ISABELLA BANK Corp
Form DEF 14A
March 28, 2018

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):

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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 8, 2018

Notice is hereby given that the Annual Meeting of Shareholders of Isabella Bank Corporation will be held on Tuesday, May 8, 2018 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 five directors.
2. To transact such other business as may properly come before the meeting, or any adjournment or adjournments thereof.

The Board of Directors has fixed March 9, 2018 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 28, 2018

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

PROXY STATEMENT

General Information

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 8, 2018 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 28, 2018 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 9, 2018 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 9, 2018, there were 7,861,737 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 Proposal 1 if you do not furnish instructions for such proposal. You should use the voting instruction card provided by us to instruct the broker to vote the shares, or else your shares will be considered “broker non-votes.” Broker non-votes are shares held by brokers or nominees as to which voting instructions have not been received from the shares’ beneficial owner or the individual entitled to vote those shares and the broker or nominee does not have discretionary voting power under rules applicable to broker-dealers. Under these rules, Proposal 1 is not an item on which brokerage firms may vote in their discretion on your behalf unless you have furnished voting instructions.

At this year’s Annual Meeting, you will elect five 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.

Proposal 1 - Election of Directors

The Board of Directors (the “Board”) currently consists of thirteen (13) members divided into three classes, with the directors in each class being elected for a term of three years. The Board decreased from 12 members to 11 with the retirement of Dennis P. Angner effective March 31, 2017 and increased from 11 members to 13 with the appointments of Jerome E. Schwind and Jill Bourland on August 24, 2017. At the Annual Meeting, Richard J. Barz, Jill Bourland, Jae A. Evans, W. Michael McGuire, and Jerome E. Schwind, whose terms expire at the Annual Meeting, have been nominated for election to serve through the 2021 Annual Meeting.

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

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

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

Director Qualifications

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

- Have extensive business leadership.
- Bring a diverse perspective and experience.
- Are 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		
Dr. Jeffrey J. Barnes	X			X	X		X				
Richard J. Barz	X	X		X	X			X		X	X
Jill Bourland	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		
W. Michael McGuire	X	X	X	X	X		X	X	X		X
	X			X	X	X	X			X	

Sarah R. Opperman									
Jerome E. Schwind	X	X	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
David J. Maness	X[o]	X[o]	X[c]
Dr. Jeffrey J. Barnes		X	X
Richard J. Barz			X
Jill Bourland	X		X
Jae A. Evans			
G. Charles Hubscher		X	X
Thomas L. Kleinhardt	X		X
Joseph LaFramboise			X
W. Joseph Manifold	X[c]		X
W. Michael McGuire	X	X[c]	X
Sarah R. Opperman	X		X
Jerome E. Schwind			
Gregory V. Varner			X

C — Chairperson
O — Ex-Officio

Director Nominees for Terms Ending in 2021

Richard J. Barz (age 69) 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, past Chairman of the Middle Michigan Development Corporation Board of Directors, and serves on several boards and committees at various volunteer organizations throughout mid-Michigan.

Jill Bourland (age 47) was appointed to the Board of Directors of Isabella Bank Corporation and the Bank on August 24, 2017. Ms. Bourland is CEO and Partner of Blystone & Bailey CPAs P.C. Ms. Bourland is a graduate of Central Michigan University and a Certified Public Accountant. She has over 25 years of audit, tax and accounting experience with a concentration in small business and affordable housing sectors. She currently serves as President of the Mt. Pleasant Area Community Foundation where she previously served as Treasurer and Chair of the Finance Committee. She is involved with the Gratiot-Isabella Technical Education Center Accounting/ Business Advisory Committee. She is also a member of the American Institute of Certified Public Accountants, Michigan Association of Certified Public Accountants and Home Builders Association.

Jae A. Evans (age 61) 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 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. He is a graduate of Central Michigan University and has over 40 years of banking experience. Mr. Evans currently serves as a board member for The Community Bankers of Michigan, McLaren Central Michigan Hospital, and the Central Michigan University Advancement Board. Mr. Evans is also past Chair of the Eightcap, Inc. Governing Board, 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 68) 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.

Jerome E. Schwind (age 51) was appointed a director of Isabella Bank Corporation on August 24, 2017 and was appointed a director of the Bank on May 25, 2017. Mr. Schwind is President of the Bank and has been employed by the Bank since 1999. He has served in various roles at the Bank including Executive Vice President and Chief Operations Officer. Mr. Schwind received his undergraduate degree from Ferris State University and his MBA from

Lake Superior State University. He is also a

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graduate of the Dale Carnegie Executive Development program, the Graduate School of Banking at the University of Wisconsin-Madison, and the Rollie Denison Leadership Institute. He currently serves as the Chair for the Middle Michigan Development Corporation, is a member of the Finance Advisory Board for the Ferris State University College of Business, member of the Michigan Bankers Association Grassroots Advocacy Committee, and the Michigan Bankers Association Board.

Current Directors with Terms Ending in 2019

Thomas L. Kleinhardt (age 63) 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 68) 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 58) 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 on the United Way of Midland County Board of Directors.

Gregory V. Varner (age 63) has been a director of the Bank and Isabella Bank Corporation since 2015. Mr. Varner is the Research Director for the Michigan Bean Commission and currently serves on the Breckenridge Division Board of the Bank. He received a Bachelor of Science in Agricultural Education and a Master of Science in Crop Science from Michigan State University.

Current Directors with Terms Ending in 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 L.O. Eye Care P.C. He is a former member of the Central Michigan Community Hospital Board of Directors.

G. Charles Hubscher (age 64) 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 64) 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 66) 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.

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

Other Named Executive Officers

Neil M. McDonnell (age 54), Chief Financial Officer of the Corporation, joined the Corporation on January 30, 2018. David J. Reetz (age 57), Senior Vice President and Chief Lending Officer of the Bank, has been employed by the Bank since 1987. Rhonda S. Tudor (age 53), Vice President and Controller of the Corporation, has been employed by the Corporation since 2015. Peggy L. Wheeler (age 58), Senior Vice President and Chief Operations Officer of the Bank, has been employed by the Bank since 1977.

All officers serve at the pleasure of the Board.

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, Jill Bourland, 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 President and CEO of Isabella Bank Corporation. Jerome E. Schwind is not independent as he is employed as President of Isabella Bank.

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, and governance. The Isabella Bank Board of Directors is responsible for overseeing credit, investment, information technology, 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 2017 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, and a Compensation and Human Resource 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 Bourland, Kleinhardt, 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 2017, 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 2019 Annual Meeting of Shareholders should be delivered no later than November 28, 2018. 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, Bourland, Hubscher, Kleinhardt, LaFramboise, Maness, Manifold, McGuire, Opperman, and Varner. The Compensation and Human Resource Committee held two meetings during 2017. With the exception of one committee member who did not attend one meeting, all committee members attended each meeting 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.

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.

Audit Committee Report

The Audit Committee oversees the financial reporting process on behalf of the Board. The 2017 Audit Committee consisted of directors Bourland, Kleinhardt, 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, 2017.

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 2017, 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, 2017 for filing with the Securities and Exchange Commission. The Audit Committee has appointed Rehmann Robson LLC as the independent auditors for the 2018 audit.

Respectfully submitted,

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

* In September 2017, as part of the Corporation's normal rotation of committee members, Ms. Bourland was appointed to the Audit Committee in place of Mr. LaFramboise. Mr. LaFramboise did not participate in the Audit Committee's review, discussion or recommendation with respect to matters covered by the Audit Committee's report in this Proxy Statement.

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 President and CEO. This Committee also evaluates and approves our executive officer and senior management compensation plans, policies, and programs. The President and CEO is responsible for determining the compensation and benefits 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 growth in loans and in market deposits (with the safety and soundness objectives), the level of net operating expenses, 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 growth and profitability. In measuring an executive officer’s contributions, the Compensation and Human Resource Committee considers numerous factors including, among other things, our growth in loans and in market deposits, management of the level of net operating expenses, and increase in earnings per share. In rewarding loyalty and long-term service, we provide competitive 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, 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 President and CEO, 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 2017 and 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. 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 value. Competitive base salary encourages management to operate in a safe and sound manner even when incentive goals may prove unattainable.

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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, this Committee utilized an independent compensation consultant, Blanchard Consulting Group. 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. 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 President and CEO using ranges obtained from the independent compensation consultant as well as other published surveys and resources. Compensation for the CFO and other named executive officers was based on the ranges provided by the other surveys and resources mentioned above.

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 incentive encourages management to be diligent in managing to achieve specific financial goals without incurring inordinate risks. Annual performance incentives paid in 2017 were determined by reference to four performance measures that related to services performed in 2016. 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. The Compensation and Human Resource Committee is responsible for establishing personal goals and measuring the achievement of personal goals for the President and CEO. This Committee also reviews the performance of the President and CEO. The President and CEO is responsible for establishing personal goals and measuring the achievement of these goals for the CFO and other named executive officers.

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 2016 accomplished their personal performance goals and were accordingly paid 35% of the 2016 Maximum Award in 2017.

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 10%);
- In market deposit average balance growth (weighted 25%); and
- Loan average balance growth (weighted 25%).

The following chart provides the 2016 target for each corporate performance goal and the performance attained for each target.

Target	2016 Targets 25.00%	50.00%	75.00%	100.00%	2016 Performance (1)	Target % Obtained
Earnings per share	$1.65	$1.67	$1.70	$1.72	$ 1.77	100.00 %
Net operating expenses to average assets	1.58 %	1.56 %	1.54 %	1.52 %	1.59 %	0.00 %
In market deposit average balance growth	5.27 %	5.52 %	5.77 %	6.02 %	5.40 %	25.00 %
Loan average balance growth	4.47 %	4.72 %	4.97 %	5.22 %	11.11 %	100.00 %

(1) Adjusted for incentive calculation measures.

We have a stock award incentive plan which is an equity-based bonus plan. Under the plan, we may award stock bonuses to the CEO, the Corporation President, and the Bank 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

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conditions on the issuance of stock awards and transfers of shares granted under the plan are restricted. The stock bonuses awarded in 2017 were determined by reference to the same four performance measures used for the annual performance incentives that related to 2016 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 paid time off 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 2017 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 to the “Summary Compensation Table,” the table outlining the change in pension value, and the “Nonqualified Deferred Compensation Table” within the “Executive Officers” section.

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-2018.

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.

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
Richard J. Barz
Jill Bourland*
G. Charles Hubscher
Thomas L. Kleinhardt
Joseph LaFramboise
W. Joseph Manifold
W. Michael McGuire
Sarah R. Opperman
Gregory V. Varner

* Ms. Bourland was appointed to the Compensation and Human Resource Committee in September 2017. As such, Ms. Bourland did not take part in establishing the compensation of the President and CEO; however, she did attend the Compensation and Human Resource Committee in December 2017 where the President and CEO's performance was reviewed.

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, 2017, 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	2017	$402,800	$27,396	$27,396	$ —	$ 45,598	$503,190
President and CEO	2016	364,473	21,225	21,225	—	48,015	454,938
Isabella Bank Corporation	2015	327,548	17,894	—	—	40,629	386,071
Dennis P. Angner (3)	2017	$173,273	$20,244	$20,244	$ 34,000	$ 10,577	$258,338
President and CFO (retired)	2016	360,722	21,791	21,791	(304,000)	31,509	131,813
Isabella Bank Corporation	2015	353,956	20,818	—	(17,000)	30,014	387,788
Jerome E. Schwind	2017	$293,417	$19,515	$19,515	$ 7,000	$ 37,081	$376,528
President	2016	278,164	14,943	—	3,000	31,466	327,573
Isabella Bank	2015	217,992	13,839	—	(2,000)	31,484	261,315
David J. Reetz	2017	$164,971	$13,023	$—	$ 28,000	$ 26,883	$232,877
Sr. Vice President and CLO	2016	160,166	10,642	—	41,777	25,497	238,082
Isabella Bank	2015	155,501	10,082	—	(9,000)	22,747	179,330
Peggy L. Wheeler	2017	$142,160	$11,223	$—	$ 24,000	$ 14,172	$191,555
Sr. Vice President and COO	2016	138,020	9,481	—	29,518	14,635	191,654
Isabella Bank	2015	126,395	8,119	—	(8,000)	14,762	141,276
Rhonda S. Tudor (4)	2017	$122,235	$9,650	$—	$ —	$ 6,649	$138,534
Vice President and Controller (4)							
Isabella Bank Corporation							

(1) Salary amounts are paid on a bi-weekly basis which typically consists of 26 regular pay cycles during the calendar year.

(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 in 2016 are the result of execution of domestic relations order for former spouse.

(4) Not a named executive officer prior to 2017. Rhonda S. Tudor served as Interim Chief Financial Officer from March 31, 2017 to January 30, 2018.

(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, 2017:

Name	Director and advisory board fees ($) 2017	2016	2015
Jae A. Evans	$27,800	$27,550	$27,550

Dennis P. Angner 14,650