

ISABELLA BANK CORPORATION
ANNUAL REPORT
2014



■ **CULTURE**

In a highly commoditized industry, such as ours, culture serves as a strategic asset. This past year, we compiled a series of thoughts and values shared over the years about our culture into a book. We hope you enjoy reading excerpts from the book in this year’s annual report.

2014 YEAR IN REVIEW

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



OUR MISSION STATEMENT

To create an operating environment that will provide shareholders with sustained growth in their investment while maintaining our independence.

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.

TO OUR SHAREHOLDERS, CUSTOMERS, AND NEIGHBORS,

Once again, we celebrated record earnings, strong dividend growth, and several product launches in 2014. The Detroit Free Press named us to their list of Top 100 Workplaces and the Michigan Bankers Association recognized us for our continued commitment to financial literacy. We are pleased to share with you highlights from this past year as well as a preview of 2015.

DRIVING SHAREHOLDER VALUE

Maximizing shareholder value through dividend and stock price appreciation is vital to our future success and independence. Our strategic plan focuses on building shareholder value by increasing profitability and expanding the visibility of our stock.

Profitability allows us to pay our shareholders dividends and retain earnings for future growth opportunities. In 2014, we celebrated record earnings of \$13.72 million, a \$1.21 million or 9.70% increase over 2013. In addition, we increased our cash dividend

for the 33rd consecutive year to \$0.89 per share, a 5.95% increase over the prior year. Based upon our average stock price of \$22.51 for December 2014, our shareholders received an annualized cash dividend yield of 3.95%.

In August 2014, we moved our stock to the OTCQX Banks tier of the OTC Markets Group's electronic quotation system. This tier is exclusively designed for established community and regional banks, which allows us to differentiate ourselves from start-up companies and improve our stock's visibility on a national level. To be eligible for this market, financial institutions are required to meet high financial standards, stay current with all disclosures required by the Securities and Exchange Commission and our banking regulators, remain compliant with security laws, and be sponsored by a corporate broker.

When we transitioned to the OTCQX Banks tier, our Board selected a regionally recognized firm, Boenning & Scattergood, Inc., to serve as our corporate broker. A corporate broker performs many duties, one of which is to increase a stock's visibility in the market. Boenning & Scattergood's knowledge of community bank securities, coupled with their reputation, made them the ideal choice.



Midland Office



Shepherd Office



Ithaca Office

"BASED UPON OUR AVERAGE STOCK PRICE OF \$22.51 FOR DECEMBER 2014, OUR SHAREHOLDERS RECEIVED AN ANNUALIZED CASH DIVIDEND YIELD OF 3.95%."

In addition to these efforts, our investor website, shareholder and community events, and press releases are part of a communication strategy to bring awareness to our stock. Our website provides stock information, dividend history, financial data, and biographies of our directors for those seeking to learn more about our company. It also allows individuals to enroll for daily stock price alerts and stay current with our latest news. Events complement these initiatives by providing us an opportunity to personally connect with current and potential shareholders.

DELIVERING CUSTOMER EXPERIENCE

From our traditional branch network and bank products to our electronic and financial planning services, we have a complete array of solutions to serve our customers. This past year, we remodeled three offices and started on a fourth, introduced four new electronic services, and expanded our investment and trust department to accommodate the growing financial needs of our customers.

We have included pictures below of the building projects we completed in 2014. Last fall, we finished our expansion project in Midland which gave us room to add a business development lender and financial advisor. The Midland market continues to be an area

of growth for us and the additional staff will position us well for the future. We also completed interior renovations of both our Shepherd and Ithaca offices and started an expansion project of our South Mission office in Mt. Pleasant. We take great pride in our offices and encourage you to stop in to see the improvements.

While we enjoy when our customers visit our offices, we also understand it is not always the most convenient way to bank for everyone. In 2014, we introduced online consumer loan applications, an iPad® application for our online banking customers, Person-to-Person payments, and Mobile Deposit. These services give individuals who want to apply for a loan, pay someone electronically, view account information, and deposit a check an alternative to traditional branch banking. We have included a short article about these services to the right.

Outside of our bank products, our customers also have convenient access to financial advisors and trust officers. Our investment and trust services complement our traditional bank products and provide us with additional sources of revenue. In 2014, the assets managed by our investment and trust group grew by 9.24% which accounted for a 28.31% increase in net revenues when compared to 2013. To accommodate this growth, as well as future growth, we expanded our sales and support team in 2014.

LOOKING AHEAD

From new technology enhancements to the expansion of our loan products, we look forward to adding convenience to both our customer and shareholder experiences in 2015. We wanted to share just a few of the initiatives currently underway.

A new option with our personal checking accounts called Bank-to-Bank (B2B) transfers will complement both our Mobile Deposit and Person-to-Person payment solutions. Bank-to-Bank transfers allow

CONVENIENCE ACROSS BANKING CHANNELS

Even as bankers, we cannot always find time during the day to make a deposit or apply for a loan. For some customers, banking is an errand, an obstacle that stands between them and their free time. In 2014, we introduced four new electronic services designed to make banking more convenient for our customers:

- *Online consumer loan application* - convenient access to apply online for a vehicle, boat, or RV loan.
- *iPad application* - tailored view of online banking information designed for the tablet experience.
- *Person-to-Person (P2P) payments* - send money electronically to another individual using their email address.
- *Mobile Deposit* - take a picture of a check with a smartphone to make an electronic deposit.



customers to send money electronically to and from their accounts at another financial institution.

We are also expanding our consumer and mortgage product offerings in 2015 through two new strategic initiatives. While we currently offer indirect financing of automobiles and recreational vehicles through our local dealerships, we will be enhancing our program to become more efficient and generate more leads. The second initiative will allow us to offer new mortgage products in our markets including both Federal Housing Administration (FHA) and Veterans Administration (VA) loans. Adding these new products and services will improve our ability to compete with other financial institutions in the communities we serve.

Over the last few years, several of our shareholders have requested electronic shareholder statements. We are pleased to report we will launch a new shareholder portal with this capability by the end of 2015. Within the site, shareholders will be able to access statements, view transactions, and request address changes. Look for more information about this new service in future shareholder correspondence.

The data breaches at several well-known retailers affected many individuals using debit or credit cards

during the past few years. While we cannot control the security practices of other businesses, we can take precautionary measures to help minimize our risk. In 2015, we will prepare to deploy debit cards with the new EMV (Europay, MasterCard®, and Visa®) technology. Each card will contain a microchip, which when used at a merchant with a chip-enabled register, will add another layer of security to debit card purchases.

SURVEY PLACES CORPORATION IN TOP 100 WORKPLACES

For the past two years, we have asked our employees to participate in a survey from the Detroit Free Press. The survey includes questions about compensation, benefits, advancement opportunities, and our culture. The results are then compiled into the annual Detroit Free Press Top 100 Workplaces list.

Within our strategic plan, one of our goals is to be the employer of choice in our markets. The Detroit Free Press survey is just one way that we can gauge employee satisfaction. We are pleased to share we made the list for the second year in a row. In 2014, we ranked eighth in the category of midsize companies.



As we reflect upon the last year and our plans for 2015, our accomplishments are not possible without an incredible team. We would be remiss if we did not take a few moments to recognize and celebrate the tremendous efforts put forth by our employees as well as the support and loyalty of our shareholders and customers. You are the heart and soul of our organization. On behalf of our Board, thank you for making an investment in your local community bank. We look forward to visiting with you at our annual shareholder meeting on May 5, 2015 at 5:00 p.m. at the Comfort Inn Conference Center in Mt. Pleasant.

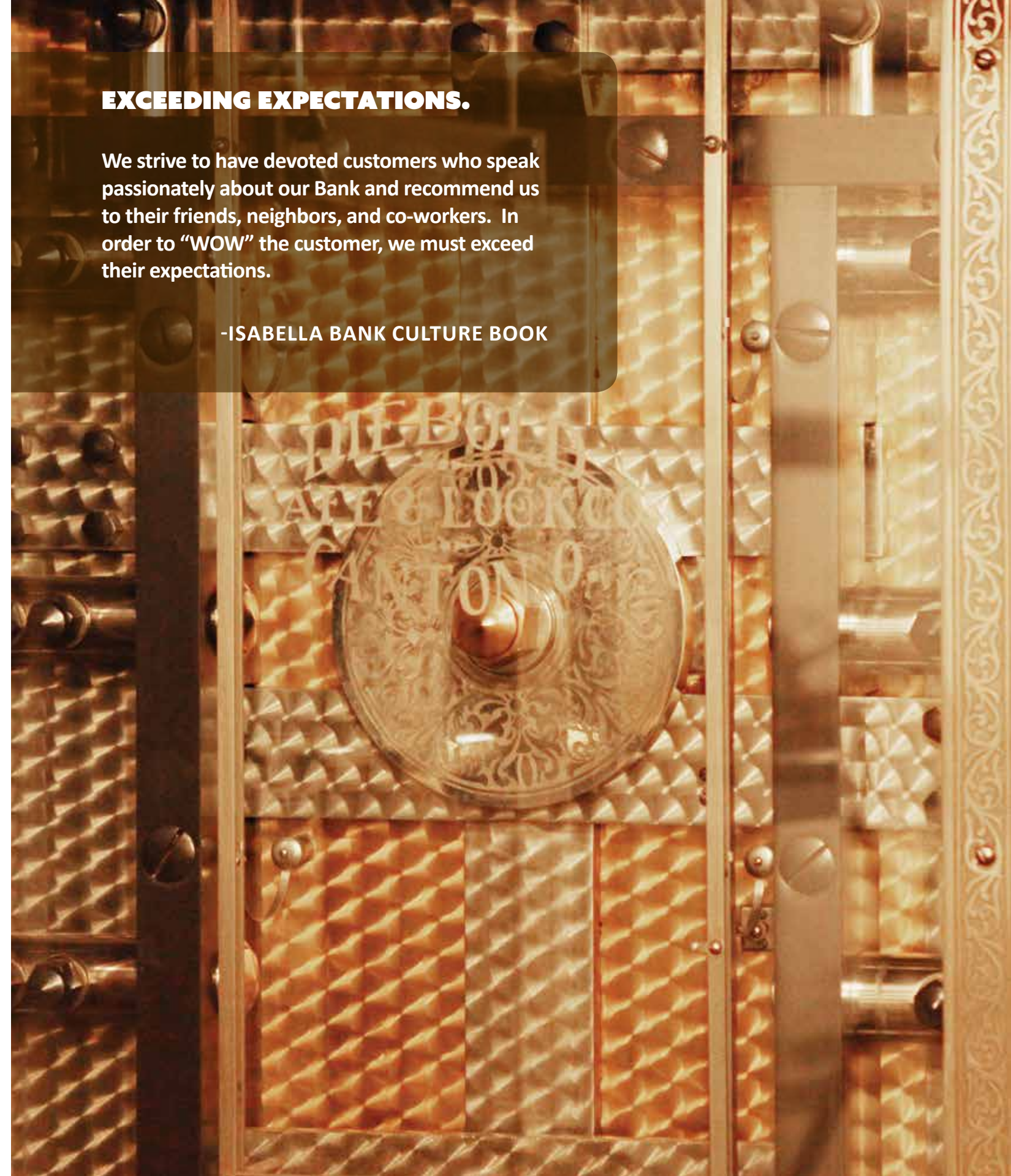

Jae A. Evans, CEO


David J. Maness, Chairman

EXCEEDING EXPECTATIONS.

We strive to have devoted customers who speak passionately about our Bank and recommend us to their friends, neighbors, and co-workers. In order to “WOW” the customer, we must exceed their expectations.

-ISABELLA BANK CULTURE BOOK



Every employee directly impacts the future
of our organization.

-ISABELLA BANK CULTURE BOOK

EMPLOYEE RECOGNITION

In 2014, 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

Tom Wallace

Senior Vice President, Retail Lending

Kim Betts

Vice President, Collections

Tom Gross

Vice President, Business Development

Julie Huber

Vice President, Chief Technology Officer

Greg Mapes

Vice President, Deposit Administration

Patrick Mease

Vice President, Human Resources

Amy Vogel

Vice President, Chief Risk Officer

Sandy Yuncker

Vice President, Customer Service

Bob Byram

Assistant Vice President, Business Development

Miles Coffland

Assistant Vice President, Auditing

Jennifer Gill

Assistant Vice President, Finance and Reporting

Adam House

Assistant Vice President, Compliance

Chari Turnwald

Assistant Vice President,
Bank Secrecy Act/Anti-Money Laundering

Mellissa Farrell

Branch Officer

Paul Scoby

Business Development Officer

ABA NATIONAL & INTERMEDIATE COMPLIANCE SCHOOLS

Adam House

Assistant Vice President, Compliance

GRADUATE SCHOOL OF BANKING – MADISON

Andrew Martin

Senior Credit Analyst, Commercial Loans

Erika Ross

Vice President, Marketing

Aaron Wirsing

Vice President, Finance and Reporting

MBA PERRY SCHOOL OF BANKING

Mari Kay Bleeker

Financial Services Representative

Bob Byram

Assistant Vice President, Business Development

Michele O'Brien

Staff Auditor, Auditing

RETIREMENTS

Angie Antcliff, Greenville 9 years

Beth Beltnick, Mt. Pleasant 11 years

Kathy Clouse, Mt. Pleasant 36 years

Melody Darnell, Farwell 43 years

Jim Dennis, Mt. Pleasant 15 years

Vickie Dysinger, Farwell 21 years

Dan Eversole, Mt. Pleasant 8 years

Karen Hoppe, Hemlock 20 years

Margaret Lawson, Lake 33 years

Dewey Murray, Mt. Pleasant 44 years

Paul Siers, Mt. Pleasant 36 years

Keith Spycher, Mt. Pleasant 34 years

**IN 2014, OUR EMPLOYEES DOCUMENTED MORE THAN
6,500 VOLUNTEER**

HOURS OF COMMUNITY SERVICE.

2014 FINANCIAL REPORT

Dennis P. Angner, President & Chief Financial Officer



I am pleased to share that continued dedication to our culture, which consists of commitment to our core community banking principles and focus on long term sustainable growth, has once again led to record net income in 2014.

During the year, we earned a record \$13.72 million resulting in earnings per common share of \$1.77. Our continued strong earnings have primarily been the result of improvements in credit quality indicators including reductions in net loan charge-offs and historically low levels of nonperforming and past due loans. These improvements led to a reduction in the level of the allowance for loan and lease losses in both amount and as a percentage of gross loans. This resulted in a reversal in the provision for loan losses of \$668,000 for the year.

During the year, total assets grew by 3.78% to \$1.55 billion, and assets under management increased to \$2.22 billion which includes loans sold and serviced and assets managed by our Investment and Trust Services Department of \$672.52 million. We enjoyed total loan growth of \$25.55 million which was driven by commercial and agricultural loan growth of \$51.99 million. This was partially offset by declines in both residential real estate and consumer loans of \$26.44 million as demand for residential real estate loans remained soft and the market for consumer loans continued to be dominated by direct financing from automobile manufacturers.

While our net yield on interest earning assets of 3.45% remains historically low, it has stabilized. The low net yield on interest earning assets is a direct result of accommodative Federal Reserve Bank monetary policy. While we expect the Federal Reserve Bank to increase short term interest rates in 2015, we do not anticipate any significant improvements in our net yield on interest earning assets as the rates paid on interest bearing liabilities will likely increase faster than those of interest earning assets. Net interest income will increase only through continued growth in loans, investments, and other income earning assets.

Looking forward to 2015, I am confident that we will be able to increase net interest income through continued growth in our balance sheet. Additionally, we have several strategic initiatives in place to increase noninterest income and limit or reduce noninterest expenses. In closing, I encourage you to review the following pages which outline our key performance measures and ratios.

A handwritten signature in dark ink, reading "Dennis P. Angner".

Dennis P. Angner, CFO

INVESTING IN OUR FUTURE

Our employees and directors have a vested interest in the success of our organization. As of December 31, 2014, our employees, directors and their families owned approximately 9.4% of our outstanding shares.

FINANCIAL HIGHLIGHTS

(Dollars in thousands except per share data)

	2014	2013	2012	2011	2010
Income Statement Data					
Interest Income	\$ 53,951	\$ 54,076	\$ 56,401	\$ 57,905	\$ 57,217
Interest Expense	\$ 9,970	\$ 11,021	\$ 13,423	\$ 16,203	\$ 17,204
Net Interest Income	\$ 43,981	\$ 43,055	\$ 42,978	\$ 41,702	\$ 40,013
Provision for Loan Losses	(\$ 668)	\$ 1,111	\$ 2,300	\$ 3,826	\$ 4,857
Noninterest Income	\$ 9,325	\$ 10,175	\$ 11,530	\$ 8,218	\$ 9,300
Noninterest Expenses	\$ 37,906	\$ 37,413	\$ 37,639	\$ 34,530	\$ 33,807
Federal Income Tax Expense	\$ 2,344	\$ 2,196	\$ 2,363	\$ 1,354	\$ 1,604
Net Income	\$ 13,724	\$ 12,510	\$ 12,206	\$ 10,210	\$ 9,045

Per Share Data					
Basic Earnings	\$ 1.77	\$ 1.63	\$ 1.61	\$ 1.35	\$ 1.20
Diluted Earnings	\$ 1.74	\$ 1.59	\$ 1.56	\$ 1.31	\$ 1.17
Dividends	\$ 0.89	\$ 0.84	\$ 0.80	\$ 0.76	\$ 0.72
Tangible Book Value*	\$ 16.59	\$ 15.62	\$ 14.72	\$ 13.90	\$ 13.22
Quoted Market Value					
High	\$ 24.00	\$ 26.00	\$ 24.98	\$ 24.45	\$ 19.00
Low	\$ 21.73	\$ 21.12	\$ 21.75	\$ 17.10	\$ 15.75
Close*	\$ 22.50	\$ 23.85	\$ 21.75	\$ 23.70	\$ 17.30
Common Shares Outstanding*	7,776,274	7,723,023	7,671,846	7,589,226	7,550,074

Performance Ratios					
Return on Average Total Assets	0.90%	0.86%	0.88%	0.79%	0.76%
Return on Average Shareholders' Equity	8.06%	7.67%	7.60%	6.74%	6.22%
Return on Average Tangible Shareholders' Equity	10.80%	10.71%	11.41%	10.30%	9.51%
Net Interest Margin Yield (Fully Taxable Equivalent)	3.45%	3.50%	3.70%	3.87%	4.04%

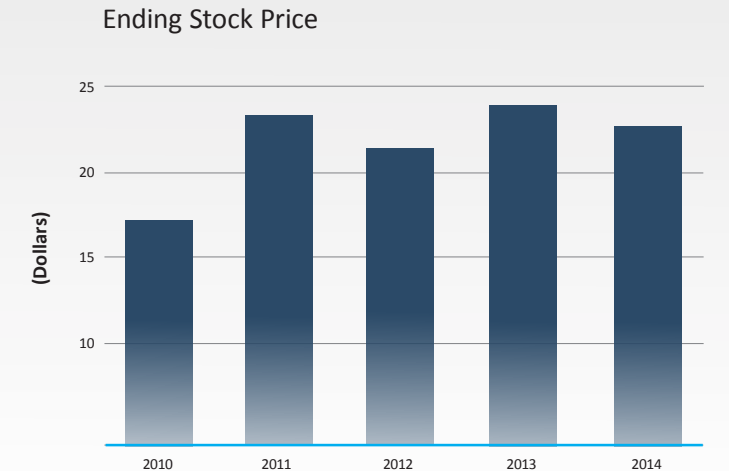
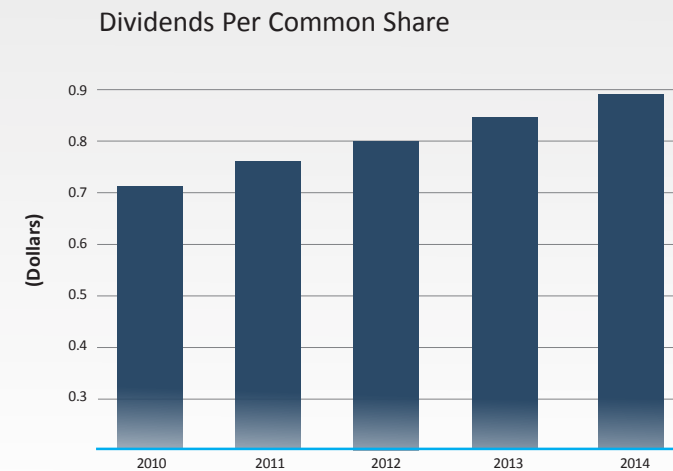
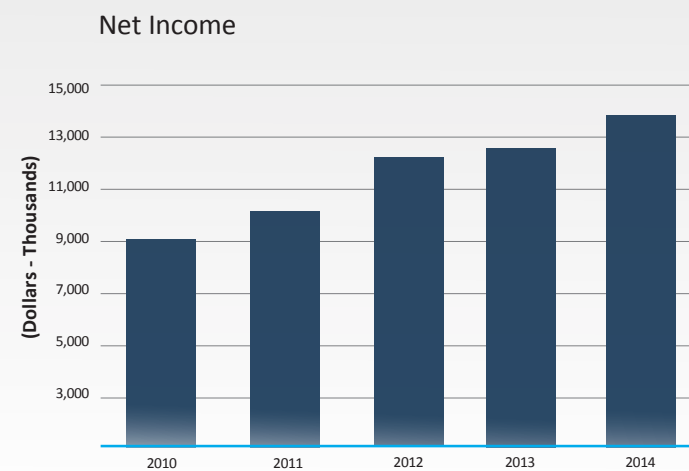
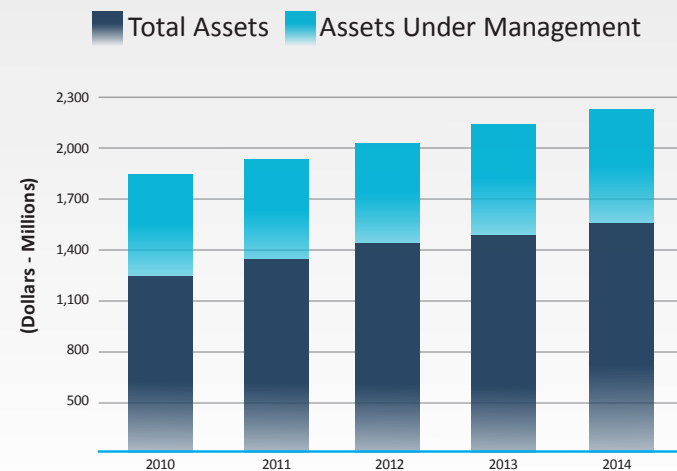
	2014	2013	2012	2011	2010
Balance Sheet Data*					
Gross Loans	\$ 833,582	\$ 808,037	\$ 772,753	\$ 750,291	\$ 735,304
Available-for-Sale Securities	\$ 567,534	\$ 512,062	\$ 504,010	\$ 425,120	\$ 330,724
Total Assets	\$ 1,549,543	\$ 1,493,137	\$ 1,430,639	\$ 1,337,925	\$ 1,225,810
Deposits	\$ 1,074,484	\$ 1,043,766	\$ 1,017,667	\$ 958,164	\$ 877,339
Borrowed Funds	\$ 289,709	\$ 279,326	\$ 241,001	\$ 216,136	\$ 194,917
Shareholders' Equity	\$ 174,594	\$ 160,609	\$ 164,489	\$ 154,783	\$ 145,161
Gross Loans to Deposits	77.58%	77.42%	75.93%	78.31%	83.81%

Assets Under Management*					
Loans Sold with Servicing Retained	\$ 288,639	\$ 293,665	\$ 303,425	\$ 302,636	\$ 312,252
Assets Managed by our Investment & Trust Services Department	\$ 383,878	\$ 351,420	\$ 319,301	\$ 297,393	\$ 307,983
Total Assets Under Management	\$ 2,222,060	\$ 2,138,222	\$ 2,053,365	\$ 1,937,954	\$ 1,846,045

Asset Quality*					
Nonperforming Loans to Gross Loans	0.50%	0.42%	1.00%	0.95%	0.83%
Nonperforming Assets to Total Assets	0.33%	0.32%	0.68%	0.67%	0.67%
Allowance for Loan and Lease Losses to Gross Loans	1.21%	1.42%	1.54%	1.65%	1.68%

Capital Ratios*					
Shareholders' Equity to Assets	11.27%	10.76%	11.50%	11.57%	11.84%
Tier 1 Capital to Average Assets	8.59%	8.46%	8.29%	8.18%	8.24%
Tier 1 Risk-Based Capital	14.08%	13.67%	13.23%	12.92%	12.44%
Total Risk-Based Capital	15.18%	14.92%	14.48%	14.17%	13.69%

* at end of year



BOARD OF DIRECTORS

Focused on the customer we place
our highest value on

INTEGRITY.

This is the foundation for every experience
we have with our customers.

-ISABELLA BANK CULTURE BOOK



Pictured left to right: G. Charles Hubscher, W. Michael McGuire, David J. Maness, Joseph LaFramboise, Dennis P. Angner, Dr. Jeffrey J. Barnes, Jae A. Evans, Thomas L. Kleinhardt, Sarah R. Opperman, Richard J. Barz, and W. Joseph Manifold, CPA



DAVID J. MANESS - Chairman
President,
Maness Petroleum Corporation

JAE A. EVANS
Chief Executive Officer,
Isabella Bank Corporation

DENNIS P. ANGNER
President and Chief Financial Officer,
Isabella Bank Corporation

DR. JEFFREY J. BARNES
Physician and Shareholder,
Lansing Ophthalmology, PC

RICHARD J. BARZ
Chief Executive Officer (retired),
Isabella Bank Corporation

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

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

THOMAS L. KLEINHARDT
President,
McGuire Chevrolet

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

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

SARAH R. OPPERMAN
Principal,
Opperman Consulting, LLC

SENIOR OFFICERS & DIVISION BOARDS

ISABELLA BANK CORPORATION OFFICERS

JAE A. EVANS
Chief Executive Officer

DENNIS P. ANGNER
President,
Chief Financial Officer

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

PEGGY L. WHEELER
Senior Vice President

DEBRA A. CAMPBELL
Vice President

CYNTHIA J. DIEHM
Vice President

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

PATRICK J. MEASE, SPHR, SHRM-SCP
Vice President

PATRICIA A. PLAXTON
Vice President

AMY C. VOGEL
Vice President,
Chief Risk Officer

AARON D. WIRSING
Vice President

ISABELLA BANK OFFICERS

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President

JEROME E. SCHWIND
Executive Vice President,
Chief Operations Officer

DAVID J. REETZ
Senior Vice President,
Chief Lending Officer

BARBARA B. DIEHM
Senior Vice President

THOMAS J. WALLACE
Senior Vice President

KIMBERLY K. BETTS
Vice President

JAMES L. BINDER
Vice President

JULIE F. BOLT
Vice President

ISABELLA BANK OFFICERS CONT.

MARK K. DENOYELLES
Vice President

RANDY J. DICKINSON, CPA, CTFA
Vice President

THOMAS N. GROSS
Vice President

MICHAEL K. HUENEMANN
Vice President

ROBERT K. MADSEN
Vice President

GREGORY S. MAPES
Vice President

GREGORY S. MATTHEWS
Vice President

ERIKA M. ROSS
Vice President

CARRIE S. SMITH
Vice President

JEFFREY W. SMITH
Vice President

LEO R. WICKERT, State Licensed Appraiser
Vice President

SANDY M. YUNCKER
Vice President

BRECKENRIDGE DIVISION OFFICERS

TIMOTHY M. MILLER
President

BRIAN K. GOWARD
Vice President

BARBARA K. MCKENZIE
Vice President

GREENVILLE DIVISION OFFICERS

RICHARD K. RUSSO
President

KATHY J. KORSON
Vice President

DAVID W. SEPPALA
Vice President

MECOSTA DIVISION OFFICERS

KEITH E. KENNEY
President

BRECKENRIDGE DIVISION BOARD OF DIRECTORS

GREGORY V. VARNER - Chairman

DENNIS P. ANGNER
DAVID J. KING
TIMOTHY M. MILLER
STEVEN D. PUNG
JEFFREY E. SHERWOOD
KIRK L. SMITH
BRENT C. WILSON

FARWELL DIVISION BOARD OF DIRECTORS

HERBERT R. MILLER - Chairman

THOMAS E. KEDROWSKI
THOMAS L. KLEINHARDT
W. MICHAEL MCGUIRE
STEVEN D. PUNG
LARRY R. SCHOFIELD

GREENVILLE DIVISION BOARD OF DIRECTORS

JAMES M. MULLENDORE, JR. - Chairman

DENNIS P. ANGNER
DR. KIRKWOOD E. FABER
DEBRA JORGENSEN-HUCH
ALEXANDER R. KEMP
GREGORY D. MILLARD
STEVEN D. PUNG
RICHARD K. RUSSO
BRIAN R. SACKETT

MECOSTA DIVISION BOARD OF DIRECTORS

DR. RALPH P. CREW
KEVIN J. DEFEVER
LAWRENCE E. EMIG
KEITH E. KENNEY
JOSEPH LAFRAMBOISE
STEVEN D. PUNG

While banking is a commodity, it is still a people
business, and people do business with people.
Our employees separate us from our competition.

-ISABELLA BANK CULTURE BOOK

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 a licensed broker, the Isabella Bank Investment and Trust Services Department, Boenning & Scattergood Inc., or Shareholder Services.

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

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

ANNUAL SHAREHOLDER MEETING

May 5, 2015 at 5:00 p.m.

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



401 NORTH MAIN STREET, MT. PLEASANT, MI 48858

27 CONVENIENT LOCATIONS

Barryton
Beal City
Big Rapids (2)

Blanchard
Breckenridge
Canadian Lakes

Clare (2)
Farwell
Freeland

Greenville
Hemlock
Ithaca

Lake
Lake Isabella
Midland

Mt. Pleasant (5)
Remus
Shepherd

Six Lakes
Stanton
Weidman