ISABELLA BANK CORP
Form DEF 14A
April 09, 2010

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

SCHEDULE 14A

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

Filed by the Registrant þ
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Check the appropriate box:

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

ISABELLA BANK CORPORATION

(Name of Registrant as Specified In Its Charter)

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

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

NOTICE OF THE ANNUAL MEETING OF SHAREHOLDERS
To Be Held May 4, 2010

Notice is hereby given that the Annual Meeting of Shareholders of Isabella Bank Corporation will be held on Tuesday, May 4, 2010 at 5:00 p.m. Eastern Standard Time, at the Comfort Inn, 2424 S. Mission Street, Mount Pleasant, Michigan. The meeting is for the purpose of considering and acting upon the following:

1. The election of five directors.

2. Such other business as may properly come before the meeting, or any adjournment or adjournments thereof.

The Board of Directors has fixed March 31, 2010 as the record date for determination of shareholders entitled to notice of, and to vote at, the meeting or any adjournments thereof.

Your vote is important. Even if you plan to attend the meeting, please date and sign the enclosed proxy form, indicate your choice with respect to the matters to be voted upon, and return it promptly in the enclosed envelope. Note that if stock is held in more than one name, all parties should sign the proxy form.

By order of the Board of Directors

Debra Campbell, Secretary

Dated: April 9, 2010

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

PROXY STATEMENT

General Information

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of Isabella Bank Corporation (the Corporation) a Michigan financial holding company, to be voted at the Annual Meeting of Shareholders of the Corporation to be held on Tuesday, May 4, 2010 at 5:00 p.m. at the Comfort Inn, 2424 S. Mission Street, Mount Pleasant, Michigan, or at any adjournment or adjournments thereof, for the purposes set forth in the accompanying Notice of Annual Meeting of Shareholders and in this Proxy Statement.

This Proxy Statement has been mailed on April 9, 2010 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

The Board of Directors of the Corporation has fixed the close of business on March 31, 2010 as the record date for the determination of shareholders entitled to notice of, and to vote at, the Annual Meeting of Shareholders and any adjournment thereof. The Corporation has only one class of common stock and no preferred stock. As of March 31, 2010, there were 7,543,506 shares of common stock of the Corporation outstanding. Each outstanding share entitles the holder thereof to one vote on each separate matter presented for vote at the meeting. Shareholders may vote on matters that are properly presented at the meeting by either attending the meeting and casting a vote or by signing and returning the enclosed proxy. If the enclosed proxy is executed and returned, it may be revoked at any time before it is exercised at the meeting. All shareholders are encouraged to date and sign the enclosed proxy, indicate their choice with respect to the matters to be voted upon, and return it to the Corporation.

The Corporation will hold the Annual Meeting of Shareholders if holders of a majority of the Corporation s shares of common stock entitled to vote are represented in person or by proxy at the meeting. If a shareholder signs and returns the proxy, those shares will be counted to determine whether the Corporation has a quorum, even if the shareholder abstains or fails to vote on any of the proposals listed on the proxy.

If a shareholder s shares are held in the name of a nominee, and the shareholder does not tell the nominee how to vote the shares (referred to as broker non-votes), then the nominee can vote them as they see fit only on matters that are determined to be routine and not on any other proposal. Broker non-votes will be counted as present to determine if a quorum exists but will not be counted as present and entitled to vote on any non-routine proposals.

In the election of directors, director nominees receiving a plurality of votes cast at the meeting will be elected directors of the Corporation. Shares not voted, including broker non-votes, have no effect on the election of directors.

Election of Directors

The Board of Directors is divided into three classes, with the directors in each class being elected for a term of three years. At the 2010 Annual Meeting of Shareholders five directors, James C. Fabiano, Dale D. Weburg, Theodore W. Kortes, Thomas L. Kleinhardt and Joseph LaFramboise, whose terms expire at the annual meeting, have been nominated for election through 2013 for the reasons described below.

Except as otherwise specified in the proxy, proxies will be voted for election of the five nominees. If a nominee becomes unable or unwilling to serve, proxies will be voted for such other person, if any, as shall be designated by the Board of Directors. However, the Corporation s management now knows of no reason to anticipate that this will occur. The five nominees for election as directors 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.

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Nominees for election and current directors are listed below. Also shown for each nominee and each current director is his or her principal occupation for the last five or more years, age and length of service as a director of the Corporation.

The Board of Directors recommends that shareholders vote FOR the election of each of the five director nominees nominated by the Board of Directors.

Director s Qualifications

The Corporation s Board of Directors (the Board) consists of 15 members who are all well qualified to serve on the Board and represent our shareholder s best interest. As described below, under the caption Nominating and Corporate Governance Committee the Board and Nominating and Corporate Governance Committee (the Nominating Committee) select nominees to the Board to establish a Board that is comprised of members who:

- Have extensive business leadership
- Bring a diverse perspective and experience
- Are independent 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 director nominee along with the other directors bring these qualifications to the Board. They provide a diverse complement of specific business skills, experience, and knowledge including extensive financial and accounting experience, knowledge of banking, small business operating experience, and specific knowledge of customer market segments, including agriculture, oil and gas, health care, food and beverage, manufacturing, and retail.

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 Standing 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 Culture	Geo-graphical Diversity	Finance	Tech-nology	Market-ing	Govern-ance	Entre-preneurial Skills	Human Resources	Bank Business Segment Represent-ation
James C. Fabiano	X			X	X					X		X	X	X
Theodore W. Kortes	X			X	X		X						X	
Thomas L. Kleinhardt	X			X	X		X			X		X		X
Joseph Laframboise	X			X	X		X			X				
Dale D. Weburg	X			X	X		X					X		X

Dennis P. Angner	X	X		X	X			X	X		X			
Jeffrey J. Barnes	X			X	X		X					X		X
G. Charles Hubscher	X	X		X	X							X		X
David J. Maness	X			X	X				X			X		X
W. Joseph Manifold	X	X	X	X	X			X	X					
William J. Strickler	X	X		X	X							X		X
Richard J. Barz	X	X		X	X			X		X			X	
Sandra L. Caul	X			X	X	X							X	X
W. Michael McGuire	X	X	X	X	X			X			X			
Dianne C. Morey	X			X	X	X						X	X	X

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

Director	Audit	Nominating and Corporate Governance	Compensation and Human Resource
James C. Fabiano	X$_{o}$	X$_{o}$	X$_{c,o}$
Theodore W. Kortes			X
Thomas L. Kleinhardt			X
Joseph LaFramboise	X		X
Dale D. Weburg		X$_{c}$	X
Dennis P. Angner			
Jeffrey J. Barnes			X
G. Charles Hubscher	X		X
David J. Maness	X	X	X
W. Joseph Manifold	X$_{c}$		X
William J. Strickler		X	X
Richard J. Barz			
Sandra L. Caul		X	X
W. Michael McGuire	X		X
Dianne C. Morey			X

C Chairperson
O Ex-Officio

Director Nominees for Terms Ending in 2013

James C. Fabiano (age 66) has been a director of Isabella Bank (the Bank) since 1979 and of the Corporation since 1988. Mr. Fabiano is Chairman and CEO of Fabiano Brothers, Inc., a wholesale beverage distributor operating in several counties throughout Michigan. Mr. Fabiano is a past recipient of the Mount Pleasant Area Chamber of Commerce Citizen of the Year award. He is also a past Chairman of Central Michigan University Board of Trustees.

Theodore W. Kortes (age 69) was appointed director of the Corporation on January 1, 2008, and of the Bank on January 1, 2010. Mr. Kortes was President and CEO of Greenville Community Bank and Greenville Community Financial Corporation since its founding in 1998, until his retirement in 2006.

Thomas L. Kleinhardt (55) has been a director of Isabella Bank since October 1998 and was appointed to the Corporation s Board of Directors effective January 1, 2010. Mr. Kleinhardt is President of McGuire Chevrolet, is active in the Clare Kiwanis Club, and coaches girls Junior Varsity Basketball team at Clare High School.

Joseph LaFramboise (60) has been a director of Isabella Bank since September 2007, and was appointed to the Corporation s Board of Directors effective January 1, 2010. He is a retired Sales and Marketing Executive of Ford Motor Company. Mr. LaFramboise is Ambassador of Eagle Village in Evart, Michigan.

Dale D. Weburg (age 66) has served as a director of the Breckenridge Division of Isabella Bank since 1987 and of the Bank and Corporation since 2000. Mr. Weburg is President of Weburg Farms, a cash crop farm operation. Mr. Weburg also serves as a trustee of the Board of Directors of Gratiot Health System.

Current Directors with Terms Ending in 2011

Dennis P. Angner (age 54) has been a director of the Corporation and Isabella Bank since 2000. Mr. Angner has been principally employed by the Corporation since 1984 and has served as President of the Corporation since December 30, 2001 and CFO since January 1, 2010. Mr. Angner served as Chief Executive Officer of the Corporation from December 30, 2001 through December 31, 2009. He is the past Chair of the Michigan Bankers Association, is a member of the American Bankers Association Government Relations Council, and has served on the Central Michigan American Red Cross board for over 20 years.

Jeffrey J. Barnes (47) has been a director of Isabella Bank since September 2007 and was appointed to the Corporation s Board of Directors effective January 1, 2010. Dr. Barnes is a physician and owner of Central Eye Consultants. He is a former member of the Central Michigan Community Hospital Board of Directors.

G. Charles Hubscher (56) has been a director of Isabella Bank since May 2004 and was appointed to the Corporation s Board of Directors effective January 1, 2010. Mr. Hubscher is the President of Hubscher and Son, Inc., a sand and gravel producer. He is a director of the National Stone and Gravel Association, the Michigan Aggregates Association, serves on the Board of Trustees for the Mt. Pleasant Area Community Foundation, and is a member of Zoning Board of Appeals for Deerfield Township.

David J. Maness (age 56) has been a director of Isabella Bank since 2003 and of the Corporation since 2004. He is President of Maness Petroleum, a geological and geophysical consulting services company. Mr. Maness previously served on the Mount Pleasant Public Schools Board of Education.

W. Joseph Manifold (age 58) has been a director of the Corporation since 2003 and of the Bank since January 1, 2010. Mr. Manifold is a Certified Public Accountant and CFO of Federal Broach Holdings LLC, a holding company which operates several manufacturing companies. Previously, he was a senior auditor 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 also served on the Isabella Community Credit Union Board and was Chairman of the Mount Pleasant Public Schools Board of Education.

William J. Strickler (age 69) has been a director of Isabella Bank since 1995 and of the Corporation since 2002. Mr. Strickler is President of Michiwest Energy, an oil and gas producer. Prior to joining the Corporation and the Bank Board he served as a director of the National City Community Bank Board.

Current Directors with Terms Ending in 2012

Richard J. Barz (age 61) has been a director of Isabella Bank since 2000 and of the Corporation since 2002. Mr. Barz has been employed by the Corporation since 1972 and has been Chief Executive Officer of the Corporation since January 1, 2010 and President and CEO of Isabella Bank since December 2001. Prior to his appointment as President and CEO, he served as Executive Vice President of Isabella Bank. Mr. Barz has been very active in community organizations and events. He is the past chairman of the Central Michigan Community Hospital Board of Directors, is the current chairman of the Middle Michigan Development Corporation Board of Directors, and serves on several boards and committees for Central Michigan University and various volunteer organizations throughout mid-Michigan.

Sandra L. Caul (age 66) has been a director of Isabella Bank since 1994 and of the Corporation since 2005. Ms. Caul is Vice Chairperson of the Central Michigan Community Hospital Board of Directors, Chairperson of the Mid Michigan Community College Advisory Board and board member for Central Michigan Community Mental Health Facilities. She also sits on the board of the Central Michigan American Red Cross. Ms. Caul retired in January 2005 as a state representative of the Michigan State House of Representatives. Ms. Caul is a registered nurse.

W. Michael McGuire (age 60) has been a director of the Corporation since 2007 and of the Bank since January 1, 2010. He is a director of the Farwell Division of Isabella Bank. Mr. McGuire is currently an attorney and 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.

Dianne C. Morey (63) has been a director of Isabella Bank since December 2000 and was appointed to the Corporation s Board of Directors effective January 1, 2010. Mrs. Morey is an owner of Bandit Industries, Inc., a forestry equipment manufacturer. She serves as a Trustee for the Mt Pleasant Area Community Foundation.

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

Other Named Executive Officers

Timothy M. Miller (age 59), President of the Breckenridge Division of Isabella Bank and a member of its Board of Directors, has been an employee of the Corporation since 1985. Peggy L. Wheeler (age 50), Senior Vice

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President and Controller of the Corporation, has been employed by the Corporation since 1977. Steven D. Pung (age 60), Chief Operations Officer of Isabella Bank and a member of the Board of Directors of Financial Group Information Services (a wholly owned subsidiary of the Corporation) has been employed by the Corporation since 1978.

All officers of the Corporation serve at the pleasure of the Corporation s Board of Directors.

Corporate Governance

Director Independence

The Corporation has adopted the director independence standards as defined under Rule 5605(a)(2) of the NASDAQ Marketplace Rules. The Board has determined that James C. Fabiano, Dale D. Weburg, David J. Maness, W. Joseph Manifold, William J. Strickler, Sandra L. Caul, W. Michael McGuire, Ted W. Kortes, Thomas L. Kleinhardt, Joseph LaFramboise, Jeffrey J. Barnes, Dianne C. Morey, G. Charles Hubscher are independent directors. Dennis P. Angner is not independent as he is employed as President and Chief Financial Officer of the Corporation. Richard J. Barz is not independent as he is employed as Chief Executive Officer of the Corporation.

Board Leadership Structure and Risk Oversight

The Corporation s Governance policy provides that only directors who are deemed to be independent as set forth by NASDAQ and SEC rules are eligible to hold the office of Chairman of the Board. Additionally, the chairpersons of Board established committees must also be independent directors. It is the Board s belief that the having a separate Chairman and Chief Executive Officer best serves the interest of the shareholders. The Board of Directors elects its chairperson at the first Board meeting following the annual meeting. Independent members of the Board of Directors meet without insider directors at least twice per year.

Management is responsible for the Corporation s 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, financial, and governance. Financial Group Information Services, the Corporation s information processing subsidiary is responsible for overseeing risks associated with information technology. The Isabella Bank Board of Directors is responsible for overseeing credit, investment, interest rate, and trust risks. The chairpersons of the respective boards or committees report on their activities on a regular basis.

The Audit Committee is responsible for the integrity of the consolidated financial statements of the Corporation; the independent auditors qualifications and independence; the performance of the Corporation s, and its subsidiaries internal audit function and independent auditors; the Corporation s system of internal controls; the Corporation s financial reporting and system of disclosure controls; and the compliance by the Corporation with legal and regulatory requirements and with the Corporation s Code of Business Conduct and Ethics.

Committees of the Board of Directors and Meeting Attendance

The Board met 13 times during 2009. All incumbent directors attended 75% or more of the meetings held in 2009. 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 who meet the requirements for independence as defined in Rule 5605(a)(2)of the NASDAQ Marketplace Rules. Information regarding the functions performed by the Committee, its membership, and the number of meetings held during the year, is set forth in the Report of the Audit Committee included elsewhere in this annual proxy statement. The Audit Committee is governed by a written charter approved by the Board. The Audit Committee Charter is available on the Bank s website, www.isabellabank.com, under the Investor Relations tab.

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In accordance with the provisions of the Sarbanes Oxley Act of 2002, directors Manifold and McGuire meet the requirements of Audit Committee Financial Expert and have been so designated by the Board. The current Committee also consists of directors Fabiano, Hubscher, LaFramboise, and Maness.

Nominating and Corporate Governance Committee

The Corporation has a standing Nominating and Corporate Governance Committee consisting of independent directors who meet the requirements for independence as defined in Rule 5605(a)(2) of NASDAQ Marketplace Rules. The Committee consists of directors Caul, Fabiano, Manifold, Strickler and Weburg. The Nominating and Corporate Governance Committee held two meetings in 2009, and all directors attended 75% or more of the meetings. The Board has approved a Nominating and Corporate Governance Committee Charter which is available on the Bank s website www.isabellabank.com under the Investor Relations tab.

The Nominating and Corporate Governance Committee is responsible for evaluating and recommending individuals for nomination to the Board for approval. The 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. The Committee considers diversity in identifying members with respect to geographical markets served by the Corporation 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., Mount Pleasant, Michigan 48858 and include the shareholder s name, address and number of shares of the Corporation owned by the shareholder. The recommendation should also include the name, age, address and qualifications of the recommended candidate for nomination. Recommendations for the 2010 Annual Meeting of Shareholders should be delivered no later than December 10, 2010. The Nominating and Corporate Governance Committee does not evaluate potential nominees for director differently based on whether they are recommended to the Nominating and Corporate Governance Committee by a shareholder or otherwise.

Compensation and Human Resource Committee

The Compensation and Human Resource Committee of the Corporation is responsible for reviewing and recommending to the Corporation s Board the compensation of the President and executive officers of the Corporation, benefit plans and the overall percentage increase in salaries. The committee consists of independent directors, who meet the requirements for independence as defined in Rule 5605(a)(2) of the NASDAQ Marketplace Rules. The current Committee consists of directors Fabiano, Barnes, Caul, Hubscher, Kleinhardt, Kortes, LaFramboise, McGuire, Maness, Manifold, Morey, Strickler, and Weburg. The Committee held two meetings during 2009 with all directors attending the meetings. This Committee is governed by a written charter approved by the Board that is available on the Bank s website www.isabellabank.com under the Investor Relations tab.

Communications with the Board

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

Code of Ethics

The Corporation has adopted a Code of Business Conduct and Ethics that is applicable to the Corporation s Chief Executive Officer and the Chief Financial Officer. The Corporation s Code of Business Conduct and Ethics is available on the Bank s website www.isabellabank.com under the Investor Relations tab.

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Report of the Audit Committee

The Audit Committee oversees the Corporation s financial reporting process on behalf of the Board. The 2009 Committee consisted of directors Fabiano, Caul, Maness, Manifold, McGuire, and Weburg.

The Audit Committee is responsible for pre-approving all auditing services and permitted non-audit services over $5,000 for the Corporation by its independent auditors or any other auditing or accounting firm, except as noted below. 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 of Directors.

Management has the primary responsibility for the consolidated financial statements and the reporting process including the systems of internal controls. In fulfilling its oversight responsibilities, the Audit Committee reviewed the audited consolidated financial statements in the Annual Report with management including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in the consolidated financial statements. The Audit Committee also reviewed with management and the independent auditors, management s assertion on the design and effectiveness of the Corporation s internal control over financial reporting as of December 31, 2009.

The Audit Committee reviewed with the Corporation s independent auditors, who are responsible for expressing an opinion on the conformity of those audited consolidated financial statements with accounting principles generally accepted in the United States of America, their judgments as to the quality, not just the acceptability, of the Corporation s accounting principles and such other matters as are required to be discussed with the Audit Committee by the standards of the Public Company Accounting Oversight Board (United States), including those described in AU Section 380 Communication 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 accountants required by PCAOB Rule 3526, Communication with Audit Committees Concerning Independence, as may be modified or supplemented, and has discussed with the independent accountant the independent accountants independence.

The Audit Committee discussed with the Corporation s 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 the Corporation s internal controls and the overall quality of the Corporation s financial reporting process. The Audit Committee held seven meetings during 2009, and all committee members attended 75% or more of the meetings.

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, 2009 for filing with the Securities and Exchange Commission. The Audit Committee has appointed Rehmann Robson as the independent auditors for the 2010 audit.

G. Charles Hubscher and Joseph LaFramboise became members of the Board and the Audit Committee as of January 1, 2010 and therefore did not participate in any of the reviews or other procedures set forth above with respect to the year ended December 31, 2009.

Respectfully submitted,

W. Joseph Manifold, Audit Committee Chairperson
James C. Fabiano
Sandra L. Caul

David J. Maness
W. Michael McGuire
Dale D. Weburg

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Compensation Discussion and Analysis

The Compensation and Human Resource Committee (the Committee) is responsible for the compensation and benefits for the President and executive officers of the Corporation. The Committee evaluates and approves the executive officer and senior management compensation plans, policies and programs of the Corporation and its affiliates. The Committee also evaluates and establishes the compensation of the Chief Executive Officer and President and Chief Financial Officer of the Corporation. The Chief Executive Officer, Richard J. Barz, conducts annual performance reviews for other Named Executive Officers, excluding himself. Mr. Barz recommends an appropriate salary increase to the Committee based on the performance review and the officer s years of service along with competitive market data.

Compensation Objectives

The Committee considers asset growth and earnings per share to be the primary ratios in measuring financial performance. The Corporation s 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. The Corporation believes 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 the Committee are to effectively balance salaries and potential compensation to an officer s individual management responsibilities and encourage them to realize their potential for future contributions to the Corporation. The objectives are designed to attract and retain high performing executive officers who will lead the Corporation while attaining the Corporation s earnings and performance goals.

What the Compensation Programs are Designed to Reward

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

Review of Risks Associated with Compensation Plans

Based on an analysis conducted by management and reviewed by the Committee, management does not believe that the Corporation s compensation programs for employees are reasonably likely to have a material short or long term adverse effect on the Corporation s Results of Operation.

Elements of Compensation

The Corporation s executive compensation program has consisted primarily of base salary and benefits, annual cash bonus incentives, stock awards for insider directors, and participation in the Corporation s retirement plans.

Why Each of the Elements of Compensation is Chosen

Base Salary and Benefits are set to provide competitive levels of compensation to attract and retain officers with strong motivated leadership. Each officer s performance, current compensation, and responsibilities within the Corporation are considered by the Committee when establishing base salaries. The Corporation also believes it is best to pay sufficient base salary because it believes 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. Base salary encourages management to operate the Corporation in a safe and sound manner even when incentive goals may prove unattainable.

Annual Performance Incentives are used to reward executive officers for the Corporation s overall financial performance. This element of the Corporation s compensation programs is included in the overall compensation in

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order to reward employees above and beyond their base salaries when the Corporation s performance and profitability exceed established annual targets. The inclusion of incentive compensation encourages management to be more creative, diligent and exhaustive in managing the Corporation to achieve specific financial goals.

Stock Awards are also provided as they are the element of compensation that is most effective in aligning the financial interests of management with those of shareholders and because stock awards are a traditional and well-proven element of compensation among community banks and bank holding companies. These stock awards are granted pursuant to the Isabella Bank Corporation and Related Companies Deferred Compensation Plan for Directors (Directors Plan), under which eligible executive officers elect to defer their director fees, which deferred fees are then converted, on a quarterly basis, into shares of the Corporation s common stock. The Corporation has established a Trust to fund the Directors Plan. The directors of the Corporation and its subsidiaries are required to defer at least 25% of their earned board fees into the Directors Plan.

Retirement Plans. The Corporation s retirement plans are designed to assist executives in providing themselves with a financially secure retirement. The retirement plans include: a frozen defined benefit pension plan, a 401(k) plan, and a non-leveraged employee stock ownership plan (ESOP), which is frozen to new participants, and a retirement bonus plan.

How the Corporation Chose Amounts for Each Element

The Committee s approach to determining the annual base salary of executive officers is to offer competitive salaries in comparison with other comparable financial institutions. The Committee utilizes both an independent compensation survey prepared by SNL Financial and a survey prepared by the Michigan Bankers Association of similar sized Michigan based institutions. Compensation for 2009 was based on the compensation information provided by these organizations for 2008. 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 annual performance incentive is based on goals set on individual performance and recognition of individual performance. A subjective analysis is conducted by the Chief Executive Officer. The Chief Executive Officer makes a recommendation to the Committee for the appropriate amount for each individual executive officer. The Committee reviews, modifies, if necessary, and approves the recommendations of the Chief Executive Officer. The Committee reviews the performance of the Chief Executive Officer. The Committee uses the following factors as quantitative measures of corporate performance in determining annual cash bonus amounts to be paid:

- Peer group financial performance compensation
- 1 and 5 year shareholder returns
- Earnings per share and earnings per share growth
- Budgeted as compared to actual annual operating performance
- Community and industry involvement
- Results of audit and regulatory exams
- Other strategic goals as established by the board of directors

While no particular weight is given to any specific factor, the Committee gives at least equal weight to the subjective analyses as described above.

Stock awards are granted pursuant to the Director s Plan, under which participants elect to defer their director fees, which director fees are then converted, on a quarterly basis, into shares of the Corporation s common stock based on the fair market value of a share of the Corporation s common stock at that time. Shares of stock credited to a participant s account under the Directors Plan are eligible for stock and cash dividends as payable.

Total compensation in 2009 was based on the Committee targeting its executive officer s compensation to approximate the median of the ranges provided by an independent consultant and Michigan Bankers Association surveys.

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Retirement plans. The Corporation has a 401(k) plan in which substantially all employees are eligible to participate. Employees may contribute up to 50% of their compensation subject to certain limits based on federal tax laws. As a result of the curtailment of the defined benefit plan noted below, the Corporation increased the contributions to the 401(k) plan effective January 1, 2007. The Corporation makes a 3.0% safe harbor contribution for all eligible employees and matching contributions equal to 50% of the first 4.0% of an employee s compensation contributed to the Plan during the year. Employees are 100% vested in the safe harbor contributions and are 0% vested through their first two years of employment and are 100% vested after 6 years of service for matching contributions.

The Corporation maintains a non-leveraged employee stock ownership plan (ESOP) which covers substantially all of its employees. The plan was frozen effective December 31, 2006 to new participants. Contributions to the plan are discretionary and approved by the Board of Directors.

The Corporation maintains a plan for officers to provide death benefits to each participant. Insurance policies, designed primarily to fund death benefits, have been purchased on the life of each participant with the Corporation as the sole owner and beneficiary of the policies.

The retirement bonus plan is a nonqualified plan of deferred compensation benefits for eligible employees effective January 1, 2007. An initial amount has been credited for each eligible employee as of January 1, 2007. Subsequent amounts will be credited on each allocation date thereafter as defined in the plan. The amount of the initial allocation and the annual allocation are determined pursuant to the payment schedule adopted at the sole and exclusive discretion of the Board of Directors, as set forth in the plan.

In December 2006, the Board of Directors voted to curtail the defined benefit plan effective March 1, 2007. The effect of the curtailment was recognized in the first quarter of 2007 and the current participants accrued benefits were frozen as of March 1, 2007. Participation in the plan was limited to eligible employees as of December 31, 2006.

How Elements Fit into Overall Compensation Objectives

The elements of the Corporation s compensation are structured to reward past and current performance, continued service and motivate its leaders to excel in the future. The Corporation s salary compensation has generally been used to retain and attract motivated leadership. The Corporation intends to continually ensure salaries are sufficient to attract and retain exceptional officers. The Corporation s cash bonus incentive rewards current performance based upon personal and corporate goals and targets. The Corporation makes stock awards to motivate its eligible officers to enhance value for shareholders by aligning the interests of management with those of its shareholders.

As part of its goal of attracting and retaining quality team members, the Corporation has developed employee benefit plans that make it stand out from the rest of the competition. Management feels that the combination of all of the plans listed above makes the Corporation s total compensation packages attractive.

Compensation and Human Resources Committee Report

The following Report of the Compensation and Human Resource Committee 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 Securities Exchange Act of 1934, except to the extent the Corporation specifically incorporates this Report by reference therein.

The Compensation and Human Resource Committee, which includes 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 of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement and Annual Report on Form 10-K.

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G. Charles Hubscher, Thomas L. Kleinhardt, Joseph LaFramboise and Dianne C. Morey became members of the Board and the Compensation and Human Resources Committee as of January 1, 2010 and therefore did not participate in any of the reviews or other procedures set forth above with respect to the year ended December 31, 2009.

Submitted by the Compensation and Human Resource Committee of Isabella Bank Corporation s Board of Directors:

James C. Fabiano, Chairperson
Sandra L. Caul
Ted W. Kortes
David J. Maness
W. Joseph Manifold
W. Michael McGuire
William J. Strickler
Dale D. Weburg

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Executive Officers

Executive Officers of the Corporation are compensated in accordance with their employment with the applicable entity. The following table shows information on compensation earned from the Corporation or its subsidiaries for each of the last three fiscal years ended December 31, 2009, for the Chief Executive Officer, the Chief Financial Officer, and the Corporation s three most highly compensated executive officers.

Summary Compensation Table

Name and Principal Position	Year	Salary ($)(1)	Bonus ($)(1)	Stock Awards ($)	Change in pension Value and Non-Qualified Deferred Compensation Earnings ($)	All Other Compensation ($)(2)	Total ($)
Richard J. Barz	2009	$ 320,600	$ 9,625	$ 33,650	$ 46,219	$ 30,568	$ 440,662
CEO Isabella Bank Corporation	2008	300,785	9,100	32,490	72,622	22,697	437,694
President and CEO Isabella Bank	2007	274,706	7,875	18,125		23,226	323,932
Dennis P. Angner	2009	311,375	9,800	48,050	19,450	25,252	413,927
President and CFO	2008	294,670	9,450	41,425	28,089	18,453	392,087
Isabella Bank Corporation	2007	288,101	8,225	26,280	(7,000)	18,715	334,321
Timothy M. Miller	2009	167,200	7,319	7,400	2,765	17,323	202,007
President of the Breckenridge	2008	160,145	3,200	6,715	3,411	14,127	187,598
Division of Isabella Bank	2007	155,171		7,880	(1,000)	14,167	176,218
Steven D. Pung	2009	126,200	6,003	900	28,140	18,468	179,711
Sr. Vice President and COO	2008	117,100	3,785	1,125	45,884	13,169	181,063
Isabella Bank	2007	108,100	3,625	1,800		14,194	127,719
Peggy L. Wheeler	2009	110,000	5,348		9,000	5,649	129,997
Sr. Vice President and Controller	2008	105,000	3,500		13,000	2,216	123,716
Isabella Bank Corporation	2007	100,000	3,000		(3,000)	2,023	105,023

(1) Includes compensation voluntarily deferred under the Corporation s 401(k) plan. Directors fees paid in cash are also included, for calendar years 2009, 2008 and 2007 respectively as follows: Dennis P. Angner $11,375, $14,670, and $23,870; Richard J. Barz $25,600, $25,785, and $20,475; and Timothy M. Miller $19,500, $17,445, and $20,940.

(2) For all noted executives all other compensation includes 401(k) matching contributions. For Richard J. Barz, and Steven D. Pung, this also includes club dues and auto allowance. For Dennis P. Angner and Timothy M. Miller,

this also includes auto allowance.

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2009 Pension Benefits

The following table indicates the present value of accumulated benefits as of December 31, 2009 for each named executive in the summary compensation table.

Name	Plan name	Number of Years of Credited Service as of 01/01/09 (#)	Present Value of Accumulated Benefit ($)	Payments During Last Fiscal Year
Richard J. Barz	Isabella Bank Corporation Pension Plan	35	$ 681,000	$
	Isabella Bank Corporation Retirement Bonus Plan	35	235,567	
Dennis P. Angner	Isabella Bank Corporation Pension Plan	23	329,000	
	Isabella Bank Corporation Retirement Bonus Plan	23	225,193	
Timothy M. Miller	Isabella Bank Corporation Pension Plan	6	70,000	
Steven D. Pung	Isabella Bank Corporation Pension Plan	28	342,000	
	Isabella Bank Corporation Retirement Bonus Plan	28	125,342	
Peggy L. Wheeler	Isabella Bank Corporation Pension Plan	28	88,000	
	Isabella Bank Corporation Retirement Bonus Plan	28	56,910	

Defined benefit pension plan. The Corporation sponsors the Isabella Bank Corporation Pension Plan, a frozen defined benefit pension plan. In December 2006, the Board of Directors voted to curtail the defined benefit plan effective March 1, 2007. The effect of the curtailment, which was recognized in the first quarter of 2007, froze the current participant s accrued benefits as of March 1, 2007 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 with the Corporation.

Annual contributions are made to the plan as required by accepted actuarial principles, applicable federal tax laws, and expenses of 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, effective through December 31, 2006.

A participant may earn a benefit for up to 35 years of accredited service. Earned benefits are 100 percent 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.

Richard J. Barz, Timothy M. Miller, and Steven D. Pung are eligible for early retirement under the Isabella Bank Corporation Pension 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. The Corporation sponsors the Isabella Bank Corporation Retirement Bonus Plan. The Retirement Bonus Plan is a nonqualified plan of deferred compensation benefits for eligible employees effective January 1, 2007. This plan is intended to provide eligible employees with additional retirement benefits. To be eligible, the employee needed to be employed by the Corporation on January 1, 2007, and be a participant in the Corporation s frozen Executive Supplemental Income Agreement. Participants must also be an officer of the Corporation with at least 10 years of service as of December 31, 2006. The Corporation has sole and exclusive discretion to add new participants to the plan by authorizing such participation pursuant to action of the Corporation s Board of Directors.

An initial amount has been credited for each eligible employee as of January 1, 2007. Subsequent amounts shall be credited on each allocation date thereafter as defined in the plan. The amount of the initial allocation and the

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annual allocation shall be determined pursuant to the payment schedule adopted by the sole and exclusive discretion of the Board, as set forth in the Plan.

Richard J. Barz, Timothy M. Miller, and Steven D. Pung are eligible for early retirement under the Isabella Bank Corporation Retirement Bonus 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.

2009 Nonqualified Deferred Compensation

Name	Executive Contributions in Last FY ($)	Aggregate Earnings in Last FY ($)	Aggregate Balance at Last FYE ($)
Richard J. Barz	$ 33,650	$ 2,217	$ 70,120
Dennis P. Angner	48,050	2,971	94,933
Timothy M. Miller	6,715	631	19,440
Steven D. Pung	1,125	139	4,098
Peggy L. Wheeler			

The directors of the Corporation and its subsidiaries are required to defer at least 25% of their earned board fees into the Directors Plan and may defer up to 100% of their earned fees based on their annual election. These amounts are reflected in the 2009 nonqualified deferred compensation table above. Under the Directors Plan, these deferred fees are converted on a quarterly basis into shares of the Corporation s common stock based on the fair market value of shares of the Corporation s common stock at that time. Shares credited to a participant s account are eligible for stock and cash dividends as payable.

Distribution from the Directors Plan occurs when the participant retires from the Board, attains age 70 or upon the occurrence of certain other events. Distributions must take the form of shares of the Corporation s common stock. Any Corporation common stock issued under the Directors Plan will be considered restricted stock under the Securities Act of 1933, as amended.

Potential Payments Upon Termination or Change in Control

The estimated payments payable to each named executive officer upon severance from employment, retirement, termination upon death or disability or termination following a change in control of the Corporation are described below. For all termination scenarios, the amounts assume such termination took place as of December 31, 2009.

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.

Unused vacation pay.

Retirement

In the event of the retirement of an executive officer, the officer would receive the benefits identified above. As of December 31, 2009, the named executive officers listed had no unused vacation days.

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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 the Corporation s life insurance plan or benefits under the Corporation s 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
Richard J. Barz	$ 590,000	$ 295,000
Dennis P. Angner	600,000	300,000
Timothy M. Miller	295,400	147,700
Steven D. Pung	252,400	126,200
Peggy L. Wheeler	220,000	110,000

Change in Control

The Corporation currently does not have a change in control agreement with any of the executive officers; provided, however, pursuant to the Retirement Bonus Plan each participant would become 100% vested in their benefit under the plan if, following a change in control, they voluntarily terminate employment or are terminated without just cause.

Director Compensation

The following table summarizes the Compensation of each non-employee director who served on the Board of Directors during 2009.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Change in Pension Value and Non-Qualified Deferred Compensation Earnings ($)	Total ($)
Jeffrey J. Barnes	$	$ 17,900	$ (3,564)	$ 14,336
Sandra L. Caul	10,762	30,063	(69,293)	(28,468)
James Fabiano		55,100	(188,982)	(133,882)
G. Charles Hubscher		24,200	(12,609)	11,591
Thomas L. Kleinhardt		24,500	(37,979)	(13,479)
Ted W. Kortes	20,467	8,933	(1,789)	27,611
Joseph LaFramboise		22,350	(3,684)	18,666

David J. Maness	44,375	(32,785)	11,590
W. Joseph Manifold	27,375	(21,952)	5,423
W. Michael McGuire	29,200	(14,910)	14,290
Dianne C. Morey	19,050	(22,802)	(3,752)
William J. Strickler	49,767	(85,814)	(36,047)
Dale D. Weburg	35,775	(44,427)	(8,652)

The Corporation paid a $6,000 retainer plus $1,000 per board meeting to its directors during 2009 and $225 per committee meeting attended.

Pursuant to the Directors Plan the directors of the Corporation and its subsidiaries are required to defer at least 25% of their earned board fees. Under the Directors Plan, deferred directors fees are converted on a quarterly basis into shares of the Corporation s common stock, based on the fair market value of a share of the Corporation s

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common stock at that time. Shares of stock credited to a participant s account are eligible for cash and stock dividends as payable. Participants deferred $529,740 under the Directors Plan in 2009.

Upon a participant s attainment of age 70, retirement from the Board, or the occurrence of certain other events, the participant is eligible to receive a lump-sum, in-kind distribution of all of the stock that is then credited to his or her 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.

The Corporation established a Trust effective as of January 1, 2008 to fund the Directors Plan. The Trust is an irrevocable grantor trust to which the Corporation may contribute assets for the limited purpose of funding a nonqualified deferred compensation plan. Although the Corporation may not reach the assets of the Trust for any purpose other than meeting its obligations under the Directors Plan, the assets of the Trust remain subject to the claims of the Corporation s creditors. The Corporation may contribute cash or common stock to the Trust from time to time for the sole purpose of funding the Directors Plan. The Trust will use any cash that the Corporation may contribute to purchase shares of the Corporation s common stock.

The Corporation transferred $557,798 to the Trust in 2009, which held 30,626 shares of the Corporation s common stock for settlement as of December 31, 2009. As of December 31, 2009, there were 186,279 shares of stock credited to participants accounts as adjusted for the 10% stock dividend paid on February 29, 2008, 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 Trust. All amounts are unsecured claims against the Corporation s general assets. The net cost of this benefit to the Corporation was $139,109 in 2009.

The following table displays the number of equity shares granted pursuant to the terms of the Directors Plan as of December 31, 2009:

Name	**# of Shares of Stock Granted**
Dennis P Angner	5,009
Jeffrey J. Barnes	1,651
Richard J. Barz	3,700
Sandra L. Caul	15,167
James Fabiano	39,924
G. Charles Hubscher	3,766
Thomas L. Kleinhardt	8,746
Ted W. Kortes	825
Joseph LaFramboise	1,918
David J. Maness	8,767
W. Joseph Manifold	5,750
W. Michael McGuire	4,468
Dianne C. Morey	5,480
William J. Strickler	19,443
Dale D. Weburg	10,580

Compensation and Human Resource Committee Interlocks and Insider Participation

The Compensation and Human Resource Committee of the Corporation is responsible for reviewing and recommending to the Corporation s Board the compensation of the President and executive officers of the Corporation, benefit plans and the overall percentage increase in salaries. The committee consists of directors Fabiano, Barnes, Caul, Hubscher, Kleinhardt, Kortes, LaFramboise, Maness, Manifold, McGuire, Morey, Strickler, and Weburg.

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Indebtedness of and Transactions with Management

Certain directors and officers of the Corporation and members of their families were loan customers of Isabella Bank, or have been directors or officers of corporations, or partners of partnerships which have had transactions with the Bank. In management s 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 $4,142,000 as of December 31, 2009. The Corporation addresses transactions with related parties in its *Code of Business Conduct and Ethics* policy. Conflicts of interest are prohibited as a matter of Corporation policy, except under guidelines approved by the Board of Directors or committees of the Board.

Security Ownership of Certain Beneficial Owners and Management

As of March 31, 2010 the Corporation does not have any person who is known to the Corporation to be the beneficial owner of more than 5% of the common stock of the Corporation.

The following table sets forth certain information as of March 31, 2010 as to the common stock of the Corporation owned beneficially by each director and director nominee, by each named executive officer, and by all directors, director nominees and executive officers of the Corporation as a group. The shares to be granted from stock awards are not included in the table below.

	Amount and Nature of Beneficial Ownership			
Name of Owner	**Sole Voting and Investment Powers**	**Shared Voting and Investment Powers**	**Total Beneficial Ownership**	**Percentage of Common Stock Outstanding**
Dennis P. Angner*	17,782		17,782	0.24%
Jeffrey J. Barnes		5,439	5,439	0.07%
Richard J. Barz*	19,997		19,997	0.27%
Sandra L. Caul		10,390	10,390	0.14%
James C. Fabiano	261,387		261,387	3.47%
G. Charles Hubscher	26,892	3,283	30,175	0.40%
Thomas L. Kleinhardt	10,065		10,065	0.13%
Theodore W. Kortes		12,000	12,000	0.16%
Joseph LaFramboise	728		728	0.01%
David J. Maness	447		447	0.01%
W. Joseph Manifold	565		565	0.01%
W. Michael McGuire	231,983		231,983	3.08%
Dianne C. Morey	38,647		38,647	0.51%
William J. Strickler	76,902		76,902	1.02%
Dale D. Weburg	26,711	30,396	57,107	0.76%
Timothy M. Miller	3,301		3,301	0.04%
Steven D. Pung	17,102		17,102	0.23%
Peggy L. Wheeler	4,270	2,498	6,768	0.09%

All Directors, nominees and Executive Officers as a Group (18 persons)	736,779	64,006	800,785	10.64%

* Trustees of the ESOP who vote ESOP stock.

Independent Registered Public Accounting Firm

The Audit Committee has appointed Rehmann Robson as the independent auditors of the Corporation for the year ending December 31, 2010.

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

Fees for Professional Services Provided by Rehmann Robson P.C.

The following table shows the aggregate fees billed by Rehmann Robson for the audit and other services provided to the Corporation for 2009 and 2008.

	2009	2008
Audit fees	$ 288,810	$ 238,275
Audit related fees	22,860	52,415
Tax fees	39,784	65,257
Other professional services fees	10,675	15,098
Total	$ 362,129	$ 371,045

The audit fees were for performing the integrated audit of the Corporation s consolidated annual financial statements, and the audit of internal control over financial reporting related to the Federal Deposit Insurance Corporation Improvement Act (2009 only), review of interim quarterly financial statements included in the Corporation s Forms 10-Q, auditing of the Corporation s employee benefit plans and services that are normally provided by Rehmann Robson 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 2008, there were also fees for regulatory filings and procedures related to the acquisition of Greenville Community Financial Corporation.

The tax fees were for the preparation of the Corporation and its subsidiaries state and federal tax returns and for consultation with the Corporation on various tax matters. The tax fees for 2008 include fees related to tax consulting for an audit conducted by the State of Michigan for Single Business Tax (SBT), the 2007 Greenville Community Financial Corporation final tax return preparation, and tax consulting related to the joint venture with CT/IBT Title (refer to Note 2 of the Corporation s consolidated financial statements). During 2009 tax fees also included consulting related to the new State of Michigan Business Tax (MBT).

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

Pre-Approval Policies and Procedures

All audit and non-audit services over $5,000 to be performed by Rehmann Robson must be approved in advance by the Audit Committee. As permitted by the SEC s 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

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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 2009 and 2008 without pre-approval as required under the Corporation s policies.

Shareholder Proposals

Any proposals which shareholders of the Corporation intend to present at the next annual meeting of the Corporation must be received before December 10, 2010 to be considered for inclusion in the Corporation s 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

The Corporation s directors are encouraged to attend the annual meeting of shareholders. At the 2009 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 the Corporation s directors and certain officers and persons who own more than ten percent of the Corporation s common stock, to file with the SEC initial reports of ownership and reports of changes in ownership of the Corporation s common stock. These officers, directors, and greater than ten percent shareholders are required by SEC regulation to furnish the Corporation with copies of these reports.

To the Corporation s knowledge, based solely on review of the copies of such reports furnished to the Corporation, during the year ended December 31, 2009 all Section 16(a) filing requirements were satisfied, with respect to the applicable officers, directors, and greater than 10 percent beneficial owners.

Other Matters

The cost of soliciting proxies will be borne by the Corporation. In addition to solicitation by mail, officers and other employees of the Corporation 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

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

By order of the Board of Directors

Debra Campbell, Secretary

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Isabella Bank Corporation

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SUMMARY OF SELECTED FINANCIAL DATA

	2009	2008	2007	2006	2005
	(Dollars in thousands except per share data)				
INCOME STATEMENT DATA					
Total interest income	$ 58,105	$ 61,385	$ 53,972	$ 44,709	$ 36,882
Net interest income	38,266	35,779	28,013	24,977	23,909
Provision for loan losses	6,093	9,500	1,211	682	777
Net income	7,800	4,101	7,930	7,001	6,776
BALANCE SHEET DATA					
End of year assets	$ 1,143,944	$ 1,139,263	$ 957,282	$ 910,127	$ 741,654
Daily average assets	1,127,634	1,113,102	925,631	800,174	700,624
Daily average deposits	786,714	817,041	727,762	639,046	576,091
Daily average loans/net	712,965	708,434	596,739	515,539	459,310
Daily average equity	139,810	143,626	119,246	91,964	74,682
PER SHARE DATA(1)					
Earnings per share					
Basic	$ 1.04	$ 0.55	$ 1.14	$ 1.12	$ 1.14
Diluted	1.01	0.53	1.11	1.09	1.14
Cash dividends	0.70	0.65	0.62	0.58	0.55
Book value (at year end)	18.69	17.89	17.58	16.61	13.44
FINANCIAL RATIOS					
Shareholders equity to assets (at year end)	12.31%	11.80%	12.86%	12.72%	10.91%
Return on average equity	5.58	2.86	6.65	7.61	9.07
Return on average tangible equity	8.54	4.41	8.54	8.31	9.12
Cash dividend payout to net income	67.40	118.82	54.27	53.92	48.02
Return on average assets	0.69	0.37	0.86	0.87	0.97

	2009				2008			
	4th	3rd	2nd	1st	4th	3rd	2nd	1st
Quarterly Operating Results:								
Total interest income	$ 14,411	$ 14,516	$ 14,505	$ 14,673	$ 15,099	$ 15,401	$ 15,359	$ 15,526
Interest expense	4,657	4,928	5,026	5,228	5,836	6,309	6,379	7,082
Net interest income	9,754	9,588	9,479	9,445	9,263	9,092	8,980	8,444
Provision for loan losses	1,544	1,542	1,535	1,472	5,725	975	1,593	1,207
Noninterest income	2,102	2,566	3,131	2,357	1,130	2,377	1,778	2,517
Noninterest expenses	8,176	7,995	8,468	9,044	8,377	7,430	7,341	7,556
Net income (loss)	2,073	2,197	2,201	1,329	(2,041)	2,524	1,691	1,927

Per Share of Common Stock:(1)								
Earnings (loss) per share								
Basic	$ 0.28	$ 0.29	$ 0.29	$ 0.18	$ (0.28)	$ 0.34	$ 0.23	$ 0.26
Diluted	0.27	0.28	0.29	0.17	(0.27)	0.33	0.22	0.25
Cash dividends	0.32	0.13	0.13	0.12	0.29	0.12	0.12	0.12
Book value (at quarter end)	18.69	18.97	18.06	18.01	17.89	18.78	18.75	19.07

(1) Retroactively restated for the 10% stock dividend, paid on February 29, 2008.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Board of Directors
Isabella Bank Corporation
Mt. Pleasant, Michigan

We have audited the accompanying consolidated balance sheets of ***Isabella Bank Corporation*** as of December 31, 2009 and 2008, and the related consolidated statements of changes in shareholders equity, income, comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2009. We also have audited ***Isabella Bank Corporation s*** internal control over financial reporting as of December 31, 2009, based on criteria established in the *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). ***Isabella Bank Corporation s*** management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the effectiveness of the ***Isabella Bank Corporation*** **s** internal control over financial reporting, based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material misstatement exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. We believe that our audits provide a reasonable basis for our opinion.

A corporation s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. A corporation s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the corporation; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the corporation are being made only in accordance with authorizations of management and directors of the corporation; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the corporation s assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Note 1 to the consolidated financial statements, effective January 1, 2008 the Corporation adopted ASC Topic 715, *Compensation Retirement Benefits.* Also, as described in Notes 17 and 20 to the consolidated financial statements, effective January 1, 2007 the Corporation elected the early adoption of ASC Topic 825, *Financial Instruments* and ASC Topic 820, *Fair Value Measurements and Disclosures,* and effective December 31, 2006 changed its method of accounting for defined benefit pension and other postretirement plans in accordance with ASC Topic 715, *Compensation Retirement Benefits.*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ***Isabella Bank Corporation*** as of December 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America.

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Also, in our opinion ***Isabella Bank Corporation*** maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the criteria established in the *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

Rehmann Robson, P.C.

Saginaw, Michigan
March 11, 2010

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CONSOLIDATED BALANCE SHEETS

	December 31	
	2009	2008
	(Dollars in thousands)	
ASSETS		
Cash and cash equivalents	$ 22,706	$ 22,979
Interest bearing balances held in other financial institutions	7,156	575
Trading securities	13,563	21,775
Investment securities available for sale (amortized cost of $258,585 in 2009 and $248,741 in 2008)	259,066	246,455
Mortgage loans available for sale	2,281	898
Net loans		
Loans	723,316	735,385
Less allowance for loan losses	12,979	11,982
Total net loans	**710,337**	**723,403**
Premises and equipment	23,917	23,231
Corporate-owned life insurance policies	16,782	16,152
Accrued interest receivable	5,832	6,322
Acquisition intangibles and goodwill, net	47,429	47,804
Equity securities without readily determinable fair values	17,921	17,345
Other assets	16,954	12,324
Total assets	**$ 1,143,944**	**$ 1,139,263**
LIABILITIES AND SHAREHOLDERS EQUITY		
Deposits		
Noninterest bearing	$ 96,875	$ 97,546
NOW accounts	128,111	113,973
Certificates of deposit and other savings	389,644	422,689
Certificates of deposit over $100,000	188,022	141,422
Total deposits	**802,652**	**775,630**
Borrowed funds ($17,804 in 2009 and $23,130 in 2008 at fair value)	193,101	222,350
Accrued interest and other liabilities	7,388	6,807
Total liabilities	**1,003,141**	**1,004,787**
Shareholders Equity		
Common stock no par value 15,000,000 shares authorized; outstanding 7,535,193 (including 30,626 shares to be issued) in 2009 and 7,518,856 (including 5,248 shares to be issued) in 2008	133,443	133,602
Shares to be issued for deferred compensation obligations	4,507	4,015
Retained earnings	4,972	2,428

Accumulated other comprehensive loss	(2,119)	(5,569)
Total shareholders equity	**140,803**	**134,476**
Total liabilities and shareholders equity	**$ 1,143,944**	**$ 1,139,263**

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

	Common Stock Shares Outstanding	Common Stock	Shares to be Issued for Deferred Compensation Obligations	Retained Earnings	Accumulated Other Comprehensive Loss	Totals
	(Dollars in thousands except per share data)					
Balance, January 1, 2007	6,335,861	$ 111,648	$ 3,137	$ 4,451	$ (3,487)	$ 115,749
Cumulative effect to apply ASC Topic 825, net of tax				(1,050)	897	(153)
Comprehensive income				7,930	2,324	10,254
Issuance of common stock	63,233	2,657				2,657
Common stock issued for deferred compensation obligations	8,246	123	(123)			
Share-based payment awards under equity compensation plan			758			758
Common stock repurchased pursuant to publicly announced repurchase plan	(43,220)	(1,881)				(1,881)
Cash dividends ($0.62 per share)				(4,304)		(4,304)
Balance, December 31, 2007	6,364,120	112,547	3,772	7,027	(266)	123,080
Cumulative effect to apply ASC Topic 715, net of tax				(1,571)		(1,571)
Comprehensive loss				4,101	(5,303)	(1,202)
Common stock dividends (10)%	687,599	30,256		(30,256)		
Regulatory capital transfer		(28,000)		28,000		
Bank acquisition	514,809	22,652				22,652
Issuance of common stock	73,660	2,476				2,476
Common stock issued for deferred compensation obligations	27,004	360	(360)			
Share-based payment awards under equity compensation plan			603			603
Common stock purchased for deferred compensation		(249)				(249)

obligations						
Common stock repurchased pursuant to publicly announced repurchase plan	(148,336)	(6,440)				(6,440)
Cash dividends ($0.65 per share)				(4,873)		(4,873)
Balance, December 31, 2008	7,518,856	133,602	4,015	2,428	(5,569)	134,476
Comprehensive income				7,800	3,450	11,250
Issuance of common stock	126,059	2,664				2,664
Common stock issued for deferred compensation obligations	12,890	331	(185)			146
Share-based payment awards under equity compensation plan			677			677
Common stock purchased for deferred compensation obligations		(767)				(767)
Common stock repurchased pursuant to publicly announced repurchase plan	(122,612)	(2,387)				(2,387)
Cash dividends ($0.70 per share)				(5,256)		(5,256)
Balance, December 31, 2009	7,535,193	133,443	4,507	4,972	(2,119)	140,803

The accompanying notes are an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31		
	2009	2008	2007
	(Dollars in thousands except per share data)		
Interest income			
Loans, including fees	$ 47,706	$ 49,674	$ 43,808
Investment securities			
Taxable	4,712	5,433	3,751
Nontaxable	4,623	4,642	3,657
Trading account securities	687	1,093	2,097
Federal funds sold and other	377	543	659
Total interest income	**58,105**	**61,385**	**53,972**
Interest expense			
Deposits	13,588	19,873	22,605
Borrowings	6,251	5,733	3,354
Total interest expense	**19,839**	**25,606**	**25,959**
Net interest income	**38,266**	**35,779**	**28,013**
Provision for loan losses	6,093	9,500	1,211
Net interest income after provision for loan losses	**32,173**	**26,279**	**26,802**
Noninterest income			
Service charges and fees	6,913	6,370	5,894
Gain on sale of mortgage loans	886	249	209
Net gain on trading securities	80	245	460
Net gain (loss) on borrowings measured at fair value	289	(641)	(66)
Gain (loss) on sale of investment securities	648	24	(19)
Title insurance revenue (Note 2)		234	2,192
Other	1,340	1,321	1,292
Total noninterest income	**10,156**	**7,802**	**9,962**
Noninterest expenses			
Compensation and benefits	18,258	16,992	15,618
Occupancy	2,170	2,035	1,766
Furniture and equipment	4,146	3,849	3,297
FDIC insurance premiums	1,730	313	95
Other	7,379	7,515	6,453
Total noninterest expenses	**33,683**	**30,704**	**27,229**
Income before federal income tax expense (benefit)	**8,646**	**3,377**	**9,535**
Federal income tax expense (benefit)	846	(724)	1,605

Net income	**$ 7,800**	**$ 4,101**	**$ 7,930**
Earnings per share			
Basic	**$ 1.04**	**$ 0.55**	**$ 1.14**
Diluted	**$ 1.01**	**$ 0.53**	**$ 1.11**

The accompanying notes are an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31		
	2009	2008	2007
	(Dollars in thousands)		
Net income	**$ 7,800**	**$ 4,101**	**$ 7,930**
Unrealized holding gains (losses) on available-for-sale securities:			
Unrealized gains (losses) arising during the year	3,415	(3,104)	614
Reclassification adjustment for net realized (gains) losses included in net income	(648)	(24)	19
Net unrealized gains (losses)	2,767	(3,128)	633
Tax effect	436	(643)	(216)
Unrealized gains (losses), net of tax	3,203	(3,771)	417
Reduction (increase) of unrecognized pension cost	374	(2,320)	2,890
Tax effect	(127)	788	(983)
Net unrealized gain (loss) on defined benefit pension plan	247	(1,532)	1,907
Other comprehensive income (loss), net of tax	**3,450**	**(5,303)**	**2,324**
Comprehensive income (loss)	**$ 11,250**	**$ (1,202)**	**$ 10,254**

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CONSOLIDATED STATEMENTS OF CASH FLOWS

**Year Ended December **