

ISABELLA BANK Corp  
Form DEF 14A  
March 25, 2019

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934  
(Amendment No. )

Filed by the Registrant  Filed by a Party other than the Registrant

Check the appropriate box:

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

ISABELLA BANK CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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- No fee required.
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  - 1) Title of each class of securities to which transaction applies:
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  - 3) Filing Party:
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ISABELLA BANK CORPORATION

401 N. Main St.

Mt. Pleasant, Michigan 48858

NOTICE OF THE ANNUAL MEETING OF SHAREHOLDERS

To Be Held May 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

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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	G an
David J. Maness	X			X	X				X		
Dr. Jeffrey J. Barnes	X			X	X		X				
Jill Bourland	X	X	X	X	X	X		X			
Jae A. Evans	X	X		X	X			X	X	X	X
G. Charles Hubscher	X			X	X						
Thomas L. Kleinhardt	X			X	X		X	X		X	
Joseph LaFramboise	X			X	X		X		X	X	
W. Joseph Manifold	X	X	X	X	X		X	X	X		
W. Michael McGuire	X	X	X	X	X		X	X	X		X
Sarah R. Opperman	X			X	X	X	X			X	
Jerome E. Schwind	X	X		X	X			X	X	X	X

Gregory V.  
Varner

X

X

X

X

X

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

Director	Audit	Nominating and Corporate Governance	Compensation and Human Resource
David J. Maness	X <sup>o</sup>	X <sup>o</sup>	X <sup>c</sup>
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 <sup>c</sup>		X
W. Michael McGuire	X	X <sup>c</sup>	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 Ewart, 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](http://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](http://www.isabellabank.com).

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

The Nominating and Corporate Governance Committee will consider, as potential nominees, persons recommended by shareholders. Recommendations should be submitted in writing to the Secretary of the Corporation, 401 N. Main St., Mt. Pleasant, Michigan 48858 and include the shareholder's name, address and number of shares of the



Corporation owned by the

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shareholder. The recommendation should also include the name, age, address and qualifications of the candidate. Recommendations for the 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](http://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](http://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

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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

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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.

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## Executive Officers

Executive officers are compensated in accordance with their employment with the applicable entity. The following table shows information on compensation earned in each of the last three fiscal years ended December 31, 2018, for the CEO, CFO, and our three other most highly compensated executive officers.

## Summary Compensation Table

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

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

For all named executives all other compensation includes 401(k) matching contributions. For Jae A. Evans, Jerome

(2) 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.

Executive officer salary includes compensation voluntarily deferred under our 401(k) plan. Director and advisory

(5) board fees are also included and are displayed in the following table for each the last three years ended December 31, 2018:

Name	Director and advisory board fees (\$)		
	2018	2017	2016
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.

Name	Plan name	Number of years of vesting service as of 01/01/18	Present value of accumulated benefit (\$)	Payments during last fiscal year
Jae A. Evans	Isabella Bank Corporation Pension Plan	N/A	\$	—\$ —
	Isabella Bank Corporation Retirement Bonus Plan	N/A	—	—
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.

Name	Plan Name	Executive contributions in 2018 (\$ (1))	Registrant contributions in 2018 (\$ (2))	Aggregate earnings in 2018 (\$ (3))	Aggregate balance at December 31, 2018 (\$ (4))
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:

Name	While an Active Employee	Subsequent to Retirement
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.

Name	Fees		Total fees earned (\$)
	Fees paid in cash (\$)(1)	deferred under Directors Plan (\$)(1)	
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

Directors electing to receive all fees in cash, resulting in no contributions to the Directors Plan, invest at least 25%<sup>(1)</sup> 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:

Name	# of stock units credited
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.

Name of Owner	Amount and Nature of Beneficial Ownership (1)	Percent of Class	
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	%

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.

(1) 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	\$434,534	\$348,288

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

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](http://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





