

ISABELLA BANK CORPORATION
ANNUAL REPORT
2018

Our **Vision** is to be recognized as the leading independent community bank.

Mission Statement

- To provide high quality, personalized service to our customers
- To enhance shareholder value through strategic growth and profitability
- To be the employer of choice by providing equitable compensation, a positive work environment, and opportunity for advancement
- To promote economic growth, business development, and community service

Core Values

- Demonstrate unwavering integrity
- Community bank focused
- Continued stability and independence
- Exceptional customer service delivered in a personal manner

EQUAL EMPLOYMENT OPPORTUNITY

The equal employment opportunity clauses in Section 202 of the Executive Order 11246, as amended; 38 USC 4212, Vietnam Era Veterans Readjustment Act of 1974; Section 503 of the Rehabilitation Act of 1973, as amended; relative to equal employment opportunity and implementing rules and regulations of the Secretary of Labor are adhered to and supported by Isabella Bank Corporation and its subsidiaries.

YEAR in REVIEW

Jae A. Evans, President & Chief Executive Officer and David J. Maness, Chairman



Progress

“Progress lies not in enhancing what is, but in advancing toward what will be.”

~Kahlil Gibran

Every year, as we reflect on the previous year, we are amazed at the progress we have made. Through investor outreach, debit card rewards, customer referral programs, East Region expansion, and other initiatives, Isabella Bank Corporation and Isabella Bank, have implemented positive change.

INVESTOR RELATIONS

In 2018, we engaged the investor relations firm Renmark Financial Communications, LLC to assist us in expanding our investor relations outreach. Working with Renmark, the opportunity to invest in Isabella Bank Corporation is being shared with individuals utilizing a combination of investor presentations, conversations with brokers, and expanded corporate media coverage. These initiatives are intended to increase awareness of ISBA stock and thereby improve liquidity.

2018 INITIATIVES

The financial services industry has changed drastically over the last 10 years and continues to evolve as consumers change the way they do their banking. Customers are looking to their friends and neighbors before making purchasing decisions. Though advertising still drives

traffic, the personal recommendation from someone they trust will have greater influence on their financial decisions.

In an effort to encourage our customers to recommend Isabella Bank to their friends and family and to increase deposits, we implemented debit card rewards and a customer referral program for personal checking accounts. The debit card rewards program provides incentives for customers to use their debit card for their everyday purchases. It is designed to remind our customers to use their Isabella Bank debit card as opposed to other card options thereby positively impacting our non-interest income through increased interchange revenue.

The customer referral program also provides incentives to our existing customers to refer their friends and family to open a personal checking account with Isabella Bank. This program was rolled out in September of 2018 and we have already begun to see momentum. Since implementation, we have opened over 100 checking accounts as a direct result of the program. The increase in deposit activity positively impacts non-interest income as well as providing a source of funding to support the bank's loan demand.

EAST REGION GROWTH

Part of our strategy to expand the Isabella Bank brand in our East Region, included forming a group of community leaders who could provide us with insight and guidance. In 2018, we established a local Board of Directors consisting of dedicated and respected business leaders from the Freeland, Midland, and Saginaw communities. The knowledge and relationships each of these individuals have in their respective communities are invaluable in our success.

The East Region Board of Directors consists of Ms. Mary Draves, Mr. Smallwood Holoman Jr., Ms. Sarah Opperman, Mr. Christopher Radke, Mr. Clarence Rivette, in addition to bank officers Mr. Jerome Schwind and Mr. Michael Colby. The experience and skill set of these individuals are an asset to the growth and success of Isabella Bank.

In addition to the creation of the East Region Board of Directors, Isabella Bank also opened its 30th full service location in July 2018. The new location in downtown Saginaw previously operated as a loan production office. The transition from a loan production office to a full service branch allows us to provide all of the financial products and services to assist us in meeting the needs of the Saginaw community.

Isabella Bank is proud to be a part of the downtown area. Our new location is just one of the many changes in downtown Saginaw. Our location is joined by the newly renovated Bancroft and Eddy buildings, the indoor/outdoor farmers market, and soon a new Delta College complex and Central Michigan University global campus location. The evolving Saginaw market will provide additional growth opportunities for Isabella Bank.

2019 & BEYOND

The foundation of the 2019 strategic plan centers on three objectives; improve revenue, grow deposits, and enhance operational efficiencies. Each of these objectives include initiatives, which when fully implemented, are intended to positively impact various ratios routinely measured in the financial services industry; including Return on Average Assets, Return on Average Equity, Efficiency and Capital Ratios, and Tangible Book Value per Share.

Initiatives to improve revenues and grow deposits involve pinpointing opportunities to expand upon our current product and service offerings to ensure we are meeting the needs of current and future customers. The financial services industry is more competitive than ever, and it is critical our products and services be relevant to the individuals and businesses in our markets.

Complementary to our initiatives for improving revenue and deposit growth includes efforts to advance operational efficiencies. Improving what we do and how we do it through a combination of process enhancements, advances in technology, and leveraging our talented staff are the focus of this objective.

On behalf of our Board of Directors, thank you for making an investment in Isabella Bank Corporation. We look forward to visiting with you at our annual shareholder meeting on May 7, 2019 at 5:00 p.m. at the Comfort Inn Conference Center in Mt. Pleasant.



Jae A. Evans,
President & CEO



David J. Maness,
Chairman



Turning
Compassion
in
to **ACTION!**
changes lives

All Isabella Bank locations closed on Columbus Day to allow employees to volunteer with one of two local organizations.

The Habitat for Humanity project participants worked on revitalizing Bliss Park and several area Habitat for Humanity homes within Saginaw County. Work included cleaning out vacant homes, painting, and cleaning up yards.

The United Way project participants helped assemble food packs for the hungry. Work included sorting, packing, and loading 50,000 meals for the hungry in Montcalm, Isabella, and Mecosta Counties in partnership with the Michigan Food Bank.

FINANCIAL REPORT

Neil M. McDonnell, Chief Financial Officer



It's hard to believe that a year has already passed since I joined Isabella Bank at the beginning of 2018. I came here with eyes wide open to learn about the history, culture, products and services offered and, of course, the customers at Isabella Bank. The longevity and commitment of our customer base is unheard of today and that is what makes Isabella Bank

most unique and stand out from other community banks. I have witnessed the same level of commitment from our employees with regards to superior customer service. Their drive to do their best to create solutions for individual needs is at the forefront of their daily routine. The year 2018 was exciting for Isabella Bank in many ways. Let's review some of our financial accomplishments.

NET INCOME

Net income for 2018 was \$14.0 million resulting in earnings per common share of \$1.78. Net income increased \$784 thousand or 5.9% over 2017 with earnings per common share up \$0.09 over the same period. Interest income for 2018 increased \$5.5 million when compared to 2017 as the result of strong loan growth during 2018. Net interest income increased \$2.3 million for 2018 in comparison to 2017. The provision for loan losses increased by \$725,000 and was the result of loan growth, increased charge-offs, and an increase in criticized assets largely related to our agricultural loan portfolio. Noninterest expenses for 2018 exceeded noninterest expenses in 2017 due to increased compensation and benefits, certain loan expenses and costs related to upgrades with technology. Additionally in 2017, noninterest expenses were reduced by a settlement with an insurance claim administrator in favor of Isabella Bank. Net income in 2018 benefited from the lower federal statutory tax rate established by the 2017 Tax Cuts and Jobs Act.

NET INTEREST MARGIN

The Corporation's fully taxable equivalent net yield on interest earning assets was 2.97% for 2018. The Federal Reserve Bank increased short-term interest rates during each quarter of 2018. We anticipate improvement in the net yield on interest earning assets over the next few years as a result of a combination of shifting to an increasing percentage of loans compared to investment securities, strategic growth in loans, market driven loan pricing, attracting demand deposit balances and management of interest expense.

ASSETS

As of December 31, 2018, total assets were \$1.8 billion and assets under management were \$2.5 billion. Assets under

management include loans sold and serviced, and assets managed by Investment and Trust Services, in addition to assets on the consolidated balance sheet. Assets managed by Investment and Trust Services reached an all-time high during 2018 surpassing \$500 million.

LOANS

Loans outstanding as of December 31, 2018 totaled \$1.1 billion. The Corporation's loan portfolio grew \$37.2 million or 3.4% during 2018. This growth was largely driven by the commercial loan portfolio which increased \$24.8 million during the year. Also contributing to this growth were increases in residential real estate and consumer loans of \$13.5 million while agricultural loans experienced a small decline.

DEPOSITS

Total deposits grew \$27.4 million in 2018, ending the year at \$1.3 billion. We experienced considerable growth in the last few months of the year. Much of the growth over the last year was largely related to certificates of deposit as well as savings and demand deposit accounts. Our competitive pricing and the high level of customer service continues to attract new business.

CAPITAL

The Corporation's banking subsidiary, Isabella Bank (the "Bank"), continued to be designated as a "well capitalized" institution as its capital ratios exceeded the minimum requirements for this designation. As of December 31, 2018, the Bank's Tier 1 Leverage Ratio was 8.1%, Tier 1 Capital Ratio was 11.8%, and Total Capital Ratio was 12.4%. From a consolidated perspective, the Corporation's Tier 1 Leverage Ratio was 8.7%, Tier 1 Capital Ratio was 12.6%, and Total Capital Ratio was 13.3% as of December 31, 2018.

DIVIDEND GROWTH

During 2018, the Corporation paid shareholders \$1.04 in cash dividends. The cash dividends paid in 2018 reflect an increase of 1.96% over the cash dividends paid in 2017. Based on the Corporation's closing stock price of \$22.56 as of December 31, 2018, the cash dividend yield was 4.6%. In early March 2019, the Corporation announced that the Board of Directors declared a first quarter cash dividend of \$0.26 per common share payable on March 29, 2019 to shareholders of record as of March 26, 2019.

As I look ahead to 2019 and beyond, I see the many initiatives currently underway, which are key components of our five year strategic plan, benefiting our customers and ultimately you, our shareholders. The rollout of new services and capabilities will attract new customers to Isabella Bank and enhance the overall experience of banking at Isabella Bank.

ISABELLA BANK CORPORATION
SELECTED FINANCIAL DATA
(Dollars in thousands except per share amounts)

For the years ended	2018	2017	2016	2015	2014
INCOME STATEMENT DATA					
Interest income	\$ 63,864	\$ 58,413	\$ 53,666	\$ 51,502	\$ 51,148
Interest expense	15,631	12,494	10,865	10,163	9,970
Net interest income	48,233	45,919	42,801	41,339	41,178
Provision for loan losses	978	253	(135)	(2,771)	(668)
Noninterest income	10,946	10,812	11,108	10,359	9,325
Noninterest expenses	42,817	40,225	37,897	36,051	35,103
Federal income tax expense ⁽¹⁾	1,363	3,016	2,348	3,288	2,344
Net income	<u>\$ 14,021</u>	<u>\$ 13,237</u>	<u>\$ 13,799</u>	<u>\$ 15,130</u>	<u>\$ 13,724</u>
PER SHARE					
Basic earnings	\$ 1.78	\$ 1.69	\$ 1.77	\$ 1.95	\$ 1.77
Diluted earnings	\$ 1.74	\$ 1.65	\$ 1.73	\$ 1.90	\$ 1.74
Dividends	\$ 1.04	\$ 1.02	\$ 0.98	\$ 0.94	\$ 0.89
Tangible book value ⁽²⁾	\$ 18.68	\$ 18.63	\$ 17.80	\$ 17.33	\$ 16.52
Quoted market value					
High	\$ 28.25	\$ 29.95	\$ 29.90	\$ 29.90	\$ 24.00
Low	\$ 22.50	\$ 27.60	\$ 27.25	\$ 22.00	\$ 21.73
Close ⁽³⁾	\$ 22.56	\$ 28.25	\$ 27.85	\$ 29.90	\$ 22.50
Common shares outstanding ⁽³⁾	7,870,969	7,857,293	7,821,069	7,799,867	7,776,274
PERFORMANCE RATIOS					
Return on average total assets	0.77%	0.75%	0.82%	0.95%	0.90%
Return on average shareholders' equity	7.26%	6.75%	7.12%	8.33%	8.06%
Return on average tangible shareholders' equity	9.14%	9.09%	9.95%	11.46%	10.80%
Net interest margin yield (fully taxable equivalent) ⁽¹⁾	2.97%	3.03%	3.00%	3.10%	3.24%
BALANCE SHEET DATA ⁽³⁾					
Gross loans	\$ 1,128,707	\$ 1,091,519	\$ 1,010,615	\$ 850,492	\$ 836,550
Available-for-sale securities	\$ 494,834	\$ 548,730	\$ 554,671	\$ 656,837	\$ 561,394
Total assets	\$ 1,837,307	\$ 1,813,130	\$ 1,732,151	\$ 1,668,112	\$ 1,549,543
Deposits	\$ 1,292,693	\$ 1,265,258	\$ 1,195,040	\$ 1,164,563	\$ 1,074,484
Borrowed funds	\$ 340,299	\$ 344,878	\$ 337,694	\$ 309,732	\$ 289,709
Shareholders' equity	\$ 195,519	\$ 194,905	\$ 187,899	\$ 183,971	\$ 174,594
Gross loans to deposits	87.31%	86.27%	84.57%	73.03%	77.86%
ASSETS UNDER MANAGEMENT ⁽³⁾					
Loans sold with servicing retained	\$ 259,481	\$ 266,789	\$ 272,882	\$ 287,029	\$ 288,639
Assets managed by our Investment and Trust Services Department	\$ 447,487	\$ 478,146	\$ 427,693	\$ 405,109	\$ 383,878
Total assets under management	\$ 2,544,275	\$ 2,558,065	\$ 2,432,726	\$ 2,360,250	\$ 2,222,060
ASSET QUALITY ⁽³⁾					
Nonperforming loans to gross loans	0.65%	0.31%	0.17%	0.09%	0.50%
Nonperforming assets to total assets	0.42%	0.20%	0.11%	0.07%	0.33%
Allowance for loan and lease losses to gross	0.74%	0.71%	0.73%	0.87%	1.21%
CAPITAL RATIOS ⁽³⁾					
Shareholders' equity to assets	10.64%	10.75%	10.85%	11.03%	11.27%
Tier 1 leverage	8.72%	8.54%	8.56%	8.52%	8.59%
Common equity tier 1 capital	12.58%	12.23%	12.39%	13.44%	N/A
Tier 1 risk-based capital	12.58%	12.23%	12.39%	13.44%	14.08%
Total risk-based capital	13.26%	12.86%	13.04%	14.17%	15.19%

⁽¹⁾ Calculations are based on a federal income tax rate of 21% in 2018 and 34% for all prior periods.

⁽²⁾ Tangible book value calculations include unrealized gain/loss on available-for-sale securities.

⁽³⁾ At end of year

ISABELLA BANK CORPORATION
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands except per share amounts)

	December 31		Change	
	2018	2017	\$	%
ASSETS				
Cash and cash equivalents				
Cash and demand deposits due from banks	\$ 23,534	\$ 25,267	\$ (1,733)	(6.86) %
Interest bearing balances due from banks	49,937	5,581	44,356	794.77 %
Total cash and cash equivalents	73,471	30,848	42,623	138.17 %
Available-for-sale securities, at fair value	494,834	548,730	(53,896)	(9.82) %
Equity securities, at fair value	—	3,577	(3,577)	(100.00) %
Mortgage loans available-for-sale	358	1,560	(1,202)	(77.05) %
Loans				
Commercial	659,529	634,759	24,770	3.90 %
Agricultural	127,161	128,269	(1,108)	(0.86) %
Residential real estate	275,343	272,368	2,975	1.09 %
Consumer	66,674	56,123	10,551	18.80 %
Gross loans	1,128,707	1,091,519	37,188	3.41 %
Less allowance for loan and lease losses	8,375	7,700	675	8.77 %
Net loans	1,120,332	1,083,819	36,513	3.37 %
Premises and equipment	27,815	28,450	(635)	(2.23) %
Corporate owned life insurance policies	27,733	27,026	707	2.62 %
Accrued interest receivable	6,928	7,063	(135)	(1.91) %
Equity securities without readily determinable fair values	24,948	23,454	1,494	6.37 %
Goodwill and other intangible assets	48,451	48,547	(96)	(0.20) %
Other assets	12,437	10,056	2,381	23.68 %
TOTAL ASSETS	\$ 1,837,307	\$ 1,813,130	\$ 24,177	1.33 %
LIABILITIES AND SHAREHOLDERS' EQUITY				
Deposits				
Noninterest bearing	\$ 236,534	\$ 237,511	\$ (977)	(0.41) %
NOW accounts	235,287	231,666	3,621	1.56 %
Certificates of deposit under \$250 and other savings	744,944	728,090	16,854	2.31 %
Certificates of deposit over \$250	75,928	67,991	7,937	11.67 %
Total deposits	1,292,693	1,265,258	27,435	2.17 %
Borrowed funds	340,299	344,878	(4,579)	(1.33) %
Accrued interest payable and other liabilities	8,796	8,089	707	8.74 %
Total liabilities	1,641,788	1,618,225	23,563	1.46 %
Shareholders' equity				
Common stock — no par value 15,000,000 shares authorized; issued and outstanding 7,870,969 shares (including 16,673 shares held in the Rabbi Trust) in 2018 and 7,857,293 shares (including 31,769 shares held in the Rabbi Trust) in 2017	140,416	140,277	139	0.10 %
Shares to be issued for deferred compensation obligations	5,431	5,502	(71)	(1.29) %
Retained earnings	57,357	51,728	5,629	10.88 %
Accumulated other comprehensive income (loss)	(7,685)	(2,602)	(5,083)	195.35 %
Total shareholders' equity	195,519	194,905	614	0.32 %
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 1,837,307	\$ 1,813,130	\$ 24,177	1.33 %

ISABELLA BANK CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands except per share amounts)

	Year Ended December 31		Change	
	2018	2017	\$	%
Interest income				
Loans, including fees	\$ 49,229	\$ 43,537	\$ 5,692	13.07 %
Available-for-sale securities				
Taxable	8,239	8,410	(171)	(2.03)%
Nontaxable	5,279	5,570	(291)	(5.22)%
Federal funds sold and other	1,117	896	221	24.67 %
Total interest income	63,864	58,413	5,451	9.33 %
Interest expense				
Deposits	9,261	6,809	2,452	36.01 %
Borrowings	6,370	5,685	685	12.05 %
Total interest expense	15,631	12,494	3,137	25.11 %
Net interest income	48,233	45,919	2,314	5.04 %
Provision for loan losses	978	253	725	286.56 %
Net interest income after provision for loan losses	47,255	45,666	1,589	3.48 %
Noninterest income				
Service charges and fees	6,210	6,013	197	3.28 %
Earnings on corporate owned life insurance policies	707	726	(19)	(2.62)%
Net gain on sale of mortgage loans	525	647	(122)	(18.86)%
Net gains on sale of available-for-sale securities	—	142	(142)	(100.00)%
Other	3,504	3,284	220	6.70 %
Total noninterest income	10,946	10,812	134	1.24 %
Noninterest expenses				
Compensation and benefits	22,609	21,525	1,084	5.04 %
Furniture and equipment	6,182	5,523	659	11.93 %
Occupancy	3,263	3,133	130	4.15 %
Other	10,763	10,044	719	7.16 %
Total noninterest expenses	42,817	40,225	2,592	6.44 %
Income before federal income tax expense	15,384	16,253	(869)	(5.35)%
Federal income tax expense	1,363	3,016	(1,653)	(54.81)%
NET INCOME	\$ 14,021	\$ 13,237	\$ 784	5.92 %
Earnings per common share				
Basic	\$ 1.78	\$ 1.69	\$ 0.09	5.33 %
Diluted	\$ 1.74	\$ 1.65	\$ 0.09	5.45 %
Cash dividends per common share	\$ 1.04	\$ 1.02	\$ 0.02	1.96 %

ISABELLA BANK CORPORATION
AVERAGE BALANCES, INTEREST RATE, AND NET INTEREST INCOME
(Dollars in thousands except per share amounts)

The following schedules present the daily average amount outstanding for each major category of interest earning assets, non-earning assets, interest bearing liabilities, and noninterest bearing liabilities for the last two years. These schedules also present an analysis of interest income and interest expense for the periods indicated. All interest income is reported on a fully taxable equivalent (FTE) basis using a federal income tax rate of 21% in 2018 and 34% in 2017. Loans in nonaccrual status, for the purpose of the following computations, are included in the average loan balances. Federal Reserve Bank and Federal Home Loan Bank restricted equity holdings are included in accrued income and other assets.

	Year Ended December 31					
	2018			2017		
	Average Balance	Tax Equivalent Interest	Average Yield / Rate	Average Balance	Tax Equivalent Interest	Average Yield / Rate
INTEREST EARNING ASSETS						
Loans	\$ 1,120,021	\$ 49,229	4.40 %	\$ 1,040,630	\$ 43,537	4.18 %
Taxable investment securities ⁽¹⁾	341,095	8,294	2.43 %	361,783	8,564	2.37 %
Nontaxable investment securities	191,281	7,115	3.72 %	202,375	9,126	4.51 %
Fed funds sold	4	—	— %	663	5	0.75 %
Other	35,719	1,062	2.97 %	26,815	737	2.75 %
Total earning assets	1,688,120	65,700	3.89 %	1,632,266	61,969	3.80 %
NONEARNING ASSETS						
Allowance for loan losses	(8,094)			(7,607)		
Cash and demand deposits due from banks	19,770			19,309		
Premises and equipment	28,349			28,933		
Accrued income and other assets	87,895			99,456		
Total assets	\$ 1,816,040			\$ 1,772,357		
INTEREST BEARING LIABILITIES						
Interest bearing demand deposits	\$ 229,411	\$ 267	0.12 %	\$ 213,648	\$ 232	0.11 %
Savings deposits	361,743	1,698	0.47 %	356,963	1,091	0.31 %
Time deposits	454,916	7,296	1.60 %	433,562	5,486	1.27 %
Borrowed funds	344,352	6,370	1.85 %	352,400	5,685	1.61 %
Total interest bearing liabilities	1,390,422	15,631	1.12 %	1,356,573	12,494	0.92 %
NONINTEREST BEARING LIABILITIES						
Demand deposits	224,777			208,988		
Other	7,597			10,641		
Shareholders' equity	193,244			196,155		
Total liabilities and shareholders' equity	\$ 1,816,040			\$ 1,772,357		
Net interest income (FTE)		\$ 50,069			\$ 49,475	
Net yield on interest earning assets (FTE)			2.97 %			3.03 %

⁽¹⁾ Includes taxable available-for-sale securities and equity securities

BOARD of DIRECTORS



Back Row, Pictured left to right: Gregory V. Varner, Dr. Jeffrey J. Barnes, Jerome E. Schwind, Joseph LaFramboise, David J. Maness, G. Charles Hubscher, W. Michael McGuire.

Front Row, Pictured left to right: W. Joseph Manifold, Jill Bourland, Jae A. Evans, Sarah R. Opperman, and Thomas L. Kleinhardt.

DAVID J. MANESS - Chairman
President,
Maness Petroleum Corporation

JAE A. EVANS
President & Chief Executive Officer,
Isabella Bank Corporation

Chief Executive Officer,
Isabella Bank

JEROME E. SCHWIND
President,
Isabella Bank

DR. JEFFREY J. BARNES
Physician and Shareholder,
L.O. Eye Care

JILL BOURLAND, CPA, HCCP
Chief Executive Officer & Partner,
Blystone & Bailey, CPAs, PC

G. CHARLES HUBSCHER
President,
Hubscher and Son, Inc.

THOMAS L. KLEINHARDT
President,
McGuire Chevrolet

JOSEPH LAFRAMBOISE
Sales and Marketing Executive (retired),
Ford Motor Company

W. JOSEPH MANIFOLD, CPA
Chief Financial Officer (retired),
Federal Broach & Machine Co.

W. MICHAEL MCGUIRE
Director of the Office of the Corporate Secretary (retired),
The Dow Chemical Company

SARAH R. OPPERMAN
Vice President (retired),
The Dow Chemical Company

GREGORY V. VARNER
Research Director,
Michigan Bean Commission

SENIOR OFFICERS & REGIONAL BOARDS

ISABELLA BANK CORPORATION OFFICERS

JAE A. EVANS
President & Chief Executive Officer

JEROME E. SCHWIND
Vice President

NEIL M. McDONNELL
Chief Financial Officer

DEBRA A. CAMPBELL
Secretary

MICHAEL P. PRISBY
Treasurer

ISABELLA BANK OFFICERS

JAE A. EVANS
Chief Executive Officer

JEROME E. SCHWIND
President

NEIL M. McDONNELL
Chief Financial Officer

DAVID J. REETZ
Chief Lending Officer

PEGGY L. WHEELER
Chief Operations Officer

GREGORY S. MATTHEWS
Chief Credit Officer

MICHAEL R. COLBY
President, East Region

BRIAN K. GOWARD
President, South Region

DAVID W. SEPPALA
President, West Region

BARBARA B. DIEHM
Senior Vice President, Branch Administration

PATRICK J. MEASE, SPHR, SHRM-SCP
Senior Vice President, Human Resources

BARBARA A. PLACE, CPA, CBA, CRCM
Senior Vice President, Internal Audit

THOMAS J. WALLACE
Senior Vice President, Retail Credit

JOSHUA A. ELING
Market President, Mecosta

JULIE A. HUBER, CGEIT, CRISC
Vice President, Chief Technology Officer

AMY C. VOGEL
Vice President, Chief Risk Officer

KIMBERLY K. BETTS
Vice President, Collections

JAMES L. BINDER
Vice President, Commercial Loans

ISABELLA BANK OFFICERS CONT.

DEBRA A. CAMPBELL
Vice President, Corporate Secretary

MARK K. DENOYELLES
Vice President, Investment & Trust

RANDY J. DICKINSON, CPA, CTFA
Vice President, Investment & Trust

DONALD F. FORSTER
Vice President, Collections

THOMAS N. GROSS
Vice President, Commercial Loans

CYNDIA S. HEAP, CRCM, CAMS
Vice President, Compliance

SHELLEY K. HOBBS
Vice President, Regional Branch Manager

MICHAEL K. HUENEMANN
Vice President, Commercial Loans

KATHY J. KORSON
Vice President, Mortgage Loans

GREGORY S. MAPES
Vice President, Financial Services

MICHELLE L. MEASE
Vice President, Investment & Trust

MICHAEL P. PRISBY
Vice President, Treasurer

ERIKA M. ROSS
Vice President, Operations

CARRIE S. SMITH
Vice President, Mortgage Loans

JEFFREY W. SMITH
Vice President, Commercial Loans

LESLIE J. THIELEN
Vice President, Consumer Loans

RHONDA S. TUDOR, CPA
Vice President, Controller

KARLA A. WALKER
Vice President, Mortgage Loans

LEO R. WICKERT, State Licensed Appraiser
Vice President, Appraisals

TIM M. WILSON
Vice President, Regional Branch Manager

SANDY M. YUNCKER
Vice President, Deposit Operations

TRACY A. ZAYLER
Vice President, Regional Branch Manager

EAST REGION BOARD OF DIRECTORS

MICHAEL R. COLBY
MARY F. DRAVES
SMALLWOOD HOLOMAN JR.
SARAH R. OPPERMAN
CHRISTOPHER J. RADKE
CLARENCE M. RIVETTE
JEROME E. SCHWIND

SOUTH REGION BOARD OF DIRECTORS

BRIAN K. GOWARD
TIMOTHY M. MILLER
CHAD R. PAYTON
JEROME E. SCHWIND
JEFFREY E. SHERWOOD
KIRK L. SMITH
GREGORY V. VARNER

WEST REGION BOARD OF DIRECTORS

BLAKE R. HOLLENBECK
DEBRA J. HUCH
ALEXANDER R. KEMP
GREGORY D. MILLARD
BRIAN R. SACKETT
JEROME E. SCHWIND
DAVID W. SEPPALA
KATHY J. VANDERLAAN

MECOSTA ADVISORY BOARD OF DIRECTORS

DR. RALPH P. CREW
MATTHEW L. CURRIE
KEVIN J. DEFEVER
JOSEPH LAFRAMBOISE
JEROME E. SCHWIND

NORTHERN ADVISORY BOARD OF DIRECTORS

SHARI R. BUCCILLI
MICHAEL L. JENKINS
THOMAS L. KLEINHARDT
W. MICHAEL MCGUIRE
JEROME E. SCHWIND
STEVEN L. STARK

EMPLOYEE RECOGNITION

In 2018, we celebrated alongside our employees as they hit both professional and personal milestones. Please help us recognize the following employees on their recent officer promotions, banking school graduations, and retirements.

OFFICER PROMOTIONS

Tama Acker
Collections Officer

Marisa Bramer
Agricultural Loan Officer

Suzi Fussman
Assistant Vice President

Sue Hardy
CRA Officer

Kelly Hopkins
Commercial Credit Officer

Michael McNeil
Agricultural Loan Officer

Patrick Mease
Senior Vice President

Sue Schroeder
Mortgage Loan Officer

Harry Steib
Branch Officer, Freeland

Justin Vondette
Commercial Loan Officer

MBA PERRY SCHOOL OF BANKING

Nora Colthorp
Branch Manager, Ithaca

Darbi Gross
Project Manager

Mary Welsh
Branch Manager, Pickard Office

RETIREMENTS

Julie Bolt, 39 years

Linda Connell, 12 years

Susan Hansen, 38 years

Cheryl Hulings, 39 years

Robert Madsen, 21 years

Barbara McKenzie, 33 years

Donna Murphy, 20 years

Kathy Tatro, 18 years

Cheryl White, 17 years

Richard (Rick) J. Barz has retired from the Board of Directors after 18 years of dedicated service.



"Rick has served as a loyal steward of our brand for several years. We are thankful to Rick for his commitment and ongoing guidance. Rick's experience, involvement, and deep understanding of community banking have been instrumental in the success of the Bank."

-Jae Evans

Rick retired from Isabella Bank in January 2014 after spending his entire career at Isabella Bank, the last several years of his tenure as President and CEO. Barz is currently a member of the Middle Michigan Development Corporation Board, Union Township Economic Development Authority, New Venture Competition mentor and advisor at Central Michigan University, and active member of the Mount Pleasant Community Church.



ISABELLA BANK CORPORATION

**401 N. Main St.
Mt. Pleasant, Michigan 48858**

**NOTICE OF THE ANNUAL MEETING OF SHAREHOLDERS
To Be Held May 7, 2019**

Notice is hereby given that the Annual Meeting of Shareholders of Isabella Bank Corporation will be held on Tuesday, May 7, 2019 at 5:00 p.m. Eastern Daylight Time, at the Comfort Inn Conference Center, 2424 S. Mission Street, Mt. Pleasant, Michigan. The meeting is for the purpose of considering and acting upon the following items of business:

1. The election of four directors.
2. To transact such other business as may properly come before the meeting, or any adjournment or adjournments thereof.

The Board of Directors has fixed March 11, 2019 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 25, 2019

YOUR VOTE IS IMPORTANT! Please vote even if you plan to attend the meeting.

VOTE BY PHONE

Call 800.690.6903 (toll-free), have your proxy form in hand, follow the instructions to vote.

VOTE BY MAIL

Indicate your choice with respect to the matters to be voted upon, sign, date, and return your proxy form in the enclosed envelope.

Please Note: If stock is held in more than one name, all parties should sign the proxy form.

VOTE ONLINE

Visit proxyvote.com, have your proxy form in hand when you access the website and follow the instructions to obtain your records and create an electronic voting instruction form.

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 7, 2019 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 25, 2019 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 11, 2019 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 11, 2019, there were 7,873,337 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 four directors to serve for a term of three years. You may vote in favor or withhold your vote with respect to any or all nominees. Directors are elected by a plurality of the votes cast at the Annual Meeting. Shares withheld 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 twelve (12) members divided into three classes, with the directors in each class being elected for a term of three years. The Board decreased from 13 members to 12 with the retirement of Richard J. Barz effective December 19, 2018. At the Annual Meeting, Thomas L. Kleinhardt, Joseph LaFramboise, Sarah R. Opperman, and Gregory V. Varner, whose terms expire at the Annual Meeting, have been nominated for election to serve through the 2022 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	Govern-ance	Entre-preneurial skills	Human Resources	Bank business segment representation
David J. Maness	X			X	X				X			X		X
Dr. Jeffrey J. Barnes	X			X	X		X					X		X
Jill Bourland	X	X	X	X	X	X		X					X	X
Jae A. Evans	X	X		X	X			X	X	X	X	X	X	
G. Charles Hubscher	X			X	X							X		X
Thomas L. Kleinhardt	X			X	X		X	X		X		X		X
Joseph LaFramboise	X			X	X		X		X	X				X
W. Joseph Manifold	X	X	X	X	X		X	X	X					X
W. Michael McGuire	X	X	X	X	X		X	X	X		X			X
Sarah R. Opperman	X			X	X	X	X			X		X		X
Jerome E. Schwind	X	X		X	X			X	X	X	X		X	
Gregory V. Varner	X			X	X		X		X			X		X

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

<u>Director</u>	<u>Audit</u>	<u>Nominating and Corporate Governance</u>	<u>Compensation and Human Resource</u>
David J. Maness	X ^o	X ^o	X ^c
Dr. Jeffrey J. Barnes		X	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 2022

Thomas L. Kleinhardt (age 64) 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 69) 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 59) has been a director of the Bank and Isabella Bank Corporation since 2012. Ms. Opperman previously was employed for 28 years by The Dow Chemical Company, where she held leadership roles in public and government affairs. She served as interim President and Chief Executive Officer of the Midland Business Alliance from March 1 to December 1, 2018, and continued as an employee until December 31, 2018. 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 Executive Committee of the United Way of Midland County Board of Directors.

Gregory V. Varner (age 64) has been a director of the Bank and Isabella Bank Corporation since 2015. Mr. Varner is the Research Director for the Michigan Bean Commission. 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 56) 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 65) 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, Sand 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 65) 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 67) 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 2021

Jill Bourland (age 48) 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, a Certified Public Accountant, and a Housing Credit Certified Professional. 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 62) was appointed a director of Isabella Bank Corporation and the Bank and elected Chief Executive Officer of Isabella Bank Corporation effective January 1, 2014 and Chief Executive Officer of the Bank effective June 27, 2018. 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 69) 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 52) 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 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, the Michigan Bankers Association Grassroots Advocacy Committee, the Perry School of Banking Board, the Michigan Bankers Association Board, and also the Great Lakes Bay Alliance Board.

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 55), Chief Financial Officer of Isabella Bank Corporation, joined Isabella Bank Corporation on January 30, 2018. David J. Reetz (age 58), Chief Lending Officer of the Bank, has been employed by the Bank since 1987. Rhonda S. Tudor (age 54), Vice President and Controller of the Bank, has been employed by the Bank since 2015. Peggy L. Wheeler (age 59), 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 the NASDAQ listing requirements. We have determined that Dr. Jeffrey J. Barnes, 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 15 times during 2018. No current member of our Board attended less than 75% of the aggregate meetings of the Board and all committees on which such director served during 2018. 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 Bourland, Manifold and McGuire meet the requirements of Audit Committee Financial Expert and have been so designated. The Audit Committee also consists of directors 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 2018, 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

shareholder. The recommendation should also include the name, age, address and qualifications of the candidate. Recommendations for the 2020 Annual Meeting of Shareholders should be delivered no later than November 26, 2019. 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, Bourland, Hubscher, Kleinhardt, LaFramboise, Maness, Manifold, McGuire, Opperman, and Varner. The Compensation and Human Resource Committee held two meetings during 2018. 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 2018 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 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, 2018.

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 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) ("PCAOB"), including those described in Auditing Standard No. 1301, "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 this issue with the independent auditors.

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 2018.

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, 2018 for filing with the Securities and Exchange Commission. The Audit Committee has appointed Rehmann Robson LLC as the independent auditors for the 2019 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

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 (incorporating 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 2018, 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, and Bank President. Blanchard Consulting Group does not perform any additional services for us or any members of senior management. In addition, Blanchard Consulting Group does not have any other personal or business relationships with any Board members or officers.

Elements of Compensation

Our executive compensation program has consisted primarily of base salary and benefits, annual performance incentives, other 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.

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 2018, 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 —\$3.4 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 2018 were determined by reference to four performance measures that related to services performed in 2017. 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 2017 accomplished their personal performance goals and were accordingly paid 35% of the 2017 Maximum Award in 2018.

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%).

Each of the executive officers who were eligible to participate in 2017 were paid 23.75% of the 65% of the 2017 Maximum Award in 2018. The following chart provides the 2017 target for each corporate performance goal and the performance attained for each target.

Target	2017 Targets				2017 Performance (1)	Target % Obtained
	25.00%	50.00%	75.00%	100.00%		
Earnings per share	\$ 1.79	\$ 1.82	\$ 1.84	\$ 1.87	\$ 1.69	0.00%
Net operating expenses to average assets	1.68%	1.66%	1.64%	1.62%	1.66%	50.00%
In market deposit average balance growth	2.72%	2.97%	3.22%	3.47%	3.40%	75.00%
Loan average balance growth	15.85%	16.10%	16.35%	16.60%	12.84%	0.00%

(1) Adjusted for incentive calculation measures.

We have a stock award incentive plan which is an equity-based bonus plan with no options. Under the plan, we may award stock bonuses to the President and CEO, CFO and 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 conditions on the issuance of stock awards and therefore, the stock awards are restricted. The stock bonuses awarded in 2018

were determined by reference to the same four performance measures used for the annual performance incentives that related to 2017 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 2018 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 provides 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 were 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 occurred in mid-2018.

The retirement bonus plan is a nonqualified plan of deferred compensation benefits effective January 1, 2007. While the plan allows for new participants, there have been no new participants since the plan became effective and no new participants are anticipated in the future. 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
Jill Bourland
G. Charles Hubscher
Thomas L. Kleinhardt
Joseph LaFramboise
W. Joseph Manifold
W. Michael McGuire
Sarah R. Opperman
Gregory V. Varner

* Richard J. Barz retired from the Isabella Bank Corporation Board of Directors and all other committees on December 19, 2018. Mr. Barz attended the Compensation and Human Resource Committee meetings held during 2018 which included establishment of the compensation of the President and CEO and review of the President and CEO's performance.

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, 2018, for the CEO, CFO, and our three other most highly compensated executive officers.

Summary Compensation Table

<u>Name and principal position</u>	<u>Year</u>	<u>Salary \$(1)(5)</u>	<u>Bonus (\$)</u>	<u>Stock Awards (\$)</u>	<u>Change in pension value and nonqualified deferred compensation earnings \$(6)</u>	<u>All other compensation \$(2)</u>	<u>Total (\$)</u>
Jae A. Evans	2018	\$ 429,500	\$ 21,803	\$ 21,803	\$ —	\$ 53,219	\$ 526,325
President and CEO	2017	402,800	27,396	27,396	—	45,598	503,190
Isabella Bank Corporation	2016	364,473	21,225	21,225	—	48,015	454,938
Neil M. McDonnell (3)	2018	\$ 225,000	\$ —	\$ —	\$ —	\$ 54,390	\$ 279,390
CFO							
Isabella Bank Corporation							
Jerome E. Schwind	2018	\$ 317,725	\$ 14,442	\$ 14,442	\$ (5,000)	\$ 43,721	\$ 385,330
President	2017	293,417	19,515	19,515	7,000	37,081	376,528
Isabella Bank	2016	278,164	14,943	—	3,000	31,466	327,573
David J. Reetz	2018	\$ 169,920	\$ 8,148	\$ —	\$ (19,000)	\$ 26,469	\$ 185,537
Chief Lending Officer	2017	164,971	13,023	—	28,000	26,883	232,877
Isabella Bank	2016	160,166	10,642	—	41,777	25,497	238,082
Peggy L. Wheeler	2018	\$ 155,713	\$ 8,265	\$ —	\$ (15,000)	\$ 15,123	\$ 164,101
Chief Operations Officer	2017	142,160	11,223	—	24,000	14,172	191,555
Isabella Bank	2016	138,020	9,481	—	29,518	14,635	191,654
Rhonda S. Tudor (4)	2018	\$ 126,208	\$ 6,679	\$ —	\$ —	\$ 9,852	\$ 142,739
Vice President and Controller (4)	2017	122,235	9,650	—	—	6,649	138,534
Isabella Bank							

- (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 Neil M. McDonnell, this also includes auto allowance.
- (3) Not a named executive officer prior to 2018. Neil M. McDonnell joined the Corporation on January 31, 2018.
- (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 years ended December 31, 2018:

<u>Name</u>	<u>Director and advisory board fees (\$)</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Jae A. Evans	\$ 29,500	\$ 27,800	\$ 27,550
Neil M. McDonnell	—	—	—
Jerome E. Schwind	29,500	37,098	23,500
David J. Reetz	—	—	—
Peggy L. Wheeler	—	—	—
Rhonda S. Tudor	—	—	—

- (6) Includes the aggregate non-cash change in the actuarial present value of the noted executive's accumulated benefit under the Isabella Bank Corporation Pension Plan.

Pay Ratio

In accordance with a mandate of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Securities and Exchange Commission has adopted a rule requiring annual disclosure of the ratio of the median employee's annual total compensation to the total annual compensation of the principal executive officer ("PEO"). The Corporation's PEO is Jae A. Evans.

	2018
PEO total annual compensation	\$ 526,325
Median Employee total annual compensation	\$ 36,167
Ratio of PEO to Median Employee total annual compensation	14.6: 1

We determined the median of the annual total compensation of all employees, excluding the PEO. Employees and annual total compensation were based on employment status as of December 31, 2018. We considered all employees: full-time, part-time, seasonal and temporary employees. For full-time and part-time employees not employed for the full calendar year, we elected to annualize their compensation to accurately determine the median of annual total compensation.

Total compensation was calculated consistent with calculation to determine Jae A. Evans' annual total compensation, as displayed in the Summary Compensation Table on the previous page. Total compensation is largely derived from payroll and tax records and actuarial values related to our benefit plans. We do not adjust for cost-of-living expenses or any other similar compensation adjustments.

Grants of Plan-Based Awards Table

The following table provides information on grants of plan-based awards under the stock award incentive plan during 2018:

Name	Grant date	Number of shares of stock awarded	Grant date fair value of stock awards (1)
Jae A. Evans	4/2/2018	520	\$ 13,910
Jerome E. Schwind	4/2/2018	377	10,085

⁽¹⁾ The fair value of stock awards do not reflect amounts in the "Stock Awards" column in the Summary Compensation Table due to applicable payroll taxes withheld from the executive officers.

Option Exercises and Stock Vested Table

The following table provides information on vested shares pursuant to the stock award incentive plan as of December 31, 2018:

Name	Number of shares acquired on vesting	Value Realized on Vesting
Jae A. Evans	1,588	\$ 43,420
Jerome E. Schwind	828	22,618

Pension Benefits Table

The following table indicates the present value of accumulated benefits as of December 31, 2018 for each named executive officer in the summary compensation table.

<u>Name</u>	<u>Plan name</u>	<u>Number of years of vesting service as of 01/01/18</u>	<u>Present value of accumulated benefit (\$)</u>	<u>Payments during last fiscal year</u>
Jae A. Evans	Isabella Bank Corporation Pension Plan	N/A	\$ —	\$ —
	Isabella Bank Corporation Retirement Bonus Plan	N/A	—	—
Neil M. McDonnell	Isabella Bank Corporation Pension Plan	N/A	—	—
	Isabella Bank Corporation Retirement Bonus Plan	N/A	—	—
Jerome E. Schwind	Isabella Bank Corporation Pension Plan	20	51,000	—
	Isabella Bank Corporation Retirement Bonus Plan	N/A	—	—
David J. Reetz	Isabella Bank Corporation Pension Plan	32	234,000	—
	Isabella Bank Corporation Retirement Bonus Plan	N/A	296,565	—
Peggy L. Wheeler	Isabella Bank Corporation Pension Plan	40	203,000	—
	Isabella Bank Corporation Retirement Bonus Plan	N/A	201,121	—
Rhonda S. Tudor	Isabella Bank Corporation Pension Plan	N/A	—	—
	Isabella Bank Corporation Retirement Bonus Plan	N/A	—	—

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.

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.

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 2018.

<u>Name</u>	<u>Plan Name</u>	<u>Executive contributions in 2018 (\$ (1))</u>	<u>Registrant contributions in 2018 (\$ (2))</u>	<u>Aggregate earnings in 2018 (\$ (3))</u>	<u>Aggregate balance at December 31, 2018 (\$ (4))</u>
Jae A. Evans	Directors Plan	\$ —	\$ —	\$ 2,227	\$ 49,563
	SERP	—	105,000	7,166	440,874
Neil M. McDonnell	SERP	—	10,000	—	10,000
Jerome E. Schwind	Directors Plan	29,500	—	3,340	84,609
	SERP	—	14,000	488	36,892
David J. Reetz	Retirement Bonus Plan	—	28,275	5,951	296,565
Peggy L. Wheeler	Retirement Bonus Plan	—	17,959	4,052	201,121

(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 Retirement Bonus Plan and 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 the Directors Plan, Retirement Bonus 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, Retirement Bonus Plan and the SERP.

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

Distribution of deferred fees from the Directors Plan occurs when the participant retires from the Board or upon the occurrence of certain other events. The participant is eligible to receive a distributions in the form of shares of our common stock of all of the stock units that are then in his or her account, and any unconverted cash will be converted to and rounded up to the whole shares of stock and distributed, as well. 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 based on Federated Investor’s Institutional Money Market Management Fund yield (MMPXX) for the current plan year, updated annually. Under the SERP’s default payment terms, a participant’s vested and nonforfeited account balance will be paid in a single cash lump sum within 90 days after the first to occur of the participant’s separation from service (subject to a 6-month delay for a “specified employee”), death, disability, or any date specified in the participant’s participation agreement. The SERP also includes restrictive covenants that restrict a participant’s ability to compete with us and certain other activities.

Potential Payments Upon Termination or Change in Control

The estimated amounts payable to each named executive officer upon severance from employment, retirement, termination upon death or disability or termination following a change in control are described below. For all termination scenarios, the amounts assume such termination took place as of December 31, 2018.

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:

<u>Name</u>	<u>While an Active Employee</u>	<u>Subsequent to Retirement</u>
Jae A. Evans	\$ 750,000	\$ 400,000
Neil M. McDonnell	—	—
Jerome E. Schwind	576,450	288,225
David J. Reetz	339,840	169,920
Peggy L. Wheeler	311,426	155,713
Rhonda S. Tudor	—	—

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, David J. Reetz and Peggy L. Wheeler, who are currently 100% vested in their benefit under the plan, would be entitled to receive their benefit as disclosed in the Nonqualified Deferred Compensation Table on the previous page, if following a change in control they voluntarily terminate employment or are terminated without just cause.

Under the SERP, each participant would become 100% vested in their SERP account upon a change in control. Under certain conditions, 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, 2018, that would have resulted in an additional credit to Jae A. Evans' SERP account of \$375,000, Neil M. McDonnell's SERP account of \$240,000, and Jerome E. Schwind's SERP account of \$564,000 and a total credit for each individual of \$815,874, \$250,000, and \$600,892, respectively.

Director Compensation

The following table summarizes the compensation of each non-employee director who served on the Board during 2018.

<u>Name</u>	Fees paid in cash (\$)(1)	Fees deferred under Directors Plan (\$)(1)	Total fees earned (\$)
Dr. Jeffrey J. Barnes	\$ —	\$ 31,600	\$ 31,600
Richard J. Barz	34,750	—	34,750
Jill Bourland	18,875	18,875	37,750
G. Charles Hubscher	—	31,600	31,600
Thomas L. Kleinhardt	—	35,650	35,650
Joseph LaFramboise	18,000	22,100	40,100
David J. Maness	40,875	13,625	54,500
W. Joseph Manifold	—	42,050	42,050
W. Michael McGuire	30,862	10,288	41,150
Sarah R. Opperman	22,075	21,175	43,250
Gregory V. Varner	—	45,675	45,675

⁽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 within the “Executive Officers” section.

We paid \$1,500 per board meeting plus a retainer of \$10,000 to each member during 2018. Members of the Audit Committee were paid \$750 per Audit Committee meeting attended. Members of the Nominating and Corporate Governance 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 retirement from the Board, or the occurrence of certain other events, the participant is eligible to receive a distribution in the form of shares of our common stock of all of the stock units that are 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 \$380,888 to the Rabbi Trust in 2018, which held 16,673 shares of our common stock for settlement as of December 31, 2018. As of December 31, 2018, there were 203,498 stock units 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 \$206,201 in 2018.

The following table displays the cumulative number of stock units of our common stock credited to the accounts of current directors pursuant to the terms of the Directors Plan as of March 11, 2019:

<u>Name</u>	<u># of stock units credited</u>
Dr. Jeffrey J. Barnes	15,411
Jill Bourland	959
Jae A. Evans	2,197
G. Charles Hubscher	20,624
Thomas L. Kleinhardt	28,943
Joseph LaFramboise	13,953
David J. Maness	31,271
W. Joseph Manifold	24,230
W. Michael McGuire	10,842
Sarah R. Opperman	4,543
Jerome E. Schwind	3,750
Gregory V. Varner	11,932

Compensation and Human Resource Committee Interlocks and Insider Participation

In 2018, the Compensation and Human Resource Committee members were directors Barnes, Barz, Bourland, 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 \$3,343,000 as of December 31, 2018. We address transactions with related parties in our Code of Business Conduct and Ethics Policy. Conflicts of interest are prohibited, except under board approved guidelines.

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information as of March 11, 2019 as to our common stock owned beneficially by: 1) each director and director nominee, 2) by each named executive officer, 3) by all directors, director nominees and executive officers as a group, and 4) all those known by us to be beneficial owners of more than 5% of our common stock.

<u>Name of Owner</u>	<u>Amount and Nature of Beneficial Ownership (1)</u>	<u>Percent of Class</u>
Dr. Jeffrey J. Barnes	7,624	0.10%
Jill Bourland	330	(2)
Jae A. Evans	13,526	0.17%
G. Charles Hubscher	180,871	2.30%
Thomas L. Kleinhardt	54,296	0.69%
Joseph LaFramboise	1,410	0.02%
David J. Maness	6,628	0.08%
W. Joseph Manifold	4,983	0.06%
Neil M. McDonnell	327	(2)
W. Michael McGuire	96,361	1.22%
Sarah R. Opperman	8,263	0.10%
David J. Reetz	9,655	0.12%
Jerome E. Schwind	3,210	0.04%
Rhonda S. Tudor	132	(2)
Gregory V. Varner	1,476	0.02%
Peggy L. Wheeler	5,754	0.07%
All Directors, nominees and Executive Officers as a Group (16) persons	394,846	5.01%

⁽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 11, 2019. Consequently, with respect to shares acquired under the Directors Plan, participants may not be eligible to convert their stock units to shares within 60 days from March 11, 2019 as a result of distribution elections and plan conditions. For stock units credited to each participant's account as of March 11, 2019, refer to the "Director Compensation" section of this report.

⁽²⁾ Percentage is below 0.01%.

Independent Registered Public Accounting Firm

The Audit Committee has appointed Rehmann Robson LLC as our independent auditors for the year ending December 31, 2019.

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:

	2018	2017
Audit fees	\$ 324,866	\$ 304,255
Audit related fees	48,403	20,651
Tax fees	61,265	23,382
Total	<u>\$ 434,534</u>	<u>\$ 348,288</u>

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, reviews 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 2018, 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 income 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 non-audit services 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, so long as such services were recognized by the Corporation at the time of engagement to be non-audit services, and such services are promptly brought to the attention of the Audit Committee subsequent to completion of the audit. 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 2018 and 2017 without pre-approval.

Shareholder Proposals

Any proposals which you intend to present at the next Annual Meeting must be received before November 26, 2019 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 2018 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, 2018 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 Barz filed two late reports for two reportable transactions, director Opperman filed one late report for one reportable transaction, and executive officer Reetz filed 11 late reports for 14 reportable transactions.

Other Matters

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

As to Other Business Which May Come Before the Meeting

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

By order of the Board of Directors

A handwritten signature in black ink that reads "Debra Campbell". The signature is fluid and cursive, with the first name "Debra" and last name "Campbell" clearly distinguishable.

Debra Campbell, Secretary

SHAREHOLDERS' INFORMATION

Financial Information and Form 10-K

Copies of the 2018 Annual Report, Isabella Bank Corporation Form 10-K, and other financial information not contained herein are available on the Bank's website (www.isabellabank.com) under the Investors tab, or may be obtained, without charge, by writing to:

Debra Campbell
Secretary
Isabella Bank Corporation
401 N. Main St.
Mt. Pleasant, Michigan 48858

ANNUAL SHAREHOLDER MEETING

May 7, 2019 at 5:00 p.m.

Comfort Inn Conference Center | 2424 South Mission Street, Mt. Pleasant, MI 48858

STOCK INFORMATION

Isabella Bank Corporation common stock is traded in the over-the-counter market. The common stock is quoted on the OTCQX tier of the OTC Markets Group, Inc.'s electronic quotation system (www.otcm Markets.com) under the symbol "ISBA". Other trades in the common stock occur in privately negotiated transactions from time to time of which the Corporation may have limited or no information. Current stock price and availability can be obtained by contacting Shareholder Services, the Isabella Bank Investment and Trust Services Department, Boenning & Scattergood, Inc. or a licensed broker.

SHAREHOLDER SERVICES

For more information, contact Debra Campbell
(989) 779-6237 | 401 North Main Street, Mt. Pleasant, MI 48858
or www.isabellabank.com ➡ Investors

TRANSFER AGENT

Isabella Bank Corporation
(989) 779-6237 | 401 North Main Street, Mt. Pleasant, MI 48858

INVESTOR RELATIONS FIRM

Renmark Financial Communications, LLC
(404) 806-1393 | 5 Concourse Pkwy. 30th Floor, Atlanta, GA 30328
or www.renmarkfinancial.com

CORPORATE BROKER

Boenning & Scattergood, Inc.
(866) 326-8113 | 9922 Brewster Lane, Powell, OH 43065
or www.boenninginc.com

LEGAL COUNSEL

Foster Swift Collins & Smith, PC
313 South Washington Square, Lansing, MI 48933
or www.fosterswift.com

INDEPENDENT CERTIFIED PUBLIC ACCOUNTING FIRM

Rehmann Robson LLC
5800 Gratiot Rd. Suite 201, Saginaw, MI 48638
or www.rehmann.com

This report includes forward-looking statements. To the extent that the foregoing information refers to matters that may occur in the future, please be aware that such forward-looking statements may differ materially from actual results. Additional information concerning some of the factors that could cause materially different results is included in the sections entitled "Risk Factors" and "Forward Looking Statements" set forth in Isabella Bank Corporation's filings with the Securities and Exchange Commission, which are available from the Securities and Exchange Commission's Public Reference facilities and from its website at www.sec.gov.



401 NORTH MAIN STREET, MT. PLEASANT, MI 48858