technology risks. Oversight includes customer data, physical and information security, disaster planning, equipment and programs, and the related audit process. This Committee consists of directors Angner, Evans, LaFramboise, Maness (ex-officio), Manifold, and McGuire. The Information Technology Committee held three meetings during 2016 and all committee members attended 75% or more of the meetings for which they were a member.

Communications with the Board

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

Code of Ethics

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

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Audit Committee Report

The Audit Committee oversees the financial reporting process on behalf of the Board. The 2016 Audit Committee consisted of directors Kleinhardt, LaFramboise, Maness (ex-officio), Manifold, McGuire, and Opperman.

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

Management has the primary responsibility for the consolidated financial statements and the reporting process including the systems of internal controls. In fulfilling its oversight responsibilities, the Audit Committee reviewed the audited consolidated financial statements in the Annual Report with management including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in the consolidated financial statements. The Audit Committee also reviewed with management and the independent auditors, management's assertion on the design and effectiveness of our internal control over financial reporting as of December 31, 2016.

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

The Audit Committee discussed with our internal and independent auditors the overall scope and plans for their respective audits. The Audit Committee meets with the internal and external independent auditors, with and without management present, to discuss the results of their examinations, their evaluations of our internal controls, and the overall quality of our financial reporting process. The Audit Committee held five meetings during 2016, and all committee members attended 75% or more of the meetings for which they were a member.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors (and the Board has approved) that the audited consolidated financial statements be included in the Annual Report on Form 10-K for the year ended December 31, 2016 for filing with the Securities and Exchange Commission.

The Audit Committee has appointed Rehmann Robson LLC as the independent auditors for the 2017 audit.

Respectfully submitted,

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

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Compensation Discussion and Analysis

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

Compensation Objectives

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

What the Compensation Programs are Designed to Reward

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

Review of Risks Associated with Compensation Plans

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

Use of Consultants

In 2016 and 2014, the Compensation and Human Resource Committee directly engaged the services of Blanchard Consulting Group, an independent compensation consulting firm, to assist with a total compensation review for the CEO, President and CFO, Bank President, and executive officers of the Corporation. Blanchard Consulting Group does not perform any additional services for us or any members of senior management. In addition, Blanchard Consulting Group does not have any other personal or business relationships with any Board members or officers. During 2015, the Compensation and Human Resource Committee did not employ any services of outside compensation or benefit consultants to assist it in compensation related initiatives.

Elements of Compensation

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

How Elements Fit into Overall Compensation Objectives

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

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

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

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

The Compensation and Human Resource Committee's approach to determining the annual base salary of executive officers is to offer competitive salaries in comparison with other similar financial institutions. In 2016 and 2014, this Committee utilized both an independent compensation consultant, Blanchard Consulting Group, and a survey prepared by the Michigan Bankers Association of similar sized Michigan based financial institutions. The independent compensation consultant established a benchmark peer group of 25 midwest financial institutions in non-urban areas with comparable average assets size ($1.2 billion—$3 billion), number of branch locations, return on average assets, and nonperforming assets. The Michigan Bankers Association 2016 compensation survey was based on the compensation information provided by these organizations for 2015. Specific factors used to decide where an executive officer's salary should be within the established range include the historical financial performance, financial performance outlook, years of service, and job performance. The Compensation and Human Resource Committee targeted total compensation for the CEO, the President & CFO, and Bank President using ranges obtained from the independent compensation consultant, the Michigan Bankers Association compensation survey as well as other published surveys and resources. Compensation for other named executive officers was based on the ranges provided by the Michigan Bankers Association survey. The Michigan Bankers Association survey was utilized in 2015 as well.

Annual Performance Incentives are used to reward executive officers based on our overall financial performance. This element of the compensation program is included in the overall compensation in order to reward employees above and beyond their base salaries when our performance and profitability exceed established annual targets. The inclusion of this modest incentive encourages management to be diligent in managing to achieve specific financial goals without incurring inordinate risks. Annual performance incentives paid in 2016 were determined by reference to four performance measures that related to services performed in 2015. The maximum cash award that may be granted to each eligible employee equals 10% of the employee's base salary (the "Maximum Award").

The payment of 35% of the 10% Maximum Award ("personal performance goals") is based on the achievement of goals set for each individual. An analysis is conducted by the CEO. The CEO makes a recommendation to the Compensation and Human Resource Committee for the appropriate amount for each individual executive officer. This Committee reviews, modifies if necessary, and approves the recommendations of the CEO. This Committee also reviews the performance of the CEO.

The Compensation and Human Resource Committee uses the following quantitative and qualitative factors as measures of corporate performance in determining annual cash bonus amounts to be paid:

- Development and implementation of strategic initiatives;
- Results of actual annual operating performance as compared to budget;
- Community and industry involvement;
- Results of audit and regulatory exams; and
- Other strategic goals as established by the Board.

Each of the executive officers who were eligible to participate in 2015 accomplished their personal performance goals and were accordingly paid 35% of the 2015 Maximum Award in 2016.

The payment of the remaining 65% of the 10% Maximum Award ("corporate performance goals") was conditioned on the achievement of targets in the following four categories:

- Earnings per share (weighted 40%);
- Net operating expenses to average assets (weighted 20%);
- In market deposit growth (weighted 20%); and
- Loan growth (weighted 20%).

The following chart provides the 2015 target for each corporate performance goal and the performance attained for each target.

Target	2015 Targets 25.00%	50.00%	75.00%	100.00%	2015 Performance (1)	Target % Obtained
Earnings per share	$1.68	$1.71	$1.73	$1.76	$ 1.95	100 %

Net operating expenses to average assets	1.70	%	1.68	%	1.66	%	1.64	%	1.66	%	75	%
In market deposit growth	3.42	%	3.67	%	3.92	%	4.17	%	0.83	%	—	%
Loan growth	4.20	%	4.45	%	4.70	%	4.95	%	1.45	%	—	%

(1) Adjusted for incentive calculation measures.

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In 2015, we adopted the stock award incentive plan, an equity-based bonus plan. Under the plan, we may award stock bonuses to the CEO, President and CFO, and the Bank’s president. The plan authorizes the issuance of vested stock to eligible employees worth up to 10% of the employee’s annualized base wages, on a calendar year basis. The plan imposes several conditions on the issuance of stock awards and transfers of shares granted under the plan are restricted. The stock bonuses awarded in 2016 were determined by reference to the same four performance measures used for the annual performance incentives that related to 2015 results and also the achievement of personal goals.

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

We also provide our executive officers with certain additional perquisites, which we believe are appropriate in order to attract and retain the proper quality of talent for these positions and to recognize that similar executive perquisites are commonly offered by comparable financial institutions. We maintain a plan for qualified officers to provide death benefits to each participant which was amended in 2015 to modify certain participants' benefits and to update certain plan provisions. Insurance policies, designed primarily to fund death benefits, have been purchased on the life of each participant with the Bank as the sole owner and beneficiary of the policies. We believe that perquisites provided to our executive officers in 2016 represented a reasonable percentage of each executive’s total compensation package and are consistent, in the aggregate, with perquisites provided to executive officers of comparable financial institutions. A description and the cost of these perquisites are included in footnote 2 in the “Summary Compensation Table” appearing on page 13, the table outlining the change in pension value on page 14, and the “Nonqualified Deferred Compensation Table” appearing on page 15.

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

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

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

Our non-leveraged ESOP was frozen effective December 31, 2006 to new participants. Contributions to the plan are discretionary and approved by the Board. On December 21, 2016, the Board approved the termination of the ESOP effective December 31, 2016. Actual dissolution of the ESOP is anticipated to occur in mid-2017.

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

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

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Compensation and Human Resource Committee Report

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

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

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

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

* While Mr. Barz is an independent director and member of the Compensation and Human Resource Committee, he did not participate in the Compensation and Human Resource Committee review, discussion or recommendation with respect to matters covered by the Compensation and Human Resource Committee's report in this Proxy Statement because he did not become a member of the Committee until January of 2017.

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Executive Officers

Executive officers are compensated in accordance with their employment with the applicable entity. The following table shows information on compensation earned in each of the last three fiscal years ended December 31, 2016, for the CEO, CFO, and our three other most highly compensated executive officers.

Summary Compensation Table

Name and principal position	Year	Salary ($)(1)(5)	Bonus ($)	Stock Awards ($)	Change in pension value and nonqualified deferred compensation earnings ($)(6)	All other compensation ($)(2)	Total ($)
Jae A. Evans	2016	$364,473	$21,225	$13,225	$ 89,556	$ 48,015	$536,494
CEO	2015	327,548	17,894	—	77,800	40,629	463,871
Isabella Bank Corporation	2014	302,472	10,698	—	65,000	36,703	414,873
Dennis P. Angner (3)	2016	$360,722	$21,791	$13,572	$ (525,749)	$ 31,509	$(98,155)
President and CFO	2015	353,956	20,818	—	85,541	30,014	490,329
Isabella Bank Corporation	2014	365,542	19,809	—	259,016	26,582	670,949
Jerome E. Schwind	2016	$270,832	$14,943	$—	$ 20,532	$ 31,466	$337,773
President and COO	2015	217,992	13,839	—	(2,000)	31,484	261,315
Isabella Bank	2014	219,176	9,316	—	16,000	28,766	273,258
David J. Reetz	2016	$160,166	$10,642	$—	$ 41,777	$ 25,497	$238,082
Sr. Vice President and CLO	2015	155,501	10,082	—	17,417	22,747	205,747
Isabella Bank	2014	155,088	8,981	—	90,237	17,639	271,945
Peggy L. Wheeler (4)	2016	$138,020	$9,481	$—	$ 29,518	$ 14,635	$191,654
Sr. Vice President of Operations	2015	126,395	8,119	—	9,015	14,762	158,291
Isabella Bank							

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

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

(3) Changes in pension value and nonqualified deferred compensation earnings in 2016 are the result of execution of domestic relations order for former spouse.

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

(5) Executive officer salary includes compensation voluntarily deferred under our 401(k) plan. Director and advisory board fees are also included and are displayed in the following table for each the last three fiscal years ended December 31, 2016:

Name	Director and advisory board fees ($) 2016	2015	2014
Jae A. Evans	$27,550	$27,550	$27,300
Dennis P. Angner	43,475	45,950	45,700
Jerome E. Schwind	23,500	—	—
David J. Reetz	—	—	—

Peggy L. Wheeler	—	—	—

(6) Included in the change in pension value and nonqualified deferred compensation earnings is the aggregate non-cash change in the actuarial present value of the noted executive’s accumulated benefit under the Isabella Bank Corporation Pension Plan, the non-cash change in the Isabella Bank Corporation Retirement Bonus Plan, and the non-cash change in the Isabella Bank Corporation Supplemental Executive Retirement Plan ("SERP"). The following table provides the change in

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values for the last three fiscal years ended December 31, 2016:

	Pension plan ($)			Retirement plan ($)			SERP plan ($)		
Name	2016	2015	2014	2016	2015	2014	2016	2015	2014
Jae A. Evans (1)	$ —	$ —	$ —	$ —	$ —	—	$89,556	$77,800	$65,000
Dennis P. Angner (2)	(304,000)	(10,000)	173,000	(221,074)	14,541	86,016	—	—	—
Jerome E. Schwind	3,000	(2,000)	16,000	7,332	—	—	10,200	—	—
David J. Reetz	13,000	(9,000)	66,000	28,776	26,417	24,237	—	—	—
Peggy L. Wheeler	11,000	(8,000)	—	18,517	18,015	—	—	—	—

(1) Jae A. Evans' employment began in 2008 which makes him ineligible for both the pension plan and retirement bonus plan.

(2) Changes in pension plan and retirement plan values during 2016 are the result of execution of domestic relations order for former spouse.

Grants of Plan-Based Awards Table

The following table provides information on grants of plan-based awards under the stock award incentive plan during 2016:

Name	Grant date	Number of shares of stock awarded	Grant date fair value of stock awards
Jae A. Evans	3/24/2016	482	$13,225
Dennis P. Angner	3/24/2016	494	13,572

Options Exercised and Stock Vested Table

The following table provides information on vested shares pursuant to the stock award incentive plan as of December 31, 2016:

Name	Number of shares acquired on vesting	Value Realized on Vesting
Jae A. Evans	482	$ 13,225
Dennis P. Angner	494	13,572

Pension Benefits

The following table indicates the present value of accumulated benefits as of December 31, 2016 for each named executive officer in the summary compensation table.

Name	Plan name	Number of years of vesting service as of 01/01/16	Present value of accumulated benefit ($)	Payments during last fiscal year
Jae A. Evans	Isabella Bank Corporation Pension Plan	N/A	$ —	$ —
	Isabella Bank Corporation Retirement Bonus Plan	N/A	—	—
Dennis P. Angner	Isabella Bank Corporation Pension Plan	33	337,000	—
	Isabella Bank Corporation Retirement Bonus Plan	N/A	444,197	—
Jerome E. Schwind	Isabella Bank Corporation Pension Plan	18	49,000	—
	Isabella Bank Corporation Retirement Bonus Plan	N/A	—	—
David J. Reetz	Isabella Bank Corporation Pension Plan	30	225,000	—
	Isabella Bank Corporation Retirement Bonus Plan	N/A	231,336	—
Peggy L. Wheeler	Isabella Bank Corporation Pension Plan	38	194,000	—
	Isabella Bank Corporation Retirement Bonus Plan	N/A	159,172	—

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

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

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

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

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

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

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

Dennis P. Angner, David J. Reetz, and Peggy L. Wheeler are eligible for early retirement under the plan. Under the provisions of the plan, participants are eligible for early retirement upon attaining 55 years of age. There is no difference between the calculation of benefits payable upon early retirement and normal retirement.

Nonqualified Deferred Compensation Table

The following table shows information concerning non-qualified deferred compensation for 2016.

Name	Executive contributions in 2016 ($) (1)	Registrant contributions in 2016 ($) (2)	Aggregate earnings in 2016 ($) (3)	Aggregate balance at December 31, 2016 ($) (4)
Jae A. Evans	$ —	$ 85,000	$ 6,508	$ 289,065
Dennis P. Angner	21,738	—	8,655	255,914
Jerome E. Schwind	23,500	10,000	967	40,870
David J. Reetz	—	—	—	—
Peggy L. Wheeler	—	—	—	—

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

(2) The amounts shown in this column are the amounts we contributed to the officers' account under the SERP. These amounts are not included in the Summary Compensation Table.

(3)

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

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

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

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

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

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

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Potential Payments Upon Termination or Change in Control

The estimated amounts payable to each named executive officer upon severance from employment, retirement, termination upon death or disability or termination following a change in control are described below. For all termination scenarios, the amounts assume such termination took place as of December 31, 2016.

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.
- Amounts vested through the Stock Award Incentive Plan.
- Unused vacation pay.

Retirement

In the event of the retirement of an executive officer, the officer would receive the benefits identified above.

Death or Disability

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

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

Name	While an Active Employee	Subsequent to Retirement
Jae A. Evans	$ 673,846	$ 336,923
Dennis P. Angner	634,494	317,247
Jerome E. Schwind	494,664	247,332
David J. Reetz	320,332	160,166
Peggy L. Wheeler	276,040	138,020

Change in Control

We currently do not have a change in control agreement with any of the executive officers; provided, however, pursuant to the Retirement Bonus Plan each participant would become 100% vested in their benefit under the plan if, following a change in control, they voluntarily terminate employment or are terminated without just cause. Similarly, under the SERP each participant would become 100% vested in their SERP account upon a change in control. Also, following a change in control, if a participant is involuntarily terminated without cause or voluntarily terminates for good reason all uncredited annual credits would be credited to his or her SERP account. If termination took place on December 31, 2016, that would have resulted in a credit to Jae Evans' SERP account of $232,356 and Jerome Schwind's SERP account of $10,200.

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Director Compensation

The following table summarizes the compensation of each non-employee director who served on the Board during 2016.

Name	Fees paid in cash ($)(1)	Fees deferred under Directors Plan ($)(1)	Total fees earned ($)
Dr. Jeffrey J. Barnes	$ —	$ 29,300	$ 29,300
Richard J. Barz	32,500	—	32,500
G. Charles Hubscher	—	31,425	31,425
Thomas L. Kleinhardt	—	38,150	38,150
Joseph LaFramboise	18,000	21,550	39,550
David J. Maness	26,450	26,450	52,900
W. Joseph Manifold	—	39,600	39,600
W. Michael McGuire	28,763	9,587	38,350
Sarah R. Opperman	27,637	9,213	36,850
Gregory V. Varner	—	45,400	45,400

(1) Directors electing to receive all fees in cash, resulting in no contributions to the Directors Plan, invest at least 25% of their board fees in our common stock under the DRIP Plan as described in our Directors Plan on page 15.

We paid $1,350 per board meeting plus a retainer of $10,000 to each member during 2016. Members of the Audit Committee were paid $650 per Audit Committee meeting attended. Members of the Nominating and Corporate Governance Committee were paid $350 per meeting attended. Members of the Information Technology Committee were paid $350 per meeting attended. The chairperson of the Board is paid a retainer of $35,000, the chairperson for the Audit Committee is paid a retainer of $6,000, and the vice chairperson for the Audit Committee is paid a retainer of $2,000.

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

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

We transferred $375,258 to the Rabbi Trust in 2016, which held 26,042 shares of our common stock for settlement as of December 31, 2016. As of December 31, 2016, there were 187,428 shares of stock credited to participants’ accounts, which credits are unfunded as of such date to the extent that they are in excess of the stock and cash that has been credited to the Rabbi Trust. All amounts are unsecured claims against our general assets. The net cost of this benefit was $182,325 in 2016.

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The following table displays the cumulative number of equity shares credited to the accounts of current directors pursuant to the terms of the Directors Plan as of March 6, 2017:

Name	# of shares of stock credited
Dennis P. Angner	9,189
Dr. Jeffrey J. Barnes	12,086
Richard J. Barz	—
Jae A. Evans	2,036
G. Charles Hubscher	16,795
Thomas L. Kleinhardt	24,217
Joseph LaFramboise	11,317
David J. Maness	27,556
W. Joseph Manifold	19,495
W. Michael McGuire	9,313
Sarah R. Opperman	2,415
Gregory V. Varner	7,809

Compensation and Human Resource Committee Interlocks and Insider Participation

In 2016, the Compensation and Human Resource Committee members were directors Barnes, Hubscher, Kleinhardt, LaFramboise, Maness, Manifold, McGuire, Opperman, and Varner. No executive officer of the Corporation serves on any board of directors or compensation committee of any entity that compensates any member of the Compensation and Human Resource Committee.

Indebtedness of and Transactions with Management

Certain directors and officers and members of their families were loan customers of the Bank, or have been directors or officers of corporations, members or managers of limited liability companies, or partners of partnerships which have had transactions with the Bank. In our opinion, all such transactions were made in the ordinary course of business and were substantially on the same terms, including collateral and interest rates, as those prevailing at the same time for comparable transactions with customers not related to the Bank. These transactions do not involve more than normal risk of collectability or present other unfavorable features. Total loans to these customers were approximately $3,946,000 as of December 31, 2016. We address transactions with related parties in our Code of Business Conduct and Ethics Policy. Conflicts of interest are prohibited, except under board approved guidelines.

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Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information as of March 6, 2017 as to the common stock of the Corporation owned of record or beneficially by any person who is known to the Corporation to be the beneficial owner of more than 5% of the common stock of the Corporation.

Name and Address of Owner	Amount and Nature of Beneficial Ownership (1)	Percent of Class
McGuirk Investments LLC P.O. Box 222 Mt. Pleasant, MI 48804-0222	401,684	5.13 %

(1) Beneficial ownership is defined by rules of the SEC and includes shares that the person has or shares voting or investment power over and shares that the person has a right to acquire within 60 days from March 6, 2017.

The following table sets forth certain information as of March 6, 2017 as to our common stock owned beneficially by each director and director nominee, by each named executive officer, and by all directors, director nominees and executive officers as a group.

Name of Owner	Amount and Nature of Beneficial Ownership (1)	Percent of Class
Dennis P. Angner	28,073	0.35 %
Dr. Jeffrey J. Barnes	19,072	0.24 %
Richard J. Barz	33,098	0.41 %
Jae A. Evans	12,988	0.16 %
G. Charles Hubscher	184,429	2.31 %
Thomas L. Kleinhardt	77,138	0.97 %
Joseph LaFramboise	12,638	0.16 %
David J. Maness	32,927	0.41 %
W. Joseph Manifold	24,421	0.31 %
W. Michael McGuire	106,219	1.33 %
Sarah R. Opperman	8,120	0.10 %
Gregory V. Varner	8,824	0.11 %
David J. Reetz	10,181	0.13 %
Jerome E. Schwind	3,375	0.04 %
Peggy L. Wheeler	10,385	0.13 %
All Directors, nominees and Executive Officers as a Group (15) persons	571,888	7.17 %

(1) Beneficial ownership is defined by rules of the SEC and includes shares that the person has or shares voting or investment power over and shares that the person has a right to acquire within 60 days from March 6, 2017. Totals for directors include shares of stock credited under the Directors Plan as of March 6, 2017 as disclosed in the table on page 18. Totals for named executive officer Jerome E. Schwind include shares of stock credited under the Directors Plan as of March 6, 2017 as follows: Mr. Schwind 1,101 shares. Participants in the Directors Plan have a right to acquire shares credited to their accounts upon a distributable event. A description of the Directors Plan under which these shares of stock were issued is set forth above in "Director Compensation."

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Independent Registered Public Accounting Firm

The Audit Committee has appointed Rehmann Robson LLC as our independent auditors for the year ending December 31, 2017.

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

Fees for Professional Services Provided by Rehmann Robson LLC

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

	2016	2015
Audit fees	$295,094	$286,388
Audit related fees	28,500	32,560
Tax fees	24,410	28,484
Total	$348,004	$347,432

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

The audit related fees are typically for various discussions related to the adoption and interpretation of new accounting pronouncements. During 2016, this includes fees for procedures related to nonrecurring regulatory filings. Also included are fees for auditing of our employee benefit plans.

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

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

Pre-Approval Policies and Procedures

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

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

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

Applicable SEC rules and regulations permit waiver of the pre-approval requirements for services other than audit, review or attest services if certain conditions are met. Out of the services characterized above as audit-related, tax and professional services, none were billed pursuant to these provisions in 2016 and 2015 without pre-approval.

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Shareholder Proposals
Any proposals which you intend to present at the next Annual Meeting must be received before November 20, 2017 to be considered for inclusion in our Proxy Statement and proxy for that meeting. Proposals should be made in accordance with Securities and Exchange Commission Rule 14a-8.

Directors' Attendance at the Annual Meeting of Shareholders
Our directors are encouraged to attend the Annual Meeting. At the 2016 Annual Meeting, all directors were in attendance.

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

To our knowledge, based solely on review of the copies of such reports furnished, during the year ended December 31, 2016 all Section 16(a) filing requirements were satisfied, with respect to the applicable officers, directors, and greater than 10% beneficial owners with the exception of the following: Director Opperman filed one late report for one reportable transaction and executive officer Schwind filed one late report for one reportable transaction.

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

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

By order of the Board of Directors

Debra Campbell, Secretary

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Isabella Bank Corporation
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Forward Looking Statements

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

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

AFS: Available-for-sale
ALLL: Allowance for loan and lease losses
AOCI: Accumulated other comprehensive income (loss)
ASC: FASB Accounting Standards Codification
ASU: FASB Accounting Standards Update
ATM: Automated Teller Machine
BHC Act: Bank Holding Company Act of 1956
CFPB: Consumer Financial Protection Bureau
CIK: Central Index Key
CRA: Community Reinvestment Act
DIF: Deposit Insurance Fund
DIFS: Department of Insurance and Financial Services
Directors Plan: Isabella Bank Corporation and Related Companies Deferred Compensation Plan for Directors
Dividend Reinvestment Plan: Isabella Bank Corporation Stockholder Dividend Reinvestment Plan and Employee Stock Purchase Plan
Dodd-Frank Act: Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
ESOP: Employee stock ownership plan
Exchange Act: Securities Exchange Act of 1934
FASB: Financial Accounting Standards Board
FDI Act: Federal Deposit Insurance Act
FDIC: Federal Deposit Insurance Corporation

GAAP: U.S. generally accepted accounting principles
GLB Act: Gramm-Leach-Bliley Act of 1999
IFRS: International Financial Reporting Standards
IRR: Interest rate risk
JOBS Act: Jumpstart our Business Startups Act
LIBOR: London Interbank Offered Rate
N/A: Not applicable
N/M: Not meaningful
NASDAQ: NASDAQ Stock Market Index
NASDAQ Banks: NASDAQ Bank Stock Index
NAV: Net asset value
NOW: Negotiable order of withdrawal
NSF: Non-sufficient funds
OCI: Other comprehensive income (loss)
OMSR: Originated mortgage servicing rights
OREO: Other real estate owned
OTTI: Other-than-temporary impairment
PBO: Projected benefit obligation
PCAOB: Public Company Accounting Oversight Board
Rabbi Trust: A trust established to fund the Directors Plan

FFIEC: Federal Financial Institutions Examinations Council

FRB: Federal Reserve Bank
FHLB: Federal Home Loan Bank

Freddie Mac: Federal Home Loan Mortgage Corporation

FTE: Fully taxable equivalent

SEC: U.S. Securities & Exchange Commission
SOX: Sarbanes-Oxley Act of 2002
TDR: Troubled debt restructuring
XBRL: eXtensible Business Reporting Language

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Common Stock and Dividend Information

Our authorized common stock consists of 15,000,000 shares, of which 7,821,069 shares are issued and outstanding as of December 31, 2016. As of that date, there were 3,082 shareholders of record.

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

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

	Number of Common Shares	Sale Price Low	Sale Price High
2016			
First Quarter	81,184	$27.25	$29.90
Second Quarter	47,680	27.63	28.25
Third Quarter	71,614	27.60	28.08
Fourth Quarter	53,496	27.60	28.35
	253,974		
2015			
First Quarter	81,754	$22.00	$23.50
Second Quarter	94,019	22.70	23.80
Third Quarter	143,183	22.75	23.85
Fourth Quarter	109,276	23.50	29.90
	428,232		

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

	Per Share 2016	Per Share 2015
First Quarter	$0.24	$0.23
Second Quarter	0.24	0.23
Third Quarter	0.25	0.24
Fourth Quarter	0.25	0.24
Total	$0.98	$0.94

We have adopted and publicly announced a common stock repurchase plan. The plan was last amended on December 21, 2016, to allow for the repurchase of an additional 200,000 shares of common stock after that date. These authorizations do not have expiration dates. As shares are repurchased under this plan, they are retired and revert back to the status of authorized, but unissued shares.

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The following table provides information for the unaudited three month period ended December 31, 2016, with respect to our common stock repurchase plan:

	Common Shares Repurchased		Total Number of Common Shares Purchased as Part of Publicly Announced Plan or Program	Maximum Number of Common Shares That May Yet Be Purchased Under the Plans or Programs
	Number	Average Price Per Common Share		
Balance, September 30				60,575
October 1 - 31	19,538	$ 27.79	19,538	41,037
November 1 - 30	19,821	27.80	19,821	21,216
December 1-21	11,659	28.13	11,659	9,557
Additional Authorization (200,000 shares)				209,557
December 22 - 31	9,600	28.02	9,600	199,957
Balance, December 31	60,618	$ 27.90	60,618	199,957

Information concerning securities authorized for issuance under equity compensation plans appears under Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Stock Performance

The following graph compares the cumulative total shareholder return on our common stock for the last five years with the cumulative total return on (1) NASDAQ, which is comprised of all United States common shares traded on the NASDAQ and (2) the NASDAQ Banks, which is comprised of bank and bank holding company common shares traded on the NASDAQ over the same period. The graph assumes the value of an investment in the Corporation's common stock and each index was $100 at December 31, 2011 and all dividends are reinvested.

Year	ISBA	NASDAQ	NASDAQ Banks
12/31/2011	$100.00	$ 100.00	$ 100.00
12/31/2012	95.00	117.70	118.55
12/31/2013	107.70	164.65	167.52
12/31/2014	105.60	188.87	175.58
12/31/2015	145.80	202.25	190.97
12/31/2016	140.60	220.13	262.04

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Results of Operations (Dollars in thousands except per share amounts)
The following table outlines the results of operations and provides certain key performance measures as of, and for the years ended, December 31:

	2016	2015	2014	2013	2012
INCOME STATEMENT DATA					
Interest income	$53,666	$51,502	$51,148	$50,418	$53,123
Interest expense	10,865	10,163	9,970	11,021	13,423
Net interest income	42,801	41,339	41,178	39,397	39,700
Provision for loan losses	(135)	(2,771)	(668)	1,111	2,300
Noninterest income	11,108	10,359	9,325	10,175	11,530
Noninterest expenses	37,897	36,051	35,103	33,755	34,361
Federal income tax expense	2,348	3,288	2,344	2,196	2,363
Net Income	$13,799	$15,130	$13,724	$12,510	$12,206
PER SHARE					
Basic earnings	$1.77	$1.95	$1.77	$1.63	$1.61
Diluted earnings	$1.73	$1.90	$1.74	$1.59	