ISABELLA BANK CORP
Form 10-K
March 13, 2015
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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the fiscal year ended December 31, 2014
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the transition period from to
Commission File Number: 0-18415

Isabella Bank Corporation
(Exact name of registrant as specified in its charter)

Michigan	38-2830092
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer identification No.)

401 North Main Street, Mount Pleasant, Michigan 48858
(Address of principal executive offices) (Zip Code)
Registrant’s telephone number, including area code (989) 772-9471
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered

Securities registered pursuant to Section 12(g) of the Act:
Common Stock - No Par Value
(Title of Class)

Indicated by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ¨ Yes x No
Indicated by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ¨ Yes x No
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes ¨ No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes ¨ No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “accelerated filer”, “large accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act (Check One).

Large accelerated filer	¨	Accelerated filer	x

Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes ý No
The aggregate market value of the voting stock held by non-affiliates of the registrant was $177,522,000 as of the last business day of the registrant's most recently completed second fiscal quarter.
The number of shares outstanding of the registrant's Common Stock (no par value) was 7,803,852 as of March 10, 2015.

DOCUMENTS INCORPORATED BY REFERENCE
(Such documents are incorporated herein only to the extent specifically set forth in response to an item herein.)

Documents	Part of Form 10-K Incorporated into
Portions of the Isabella Bank Corporation Proxy Statement for its Annual Meeting of Shareholders to be held May 5, 2015	Part III

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ISABELLA BANK CORPORATION
ANNUAL REPORT ON FORM 10-K
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Forward Looking Statements

This report contains certain forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We intend such forward looking statements to be covered by the safe harbor provisions for forward looking statements contained in the Private Securities Litigation Reform Act of 1995, and are included in this statement for purposes of these safe harbor provisions. Forward looking statements, which are based on certain assumptions and describe future plans, strategies and expectations, are generally identifiable by use of the words “believe,” “expect,” “intend,” “anticipate,” “estimate,” “project
similar expressions. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations and future prospects include, but are not limited to, changes in: interest rates, general economic conditions, monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the FRB, the quality or composition of the loan or investment portfolios, demand for loan products, fluctuation in the value of collateral securing our loan portfolio, deposit flows, competition, demand for financial services in our market area, and accounting principles, policies and guidelines. These risks and uncertainties should be considered in evaluating forward looking statements and undue reliance should not be placed on such statements. Further information concerning our business, including additional factors that could materially affect our financial results, is included in our filings with the SEC.

The acronyms and abbreviations identified below may be used throughout this Annual Report on Form 10-K or in our other filings. You may find it helpful to refer back to this page while reading this report.

AFS: Available-for-sale
ALLL: Allowance for loan and lease losses
AOCI: Accumulated other comprehensive income (loss)
ASC: FASB Accounting Standards Codification
ASU: FASB Accounting Standards Update
ATM: Automated Teller Machine
BHC Act: Bank Holding Company Act of 1956
CFPB: Consumer Financial Protection Bureau
CIK: Central Index Key
CRA: Community Reinvestment Act
DIF: Deposit Insurance Fund
DIFS: Department of Insurance and Financial Services
Directors Plan: Isabella Bank Corporation and Related Companies Deferred Compensation Plan for Directors
Dividend Reinvestment Plan: Isabella Bank Corporation Stockholder Dividend Reinvestment Plan and Employee Stock Purchase Plan
Dodd-Frank Act: Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
ESOP: Employee stock ownership plan
Exchange Act: Securities Exchange Act of 1934
FASB: Financial Accounting Standards Board
FDI Act: Federal Deposit Insurance Act
FDIC: Federal Deposit Insurance Corporation
FFIEC: Federal Financial Institutions Examinations Council
FRB: Federal Reserve Bank
FHLB: Federal Home Loan Bank
Freddie Mac: Federal Home Loan Mortgage Corporation
FTE: Fully taxable equivalent
GAAP: U.S. generally accepted accounting principles
GLB Act: Gramm-Leach-Bliley Act of 1999
IFRS: International Financial Reporting Standards
IRR: Interest rate risk
JOBS Act: Jumpstart our Business Startups Act
LIBOR: London Interbank Offered Rate
N/A: Not applicable
N/M: Not meaningful
NASDAQ: NASDAQ Stock Market Index
NASDAQ Banks: NASDAQ Bank Stock Index
NAV: Net asset value
NOW: Negotiable order of withdrawal
NSF: Non-sufficient funds
OCI: Other comprehensive income (loss)
OMSR: Originated mortgage servicing rights
OREO: Other real estate owned
OTTI: Other-than-temporary impairment
PBO: Projected benefit obligation
PCAOB: Public Company Accounting Oversight Board
Rabbi Trust: A trust established to fund the Directors Plan
SEC: U.S. Securities & Exchange Commission
SOX: Sarbanes-Oxley Act of 2002
TDR: Troubled debt restructuring
XBRL: eXtensible Business Reporting Language

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PART I

Item 1. Business. (Dollars in thousands)

General

Isabella Bank Corporation is a registered financial services holding company that was incorporated in September 1988 under Michigan law. The Corporation's sole subsidiary, Isabella Bank, has 27 banking offices located throughout Clare, Gratiot, Isabella, Mecosta, Midland, Montcalm, and Saginaw counties. The area includes significant agricultural production, light manufacturing, retail, gaming and tourism, and five colleges and universities.

As used in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations as well as in Item 8. Financial Statements and Supplementary Data, references to "the Corporation", "Isabella," "we," "our," "us," and similar terms refer to the consolidated entity consisting of Isabella Bank Corporation and its subsidiary. Isabella Bank Corporation refers solely to the parent holding company, and the "Bank" refers to Isabella Bank Corporation's subsidiary, Isabella Bank.

Our reportable segments are based on legal entities that account for at least 10% of net operating results. Retail banking operations for 2014, 2013, and 2012 represent approximately 90% or greater of total assets and operating results. As such, we have only one reportable segment.

We are a community bank with a focus on providing high quality, personalized service at a fair price. We offer a broad array of banking services to businesses, institutions, and individuals. We compete with other commercial banks, savings and loan associations, mortgage brokers, finance companies, credit unions, and retail brokerage firms.

Lending activities include loans for commercial and agricultural operating and real estate purposes, residential real estate loans, and consumer loans. We limit lending activities primarily to local markets and have not purchased any loans from the secondary market. We do not make loans to fund leveraged buyouts, have no foreign corporate or government loans, and have limited holdings of corporate debt securities. Our general lending philosophy is to limit concentrations to individuals and business segments. For additional information related to our lending strategies and policies, see "Note 5 – Loans and ALLL" of the "Notes to Consolidated Financial Statements" in Item 8. Financial Statements and Supplementary Data.

Deposit services offered include checking accounts, savings accounts, certificates of deposit, direct deposits, cash management services, mobile and internet banking, electronic bill pay services, and automated teller machines. We also offer full service trust and brokerage services.

As of December 31, 2014, we had 361 full-time equivalent employees. We provide group life, health, accident, disability, and other insurance programs as well as a number of other employee benefit programs. None of our workforce is subject to collective bargaining agreements.

Available Information

Our SEC filings (including our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Definitive Proxy Statements, Current Reports on Form 8-K and amendments to those reports) are available through our website (www.isabellabank.com). We will provide paper copies of our SEC reports free of charge upon request of a shareholder.

The SEC maintains a website (www.sec.gov) that contains reports, proxy and information statements and other information regarding Isabella Bank Corporation (CIK #0000842517) and other issuers.

Supervision and Regulation

The earnings and growth of the banking industry and, therefore, our earnings are affected by the credit policies of monetary authorities, including the FRB. An important function of the FRB is to regulate the national supply of bank credit in order to combat recessions and curb inflationary pressures. Among the instruments of monetary policy used by the FRB to implement these objectives are open market operations in U.S. Treasury and U.S. Government Agency securities, changes in the discount rate on member bank borrowings, and changes in reserve requirements against member bank deposits. These methods are used in varying combinations to influence overall growth of bank loans, investments and deposits and also affect interest rates charged on loans or paid for deposits. The monetary policies of the FRB have had a significant effect on the operating results of commercial banks and related financial service providers in the past and are expected to continue to do so in the future. The effect of such policies upon our future business and earnings cannot be predicted.

We, as a financial holding company, are regulated under the BHC Act, and are subject to the supervision of the FRB. We are registered as a financial services holding company with the FRB and are subject to annual reporting requirements and

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inspections and audits. Under FRB policy, we are expected to act as a source of financial strength to the Bank and to commit resources to support its subsidiaries. This support may be required at times when, in the absence of such FRB policy, it would not otherwise be required to provide support.

Under Michigan law, if the capital of a Michigan state chartered bank has become impaired by losses or otherwise, the Commissioner of the DIFS may require that the deficiency in capital be met by assessment upon the bank’s shareholders pro rata on the amount of capital stock held by each, and if any such assessment is not paid by any shareholder within 30 days of the date of mailing of notice thereof to such shareholder, cause the sale of the stock of such shareholder to pay such assessment and the costs of sale of such stock.

Any capital loans by a bank holding company to any of its subsidiary banks are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. In the event of a bank holding company’s bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to a priority of payment. This priority would apply to guarantees of capital plans under the FDIC Improvement Act of 1991.

SOX contains important requirements for public companies in the area of financial disclosure and corporate governance. In accordance with Section 302(a) of SOX, written certifications by our principal executive, financial, and accounting officers are required. These certifications attest that our quarterly and annual reports filed with the SEC do not contain any untrue statement of a material fact (see the certifications filed as Exhibits 31 (a) and (b) to this Form 10-K for such certification of consolidated financial statements and other information for this 2014 Form 10-K). We have also implemented a program designed to comply with Section 404 of SOX, which included the identification of significant processes and accounts, documentation of the design of control effectiveness over process and entity level controls, and testing of the operating effectiveness of key controls. See Item 9A. Controls and Procedures for our evaluation of disclosure controls and procedures and internal control over financial reporting.

Certain additional information concerning regulatory guidelines for capital adequacy and other regulatory matters is presented herein under the caption “Capital” in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and in “Note 14 – Commitments and Other Matters” and “Note 15 – Minimum Regulatory Capital Requirements” of the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data.

Isabella Bank

The Bank is supervised and regulated by DIFS and the FRB. The agencies and federal and state laws extensively regulate various aspects of the banking business including, among other things, permissible types and amounts of loans, investments and other activities, capital adequacy, branching, interest rates on loans and deposits, and the safety and soundness of banking practices.

Our deposits are insured up to applicable limits by the DIF of the FDIC and are subject to deposit insurance assessments to maintain the DIF. The FDIC utilizes a risk-based assessment system that assesses insurance premiums based upon a risk matrix that takes into account assets and capital levels and supervisory ratings.

Banking laws and regulations restrict transactions by insured banks owned by a bank holding company, including loans to and certain purchases from the parent holding company, non-bank and bank subsidiaries of the parent holding company, principal shareholders, officers, directors and their affiliates, and investments by the subsidiary bank in the shares or securities of the parent holding company (or any of the other non-bank or bank affiliates), or acceptance of such shares or securities as collateral security for loans to any borrower.

The Bank is subject to legal limitations on the frequency and amount of dividends that can be paid to Isabella Bank Corporation. For example, a Michigan state chartered bank may not declare a cash dividend or a dividend in kind except out of net profits then on hand after deducting all losses and bad debts, and then only if it will have a surplus amounting to not less than 20% of its capital after the payment of the dividend. Moreover, a Michigan state chartered bank may not declare or pay any cash dividend or dividend in kind until the cumulative dividends on its preferred stock, if any, have been paid in full. Further, if the surplus of a Michigan state chartered bank is at any time less than the amount of its capital, before the declaration of a cash dividend or dividend in kind, it must transfer to surplus not less than 10% of its net profits for the preceding six months (in the case of quarterly or semi-annual dividends) or the preceding two consecutive six month periods (in the case of annual dividends).

The payment of dividends by Isabella Bank Corporation and the Bank is also affected by various regulatory requirements and policies, such as the requirement to keep adequate capital in compliance with regulatory guidelines. Federal laws impose further restrictions on the payment of dividends by insured banks that fail to meet specified capital levels. The FDIC may

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prevent an insured bank from paying dividends if the bank is in default of payment of any assessment due to the FDIC. In addition, payment of dividends by a bank may be prevented by the applicable federal regulatory authority if such payment is determined, by reason of the financial condition of such bank, to be an unsafe and unsound banking practice. The FRB and the FDIC have issued policy statements providing that bank holding companies and insured banks should generally pay dividends only out of current operating earnings. Additionally, the FRB Board of Governors requires a bank holding company to notify the FRB prior to increasing its cash dividend by more than 10% over the prior year.

The aforementioned regulations and restrictions may limit our ability to obtain funds from the Bank for our cash needs, including payment of dividends and operating expenses.

The activities and operations of the Bank are also subject to various federal and state laws and regulations.

Item 1A. Risk Factors.

In the normal course of business we are exposed to various risks. These risks, if not managed correctly, could have a significant impact on our earnings, capital, share price, and ability to pay dividends. In order to effectively monitor and control the following risks, we utilize an enterprise risk model. We balance our strategic goals, including revenue and profitability objectives, with associated risks through the use of policies, systems, and procedures which have been adopted to identify, assess, control, monitor, and manage each risk area. We continually review the adequacy and effectiveness of these policies, systems, and procedures.

Our enterprise risk process covers each of the following areas.

Changes in credit quality and required allowance for loan and lease losses

To manage the credit risk arising from lending activities, our most significant source of credit risk, we maintain what we believe are sound underwriting policies and procedures. We continuously monitor asset quality in order to manage our credit risk to determine the appropriateness of valuation allowances. These valuation allowances take into consideration various factors including, but not limited to, local, regional, and national economic conditions.

We maintain an ALLL to reserve for estimated incurred loan losses and risks within our loan portfolio. The level of the ALLL reflects our evaluation of industry concentrations; specific credit risks; loan loss experience; loan portfolio quality; and economic, political and regulatory conditions. The determination of the appropriate level of the ALLL inherently involves a high degree of subjectivity and requires us to make significant estimates, all of which may undergo material changes.

Changes in economic conditions

An economic downturn within our local markets, as well as downturns in the state or national markets, could negatively impact household and corporate incomes. This could lead to decreased demand for both loan and deposit products and lead to an increase of customers who fail to pay interest or principal on their loans. We continually monitor key economic indicators in an effort to anticipate the possible effects of downturns in the local, regional, and national economies.

Our success depends primarily on the general economic conditions of the State of Michigan and the specific local markets in which we operate. Unlike larger national or other regional banks that are more geographically diversified, we provide banking and financial services to customers located primarily in the Clare, Gratiot, Isabella, Mecosta, Midland, Montcalm, and Saginaw counties in Michigan. The local economic conditions in these areas have a significant impact on the demand for our products and services, as well as the ability of our customers to repay loans, the value of the collateral securing loans, and the stability of our deposit funding sources. A significant decline in general economic conditions, caused by inflation, recession, acts of terrorism, outbreak of hostilities or other international or domestic occurrences, unemployment, changes in securities markets or other factors could impact these local economic conditions and, in turn, have a material adverse effect on our financial condition and results of operations.

Interest rate risk

IRR results from the timing differences in the maturity or repricing frequency of a financial institution’s interest earning assets and its interest bearing liabilities. We monitor the potential effects of changes in interest rates through simulations and gap analyses. To help mitigate the effects of changes in interest rates, we make significant efforts to stagger projected cash flows and maturities of interest sensitive assets and liabilities.

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Liquidity risk

Liquidity risk is the risk to earnings or capital arising from our inability to meet our obligations when they come due without incurring unacceptable costs. Liquidity risk includes the inability to manage unplanned decreases or changes in funding sources, or failure to recognize or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value. We have significant borrowing capacity through correspondent banks and the ability to sell certain investments to fund potential cash shortages, which we may use to help mitigate this risk.

The value of investment securities may be negatively impacted by fluctuations in the market

A volatile, illiquid market could require us to recognize an OTTI loss related to the investment securities held in our portfolio. We consider many factors in determining whether OTTI exists including the length of time and extent to which fair value has been less than cost, the investment credit rating, and the probability the issuer will be unable to pay the amount when due. The presence of these factors could lead to impairment charges. These risks are mitigated by the fact that we assert that we do not intend to sell the security in an unrealized loss position and it is more likely than not that we will not have to sell the security before recovery of its cost basis.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems, or external events and includes reputation risk and transaction risk. Reputation risk is developing and retaining marketplace confidence in handling customers’ financial transactions in an appropriate manner and protecting our safety and soundness. Transaction risk includes losses from fraud, error, the inability to deliver products or services, and loss or theft of information. Transaction risk also encompasses product development and delivery, transaction processing, information technology systems, and the internal control environment.

To minimize the potential losses due to operational risks, we have established a robust system of internal controls that is regularly tested by our internal audit department in conjunction with the services of certified public accounting firms who assists in performing such internal audit work. The focus of these internal audit procedures is to verify the validity and appropriateness of various transactions, processes, and controls. The results of these procedures are reported to our Audit Committee.

The adoption of, violations of, or nonconformance with laws, rules, regulations, or prescribed practices

The financial services industry and public companies are extensively regulated and must meet regulatory standards set by the FDIC, DIFS, FRB, FASB, SEC, PCAOB, the CFPB, and other regulatory bodies. Federal and state laws and regulations are designed primarily to protect the deposit insurance funds and consumers, and not necessarily to benefit our shareholders. The nature, extent, and timing of the adoption of significant new laws, changes in existing laws, or repeal of existing laws may have a material impact on our business, results of operations, and financial condition, the effect of which is impossible to predict at this time.

Our compliance department annually assesses the adequacy and effectiveness of our processes for controlling and managing our principal compliance risks.

We may not adjust to changes in the financial services industry

Our financial performance depends in part on our ability to maintain and grow our core deposit customer base and expand our financial services to our existing and new customers. The increasingly competitive environment is, in part, a result of changes in technology and product delivery systems and the accelerating pace of consolidation among financial service providers. New competitors may emerge to increase the degree of competition for our products and services. Financial services and products are also constantly changing. Our financial performance is also dependent upon customer demand for our products and services and our ability to develop and offer competitive financial products and services.

We may be required to recognize an impairment of goodwill

Goodwill represents the excess of the amounts paid to acquire subsidiaries over the fair value of their net assets at the date of acquisition. The majority of the recorded goodwill is related to acquisitions of other banks, which were subsequently merged into Isabella Bank. If it is determined that the goodwill has been impaired, we must write-down the goodwill by the amount of the impairment.

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We may face increasing pressure from purchasers of our residential mortgage loans to repurchase loans sold or reimburse purchasers for losses related to such loans

We generally sell the fixed rate long term residential mortgage loans we originate to the secondary market. In response to the recent economic downturn, the purchasers of residential mortgage loans, such as government sponsored entities, increased their efforts to require sellers of residential mortgage loans to either repurchase loans previously sold, or reimburse the purchasers for losses incurred on foreclosed loans due to actual or alleged failure to strictly conform to the terms of the contract.

Consumers may decide not to use banks to complete their financial transactions

Technology and other changes are allowing customers to complete financial transactions without the involvement of banks. For example, consumers can now pay bills and transfer funds directly without banks. The process of eliminating banks as intermediaries in financial transactions could result in the loss of fee income, as well as the loss of customer deposits and income generated from those deposits.

Changes to the financial services industry as a result of regulatory changes or actions, or significant litigation

The financial services industry is extensively regulated. We are subject to extensive state and federal regulation, supervision and legislation that govern almost all aspects of our operations. Laws and regulations may change from time to time and are primarily intended for the protection of consumers, depositors, and the deposit insurance funds. The impact of any changes to laws and regulations or other actions by regulatory agencies may negatively impact us or our ability to increase the value of our business. Regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the imposition of restrictions on the operation of an institution, the classification of assets by the institution and the appropriateness of an institution’s ALLL. Future regulatory changes or accounting pronouncements may increase our regulatory capital requirements or adversely affect our regulatory capital levels. Additionally, actions by regulatory agencies or significant litigation against us could require the dedication of significant time and resources to defending our business and may lead to penalties.

Unauthorized disclosure of sensitive or confidential client or customer information, whether through cyber attacks, breach of computer systems or otherwise

As part of our business, we collect and retain sensitive and confidential client and customer information on our behalf and other third parties. Despite the security measures we have in place for our facilities and systems, and the security measures of our third party service providers, we may be vulnerable to cyber attacks, security breaches, acts of vandalism, computer viruses, misplaced or lost data, human errors or other similar events. Risks related to cybersecurity continue to evolve within the industry. We continually review and monitor information and data related to cybersecurity to detect and mitigate attacks. A cyber attack could disrupt our operations and have a material adverse effect on our business. Any security breach involving the misappropriation, loss or other unauthorized disclosure of confidential customer information, whether by us or by our vendors, could severely damage our reputation, expose us to the risks of litigation and liability, disrupt our operations and have a material adverse effect on our business.

Our estimates and assumptions may be incorrect

Our consolidated financial statements conform with GAAP, which require us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. These estimates are based on information available to us at the time the estimates are made. Actual results could differ from those estimates. For further discussion regarding significant accounting estimates, see “Note 1 – Nature of Operations and Summary of Significant Accounting Policies” of the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data.

Disruption of infrastructure

Our operations depend upon our technological and physical infrastructure, including our equipment and facilities. Extended disruption of our vital infrastructure by fire, power loss, natural disaster, telecommunications failure, computer hacking and viruses, or other events outside of our control, could have a significant impact on our operations. We have developed disaster recovery plans, which provide detailed instructions covering all significant aspects of our operations.

Anti-takeover provisions

Our articles of incorporation include anti-takeover provisions that require a two-thirds majority vote to approve a sale of the Corporation. Additionally, changes to our articles of incorporation must be approved by a two-thirds majority vote of our shareholders. These provisions may make our stock less attractive to potential shareholders.

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Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our executive offices are located at 401 North Main Street in Mount Pleasant, Michigan. In addition to this location, we own 27 branches, an operations center, a mortgage operations center, and a previous main office building. Our facilities current, planned, and best use is for conducting our current activities, with the exception of approximately 75% of our previous main office location, approximately 25% of the building that houses the Lake Isabella branch, and approximately 25% of the building that houses our mortgage processing operations which are leased to non-related parties. We continually monitor and assess the need for expansion and/or improvement for all facilities. In our opinion, each facility has sufficient capacity and is in good condition.

Item 3. Legal Proceedings.

We are not involved in any material legal proceedings. We are involved in ordinary, routine litigation incidental to our business; however, no such routine proceedings are expected to result in any material adverse effect on our operations, earnings, financial condition, or cash flows.

Item 4. Mine Safety Disclosures.

Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Common Stock and Dividend Information

Our authorized common stock consists of 15,000,000 shares, of which 7,776,274 shares are issued and outstanding as of December 31, 2014. As of that date, there were 3,056 shareholders of record.

Our common stock is traded in the over the counter market. The common stock is quoted on the OTCQX market tier of the OTC Markets Group Inc.'s ("OTC Markets") electronic quotation system (www.otcmarkets.com) under the symbol "ISBA". Other trades in the common stock occur in privately negotiated transactions from time-to-time of which we may have little or no information.

We have reviewed the information available as to the range of reported high and low bid quotations, including high and low bid information as reported by OTC Markets. The following table sets forth our compilation of that information for the periods indicated. Price information obtained from OTC Markets reflects inter-dealer prices, without retail mark-up, mark-down, or commissions and may not necessarily represent actual transactions. The following compiled data is provided for information purposes only and should not be viewed as indicative of the actual or market value of our common stock.

	Number of	Sale Price	
	Shares	Low	High
2014			
First Quarter	79,719	$22.25	$23.94
Second Quarter	72,142	22.44	23.50
Third Quarter	94,422	21.73	24.00
Fourth Quarter	67,771	22.10	23.99
	314,054		
2013			
First Quarter	54,741	$21.55	$25.10
Second Quarter	65,865	24.65	26.00
Third Quarter	105,540	23.40	25.50
Fourth Quarter	116,052	21.12	24.84
	342,198		

The following table sets forth the cash dividends paid for the following quarters:

	Per Share	
	2014	2013
First Quarter	$0.22	$0.21
Second Quarter	0.22	0.21
Third Quarter	0.22	0.21
Fourth Quarter	0.23	0.21
Total	$0.89	$0.84

We have adopted and publicly announced a common stock repurchase plan. The plan was last amended on October 22, 2014, to allow for the repurchase of an additional 150,000 shares of common stock. These authorizations do not have expiration dates. As shares are repurchased under this plan, they are retired and revert back to the status of authorized, but unissued shares.

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The following table provides information for the unaudited three month period ended December 31, 2014, with respect to the common stock repurchase plan:

	Shares Repurchased		Total Number of Shares Purchased as Part of Publicly Announced Plan or Program	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
	Number	Average Price Per Share		
Balance, September 30				26,716
October 1 - 22	3,600	$23.61	3,600	23,116
Additional Authorization (150,000 shares)				173,116
October 23 - 31	2,707	23.27	2,707	170,409
November 1 - 30	7,257	22.87	7,257	163,152
December 1 - 31	11,386	22.66	11,386	151,766
Balance, December 31	24,950	$22.93	24,950	151,766

Information concerning securities authorized for issuance under equity compensation plans appears under Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Stock Performance

The following graph compares the cumulative total shareholder return on our common stock for the last five years with the cumulative total return on (1) NASDAQ, which is comprised of all United States common shares traded on the NASDAQ and (2) the NASDAQ Banks, which is comprised of bank and bank holding company common shares traded on the NASDAQ over the same period. The graph assumes the value of an investment in the Corporation's common stock and each index was $100 at December 31, 2009 and all dividends are reinvested.

Year	ISBA	NASDAQ	NASDAQ Banks
12/31/2009	$100.00	$100.00	$100.00
12/31/2010	95.20	117.99	114.01
12/31/2011	135.70	117.08	102.08
12/31/2012	128.80	137.80	121.02
12/31/2013	146.20	192.78	171.02
12/31/2014	143.30	221.15	179.24

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Item 6. Selected Financial Data.

Results of Operations (Dollars in thousands except per share amounts)

The following table outlines the results of operations and provides certain key performance measures as of, and for the years ended, December 31:

	2014	2013	2012	2011	2010
INCOME STATEMENT DATA					
Interest income	$53,951	$54,076	$56,401	$57,905	$57,217
Interest expense	9,970	11,021	13,423	16,203	17,204
Net interest income	43,981	43,055	42,978	41,702	40,013
Provision for loan losses	(668)	1,111	2,300	3,826	4,857
Noninterest income	9,325	10,175	11,530	8,218	9,300
Noninterest expenses	37,906	37,413	37,639	34,530	33,807
Federal income tax expense	2,344	2,196	2,363	1,354	1,604
Net Income	$13,724	$12,510	$12,206	$10,210	$9,045
PER SHARE					
Basic earnings	$1.77	$1.63	$1.61	$1.35	$1.20
Diluted earnings	$1.74	$1.59	$1.56	$1.31	$1.17
Dividends	$0.89	$0.84	$0.80	$0.76	$0.72
Tangible book value*	$16.59	$15.62	$14.72	$13.90	$13.22
Quoted market value					
High	$24.00	$26.00	$24.98	$24.45	$19.00
Low	$21.73	$21.12	$21.75	$17.10	$15.75
Close*	$22.50	$23.85	$21.75	$23.70	$17.30
Common shares outstanding*	7,776,274	7,723,023	7,671,846	7,589,226	7,550,074
PERFORMANCE RATIOS					
Return on average total assets	0.90 %	0.86 %	0.88 %	0.79 %	0.76 %
Return on average shareholders' equity	8.06 %	7.67 %	7.60 %	6.74 %	6.22 %
Return on average tangible shareholders' equity	10.80 %	10.71 %	11.41 %	10.30 %	9.51 %
Net interest margin yield (FTE)	3.45 %	3.50 %	3.70 %	3.87 %	4.04 %
BALANCE SHEET DATA*					
Gross loans	$833,582	$808,037	$772,753	$750,291	$735,304
AFS securities	$567,534	$512,062	$504,010	$425,120	$330,724
Total assets	$1,549,543	$1,493,137	$1,430,639	$1,337,925	$1,225,810
Deposits	$1,074,484	$1,043,766	$1,017,667	$958,164	$877,339
Borrowed funds	$289,709	$279,326	$241,001	$216,136	$194,917
Shareholders' equity	$174,594	$160,609	$164,489	$154,783	$145,161
Gross loans to deposits	77.58 %	77.42 %	75.93 %	78.31 %	83.81 %
ASSETS UNDER MANAGEMENT*					
Loans sold with servicing retained	$288,639	$293,665	$303,425	$302,636	$312,252
Assets managed by our Investment and Trust Services Department	$383,878	$351,420	$319,301	$297,393	$307,983
Total assets under management	$2,222,060	$2,138,222	$2,053,365	$1,937,954	$1,846,045
ASSET QUALITY*					
Nonperforming loans to gross loans	0.50 %	0.42 %	1.00 %	0.95 %	0.83 %
Nonperforming assets to total assets	0.33 %	0.32 %	0.68 %	0.67 %	0.67 %
ALLL to gross loans	1.21 %	1.42 %	1.54 %	1.65 %	1.68 %

CAPITAL RATIOS*										
Shareholders' equity to assets	11.27	%	10.76	%	11.50	%	11.57	%	11.84	%
Tier 1 capital to average assets	8.59	%	8.46	%	8.29	%	8.18	%	8.24	%
Tier 1 risk-based capital	14.08	%	13.67	%	13.23	%	12.92	%	12.44	%
Total risk-based capital	15.18	%	14.92	%	14.48	%	14.17	%	13.69	%

* At end of year

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The following table outlines our interim results of operations and key performance measures as of, and for the unaudited periods ended:

	Quarter to Date							
	December 31 2014	September 30 2014	June 30 2014	March 31 2014	December 31 2013	September 30 2013	June 30 2013	March 31 2013
Total interest income	$13,713	$ 13,483	$13,391	$13,364	$ 13,603	$ 13,505	$13,440	$13,528
Total interest expense	2,504	2,498	2,468	2,500	2,683	2,736	2,781	2,821
Net interest income	11,209	10,985	10,923	10,864	10,920	10,769	10,659	10,707
Provision for loan losses	(64)	(162)	(200)	(242)	245	351	215	300
Noninterest income	2,426	2,216	2,434	2,249	2,130	2,862	2,736	2,447
Noninterest expenses	9,606	9,514	9,300	9,486	9,578	9,320	9,324	9,191
Federal income tax expense	648	444	692	560	303	674	643	576
Net income	$3,445	$ 3,405	$3,565	$3,309	$ 2,924	$ 3,286	$3,213	$3,087
PER SHARE								
Basic earnings	$0.44	$ 0.44	$0.46	$0.43	$ 0.38	$ 0.43	$0.42	$0.40
Diluted earnings	0.44	0.43	0.45	0.42	0.37	0.42	0.41	0.39
Dividends	0.23	0.22	0.22	0.22	0.21	0.21	0.21	0.21
Quoted Market value*	22.50	23.60	22.95	23.00	23.85	24.85	24.75	25.00
Tangible book value*	16.59	16.33	16.08	15.82	15.62	15.43	15.19	14.95

* At end of period

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.
ISABELLA BANK CORPORATION FINANCIAL REVIEW
(Dollars in thousands except per share amounts)
The following is management’s discussion and analysis of the financial condition and results of our operations. This discussion and analysis is intended to provide a better understanding of the consolidated financial statements and statistical data included elsewhere in this Annual Report on Form 10-K.
Executive Summary
We reported record net income of $13,724 and earnings per common share of $1.77 for the year ended December 31, 2014. Our continued strong earnings have primarily been the result of a continued improvement in credit quality indicators. These improvements resulted in a decline in the level of the ALLL in both amount and as a percentage of gross loans, resulting in a reversal of provision for loan losses of $668 for the year ended December 31, 2014. Net loan charge-offs during 2014 were $732 as compared to $1,547 in 2013 which is a 52.68% decline. Additionally, we continue to see reductions in loans classified as less than satisfactory.
During the year, total assets grew by 3.78% to $1,549,543, and assets under management increased to $2,222,060 which includes loans sold and serviced, and assets managed by our Investment and Trust Services Department of $672,517. We enjoyed total loan growth of $25,545 which was driven by commercial and agricultural loan growth of $51,989. This was partially offset by declines in both residential real estate and consumer loans of $26,444 as demand for residential real estate loans continued to be soft and the market for consumer loans continued to be dominated by automobile manufacturers.
While our net yield on interest earning assets of 3.45% remains historically low, it has stabilized. The low net yield on interest earning assets is a direct result of Federal Reserve Bank monetary policy. While we expect the Federal Reserve Bank to increase short term interest rates in 2015, we do not anticipate any significant improvements in our net yield on interest earning assets as the rates paid on interest bearing liabilities will likely increase faster than those of interest earning assets. Net interest income will increase only through continued growth in loans, investments, and other income earning assets.
We anticipate that competition for commercial loans will continue to be significant, residential mortgage loan activity will remain soft, and growing our deposit base will be challenging throughout the foreseeable future. Despite these challenges, our unwavering commitment to core community banking principles and long term sustainable growth has, and will continue to, enable us to meet the needs of the communities we serve and increase shareholder value.
Recent Legislation
The Health Care and Education Act of 2010, the Patient Protection and Affordable Care Act, the Dodd-Frank Act, and the JOBS Act, have already had, and are expected to continue to have, a negative impact on our operating results. Of these four acts, the Dodd-Frank Act has had the most significant impact. The Dodd-Frank Act established the CFPB which has made significant changes in the regulation of financial institutions aimed at strengthening the oversight of the federal government over the operation of the financial services sector and increasing the protection of consumers. Rules issued by the CFPB regarding consumer lending, including residential mortgage lending have increased our compensation and outside advisor costs to ensure our compliance with the new regulations and this trend is expected to continue.
On July 2, 2013, the FRB published revised BASEL III Capital standards for banks. The rules redefine what is included or deducted from equity capital, changes risk weighting for certain on and off-balance sheet assets, increases the minimum required equity capital to be considered well capitalized, and introduces a capital cushion buffer. The rules, which will be gradually phased in between 2015 and 2019, are not expected to have a material impact on the Corporation but will require us to hold more capital than we have historically.
Other
We have not received any notices of regulatory actions as of February 27, 2015.

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CRITICAL ACCOUNTING POLICIES

Our significant accounting policies are set forth in “Note 1 – Nature of Operations and Summary of Significant Accounting Policies” of the “Notes to Consolidated Financial Statements” in Item 8. Financial Statements and Supplementary Data. Of these significant accounting policies, we consider our policies regarding the ALLL, acquisition intangibles and goodwill, and the determination of the fair value and assessment of OTTI of investment securities to be our most critical accounting policies.

The ALLL requires our most subjective and complex judgment. Changes in economic conditions can have a significant impact on the ALLL and, therefore, the provision for loan losses and results of operations. We have developed policies and procedures for assessing the appropriateness of the ALLL, recognizing that this process requires a number of assumptions and estimates with respect to our loan portfolio. Our assessments may be impacted in future periods by changes in economic conditions, and the discovery of information with respect to borrowers which is not known to us at the time of the issuance of the consolidated financial statements. For additional discussion concerning our ALLL and related matters, see the detailed discussion to follow under the caption “Allowance for Loan and Lease Losses” and “Note 5 – Loans and ALLL” of the “Notes to Consolidated Financial Statements” in Item 8. Financial Statements and Supplementary Data.

U.S. generally accepted accounting principles require that we determine the fair value of the assets and liabilities of an acquired entity, and record their fair value on the date of acquisition. We employ a variety of measures in the determination of the fair value, including the use of discounted cash flow analysis, market appraisals, and projected future revenue streams. For certain items that we believe we have the appropriate expertise to determine the fair value, we may choose to use our own calculations of the value. In other cases, where the value is not easily determined, we consult with outside parties to determine the fair value of the identified asset or liability. Once valuations have been adjusted, the net difference between the price paid for the acquired entity and the net value of assets acquired on our balance sheet, including identifiable intangibles, is recorded as goodwill. Acquisition intangibles and goodwill are qualitatively evaluated to determine if it is more likely than not that the carrying balance is impaired on at least an annual basis.

AFS securities are carried at fair value with changes in the fair value included as a component of other comprehensive income. Declines in the fair value of AFS securities below their cost that are other-than-temporary are reflected as realized losses in the consolidated statements of income. We evaluate AFS securities for indications of losses that are considered other-than-temporary, if any, on a regular basis. The market values for AFS investment securities are typically obtained from outside sources and applied to individual securities within the portfolio.

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Average Balances, Interest Rate, and Net Interest Income

The following schedules present the daily average amount outstanding for each major category of interest earning assets, nonearning assets, interest bearing liabilities, and noninterest bearing liabilities for the last three years. These schedules also present an analysis of interest income and interest expense for the periods indicated. All interest income is reported on a FTE basis using a 34% federal income tax rate. Nonaccrual loans, for the purpose of the following computations, are included in the average loan balances. FRB and FHLB restricted equity holdings are included in accrued income and other assets.

	Year Ended December 31								
	2014			2013			2012		
	Average Balance	Tax Equivalent Interest	Average Yield / Rate	Average Balance	Tax Equivalent Interest	Average Yield / Rate	Average Balance	Tax Equivalent Interest	Average Yield / Rate
INTEREST EARNING ASSETS									
Loans	$813,202	$39,432	4.85 %	$790,132	$41,233	5.22 %	$754,304	$43,396	5.75 %
Taxable investment securities	357,250	8,092	2.27 %	335,575	7,228	2.15 %	309,681	7,555	2.44 %
Nontaxable investment securities	194,751	9,877	5.07 %	165,774	8,294	5.00 %	145,502	7,941	5.46 %
Trading securities	174	9	5.17 %	1,071	55	5.14 %	2,624	142	5.41 %
Other	25,610	510	1.99 %	27,235	447	1.64 %	33,359	486	1.46 %
Total earning assets	1,390,987	57,920	4.16 %	1,319,787	57,257	4.34 %	1,245,470	59,520	4.78 %
NONEARNING ASSETS									
Allowance for loan losses	(10,973)			(11,877)			(12,408)		
Cash and demand deposits due from banks	18,552			18,162			19,409		
Premises and equipment	25,957			25,993			25,244		
Accrued income and other assets	97,657			96,375			103,368		
Total assets	$1,522,180			$1,448,440			$1,381,083		
INTEREST BEARING LIABILITIES									
Interest bearing demand deposits	$191,750	157	0.08 %	$183,665	161	0.09 %	$170,851	204	0.12 %
Savings deposits	260,469	374	0.14 %	242,777	366	0.15 %	214,958	451	0.21 %
Time deposits	448,971	5,764	1.28 %	456,774	6,613	1.45 %	473,675	8,476	1.79 %
Borrowed funds	274,080	3,675	1.34 %	251,590	3,881	1.54 %	225,689	4,292	1.90 %
Total interest bearing liabilities	1,175,270	9,970	0.85 %	1,134,806	11,021	0.97 %	1,085,173	13,423	1.24 %

NONINTEREST BEARING LIABILITIES										
Demand deposits	165,860				141,872				125,443	
Other	10,773				8,752				9,785	
Shareholders' equity	170,277				163,010				160,682	
Total liabilities and shareholders' equity	$1,522,180				$1,448,440				$1,381,083	
Net interest income (FTE)		$47,950				$46,236				$46,097
Net yield on interest earning assets (FTE)			3.45 %				3.50 %			3.70 %

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Net Interest Income

Net interest income is the amount by which interest income on earning assets exceeds the interest expenses on interest bearing liabilities. Net interest income is influenced by changes in the balance and mix of assets and liabilities and market interest rates. We exert some control over these factors; however, FRB monetary policy and competition have a significant impact. For analytical purposes, net interest income is adjusted to an FTE basis by adding the income tax savings from interest on tax exempt loans, and nontaxable investment securities, thus making year to year comparisons more meaningful. Included in interest income are loan fees which are displayed in the following table for the years ended December 31:

	2014	2013	2012
Loan fees	$2,199	$3,182	$3,178

Volume and Rate Variance Analysis

The following table sets forth the effect of volume and rate changes on interest income and expense for the periods indicated. For the purpose of this table, changes in interest due to volume and rate were determined as follows:

Volume—change in volume multiplied by the previous period's FTE rate.

Rate—change in the FTE rate multiplied by the previous period's volume.

The change in interest due to both volume and rate has been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each.

	2014 Compared to 2013 Increase (Decrease) Due to			2013 Compared to 2012 Increase (Decrease) Due to		
	Volume	Rate	Net	Volume	Rate	Net
Changes in interest income						
Loans	$1,179	$(2,980)	$(1,801)	$1,996	$(4,159)	$(2,163)
Taxable investment securities	480	384	864	601	(928)	(327)
Nontaxable investment securities	1,468	115	1,583	1,049	(696)	353
Trading securities	(46)	—	(46)	(80)	(7)	(87)
Other	(28)	91	63	(96)	57	(39)
Total changes in interest income	3,053	(2,390)	663	3,470	(5,733)	(2,263)
Changes in interest expense						
Interest bearing demand deposits	7	(11)	(4)	14	(57)	(43)
Savings deposits	26	(18)	8	53	(138)	(85)
Time deposits	(111)	(738)	(849)	(293)	(1,570)	(1,863)
Borrowed funds	329	(535)	(206)	457	(868)	(411)
Total changes in interest expense	251	(1,302)	(1,051)	231	(2,633)	(2,402)
Net change in interest margin (FTE)	$2,802	$(1,088)	$1,714	$3,239	$(3,100)	$139

Our net yield on interest earning assets remains at historically low levels which is a direct result of FRB monetary policy. The persistent low interest rate environment coupled with an increase in the concentration of AFS securities as a percentage of earning assets has also placed downward pressure on net interest margin yield. While we anticipate that the FRB will increase short term interest rates in 2015, we do not expect any significant change in our net yield on interest earning assets as the rates paid on interest bearing liabilities will likely increase faster than those of interest earning assets. Net interest income will increase only through continued balance sheet growth.

	Average Yield / Rate for the Unaudited Three Month Periods Ended:				
	December 31 2014	September 30 2014	June 30 2014	March 31 2014	December 31 2013
Total earning assets	4.17 %	4.10 %	4.14 %	4.14 %	4.30 %
Total interest bearing liabilities	0.85 %	0.85 %	0.84 %	0.85 %	0.94 %
Net yield on interest earning assets (FTE)	3.46 %	3.39 %	3.43 %	3.42 %	3.50 %

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	Quarter to Date (Unaudited) Net Interest Income (FTE)				
	December 31 2014	September 30 2014	June 30 2014	March 31 2014	December 31 2013
Total interest income (FTE)	$14,702	$14,357	$14,282	$14,242	$14,441
Total interest expense	2,504	2,498	2,468	2,500	2,683
Net interest income (FTE)	$12,198	$11,859	$11,814	$11,742	$11,758

One of the the primary contributors to the decline in the net yield on interest earning assets during 2014 was a drastic decline in loan fees. Loan fees have declined as the demand for residential mortgage loans has diminished and the competition for commercial loans remains intense. As shown in the following table, the net yield on interest earning assets and net interest income excluding the impact of loan fees (FTE) has remained essentially unchanged since the fourth quarter of 2013. The following table displays unaudited data for the three month periods ended:

	December 31 2014	September 30 2014	June 30 2014	March 31 2014	December 31 2013
Net interest income (FTE)	$12,198	$11,859	$11,814	$11,742	$11,758
Less loan fees	669	488	566	476	761
Net interest income excluding loan fees (FTE)	$11,529	$11,371	$11,248	$11,266	$10,997
Net yield on interest earning assets excluding loan fees (FTE)	3.27 %	3.25 %	3.26 %	3.28 %	3.27 %

Allowance for Loan and Lease Losses

The viability of any financial institution is ultimately determined by its management of credit risk. Loans represent our single largest concentration of risk. The ALLL is our estimation of incurred losses within the existing loan portfolio. We allocate the ALLL throughout the loan portfolio based on our assessment of the underlying risks associated with each loan segment. Our assessments include allocations based on specific impairment valuation allowances, historical charge-offs, internally assigned credit risk ratings, and past due and nonaccrual balances. A portion of the ALLL is not allocated to any one loan segment, but is instead a reflection of other qualitative risks that reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

The following table summarizes our charge-offs, recoveries, provisions for loan losses, and ALLL balances as of, and for the unaudited three month periods ended:

	December 31 2014	September 30 2014	June 30 2014	March 31 2014	December 31 2013
Total charge-offs	$351	$416	$411	$450	$497
Total recoveries	115	278	211	292	152
Net loan charge-offs	236	138	200	158	345
Net loan charge-offs to average loans outstanding	0.03 %	0.02 %	0.02 %	0.02 %	0.04 %
Provision for loan losses	$(64)	$(162)	$(200)	$(242)	$245
Provision for loan losses to average loans outstanding	(0.01)%	(0.02)%	(0.02)%	(0.03)%	0.03 %
ALLL	$10,100	$10,400	$10,700	$11,100	$11,500
ALLL as a% of loans at end of period	1.21 %	1.26 %	1.31 %	1.37 %	1.42 %

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The following table summarizes our charge-off and recovery activity for the years ended December 31:

	2014	2013	2012	2011	2010
ALLL at beginning of period	$11,500	$11,936	$12,375	$12,373	$12,979
Charge-offs					
Commercial and agricultural	590	907	1,672	1,984	3,731
Residential real estate	722	1,004	1,142	2,240	2,524
Consumer	316	429	542	552	596
Total charge-offs	1,628	2,340	3,356	4,776	6,851
Recoveries					
Commercial and agricultural	550	363	240	461	453
Residential real estate	197	181	122	177	638
Consumer	149	249	255	314	297
Total recoveries	896	793	617	952	1,388
Provision for loan losses	(668)	1,111	2,300	3,826	4,857
ALLL at end of period	10,100	11,500	11,936	12,375	12,373
Net loan charge-offs	$732	$1,547	$2,739	$3,824	$5,463
Net loan charge-offs to average loans outstanding	0.09 %	0.20 %	0.36 %	0.51 %	0.75 %
ALLL as a% of loans at end of period	1.21 %	1.42 %	1.54 %	1.65 %	1.68 %

As the level of net loan charge-offs continues to decline and credit quality indicators continue to improve, we have reduced the ALLL in both amount and as a percentage of loans. For further discussion of the allocation of the ALLL, see “Note 5 – Loans and ALLL” of the “Notes to Consolidated Financial Statements” in Item 8. Financial Statements and Supplementary Data.

Loans Past Due and Loans in Nonaccrual Status

Increases in past due and nonaccrual loans can have a significant impact on the ALLL. To determine the potential impact, and corresponding estimated losses, we analyze our historical loss trends on loans past due greater than 30 days and nonaccrual loans. We monitor all loans that are past due and in nonaccrual status for indications of additional deterioration.

	Total Past Due and Nonaccrual				
	December 31 2014	September 30 2014	June 30 2014	March 31 2014	December 31 2013
Commercial and agricultural	$4,805	$3,904	$5,045	$4,986	$3,621
Residential real estate	4,181	4,011	4,613	7,067	7,008
Consumer	138	134	98	113	259
Total	$9,124	$8,049	$9,756	$12,166	$10,888

	Total Past Due and Nonaccrual as of December 31				
	2014	2013	2012	2011	2010
Commercial and agricultural	$4,805	$3,621	$7,271	$7,420	$9,606
Residential real estate	4,181	7,008	5,431	5,297	8,119
Consumer	138	259	199	186	309
Total	$9,124	$10,888	$12,901	$12,903	$18,034

Declines in past due and nonaccrual loans during 2014 are the result of strengthened loan performance. A summary of loans past due and in nonaccrual status, including the composition of the ending balance of nonaccrual loans by type, is included in “Note 5 – Loans and ALLL” of the “Notes to Consolidated Financial Statements” in Item 8. Financial Statements and Supplementary Data.

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Troubled Debt Restructurings

We have taken a proactive approach to avoid foreclosures on borrowers who are willing to work with us in modifying their loans, thus making them more affordable. While this approach has allowed certain borrowers to develop a payment structure that will allow them to continue making payments in lieu of foreclosure, it has contributed to a significant increase in the level of loans classified as TDRs. The modifications have been successful for us and our customers as very few of the modified loans have resulted in foreclosures. At the time of the TDR, the loan is reviewed to determine whether or not to classify the loan as accrual or nonaccrual. The majority of new modifications result in terms that satisfy our criteria for continued interest accrual. TDRs that have been placed in nonaccrual status may be placed back on accrual status after six months of continued performance.

We restructure debt with borrowers who due to temporary financial difficulties are unable to service their debt under the original terms. We may extend the amortization period, reduce interest rates, forgive principal, forgive interest, or a combination of these modifications. Typically, the modifications are for a period of five years or less. There were no TDRs that were Government sponsored as of December 31, 2014 or December 31, 2013.

Losses associated with TDRs, if any, are included in the estimation of the ALLL in the quarter in which a loan is identified as a TDR, and we review the analysis of the ALLL estimation each reporting period to ensure its continued appropriateness.

The following tables provide a roll-forward of TDRs for the years ended December 31, 2013 and 2014:

	Accruing Interest		Nonaccrual		Total	
	Number of Loans	Balance	Number of Loans	Balance	Number of Loans	Balance
January 1, 2013	115	$16,531	19	$2,824	134	$19,355
New modifications	76	12,192	5	424	81	12,616
Principal advances (payments)	—	(891)	—	(292)	—	(1,183)
Loans paid-off	(17)	(2,844)	(6)	(800)	(23)	(3,644)
Partial charge-offs	—	(79)	—	(477)	—	(556)
Balances charged-off	(3)	(167)	(1)	(27)	(4)	(194)
Transfers to OREO	(1)	(33)	(7)	(496)	(8)	(529)
Transfers to accrual status	2	133	(2)	(133)	—	—
Transfers to nonaccrual status	(7)	(419)	7	419	—	—
December 31, 2013	165	24,423	15	1,442	180	25,865
New modifications	30	2,647	5	367	35	3,014
Principal advances (payments)	—	(1,501)	—	(254)	—	(1,755)
Loans paid-off	(32)	(2,964)	(3)	(90)	(35)	(3,054)
Partial charge-offs	—	(70)	—	(193)	—	(263)
Balances charged-off	(3)	(13)	(3)	(115)	(6)	(128)
Transfers to OREO	—	—	(5)	(338)	(5)	(338)
Transfers to accrual status	5	502	(5)	(502)	—	—
Transfers to nonaccrual status	(9)	(2,093)	9	2,093	—	—
December 31, 2014	156	$20,931	13	$2,410	169	$23,341

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The following table summarizes our TDRs as of December 31:

	2014			2013			2012		
	Accruing Interest	Nonaccrual	Total	Accruing Interest	Nonaccrual	Total	Accruing Interest	Nonaccrual	Total
Current	20,012	272	20,284	21,690	1,189	22,879	16,301	941	17,242
Past due 30-59 days	804	592	1,396	2,158	37	2,195	158	561	719
Past due 60-89 days	115	3	118	575	—	575	72	41	113
Past due 90 days or more	—	1,543	1,543	—	216	216	—	1,281	1,281
Total	20,931	2,410	23,341	24,423	1,442	25,865	16,531	2,824	19,355

	2011			2010		
	Accruing Interest	Nonaccrual	Total	Accruing Interest	Nonaccrual	Total
Current	16,125	514	16,639	4,798	499	5,297
Past due 30-59 days	1,564	344	1,908	175	26	201
Past due 60-89 days	50	85	135	102	—	102
Past due 90 days or more	—	74	74	—	163	163
Total	17,739	1,017	18,756	5,075	688	5,763

Additional disclosures about TDRs are included in “Note 5 – Loans and ALLL” of the “Notes to Consolidated Financial Statements” in Item 8. Financial Statements and Supplementary Data.

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Impaired Loans

The following is a summary of information pertaining to impaired loans as of December 31:

	2014			2013		
	Outstanding Balance	Unpaid Principal Balance	Valuation Allowance	Outstanding Balance	Unpaid Principal Balance	Valuation Allowance
TDRs						
Commercial real estate	$10,222	$10,501	$1,276	$10,663	$11,193	$1,585
Commercial other	715	945	4	1,310	1,340	62
Agricultural real estate	1,423	1,423	—	1,459	1,459	30
Agricultural other	66	186	—	79	199	—
Residential real estate senior liens	10,462	11,019	1,847	12,266	12,841	2,010
Residential real estate junior liens	246	246	49	20	20	4
Home equity lines of credit	153	453	46	—	—	—
Consumer secured	54	54	1	68	69	—
Total TDRs	23,341	24,827	3,223	25,865	27,121	3,691
Other impaired loans						
Commercial real estate	1,009	1,195	3	1,707	2,193	330
Commercial other	83	95	—	136	217	58
Agricultural real estate	106	106	—	—	—	—
Agricultural other	—	—	—	—	—	—
Residential real estate senior liens	1,183	1,763	168	1,795	2,473	268
Residential real estate junior liens	19	29	4	28	45	5
Home equity lines of credit	97	197	29	193	493	—
Consumer secured	10	10	—	51	79	—
Total other impaired loans	2,507	3,395	204	3,910	5,500	661
Total impaired loans	$25,848	$28,222	$3,427	$29,775	$32,621	$4,352

Additional disclosure related to impaired loans is included in “Note 5 – Loans and ALLL” of the “Notes to Consolidated Financial Statements” in Item 8. Financial Statements and Supplementary Data.

Nonperforming Assets

The following table summarizes our nonperforming assets as of December 31:

	2014	2013	2012	2011	2010
Nonaccrual loans	$4,044	$3,244	$7,303	$6,389	$5,610
Accruing loans past due 90 days or more	148	142	428	760	486
Total nonperforming loans	4,192	3,386	7,731	7,149	6,096
Foreclosed assets	885	1,412	2,018	1,876	2,067
Total nonperforming assets	$5,077	$4,798	$9,749	$9,025	$8,163
Nonperforming loans as a % of total loans	0.50 %	0.42 %	1.00 %	0.95 %	0.83 %
Nonperforming assets as a % of total assets	0.33 %	0.32 %	0.68 %	0.67 %	0.67 %

After a loan is 90 days past due, it is generally placed in nonaccrual status unless it is well secured and in the process of collection. Upon transferring the loans to nonaccrual status, we perform an evaluation to determine the net realizable value of the underlying collateral. This evaluation is used to help determine if any charge-offs are necessary. Loans may be placed back on accrual status after six months months of continued performance.

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Included in the nonaccrual loan balances above were loans currently classified as TDRs as of December 31:

	2014	2013	2012	2011	2010
Commercial and agricultural	$1,995	$833	$2,325	$520	$115
Residential real estate	262	609	499	497	573
Consumer	153	—	—	—	—
Total	$2,410	$1,442	$2,824	$1,017	$688

Additional disclosures about nonaccrual loans are included in "Note 5 – Loans and ALLL"of the "Notes to Consolidated Financial Statements" in Item 8. Financial Statements and Supplementary Data.

We continue to devote considerable attention to identifying impaired loans and adjusting the net carrying value of these loans to their current net realizable values through the establishment of a specific reserve or the recording of a charge-off. We believe that all loans deemed to be impaired have been identified.

We believe that the level of the ALLL is appropriate as of December 31, 2014 and we will continue to closely monitor overall credit quality and our policies and procedures related to the analysis of the ALLL to ensure that the ALLL remains appropriate.

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Noninterest Income and Noninterest Expenses

Noninterest income consists of service charges and fees, gains on sale of mortgage loans, earnings on corporate owned life insurance policies, gains and losses on sales of AFS securities, and other income. Significant account balances are highlighted in the following table with additional descriptions of significant fluctuations for the years ended December 31:

	2014	2013	Change $	%	2012	Change $	%
Service charges and fees							
NSF and overdraft fees	$2,156	$2,243	$(87)	(3.88)%	$2,367	$(124)	(5.24)%
ATM and debit card fees	2,084	1,944	140	7.20 %	1,874	70	3.74 %
Freddie Mac servicing fee	720	737	(17)	(2.31)%	757	(20)	(2.64)%
Service charges on deposit accounts	354	373	(19)	(5.09)%	337	36	10.68 %
Net OMSR income (loss)	(36)	269	(305)	(113.38)%	(89)	358	N/M
All other	133	116	17	14.66 %	125	(9)	(7.20)%
Total service charges and fees	5,411	5,682	(271)	(4.77)%	5,371	311	5.79 %
Gain on sale of mortgage loans	514	962	(448)	(46.57)%	1,576	(614)	(38.96)%
Earnings on corporate owned life insurance policies	751	732	19	2.60 %	698	34	4.87 %
Gains (losses) on sale of AFS securities	97	171	(74)	(43.27)%	1,119	(948)	(84.72)%
Other							
Trust and brokerage advisory fees	2,069	1,858	211	11.36 %	1,635	223	13.64 %
Other	483	770	(287)	(37.27)%	1,131	(361)	(31.92)%
Total other	2,552	2,628	(76)	(2.89)%	2,766	(138)	(4.99)%
Total noninterest income	$9,325	$10,175	$(850)	(8.35)%	$11,530	$(1,355)	(11.75)%

Significant changes in noninterest income are detailed below:

- As customers continue to increase their dependence on ATM and debit cards, we have realized a corresponding increase in fees. We do not anticipate significant changes to our ATM and debit fee structure; however, we do expect that these fees will continue to increase as the usage of ATM and debit cards increase.
- Offering rates on residential mortgage loans, as well as the decline in loan demand, are the most significant drivers behind fluctuations in the gain on sale of mortgage loans and net OMSR income (loss). As a result of the lack of demand in residential mortgage loan originations, we are experiencing declines in both the gain on sale of mortgage loans and net OMSR income (loss). As mortgage rates are expected to approximate current levels in the foreseeable future and purchase money mortgage activity will likely remain soft, we do not anticipate any significant changes in origination volumes or the gain on sale of mortgage loans.
- We are continually analyzing our AFS securities for potential sale opportunities. These analyses identified several mortgage-backed securities pools in 2014, 2013, and 2012 that made economic sense to sell.
- In recent periods, we have invested considerable efforts to increase our market share in trust and brokerage advisory services. These efforts have translated into increases in trust fees and brokerage and advisory fees.
- The fluctuations in all other income is spread throughout various categories, none of which are individually significant.

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Noninterest expenses include compensation and benefits, furniture and equipment, occupancy, net AFS security impairment loss, and other expenses. Significant account balances are highlighted in the following table with additional descriptions of significant fluctuations for the years ended December 31:

	2014	2013	Change $	%	2012	Change $	%
Compensation and benefits							
Employee salaries	$16,114	$15,677	$437	2.79 %	$15,374	$303	1.97 %
Employee benefits	5,191	5,788	(597)	(10.31)%	5,853	(65)	(1.11)%
Total compensation and benefits	21,305	21,465	(160)	(0.75)%	21,227	238	1.12 %
Furniture and equipment							
Service contracts	2,542	2,277	265	11.64 %	1,995	282	14.14 %
Depreciation	1,850	1,889	(39)	(2.06)%	1,796	93	5.18 %
ATM and debit card fees	722	710	12	1.69 %	690	20	2.90 %
All other	59	69	(10)	(14.49)%	79	(10)	(12.66)%
Total furniture and equipment	5,173	4,945	228	4.61 %	4,560	385	8.44 %
Occupancy							
Outside services	718	671	47	7.00 %	605	66	10.91 %
Depreciation	701	667	34	5.10 %	621	46	7.41 %
Utilities	524	502	22	4.38 %	463	39	8.42 %
Property taxes	515	499	16	3.21 %	501	(2)	(0.40)%
All other	340	314	26	8.28 %	329	(15)	(4.56)%
Total occupancy	2,798	2,653	145	5.47 %	2,519	134	5.32 %
Net AFS securities impairment loss	—	—	—	—	282	(282)	(100.00)%
Other							
Marketing and community relations	1,431	1,131	300	26.53 %	1,965	(834)	(42.44)%
FDIC insurance premiums	842	1,082	(240)	(22.18)%	864	218	25.23 %
Audit and related fees	809	738	71	9.62 %	711	27	3.80 %
Director fees	775	819	(44)	(5.37)%	885	(66)	(7.46)%
Education and travel	625	502	123	24.50 %	588	(86)	(14.63)%
Postage and freight	397	387	10	2.58 %	389	(2)	(0.51)%
Printing and supplies	367	396	(29)	(7.32)%	424	(28)	(6.60)%
Loan underwriting fees	361	423	(62)	(14.66)%	403	20	4.96 %
Consulting fees	349	315	34	10.79 %	482	(167)	(34.65)%
Legal fees	320	359	(39)	(10.86)%	268	91	33.96 %
Other losses	250	109	141	129.36 %	300	(191)	(63.67)%
Amortization of deposit premium	183	221	(38)	(17.19)%	260	(39)	(15.00)%
State taxes	171	140	31	22.14 %	187	(47)	(25.13)%
Foreclosed asset and collection	122	211	(89)	(42.18)%	202	9	4.46 %
All other	1,628	1,517	111	7.32 %	1,123	394	35.08 %
Total other	8,630	8,350	280	3.35 %	9,051	(701)	(7.75)%
Total noninterest expenses	$37,906	$37,413	$493	1.32 %	$37,639	$(226)	(0.60)%

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Significant changes in noninterest expenses are detailed below:

- Employee salaries have increased as a result of normal merit increases and additional staffing required by our continued growth. The decline in employee benefits is related to health care costs as a result of lower than anticipated claims. Employee benefits are expected to increase moderately in future periods as a result of anticipated increases in health care costs.
- We have consistently been a strong supporter of the various communities, schools, and charities in the markets we serve. We sponsor a foundation, which we established in 1996, that is funded by discretionary donations. The affiliated foundation provides centralized oversight for donations to organizations that benefit our communities. Included in marketing and community relations were discretionary donations to the foundation of $500, $200, and $850 for the years ended December 31, 2014, 2013, and 2012, respectively.
- FDIC insurance premiums were elevated in 2013 due to us receiving less of a refund for prepaid FDIC insurance premiums than we had anticipated. FDIC insurance premiums have returned to normalized levels and are anticipated to approximate current levels in 2015.
- We place a strong emphasis on employee development through continuous education. Education and travel expenses vary from year to year based on the timing of various programs that our employees attend.
- Loan underwriting fees have declined in 2014 as a result of declines in residential real estate loan originations.
- Other losses increased significantly in 2014 primarily as a result of losses incurred related to fraudulent activities. Also contributing to losses in both 2014 and 2012 were losses related to the repurchase of loans that we previously sold to a third party. While other losses fluctuate from period to period, they are expected to approximate 2013 levels in 2015.
- The fluctuations in all other expenses are spread throughout various categories, none of which are individually significant.

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Analysis of Changes in Financial Condition

The following table shows the composition and changes in our balance sheet as of December 31:

	2014	2013	Change $	%
ASSETS				
Cash and cash equivalents	$19,326	$41,558	$(22,232)	(53.50)%
Certificates of deposit held in other financial institutions	580	580	—	—
Trading securities	—	525	(525)	(100.00)%
AFS securities				
Amortized cost of AFS securities	561,893	517,614	44,279	8.55%
Unrealized Gains (losses) on AFS securities	5,641	(5,552)	11,193	N/M
AFS securities	567,534	512,062	55,472	10.83%
Mortgage loans AFS	901	1,104	(203)	(18.39)%
Loans				
Gross loans	833,582	808,037	25,545	3.16%
Less allowance for loan and lease losses	10,100	11,500	(1,400)	(12.17)%
Net loans	823,482	796,537	26,945	3.38%
Premises and equipment	25,881	25,719	162	0.63%
Corporate owned life insurance policies	25,152	24,401	751	3.08%
Accrued interest receivable	5,851	5,442	409	7.52%
Equity securities without readily determinable fair values	20,076	18,293	1,783	9.75%
Goodwill and other intangible assets	46,128	46,311	(183)	(0.40)%
Other assets	14,632	20,605	(5,973)	(28.99)%
TOTAL ASSETS	$1,549,543	$1,493,137	$56,406	3.78%
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities				
Deposits	$1,074,484	$1,043,766	$30,718	2.94%
Borrowed funds	289,709	279,326	10,383	3.72%
Accrued interest payable and other liabilities	10,756	9,436	1,320	13.99%
Total liabilities	1,374,949	1,332,528	42,421	3.18%
Shareholders' equity	174,594	160,609	13,985	8.71%
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$1,549,543	$1,493,137	$56,406	3.78%

As shown above, total assets have increased $56,406 since December 31, 2013. During 2014, we increased our cost basis of AFS securities by $44,279 while loans grew by $25,545. Contributing to the increase in our AFS securities portfolio were $11,193 in unrealized gains observed during the year. This balance sheet growth was funded by increases in both deposits and borrowed funds. While we do anticipate that generating quality loans will continue to be competitive, we expect that loans will continue to grow in 2015.

A discussion of changes in balance sheet amounts by major categories follows:

Cash and cash equivalents

Included in cash and cash equivalents are funds held with FRB which fluctuate from period-to-period.

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Certificates of deposit held in other financial institutions

As certificates of deposit held in other financial institutions mature, the funds are reinvested into AFS investment securities to increase net interest margins (as the yields on AFS investment securities exceeded the potential reinvestment rates for certificates of deposits held in other financial institutions during the year). While there were no maturities in 2014 to reinvest, the maturities in 2015 will likely continue this trend.

AFS investment securities

The primary objective of our investing activities is to provide for safety of the principal invested. Secondary considerations include the need for earnings, liquidity, and our overall exposure to changes in interest rates.

The following is a schedule of the carrying value of AFS investment securities as of December 31:

	2014	2013	2012	2011	2010
Government sponsored enterprises	$24,136	$23,745	$25,776	$397	$5,404
States and political subdivisions	215,345	201,988	182,743	174,938	169,717
Auction rate money market preferred	2,619	2,577	2,778	2,049	2,865
Preferred stocks	6,140	5,827	6,363	5,033	6,936
Mortgage-backed securities	166,926	144,115	155,345	143,602	102,215
Collateralized mortgage obligations	152,368	133,810	131,005	99,101	43,587
Total	$567,534	$512,062	$504,010	$425,120	$330,724

Excluding those holdings in government sponsored enterprises and municipalities within the State of Michigan, there were no investments in securities of any one issuer that exceeded 10% of shareholders' equity. We have a policy prohibiting investments in securities that we deem are unsuitable due to their inherent credit or market risks. Prohibited investments include stripped mortgage backed securities, zero coupon bonds, nongovernment agency asset backed securities, and structured notes. Our holdings in mortgage-backed securities and collateralized mortgage obligations include only government agencies and government sponsored agencies as we hold no investments in private label mortgage-backed securities or collateralized mortgage obligations.

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The following is a schedule of maturities of AFS investment securities and their weighted average yield as of December 31, 2014. Weighted average yields have been computed on an FTE basis using a tax rate of 34%. Our auction rate money market preferred is a long term floating rate instrument for which the interest rate is set at periodic auctions. At each successful auction, we have the option to sell the security at par value. Additionally, the issuers of auction rate securities generally have the right to redeem or refinance the debt. Because of their lack of contractual maturities, auction rate money market preferred and preferred stocks are not reported by a specific maturity group. Mortgage-backed securities and collateralized mortgage obligations are not reported by a specific maturity group due to their variable monthly payments. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations.

	Maturing									
	Within One Year		After One Year But Within Five Years		After Five Years But Within Ten Years		After Ten Years		Securities with Variable Monthly Payments or Noncontractual Maturities	
	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)
Government sponsored enterprises	$—	—	$18,765	1.46	$5,371	1.51	$—	—	$—	—
States and political subdivisions	13,975	2.61	58,229	4.95	100,619	4.44	42,522	4.59	—	—
Mortgage-backed securities	—	—	—	—	—	—	—	—	166,926	2.19
Collateralized mortgage obligations	—	—	—	—	—	—	—	—	152,368	2.29
Auction rate money market preferred	—	—	—	—	—	—	—	—	2,619	6.35
Preferred stocks	—	—	—	—	—	—	—	—	6,140	5.78
Total	$13,975	2.61	$76,994	4.10	$105,990	4.29	$42,522	4.59	$328,053	2.34

Loans

Loans are the largest component of earning assets. The proper management of credit and market risk inherent in the loan portfolio is critical to our financial well-being. To control these risks, we have adopted strict underwriting standards. These standards include specific criteria against lending outside our defined market areas, lending limits to a single borrower, and strict loan to collateral value limits. We also monitor and limit loan concentrations to specific industries. We have no foreign loans and there were no concentrations greater than 10% of total loans that are not disclosed as a separate category in the following table.

The following table presents the composition of the loan portfolio for the years ended December 31:

	2014	2013	2012	2011	2010
Commercial	$431,961	$392,104	$371,505	$365,714	$348,852
Agricultural	104,721	92,589	83,606	74,645	71,446
Residential real estate	264,595	289,931	284,148	278,360	284,029
Consumer	32,305	33,413	33,494	31,572	30,977
Total	$833,582	$808,037	$772,753	$750,291	$735,304

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The following table presents the change in the loan portfolio categories for the years ended December 31:

	2014		2013		2012	
	$ Change	% Change	$ Change	% Change	$ Change	% Change
Commercial	$39,857	10.16 %	$20,599	5.54 %	$5,791	1.58 %
Agricultural	12,132	13.10 %	8,983	10.74 %	8,961	12.00 %
Residential real estate	(25,336)	(8.74)%	5,783	2.04 %	5,788	2.08 %
Consumer	(1,108)	(3.32)%	(81)	(0.24)%	1,922	6.09 %
Total	$25,545	3.16 %	$35,284	4.57 %	$22,462	2.99 %

We continue to see declines in residential real estate loans which have been offset by increases in commercial and agricultural loans. This trend is likely to continue as the demand for residential real estate loans is anticipated to remain soft due to continuing uncertainty in the residential real estate markets, increases in interest rates, and the implementation of CFPB underwriting guidelines. We expect loans to increase moderately in 2015, with most of the growth in commercial loans.

Equity securities without readily determinable fair values

Included in equity securities without readily determinable fair values are restricted securities, which are carried at cost and investments in unconsolidated entities accounted for under the equity method of accounting (see “Note 1 – Nature of Operations and Summary of Significant Accounting Policies” and “Note 19 – Fair Value” of the “Notes to Consolidated Financial Statements” in Item 8. Financial Statements and Supplementary Data).

Deposits

Deposits are our primary source of funding. The following table presents the composition of the deposit portfolio as of December 31:

	2014	2013	2012	2011	2010
Noninterest bearing demand deposits	$181,826	$158,428	$143,735	$119,072	$104,902
Interest bearing demand deposits	190,984	192,089	181,259	163,653	142,259
Savings deposits	261,412	243,237	228,338	193,902	177,817
Certificates of deposit	339,824	362,473	376,790	395,777	386,435
Brokered certificates of deposit	72,134	56,329	55,348	54,326	53,748
Internet certificates of deposit	28,304	31,210	32,197	31,434	12,178
Total	$1,074,484	$1,043,766	$1,017,667	$958,164	$877,339

The following table presents the change in the deposit categories for the years ended December 31:

	2014		2013		2012	
	$ Change	% Change	$ Change	% Change	$ Change	% Change
Noninterest bearing demand deposits	$23,398	14.77 %	$14,693	10.22 %	$24,663	20.71 %
Interest bearing demand deposits	(1,105)	(0.58)%	10,830	5.97 %	17,606	10.76 %
Savings deposits	18,175	7.47 %	14,899	6.52 %	34,436	17.76 %
Certificates of deposit	(22,649)	(6.25)%	(14,317)	(3.80)%	(18,987)	(4.80)%
Brokered certificates of deposit	15,805	28.06 %	981	1.77 %	1,022	1.88 %
Internet certificates of deposit	(2,906)	(9.31)%	(987)	(3.07)%	763	2.43 %
Total	$30,718	2.94 %	$26,099	2.56 %	$59,503	6.21 %

Overall, deposits continued to grow during 2014. As a result of the current interest rate environment, we continue to see declines in certificates of deposits, but these declines have been offset by increases in noninterest bearing demand deposits and savings accounts. We expect this trend to continue for the foreseeable future. Growth is anticipated to continue to come in the form of non-contractual deposits, while certificates of deposit are expected to approximate current levels.

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The remaining maturity of time certificates and other time deposits of $100 or more as of December 31, 2014 was as follows:

Maturity	
Within 3 months	$42,416
Within 3 to 6 months	22,303
Within 6 to 12 months	55,257
Over 12 months	124,924
Total	$244,900

Borrowed Funds

Borrowed funds include FHLB advances and securities sold under agreements to repurchase. The balance of borrowed funds fluctuates from period to period based on our funding needs including changes in loans, investments, and deposits. The current interest rate environment has made it almost impossible to increase net interest income without increasing earning assets. As deposit growth has generally outpaced loan demand, we continue to deploy deposits into purchases of AFS securities to provide additional interest income. In addition to utilizing deposits, we also utilize borrowings and brokered deposits to fund earning assets.

The following table presents borrowed funds balances for the years ended December 31:

	2014	2013	2012	2011	2010
FHLB advances	$192,000	$162,000	$152,000	$142,242	$113,423
Securities sold under agreements to repurchase without stated maturity dates	95,070	106,025	66,147	57,198	45,871
Securities sold under agreements to repurchase with stated maturity dates	439	11,301	16,284	16,696	19,623
Federal funds purchased	2,200	—	6,570	—	16,000
Total	$289,709	$279,326	$241,001	$216,136	$194,917

For additional disclosure related to borrowed funds, see “Note 9 – Borrowed Funds” of “Notes to Consolidated Financial Statements” in Item 8. Financial Statements and Supplementary Data.

Accrued interest payable and other liabilities

Included in accrued interest payable and other liabilities are obligations related to our defined benefit pension plan. Our liability related to the plan increased in 2014 as a result of changes in mortality tables and discount rates used to determine the current benefit obligation. For more information on the defined benefit pension plan, see "Note 16 – Benefit Plans" of the “Notes to Consolidated Financial Statements” in Item 8. Financial Statements and Supplementary Data).

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Contractual Obligations and Loan Commitments

We have various financial obligations, including contractual obligations and commitments, which may require future cash payments. The following schedule summarizes our non-cancelable obligations and future minimum payments as of December 31, 2014:

	Minimum Payments Due by Period				
	Due in One Year or Less	After One Year But Within Three Years	After Three Years But Within Five Years	After Five Years	Total
Deposits					
Deposits with no stated maturity	$634,222	$—	$—	$—	$634,222
Certificates of deposit with stated maturities	217,505	131,583	73,451	17,723	440,262
Total deposits	851,727	131,583	73,451	17,723	1,074,484
Borrowed funds					
Short-term borrowings	97,270	—	—	—	97,270
Long-term borrowings	42,439	40,000	60,000	50,000	192,439
Total borrowed funds	139,709	40,000	60,000	50,000	289,709
Total contractual obligations	$991,436	$171,583	$133,451	$67,723	$1,364,193

We also have loan commitments that may impact liquidity. The following schedule summarizes our loan commitments and expiration dates by period as of December 31, 2014. Commitments to grant loans include loans to be sold to the secondary market. Since many of these commitments historically have expired without being drawn upon, the total amount of these commitments does not necessarily represent our future cash requirements.

	Expiration Dates by Period				
	Due in One Year or Less	After One Year But Within Three Years	After Three Years But Within Five Years	After Five Years	Total
Unused commitments under lines of credit	$68,056	$27,330	$18,527	$3,022	$116,935
Commitments to grant loans	13,988	—	—	—	13,988
Commercial and standby letters of credit	4,985	—	—	—	4,985
Total loan commitments	$87,029	$27,330	$18,527	$3,022	$135,908

For additional disclosure related to Contractual Obligations and Loan Commitments, see “Note 12 – Off-Balance-Sheet Activities” of the “Notes to Consolidated Financial Statements” in Item 8. Financial Statements and Supplementary Data.

Capital

Capital consists solely of common stock, retained earnings, and accumulated other comprehensive income (loss). We are currently authorized to raise capital through dividend reinvestment, employee and director stock purchases, and shareholder stock purchases. Pursuant to these authorizations, we issued 182,755 shares or $4,227 of common stock during 2014, and 149,191 shares or $3,618 of common stock in 2013. We also offer the Directors Plan in which participants either directly purchase stock or purchase stock units through deferred fees, in lieu of cash payments. Pursuant to this plan, we increased shareholders’ equity by $495 and $554 during 2014 and 2013, respectively.

We have approved a publicly announced common stock repurchase plan. Pursuant to this plan, we repurchased 135,630 shares or $3,122 of common stock compared to 98,014 shares for $2,375 during 2014 and 2013, respectively. As of December 31, 2014, we were authorized to repurchase up to an additional 151,766 shares of common stock.

There are no significant regulatory constraints placed on our capital. The FRB’s current recommended minimum primary capital to assets requirement is 6.00%. Our primary capital to adjusted average assets, which consists of shareholders' equity plus the ALLL acquisition intangibles, was 8.59% as of December 31, 2014.

The FRB has established minimum risk based capital guidelines. Pursuant to these guidelines, a framework has been established that assigns risk weights to each category of on and off balance sheet items to arrive at risk adjusted total assets. Regulatory capital is divided by the risk adjusted assets with the resulting ratio compared to the minimum standard to determine whether a corporation has adequate capital. The minimum standard is 8.00%, of which at least 4.00% must consist of equity capital net of goodwill. The following table sets forth the percentages required under the Risk Based Capital guidelines and our values as of:

	2014		2013		Required	
Equity Capital	14.08	%	13.67	%	4.00	%
Secondary Capital	1.10	%	1.25	%	4.00	%
Total Capital	15.18	%	14.92	%	8.00	%

Secondary capital includes only the ALLL. The percentage for the secondary capital under the required column is the maximum amount allowed from all sources.

The FRB and FDIC also prescribe minimum capital requirements for Isabella Bank. At December 31, 2014, the Bank exceeded these minimum capital requirements. On July 2, 2013, the FRB published revised BASEL III Capital standards for banks. The rules redefine what is included or deducted from equity capital, changes risk weighting for certain on and off-balance sheet assets, increases the minimum required equity capital to be considered well capitalized, and introduces a capital cushion buffer. The rules, which will be gradually phased in between 2015 and 2019, are not expected to have a material impact on the Corporation but will require us to hold more capital than we have historically. For further information regarding the Bank's capital requirements, see "Note 15 – Minimum Regulatory Capital Requirements" of the "Notes to Consolidated Financial Statements" in Item 8. Financial Statements and Supplementary Data.

Fair Value

We utilize fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. AFS securities and certain liabilities are recorded at fair value on a recurring basis. Additionally, from time-to-time, we may be required to record at fair value other assets on a nonrecurring basis, such as mortgage loans AFS, foreclosed assets, OMSR, and certain other assets and liabilities. These nonrecurring fair value adjustments typically involve the application of lower of cost or market accounting or write-downs of individual assets.

For further information regarding fair value measurements, see "Note 1 – Nature of Operations and Summary of Significant Accounting Policies" and "Note 19 – Fair Value" of the "Notes to Consolidated Financial Statements" in Item 8. Financial Statements and Supplementary Data.

Interest Rate Sensitivity

Interest rate sensitivity is determined by the amount of earning assets and interest bearing liabilities repricing within a specific time period, and their relative sensitivity to a change in interest rates. We strive to achieve reasonable stability in the net interest margin through periods of changing interest rates. One tool we use to measure interest rate sensitivity is gap analysis. As shown in the table below, the gap analysis depicts our position for specific time periods and the cumulative gap as a percentage of total assets.

Fixed interest rate AFS securities are scheduled according to their contractual maturity. Fixed rate loans are included in the appropriate time frame based on their scheduled amortization. Variable rate loans, which totaled $172,432 as of December 31, 2014, are included in the time frame of their earliest repricing. Time deposit liabilities are scheduled based on their contractual maturity except for variable rate time deposits in the amount of $1,123 that are included in the 0 to 3 month time frame.

Savings and NOW accounts have no contractual maturity date and are believed by us to be predominantly noninterest rate sensitive. These accounts have been classified in the gap table according to their estimated withdrawal rates based upon our analysis of deposit decay over the past five years. We believe this decay experience is consistent with our expectation for the future. As of December 31, 2014, we had a positive cumulative gap within one year. A positive gap position results when more assets, within a specified time frame, have the potential to mature or reprice than liabilities.

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The following table shows the time periods and the amount of assets and liabilities available for interest rate repricing as of December 31, 2014. The interest rate sensitivity information for investment securities is based on the expected prepayments and call dates versus stated maturities. For purposes of this analysis, nonaccrual loans and the ALLL are excluded.

	0 to 3 Months	4 to 12 Months	1 to 5 Years	Over 5 Years
Interest sensitive assets				
AFS securities	$23,984	$85,277	$273,600	$184,673
Loans	203,326	84,090	390,966	151,156
Total	$227,310	$169,367	$664,566	$335,829
Interest sensitive liabilities				
Borrowed funds	$117,709	$22,000	$100,000	$50,000
Time deposits	68,939	149,036	204,564	17,723
Savings	7,360	22,619	88,940	142,493
NOW	2,604	7,812	36,104	144,464
Total	$196,612	$201,467	$429,608	$354,680
Cumulative gap	$30,698	$(1,402)	$233,556	$214,705
Cumulative gap as a % of assets	1.98%	(0.09)%	15.07%	13.86%

The following table shows the maturity of commercial and agricultural loans outstanding at December 31, 2014. Also provided are the amounts due after one year, classified according to the sensitivity to changes in interest rates.

	1 Year or Less	1 to 5 Years	Over 5 Years	Total
Commercial and agricultural	$96,084	$269,425	$171,173	$536,682
Interest sensitivity				
Loans maturing after one year that have:				
Fixed interest rates		$231,583	$166,707	
Variable interest rates		37,842	4,466	
Total		$269,425	$171,173	

Liquidity

Liquidity is monitored regularly by our Market Risk Committee, which consists of members of senior management. The committee reviews projected cash flows, key ratios, and liquidity available from both primary and secondary sources.

Our primary sources of liquidity are cash and cash equivalents, certificates of deposit held in other financial institutions, and AFS securities. These categories totaled $587,440 or 37.91% of assets as of December 31, 2014 as compared to $554,725 or 37.15% as of December 31, 2013. Liquidity is important for financial institutions because of their need to meet loan funding commitments, depositor withdrawal requests, and various other commitments including expansion of operations, investment opportunities, and payment of cash dividends. Liquidity varies significantly daily, based on customer activity.

Our primary source of funds is deposit accounts. We also have the ability to borrow from the FHLB, the FRB, and through various correspondent banks in the form of federal funds purchased and a line of credit. These funding methods typically carry a higher interest rate than traditional market deposit accounts. Some borrowed funds, including FHLB advances, FRB Discount Window advances, and repurchase agreements, require us to pledge assets, typically in the form AFS securities or loans as collateral. As of December 31, 2014, we had available lines of credit of $112,301.

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The following table summarizes our sources and uses of cash for the years ended December 31:

	2014	2013	$ Variance
Net cash provided by (used in) operating activities	$17,334	$22,741	$(5,407)
Net cash provided by (used in) investing activities	(74,598)	(64,931)	(9,667)
Net cash provided by (used in) financing activities	35,032	58,828	(23,796)
Increase (decrease) in cash and cash equivalents	(22,232)	16,638	(38,870)
Cash and cash equivalents January 1	41,558	24,920	16,638
Cash and cash equivalents December 31	$19,326	$41,558	$(22,232)

Market Risk

Our primary market risks are interest rate risk and liquidity risk. We have no significant foreign exchange risk and do not utilize interest rate swaps or derivatives, except for interest rate locks and forward loan commitments, in the management of IRR. Any changes in foreign exchange rates or commodity prices would have an insignificant impact on our interest income and cash flows.

IRR is the exposure of our net interest income to changes in interest rates. IRR results from the difference in the maturity or repricing frequency of a financial institution's interest earning assets and its interest bearing liabilities. IRR is the fundamental method by which financial institutions earn income and create shareholder value. Excessive exposure to IRR could pose a significant risk to our earnings and capital.

The FRB has adopted a policy requiring us to effectively manage the various risks that can have a material impact on our safety and soundness. The risks include credit, interest rate, liquidity, operational, and reputational. We have policies, procedures, and internal controls for measuring and managing these risks. Specifically, our Funds Management policy and procedures include defining acceptable types and terms of investments and funding sources, liquidity requirements, limits on investments in long term assets, limiting the mismatch in repricing opportunity of assets and liabilities, and the frequency of measuring and reporting to our Board.

The primary technique to measure IRR is simulation analysis. Simulation analysis forecasts the effects on the balance sheet structure and net interest income under a variety of scenarios that incorporate changes in interest rates, the shape of yield curves, interest rate relationships, and loan prepayments. These forecasts are compared against net interest income projected in a stable interest rate environment. While many assets and liabilities reprice either at maturity or in accordance with their contractual terms, several balance sheet components demonstrate characteristics that require an evaluation to more accurately reflect their repricing behavior. Key assumptions in the simulation analysis include prepayments on loans, probable calls of investment securities, changes in market conditions, loan volumes and loan pricing, deposit sensitivity, and customer preferences. These assumptions are inherently uncertain as they are subject to fluctuation and revision in a dynamic environment. As a result, the simulation analysis cannot precisely forecast the impact of rising and falling interest rates on net interest income. Actual results will differ from simulated results due to many other factors, including changes in balance sheet components, interest rate changes, changes in market conditions, and management strategies.

Our interest rate sensitivity is estimated by first forecasting the next 12 and 24 months of net interest income under an assumed environment of a constant balance sheet and constant market interest rates (base case). We then compare the results of various simulation analyses to the base case. At December 31, 2014, we projected the change in net interest income during the next 12 and 24 months assuming market interest rates were to immediately decrease by 100 basis points and increase by 100, 200, 300, and 400 basis points in a parallel fashion over the entire yield curve during the same time period. We did not project scenarios showing decreases in interest rates beyond 100 basis points as this is considered extremely unlikely given current interest rate levels. These projections were based on our assets and liabilities remaining static over the next 12 and 24 months, while factoring in probable calls and prepayments of certain investment securities and real estate residential and consumer loans. While it is extremely unlikely that interest rates would immediately increase to these levels, we feel that these extreme scenarios help us identify potential gaps and mismatches in the repricing characteristics of assets and liabilities. We regularly monitor our projected net interest income sensitivity to ensure that it remains within established limits.

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The following table summarizes our interest rate sensitivity for 12 and 24 months as of:

	December 31, 2014									
	12 Months					24 Months				
Immediate basis point change assumption (short-term)	(100)	100	200	300	400	(100)	100	200	300	400
Percent change in net interest income vs. constant rates	(1.66)%	0.29 %	0.45 %	(3.18)%	(4.39)%	(1.83)%	0.25 %	1.04 %	(2.70)%	(3.98)%

	December 31, 2013									
	12 Months					24 Months				
Immediate basis point change assumption (short-term)	(100)	100	200	300	400	(100)	100	200	300	400
Percent change in net interest income vs. constant rates	(2.85)%	0.25 %	(0.28)%	(0.99)%	(2.16)%	(3.24)%	0.04 %	0.29 %	0.41 %	(0.35)%

Gap analysis, the secondary method to measure IRR, measures the cash flows and/or the earliest repricing of our interest bearing assets and liabilities. This analysis is useful for measuring trends in the repricing characteristics of the balance sheet. Significant assumptions are required in this process because of the embedded repricing options contained in assets and liabilities. Residential real estate and consumer loans allow the borrower to repay the balance prior to maturity without penalty, while commercial and agricultural loans have prepayment penalties. The amount of prepayments is dependent upon many factors, including the interest rate of a given loan in comparison to the current offering rates, the level of sales of used homes, and the overall availability of credit in the market place. Generally, a decrease in interest rates will result in an increase in cash flows from these assets. A significant portion of our securities are callable or have prepayment options. The call and prepayment options are more likely to be exercised in a period of decreasing interest rates. Savings and demand accounts may generally be withdrawn on request without prior notice. The timing of cash flows from these deposits is estimated based on historical experience. Certificates of deposit have penalties that discourage early withdrawals.

The following tables provide information about assets and liabilities that are sensitive to changes in interest rates as of December 31, 2014 and December 31, 2013. The principal amounts of investments, loans, other interest earning assets, borrowings, and time deposits maturing were calculated based on the contractual maturity dates. Estimated cash flows for savings and NOW accounts are based on our estimated deposit decay rates.

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	December 31, 2014							
	2015	2016	2017	2018	2019	Thereafter	Total	Fair Value
Rate sensitive assets								
Other interest bearing assets	$1,748	$—	$100	$—	$—	$—	$1,848	$1,847
Average interest rates	0.36 %	—	0.35 %	—	—	—	0.36 %	
Trading securities	$—	$—	$—	$—	$—	$—	$—	$—
Average interest rates	—	—	—	—	—	—	—	
AFS securities	$109,261	$93,324	$80,147	$53,017	$47,112	$184,673	$567,534	$567,534
Average interest rates	2.22 %	2.26 %	2.32 %	2.39 %	2.46 %	2.62 %	2.41 %	
Fixed interest rate loans (1)	$119,028	$98,865	$128,954	$91,854	$71,293	$151,156	$661,150	$655,017
Average interest rates	4.90 %	4.83 %	4.53 %	4.32 %	4.47 %	4.25 %	4.54 %	
Variable interest rate loans (1)	$71,435	$26,938	$19,836	$13,929	$14,706	$25,588	$172,432	$172,432
Average interest rates	4.46 %	3.97 %	3.95 %	3.39 %	3.37 %	4.01 %	4.08 %	
Rate sensitive liabilities								
Borrowed funds	$139,709	$10,000	$30,000	$40,000	$20,000	$50,000	$289,709	$293,401
Average interest rates	0.33 %	2.15 %	1.95 %	2.35 %	3.11 %	2.53 %	1.41 %	
Savings and NOW accounts	$40,395	$36,417	$32,717	$29,423	$26,487	$286,957	$452,396	$452,396
Average interest rates	0.11 %	0.11 %	0.11 %	0.11 %	0.11 %	0.10 %	0.11 %	
Fixed interest rate certificates of deposit	$216,852	$74,722	$56,391	$50,550	$22,901	$17,723	$439,139	$439,841
Average interest rates	0.96 %	1.66 %	1.47 %	1.31 %	1.48 %	1.77 %	1.25 %	
Variable interest rate certificates of deposit	$653	$470	$—	$—	$—	$—	$1,123	$1,123
Average interest rates	0.40 %	0.40 %	—	—	—	—	0.40 %	

	December 31, 2013							
	2014	2015	2016	2017	2018	Thereafter	Total	Fair Value
Rate sensitive assets								
Other interest bearing assets	$19,903	$480	$—	$—	$—	$—	$20,383	$20,385
Average interest rates	0.25 %	1.15 %	—	—	—	—	0.27 %	

Trading securities	$525	$—	$—	$—	$—	$—	$525	$525
Average interest rates	2.77 %	—	—	—	—	—	2.77 %	
AFS securities	$131,892	$73,723	$63,190	$52,078	$37,972	$153,207	$512,062	$512,062
Average interest rates	2.26 %	2.23 %	2.42 %	2.48 %	2.48 %	2.80 %	2.48 %	
Fixed interest rate loans (1)	$115,183	$94,841	$91,140	$118,479	$85,448	$134,614	$639,705	$639,914
Average interest rates	5.31 %	5.17 %	4.93 %	4.53 %	4.33 %	4.33 %	4.75 %	
Variable interest rate loans (1)	$69,036	$29,460	$20,332	$14,208	$15,699	$19,597	$168,332	$168,332
Average interest rates	4.76 %	3.90 %	4.06 %	3.36 %	3.35 %	3.99 %	4.19 %	
Rate sensitive liabilities								
Borrowed funds	$126,950	$32,376	$10,000	$30,000	$40,000	$40,000	$279,326	$283,060
Average interest rates	0.43 %	0.86 %	2.15 %	1.95 %	2.35 %	3.02 %	1.35 %	
Savings and NOW accounts	$47,000	$33,569	$30,200	$27,198	$24,522	$272,837	$435,326	$435,326
Average interest rates	0.19 %	0.12 %	0.11 %	0.11 %	0.11 %	0.11 %	0.12 %	
Fixed interest rate certificates of deposit	$206,514	$81,038	$58,627	$46,336	$39,214	$17,144	$448,873	$451,664
Average interest rates	0.89 %	1.93 %	1.95 %	1.63 %	1.34 %	1.66 %	1.36 %	
Variable interest rate certificates of deposit	$764	$375	$—	$—	$—	$—	$1,139	$1,139
Average interest rates	0.04 %	0.40 %	—	—	—	—	0.16 %	

(1) The fair value reported is exclusive of the allocation of the ALLL.

We do not believe that there has been a material change in the nature or categories of our primary market risk exposure, or the particular markets that present the primary risk of loss. As of the date of this report, we do not know of or expect there to be any material change in the general nature of our primary market risk exposure in the near term. As of the date of this report, we do not expect to make material changes in those methods in the near term. We may change those methods in the future to adapt to changes in circumstances or to implement new techniques.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk.
The information presented in the section captioned “Market Risk” in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations is incorporated herein by reference.
Item 8. Financial Statements and Supplementary Data.
The following consolidated financial statements accompanied by the report of our independent registered public accounting firm are set forth beginning on page 39 of this report:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets

Consolidated Statements of Changes in Shareholders’ Equity

Consolidated Statements of Income

Consolidated Statements of Comprehensive Income (Loss)

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

Supplementary data regarding quarterly results of operations is included in Item 6. Selected Financial Data.

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Report of Independent Registered Public Accounting Firm
Shareholders and Board of Directors
Isabella Bank Corporation
Mount Pleasant, Michigan

We have audited the accompanying consolidated balance sheets of Isabella Bank Corporation as of December 31, 2014 and 2013, 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, 2014. We also have audited Isabella Bank Corporation's internal control over financial reporting as of December 31, 2014, based on criteria established in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). 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 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.

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, 2014 and 2013, and the consolidated results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion Isabella Bank Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

/s/Rehmann Robson LLC
Saginaw, Michigan

March 9, 2015

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CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	December 31 2014	2013
ASSETS		
Cash and cash equivalents		
Cash and demand deposits due from banks	$18,058	$21,755
Interest bearing balances due from banks	1,268	19,803
Total cash and cash equivalents	19,326	41,558
Certificates of deposit held in other financial institutions	580	580
Trading securities	—	525
AFS securities (amortized cost of $561,893 in 2014 and $517,614 in 2013)	567,534	512,062
Mortgage loans AFS	901	1,104
Loans		
Commercial	431,961	392,104
Agricultural	104,721	92,589
Residential real estate	264,595	289,931
Consumer	32,305	33,413
Gross loans	833,582	808,037
Less allowance for loan and lease losses	10,100	11,500
Net loans	823,482	796,537
Premises and equipment	25,881	25,719
Corporate owned life insurance policies	25,152	24,401
Accrued interest receivable	5,851	5,442
Equity securities without readily determinable fair values	20,076	18,293
Goodwill and other intangible assets	46,128	46,311
Other assets	14,632	20,605
TOTAL ASSETS	$1,549,543	$1,493,137
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest bearing	$181,826	$158,428
NOW accounts	190,984	192,089
Certificates of deposit under $100 and other savings	456,774	455,547
Certificates of deposit over $100	244,900	237,702
Total deposits	1,074,484	1,043,766
Borrowed funds	289,709	279,326
Accrued interest payable and other liabilities	10,756	9,436
Total liabilities	1,374,949	1,332,528
Shareholders' equity		
Common stock — no par value 15,000,000 shares authorized; issued and outstanding 7,776,274 shares (including 13,934 shares held in the Rabbi Trust) in 2014 and 7,723,023 shares (including 12,761 shares held in the Rabbi Trust) in 2013	138,755	137,580
Shares to be issued for deferred compensation obligations	4,242	4,148
Retained earnings	32,103	25,222
Accumulated other comprehensive income (loss)	(506)	(6,341)
Total shareholders' equity	174,594	160,609
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$1,549,543	$1,493,137

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

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Dollars in thousands except per share amounts)

	Common Stock					
	Shares Outstanding	Amount	Shares to be Issued for Deferred Compensation Obligations	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Totals
Balance, January 1, 2012	7,589,226	$134,734	$ 4,524	$13,036	$ 2,489	$154,783
Comprehensive income (loss)	—	—	—	12,206	2,518	14,724
Issuance of common stock	124,530	2,898	—	—	—	2,898
Common stock issued for deferred compensation obligations	41,676	814	(814)	—	—	—
Common stock transferred from the Rabbi Trust to satisfy deferred compensation obligations	—	619	(619)	—	—	—
Share-based payment awards under equity compensation plan	—	—	643	—	—	643
Common stock purchased for deferred compensation obligations	—	(505)	—	—	—	(505)
Common stock repurchased pursuant to publicly announced repurchase plan	(83,586)	(1,980)	—	—	—	(1,980)
Cash dividends ($0.80 per share)	—	—	—	(6,074)	—	(6,074)
Balance, December 31, 2012	7,671,846	136,580	3,734	19,168	5,007	164,489
Comprehensive income (loss)	—	—	—	12,510	(11,348)	1,162
Issuance of common stock	149,191	3,618	—	—	—	3,618
Common stock issued for deferred compensation obligations	—	—	—	—	—	—
Common stock transferred from the Rabbi Trust to satisfy deferred compensation obligations	—	140	(140)	—	—	—
Share-based payment awards under equity compensation plan	—	—	554	—	—	554
Common stock purchased for deferred compensation obligations	—	(383)	—	—	—	(383)
Common stock repurchased pursuant to publicly announced repurchase plan	(98,014)	(2,375)	—	—	—	(2,375)
Cash dividends ($0.84 per share)	—	—	—	(6,456)	—	(6,456)
Balance, December 31, 2013	7,723,023	137,580	4,148	25,222	(6,341)	160,609

Comprehensive income (loss)	—	—	—	13,724	5,835	19,559
Issuance of common stock	182,755	4,227	—	—	—	4,227
Common stock issued for deferred compensation obligations	6,126	143	(143)	—	—	—
Common stock transferred from the Rabbi Trust to satisfy deferred compensation obligations	—	258	(258)	—	—	—
Share-based payment awards under equity compensation plan	—	—	495	—	—	495
Common stock purchased for deferred compensation obligations	—	(331)	—	—	—	(331)
Common stock repurchased pursuant to publicly announced repurchase plan	(135,630)	(3,122)	—	—	—	(3,122)
Cash dividends ($0.89 per share)	—	—	—	(6,843)	—	(6,843)
Balance, December 31, 2014	7,776,274	$138,755	$ 4,242	$32,103	$ (506)	$174,594

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

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CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands except per share amounts)

	Year Ended December 31		
	2014	2013	2012
Interest income			
Loans, including fees	$39,432	$41,233	$43,396
AFS securities			
Taxable	8,092	7,228	7,555
Nontaxable	5,911	5,132	4,870
Trading securities	6	36	94
Federal funds sold and other	510	447	486
Total interest income	53,951	54,076	56,401
Interest expense			
Deposits	6,295	7,140	9,131
Borrowings	3,675	3,881	4,292
Total interest expense	9,970	11,021	13,423
Net interest income	43,981	43,055	42,978
Provision for loan losses	(668)	1,111	2,300
Net interest income after provision for loan losses	44,649	41,944	40,678
Noninterest income			
Service charges and fees	5,411	5,682	5,371
Net gain on sale of mortgage loans	514	962	1,576
Earnings on corporate owned life insurance policies	751	732	698
Net gains (losses) on sale of AFS securities	97	171	1,119
Other	2,552	2,628	2,766
Total noninterest income	9,325	10,175	11,530
Noninterest expenses			
Compensation and benefits	21,305	21,465	21,227
Furniture and equipment	5,173	4,945	4,560
Occupancy	2,798	2,653	2,519
AFS securities impairment loss			
Total other-than-temporary impairment loss	—	—	486
Portion of loss reported in other comprehensive income (loss)	—	—	(204)
Net AFS securities impairment loss	—	—	282
Other	8,630	8,350	9,051
Total noninterest expenses	37,906	37,413	37,639
Income before federal income tax expense	16,068	14,706	14,569
Federal income tax expense	2,344	2,196	2,363
NET INCOME	$13,724	$12,510	$12,206
Earnings per common share			
Basic	$1.77	$1.63	$1.61
Diluted	$1.74	$1.59	$1.56
Cash dividends per common share	$0.89	$0.84	$0.80

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

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Dollars in thousands)

	Year Ended December 31		
	2014	2013	2012
Net income	$13,724	$12,510	$12,206
Unrealized gains (losses) on AFS securities			
Unrealized gains (losses) arising during the year	11,290	(18,971)	3,921
Reclassification adjustment for net realized (gains) losses included in net income	(97)	(171)	(1,119)
Reclassification adjustment for impairment loss included in net income	—	—	282
Net unrealized gains (losses)	11,193	(19,142)	3,084
Tax effect (1)	(3,684)	6,257	(348)
Unrealized gains (losses), net of tax	7,509	(12,885)	2,736
Change in unrecognized pension cost on defined benefit pension plan			
Change in unrecognized pension cost arising during the year	(2,836)	2,120	(580)
Reclassification adjustment for net periodic benefit cost included in net income	300	208	251
Net change in unrecognized pension cost	(2,536)	2,328	(329)
Tax effect	862	(791)	111
Change in unrealized pension cost, net of tax	(1,674)	1,537	(218)
Other comprehensive income (loss), net of tax	5,835	(11,348)	2,518
Comprehensive income (loss)	19,559	1,162	14,724

(1) See “Note 17 – Accumulated Other Comprehensive Income (Loss)” in the accompanying notes to consolidated financial statements for tax effect reconciliation.

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	Year Ended December 31		
	2014	2013	2012
OPERATING ACTIVITIES			
Net income	$13,724	$12,510	$12,206
Reconciliation of net income to net cash provided by operating activities:			
Provision for loan losses	(668)	1,111	2,300
Impairment of foreclosed assets	123	156	166
Depreciation	2,551	2,556	2,417
Amortization of OMSR	265	522	787
Amortization of acquisition intangibles	183	221	260
Net amortization of AFS securities	1,830	2,028	2,277
AFS securities impairment loss	—	—	282
Net (gains) losses on sale of AFS securities	(97)	(171)	(1,119)
Net unrealized (gains) losses on trading securities	5	28	52
Net gain on sale of mortgage loans	(514)	(962)	(1,576)
Net unrealized (gains) losses on borrowings measured at fair value	—	—	(33)
Increase in cash value of corporate owned life insurance policies	(751)	(732)	(698)
Share-based payment awards under equity compensation plan	495	554	643
Deferred income tax (benefit) expense	207	(1,208)	616
Origination of loans held-for-sale	(28,135)	(53,632)	(99,353)
Proceeds from loan sales	28,852	57,123	100,501
Net changes in operating assets and liabilities which provided (used) cash:			
Trading securities	520	1,020	3,085
Accrued interest receivable	(409)	(215)	621
Other assets	(2,145)	(122)	(2,610)
Accrued interest payable and other liabilities	1,298	1,954	(1,360)
Net cash provided by (used in) operating activities	17,334	22,741	19,464
INVESTING ACTIVITIES			
Net change in certificates of deposit held in other financial institutions	—	3,885	4,459
Activity in AFS securities			
Sales	13,362	16,229	40,677
Maturities, calls, and principal repayments	68,188	86,225	89,112
Purchases	(127,562)	(131,505)	(207,035)
Loan principal (originations) collections, net	(27,648)	(38,503)	(27,103)
Proceeds from sales of foreclosed assets	1,775	2,122	1,594
Purchases of premises and equipment	(2,713)	(2,488)	(3,578)
Purchases of corporate owned life insurance policies	—	(1,092)	—
Proceeds from redemption of corporate owned life insurance policies	—	196	—
Net cash provided by (used in) investing activities	(74,598)	(64,931)	(101,874)

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CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(Dollars in thousands)

	Year Ended December 31		
	2014	2013	2012
FINANCING ACTIVITIES			
Net increase (decrease) in deposits	30,718	26,099	59,503
Increase (decrease) in borrowed funds	10,383	38,325	24,898
Cash dividends paid on common stock	(6,843)	(6,456)	(6,074)
Proceeds from issuance of common stock	4,227	3,618	2,898
Common stock repurchased	(3,122)	(2,375)	(1,980)
Common stock purchased for deferred compensation obligations	(331)	(383)	(505)
Net cash provided by (used in) financing activities	35,032	58,828	78,740
Increase (decrease) in cash and cash equivalents	(22,232)	16,638	(3,670)
Cash and cash equivalents at beginning of year	41,558	24,920	28,590
Cash and cash equivalents at end of year	$19,326	$41,558	$24,920
SUPPLEMENTAL CASH FLOWS INFORMATION:			
Interest paid	$10,045	$11,139	$13,639
Federal income taxes paid	1,454	2,093	2,357
SUPPLEMENTAL NONCASH INFORMATION:			
Transfers of loans to foreclosed assets	$1,371	$1,672	$1,902

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands except per share amounts)
Note 1 – Nature of Operations and Summary of Significant Accounting Policies
BASIS OF PRESENTATION AND CONSOLIDATION: The consolidated financial statements include the accounts of Isabella Bank Corporation, a financial services holding company, and its wholly owned subsidiary, Isabella Bank. All intercompany balances and accounts have been eliminated in consolidation.
NATURE OF OPERATIONS: Isabella Bank Corporation is a financial services holding company offering a wide array of financial products and services in several mid-Michigan counties. Our banking subsidiary, Isabella Bank, offers banking services through 27 locations, 24 hour banking services locally and nationally through shared automatic teller machines, 24 hour online banking, mobile banking, and direct deposits to businesses, institutions, and individuals. Lending services offered include commercial loans, agricultural loans, residential real estate loans, and consumer loans. Deposit services include interest and noninterest bearing checking accounts, savings accounts, money market accounts, and certificates of deposit. Other related financial products include trust and investment services, safe deposit box rentals, and credit life insurance. Active competition, principally from other commercial banks, savings banks and credit unions, exists in all of our principal markets. Our results of operations can be significantly affected by changes in interest rates or changes in the local economic environment.
For additional information, see “Note 18 – Related Party Transactions.”
USE OF ESTIMATES: In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, we make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheet and reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.
Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the ALLL, the fair value of AFS investment securities, and the valuation of goodwill and other intangible assets.
FAIR VALUE MEASUREMENTS: Fair value refers to the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants in the market in which the reporting entity transacts such sales or transfers based on the assumptions market participants would use when pricing an asset or liability. Assumptions are developed based on prioritizing information within a fair value hierarchy that gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, such as the reporting entity’s own data. We may choose to measure eligible items at fair value at specified election dates.
For assets and liabilities recorded at fair value, it is our policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements for those financial instruments for which there is an active market. In cases where the market for a financial asset or liability is not active, we include appropriate risk adjustments that market participants would make for nonperformance and liquidity risks when developing fair value measurements. Fair value measurements for assets and liabilities for which limited or no observable market data exists are accordingly based primarily upon estimates, are often calculated based on the economic and competitive environment, the characteristics of the asset or liability and other factors. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results of current or future values.
We utilize fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Investment securities AFS are recorded at fair value on a recurring basis. Additionally, from time-to-time, we may be required to record other assets and liabilities at fair value on a nonrecurring basis, such as mortgage loans AFS, impaired loans, foreclosed assets, OMSR, goodwill, and certain other assets and liabilities. These nonrecurring fair value adjustments typically involve the application of lower of cost or market accounting or write-downs of individual assets.

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Fair Value Hierarchy

Under fair value measurement and disclosure authoritative guidance, we group assets and liabilities measured at fair value into three levels, based on the markets in which the assets and liabilities are traded, and the reliability of the assumptions used to determine fair value, based on the prioritization of inputs in the valuation techniques. These levels are:

Level 1:	Valuation is based upon quoted prices for identical instruments traded in active markets.
Level 2:	Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model based valuation techniques for which all significant assumptions are observable in the market.
Level 3:	Valuation is generated from model based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. Transfers between measurement levels are recognized at the end of reporting periods.

For further discussion of fair value considerations, refer to "Note 19 – Fair Value."

SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK: Most of our activities conducted are with customers located within the central Michigan area. A significant amount of our outstanding loans are secured by commercial and residential real estate. Other than these types of loans, there is no significant concentration to any other industry or any one customer.

CASH AND CASH EQUIVALENTS: For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks, federal funds sold, and other deposit accounts. Generally, federal funds sold are for a one day period. We maintain deposit accounts in various financial institutions which generally exceed federally insured limits or are not insured. We do not believe we are exposed to any significant interest, credit or other financial risk as a result of these deposits.

CERTIFICATES OF DEPOSIT HELD IN OTHER FINANCIAL INSTITUTIONS: Certificates of deposits held in other financial institutions consist of interest bearing certificates of deposit with terms of three years or less and are carried at cost.

AFS SECURITIES: Purchases of investment securities are generally classified as AFS. However, we may elect to classify securities as either held to maturity or trading. Securities classified as AFS are recorded at fair value, with unrealized gains and losses, net of the effect of deferred income taxes, excluded from earnings and reported in other comprehensive income. Included in AFS securities are auction rate money market preferreds and preferred stocks. These investments are considered equity securities for federal income tax purposes, and as such, no estimated federal income tax impact is expected or recorded. Auction rate money market preferred securities and preferred stocks are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Realized gains and losses on the sale of AFS securities are determined using the specific identification method.

AFS securities are reviewed quarterly for possible OTTI. In determining whether an OTTI exists for debt securities, we assert that: (a) we do not have the intent to sell the security; and (b) it is more likely than not we will not have to sell the security before recovery of its cost basis. If these conditions are not met, we recognize an OTTI charge through earnings for the difference between the debt security's amortized cost basis and its fair value, and such amount is included in noninterest income. For debt securities that do not meet the above criteria, and we do not expect to recover the security's amortized cost basis, the security is considered other-than-temporarily impaired. For these debt securities, we separate the total impairment into the credit risk loss component and the amount of the loss related to market and other risk factors. In order to determine the amount of the credit loss for a debt security, we calculate the recovery value by performing a discounted cash flow analysis based on the current cash flows and future cash flows we expect to recover. The amount of the total OTTI related to the credit risk is recognized in earnings and is included in noninterest income. The amount of the total OTTI related to other risk factors is recognized as a component of other comprehensive income. For debt securities that have recognized an OTTI through earnings, if through subsequent evaluation there is a significant increase in the cash flow expected, the difference between the amortized cost basis and the cash flows expected to be collected is accreted as interest income.

AFS equity securities are reviewed for OTTI at each reporting date. This evaluation considers a number of factors including, but not limited to, the length of time and extent to which the fair value has been less than cost, the financial condition and near term prospects of the issuer, and our ability and intent to hold the securities until fair value recovers. If it is determined that we

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do not have the ability and intent to hold the securities until recovery or that there are conditions that indicate that a security may not recover in value then the difference between the fair value and the cost of the security is recognized in earnings and is included in noninterest income.

LOANS: Loans that we have the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balance adjusted for any charge-offs, the ALLL, and any deferred fees or costs on originated loans. Interest income on loans is accrued over the term of the loan based on the principal amount outstanding. Loan origination fees and certain direct loan origination costs are capitalized and recognized as a component of interest income over the term of the loan using the level yield method.

The accrual of interest on agricultural, commercial and mortgage loans is discontinued at the time the loan is 90 days or more past due unless the credit is well secured and in the process of collection. Consumer loans are typically charged-off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. For loans that are placed on nonaccrual status or charged-off, all interest accrued in the current calendar year, but not collected, is reversed against interest income while interest accrued in prior calendar years, but not collected is charged against the ALLL. The interest on these loans is accounted for on the cash-basis, until qualifying for return to accrual status. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured. For impaired loans not classified as nonaccrual, interest income continues to be accrued over the term of the loan based on the principal amount outstanding.

ALLOWANCE FOR LOAN LOSSES: The ALLL is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when we believe the uncollectability of the loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

We evaluate the ALLL on a regular basis and is based upon our periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower’s ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The ALLL consists of specific, general, and unallocated components. The specific component relates to loans that are deemed to be impaired. For such loans that are also analyzed for specific allowance allocations, an allowance is established when the discounted cash flows or collateral value or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers non classified loans and is based on historical loss experience. An unallocated component is maintained to cover uncertainties that we believe affect our estimate of probable losses based on qualitative factors. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

Loans may be classified as impaired if they meet one or more of the following criteria:

1. There has been a charge-off of its principal balance;
2. The loan has been classified as a TDR; or
3. The loan is in nonaccrual status.

Impairment is measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan’s effective interest rate, the loan’s obtainable market price, or the fair value of the collateral, less cost to sell, if the loan is collateral dependent. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment.

LOANS HELD FOR SALE: Mortgage loans held for sale on the secondary market are carried at the lower of cost or fair value as determined by aggregating outstanding commitments from investors or current investor yield requirements. Net unrealized losses, if any, would be recognized as a component of other noninterest expenses.

Mortgage loans held for sale are sold with the mortgage servicing rights retained by us. The carrying value of mortgage loans sold is reduced by the cost allocated to the associated mortgage servicing rights. Gains or losses on sales of mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loans sold.

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TRANSFERS OF FINANCIAL ASSETS: Transfers of financial assets, including mortgage loans and participation loans are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is determined to be surrendered when 1) the assets have been legally isolated from us, 2) the transferee obtains the right (free of conditions that constrain it from taking advantage of the right) to pledge or exchange the transferred assets, and 3) we do not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. Other than servicing, we have no substantive continuing involvement related to these loans.
SERVICING: Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. We have no purchased servicing rights. For sales of mortgage loans, a portion of the cost of originating the loan is allocated to the servicing right based on relative fair value. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights into tranches based on predominant risk characteristics, such as interest rate, loan type, and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the capitalized amount for the tranche. If we later determine that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the valuation allowance may be recorded as an increase to income. Capitalized servicing rights are reported in other assets and are amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. The unpaid principal balance of mortgages serviced for others was $288,639 and $293,665 with capitalized servicing rights of $2,519 and $2,555 at December 31, 2014 and 2013, respectively.
Servicing fee income is recorded for fees earned for servicing loans for others. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. We recorded servicing fee revenue of $720, $737, and $757 related to residential mortgage loans serviced for others during 2014, 2013, and 2012, respectively, which is included in other noninterest income.
FORECLOSED ASSETS: Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at the lower of our carrying amount or fair value less estimated selling costs at the date of transfer, establishing a new cost basis. Any write-downs based on the asset's fair value at the date of acquisition are charged to the ALLL. After foreclosure, property held for sale is carried at the lower of the new cost basis or fair value less costs to sell. Impairment losses on property to be held and used are measured at the amount by which the carrying amount of property exceeds its fair value. Costs relating to holding these assets are expensed as incurred. We periodically perform valuations and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of our carrying amount or fair value less costs to sell. Foreclosed assets of $885 and $1,412 as of December 31, 2014 and 2013, respectively, are included in other assets.
PREMISES AND EQUIPMENT: Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation which is computed principally by the straight-line method based upon the estimated useful lives of the related assets, which range from 3 to 40 years. Major improvements are capitalized and appropriately amortized based upon the useful lives of the related assets or the expected terms of the leases, if shorter, using the straight-line method. Maintenance, repairs and minor alterations are charged to current operations as expenditures occur. We annually review these assets to determine whether carrying values have been impaired.
EQUITY SECURITIES WITHOUT READILY DETERMINABLE FAIR VALUES: Included in equity securities without readily determinable fair values are our holdings in FHLB stock and FRB stock as well as our ownership interests in Corporate Settlement Solutions, LLC and Valley Financial Corporation. Our investment in Corporate Settlement Solutions, LLC, a title insurance company, was made in the 1st quarter of 2008. We are not the managing entity of Corporate Settlement Solutions, LLC, and account for our investment in that entity under the equity method of accounting. Valley Financial Corporation is the parent company of 1st State Bank in Saginaw, Michigan, which is a bank that opened in 2005. We made investments in Valley Financial Corporation in 2004 and in 2007.

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Equity securities without readily determinable fair values consist of the following as of December 31:

	2014	2013
FHLB Stock	$9,800	$8,100
Corporate Settlement Solutions, LLC	6,936	6,970
FRB Stock	1,999	1,879
Valley Financial Corporation	1,000	1,000
Other	341	344
Total	$20,076	$18,293

EQUITY COMPENSATION PLAN: At December 31, 2014, the Directors Plan had 187,369 shares eligible to be issued to participants, for which the Rabbi Trust held 13,934 shares. We had 185,311 shares to be issued in 2013, with 12,761 shares held in the Rabbi Trust. Compensation costs relating to share based payment transactions are recognized as the services are rendered, with the cost measured based on the fair value of the equity or liability instruments issued (see "Note 16 – Benefit Plans"). We have no other equity-based compensation plans.
CORPORATE OWNED LIFE INSURANCE: We have purchased life insurance policies on key members of management. In the event of death of one of these individuals, we would receive a specified cash payment equal to the face value of the policy. Such policies are recorded at their cash surrender value, or the amount that can be realized on the balance sheet dates. Increases in cash surrender value in excess of single premiums paid are reported as other noninterest income.
As of December 31, 2014 and 2013, the present value of the post retirement benefits payable by us to the covered employees was estimated to be $2,782 and $2,699, respectively, and is included in accrued interest payable and other liabilities. The periodic policy maintenance costs were $83, $75, and $24 for 2014, 2013, and 2012, respectively and is included in other noninterest expenses.
ACQUISITION INTANGIBLES AND GOODWILL: We previously acquired branch facilities and related deposits in business combinations accounted for as a purchase. The acquisitions included amounts related to the valuation of customer deposit relationships (core deposit intangibles). Core deposit intangibles arising from acquisitions are included in goodwill and other intangible assets are being amortized over their estimated lives and evaluated for potential impairment on at least an annual basis. Goodwill represents the excess of purchase price over identifiable assets, is not amortized but is evaluated for impairment on at least an annual basis. Acquisition intangibles and goodwill are typically qualitatively evaluated to determine if it is more likely than not that the carrying balance is impaired. If it is determined that the carrying balance is more likely than not to be impaired, we perform a cash flow valuation to determine the extent of the potential impairment. This valuation method requires a significant degree of our judgment. In the event the projected undiscounted net operating cash flows for these intangible assets are less than the carrying value, the asset is recorded at fair value as determined by the valuation model.
OFF BALANCE SHEET CREDIT RELATED FINANCIAL INSTRUMENTS: In the ordinary course of business, we have entered into commitments to extend credit, including commitments under credit card arrangements, home equity lines of credit, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded only when funded.
FEDERAL INCOME TAXES: Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax assets or liability is determined based on the tax effects of the temporary differences between the book and tax bases on the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws. Valuation allowances are established, where necessary, to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the year plus or minus the change during the year in deferred tax assets and liabilities.
We analyze our filing positions in the jurisdictions where we are required to file income tax returns, as well as all open tax years in these jurisdictions. We have also elected to retain our existing accounting policy with respect to the treatment of interest and penalties attributable to income taxes, and continue to reflect any charges for such, to the extent they arise, as a component of our noninterest expenses.
DEFINED BENEFIT PENSION PLAN: We maintain a noncontributory defined benefit pension plan, which was curtailed effective March 1, 2007. Defined benefit pension plan expenses are included in "compensation and benefits"

on the consolidated statements of income and are funded consistent with the requirements of federal laws and regulations. The current benefit obligation is included in "accrued interest payable and other liabilities" on the consolidated balance sheets. Inherent in the determination of defined benefit pension costs are assumptions concerning future events that will affect the amount and timing of required benefit payments under the plan. These assumptions include demographic assumptions such as mortality, a discount rate used to determine the current benefit obligation and a long-term expected rate of return on plan assets. Net periodic benefit cost includes interest cost based on the assumed discount rate, an expected return on plan assets based on an actuarially derived market-related value of assets, and amortization of unrecognized net actuarial gains or losses. Actuarial gains and losses result from experience different from that assumed and from changes in assumptions (excluding asset gains and losses not yet reflected in market-related value). Amortization of actuarial gains and losses is included as a component of net periodic defined benefit pension cost.

For additional information, see "Note 16 – Benefit Plans."

MARKETING COSTS: Marketing costs are expensed as incurred (see "Note 10 – Other Noninterest Expenses").

RECLASSIFICATIONS: Certain amounts reported in the 2013 and 2012 consolidated financial statements have been reclassified to conform with the 2014 presentation.

Note 2 – Computation of Earnings Per Common Share

Basic earnings per common share represents income available to common shareholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares that may be issued relate solely to outstanding shares in the Directors Plan, see "Note 16 – Benefit Plans."

Earnings per common share have been computed based on the following:

	2014	2013	2012
Average number of common shares outstanding for basic calculation	7,734,161	7,694,392	7,604,303
Average potential effect of common shares in the Directors Plan (1)	171,393	168,948	195,063
Average number of common shares outstanding used to calculate diluted earnings per common share	7,905,554	7,863,340	7,799,366
Net income	$13,724	$12,510	$12,206
Earnings per common share			
Basic	$1.77	$1.63	$1.61
Diluted	$1.74	$1.59	$1.56

(1) Exclusive of shares held in the Rabbi Trust

Note 3 – Pending Accounting Standards Updates

ASU No. 2014-01: "Accounting for Investments in Qualified Affordable Housing Projects (a consensus of the FASB Emerging Issues Task Force)"

In January 2014, ASU No. 2014-01 amended ASC Topic 323, "Investments" to allow investors in low income housing tax credits to use the proportional amortization method if the following criteria are met:

- It is probable that the tax credits allocable to the investor will be available.
- The investor does not have the ability to exercise significant influence over the operating and financial policies of the limited liability entity.
- Substantially all of the projected benefits are from tax credits and other tax benefits (e.g., operating losses).
- The investor's projected yield is based solely on the cash flows from the tax credits and other tax benefits are positive.
- The investor is a limited liability investor in the limited liability entity for both legal and tax purposes, and the investor's liability is limited to its capital investment.

Investors that do not meet the above criteria must utilize the cost method or equity method in accordance with previously issued authoritative accounting guidance. The new authoritative guidance is effective for interim and annual periods beginning after December 15, 2014 and is not expected to have a significant impact on our operations.

ASU No. 2014-04: "Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force)"

In January 2014, ASU No. 2014-04 amended ASC Topic 310, "Receivables" to reduce diversity by clarifying when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be

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derecognized and the real estate property recognized. The new authoritative guidance is effective for interim and annual periods beginning after December 15, 2014 and is not expected to have a significant impact on our operations.

ASU No. 2014-09: “Revenue from Contracts with Customers”

In May 2014, ASU No. 2014-09 created new Topic 606 to provide a common revenue standard to achieve consistency and clarification to the revenue recognition principles. The guidance outlines steps to achieve the core principle which states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. These steps consist of: (1) identify the contract(s) with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. The new authoritative guidance is effective for interim and annual periods beginning after December 15, 2016 and is not expected to have a significant impact on our operations.

ASU No. 2014-11: “Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures”

In June 2014, ASU No. 2014-11 amended ASC Topic 860, “Transfers and Servicing” to address concerns that current accounting guidance distinguishes between repurchase agreements that settle at the same time as the maturity of the transferred financial asset and those that settle any time before maturity. The update changes the accounting for repurchase-to-maturity transactions to secured borrowing accounting and, for repurchase financing arrangements, separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement. The new authoritative guidance is effective for interim and annual periods beginning after December 15, 2014 and is not expected to impact our financial statement disclosures.

ASU No. 2014-14: “Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force)”

In August 2014, ASU No. 2014-14 amended ASC Topic 310, “Receivables” to provide specific guidance on how to classify and measure foreclosed loans that are government guaranteed. The update requires that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met:

- The loan has a government guarantee that is not separable from the loan before foreclosure.
- At the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim.
- At the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed.

Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The new authoritative guidance is effective for interim and annual periods beginning after December 15, 2014 and is not expected to have a significant impact on our operations.

ASU No. 2014-15: “Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern”

In August 2014, ASU No. 2014-15 amended ASC Topic 205, “Presentation of Financial Statements” to provide guidance on how to determine whether to disclose relevant conditions or events that raise substantial doubt about the entity's ability to continue as a going concern. If conditions or events raise substantial doubt about an entity’s ability to continue as a going concern, financial statements would continue to be prepared under the going concern assumption; however, disclosures may be necessary depending upon the conditions or events raising substantial doubt. Additionally, if identified substantial doubt is not alleviated after consideration of management’s plans, an entity should include a statement in the footnotes indicating that there is substantial doubt about the entity’s ability to continue as a going concern within one year after the date that the financial statements are issued (or available to be issued). The new authoritative guidance is effective for annual and interim periods beginning after December 15, 2016 and is not expected to impact our financial statement disclosures.

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Note 4 – AFS Securities

The amortized cost and fair value of AFS securities, with gross unrealized gains and losses, are as follows as of December 31:

	2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Government sponsored enterprises	$24,597	$10	$471	$24,136
States and political subdivisions	209,153	6,986	794	215,345
Auction rate money market preferred	3,200	—	581	2,619
Preferred stocks	6,800	31	691	6,140
Mortgage-backed securities	165,888	2,042	1,004	166,926
Collateralized mortgage obligations	152,255	1,533	1,420	152,368
Total	$561,893	$10,602	$4,961	$567,534

	2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Government sponsored enterprises	$24,860	$7	$1,122	$23,745
States and political subdivisions	200,323	5,212	3,547	201,988
Auction rate money market preferred	3,200	—	623	2,577
Preferred stocks	6,800	20	993	5,827
Mortgage-backed securities	147,292	657	3,834	144,115
Collateralized mortgage obligations	135,139	1,016	2,345	133,810
Total	$517,614	$6,912	$12,464	$512,062

The amortized cost and fair value of AFS securities by contractual maturity at December 31, 2014 are as follows:

	Maturing					
	Due in One Year or Less	After One Year But Within Five Years	After Five Years But Within Ten Years	After Ten Years	Securities with Variable Monthly Payments or Noncontractual Maturities	Total
Government sponsored enterprises	$—	$19,068	$5,529	$—	$ —	$24,597
States and political subdivisions	13,943	56,317	97,295	41,598	—	209,153
Auction rate money market preferred	—	—	—	—	3,200	3,200
Preferred stocks	—	—	—	—	6,800	6,800
Mortgage-backed securities	—	—	—	—	165,888	165,888
Collateralized mortgage obligations	—	—	—	—	152,255	152,255
Total amortized cost	$13,943	$75,385	$102,824	$41,598	$ 328,143	$561,893
Fair value	$13,975	$76,994	$105,990	$42,522	$ 328,053	$567,534

Expected maturities for government sponsored enterprises and states and political subdivisions may differ from contractual maturities because issuers may have the right to call or prepay obligations.

As the auction rate money market preferred and preferred stocks have continual call dates, they are not reported by a specific maturity group. Because of their variable monthly payments, mortgage-backed securities and collateralized mortgage obligations are not reported by a specific maturity group.

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A summary of the sales activity of AFS securities was as follows during the years ended December 31:

	2014	2013	2012
Proceeds from sales of AFS securities	$13,362	$16,229	$40,677
Gross realized gains (losses)	$97	$171	$1,119
Applicable income tax expense (benefit)	$33	$58	$380

The cost basis used to determine the realized gains or losses of AFS securities sold was the amortized cost of the individual investment security as of the trade date.

Information pertaining to AFS securities with gross unrealized losses at December 31 aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	2014				
	Less Than Twelve Months		Twelve Months or More		
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Total Unrealized Losses
Government sponsored enterprises	$—	$—	$471	$23,525	$471
States and political subdivisions	48	5,323	746	17,416	794
Auction rate money market preferred	—	—	581	2,619	581
Preferred stocks	—	—	691	3,109	691
Mortgage-backed securities	5	9,456	999	52,407	1,004
Collateralized mortgage obligations	105	29,435	1,315	39,540	1,420
Total	$158	$44,214	$4,803	$138,616	$4,961
Number of securities in an unrealized loss position:		22		72	94

	2013				
	Less Than Twelve Months		Twelve Months or More		
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Total Unrealized Losses
Government sponsored enterprises	$1,122	$22,873	$—	$—	$1,122
States and political subdivisions	2,566	42,593	981	6,115	3,547
Auction rate money market preferred	—	—	623	2,577	623
Preferred stocks	—	—	993	2,807	993
Mortgage-backed securities	2,424	101,816	1,410	21,662	3,834
Collateralized mortgage obligations	2,345	84,478	—	—	2,345
Total	$8,457	$251,760	$4,007	$33,161	$12,464
Number of securities in an unrealized loss position:		182		19	201

As of December 31, 2014 and 2013, we conducted an analysis to determine whether any securities currently in an unrealized loss position, should be other-than-temporarily impaired. Such analyses considered, among other factors, the following criteria:

- Has the value of the investment declined more than what is deemed to be reasonable based on a risk and maturity adjusted discount rate?
- Is the investment credit rating below investment grade?
- Is it probable the issuer will be unable to pay the amount when due?
- Is it more likely than not that we will have to sell the security before recovery of its cost basis?
- Has the duration of the investment been extended?

During the three month period ended March 31, 2012, we had one state issued student loan auction rate AFS investment security (which is included in states and political subdivisions) that was downgraded by Moody's from A3 to Caa3. As a result of this downgrade, we engaged the services of an independent investment valuation firm to estimate the amount of credit losses

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(if any) related to this particular issue as of March 31, 2012. The evaluation calculated a range of estimated credit losses utilizing two different bifurcation methods:
1) Discounted Cash Flow Method
2) Credit Yield Analysis Method
The two methods were then weighted, with a higher weighting applied to the Discounted Cash Flow Method, to determine the estimated credit related impairment. As a result of this analysis, we recognized an OTTI of $282 in earnings in the three month period ended March 31, 2012.
A summary of key valuation assumptions used in the aforementioned analysis as of March 31, 2012, follows:

	Discounted Cash Flow Method
Ratings	
Fitch	Not Rated
Moody's	Caa3
S&P	A
Seniority	Senior
Discount rate	LIBOR + 6.35%

	Credit Yield Analysis Method
Credit discount rate	LIBOR + 4.00%
Average observed discounts based on closed transactions	14.00%

To test for additional impairment of this security as of December 31, 2014, we obtained another investment valuation (from the same firm engaged to perform the initial valuation as of March 31, 2012) as of December 31, 2014. Based on our analysis, no additional OTTI was indicated as of December 31, 2014.
The following table provides a roll-forward of credit related impairment recognized in earnings for the years ended December 31:

	2014	2013	2012
Balance at beginning of year	$282	$282	$—
Additions to credit losses for which no previous OTTI was recognized	—	—	282
Balance at end of year	$282	$282	$282

Based on our analyses, the fact that we have asserted that we do not have the intent to sell AFS securities in an unrealized loss position, and considering it is unlikely that we will have to sell AFS securities in an unrealized loss position before recovery of their cost basis, we do not believe that the values of any AFS securities are other-than-temporarily impaired as of December 31, 2014, or December 31, 2013.
Note 5 – Loans and ALLL
We grant commercial, agricultural, residential real estate, and consumer loans to customers situated primarily in Clare, Gratiot, Isabella, Mecosta, Midland, Montcalm, and Saginaw counties in Michigan. The ability of the borrowers to honor their repayment obligations is often dependent upon the real estate, agricultural, light manufacturing, retail, gaming, tourism, higher education, and general economic conditions of this region. Substantially all of our consumer and residential real estate loans are secured by various items of property, while commercial loans are secured primarily by real estate, business assets, and personal guarantees; a portion of loans are unsecured.
Loans that we have the intent and ability to hold in our portfolio are reported at their outstanding principal balance adjusted for any charge-offs, the ALLL, and any deferred fees or costs. Interest income is accrued over the term of the loan based on the principal amount outstanding. Loan origination fees and certain direct loan origination costs are capitalized and recognized as a component of interest income over the term of the loan using the level yield method.
The accrual of interest on commercial, agricultural, and residential real estate loans is typically discontinued at the time the loan is 90 days or more past due unless the credit is well-secured and in the process of collection. Upon transferring the loans

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to nonaccrual status, we perform an evaluation to determine the net realizable value of the underlying collateral. This evaluation is used to help determine if any charge-offs are necessary. Consumer loans are typically charged-off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

For loans that are placed on nonaccrual status or charged-off, all interest accrued in the current calendar year, but not collected, is reversed against interest income while interest accrued in prior calendar years, but not collected, is charged against the ALLL. Loans are typically returned to accrual status after six months of continuous performance. For impaired loans not classified as nonaccrual, interest income continues to be accrued over the term of the loan based on the principal amount outstanding.

Commercial and agricultural loans include loans for commercial real estate, commercial operating loans, farmland and agricultural production, and states and political subdivisions. Repayment of these loans is often dependent upon the successful operation and management of a business. We minimize our risk by limiting the amount of credit exposure to any one borrower to $15,000. Borrowers with credit needs of more than $15,000 are serviced through the use of loan participations with other commercial banks. Commercial and agricultural real estate loans generally require loan-to-value limits of less than 80%. Depending upon the type of loan, past credit history, and current operating results, we may require the borrower to pledge accounts receivable, inventory, and property and equipment. Personal guarantees are generally required from the owners of closely held corporations, partnerships, and sole proprietorships. In addition, we require annual financial statements, prepare cash flow analyses, and review credit reports as deemed necessary.

We offer adjustable rate mortgages, construction loans, and fixed rate residential real estate loans which typically have amortization periods up to a maximum of 30 years. Fixed rate residential real estate loans with an amortization of greater than 15 years are generally sold upon origination to Freddie Mac. Fixed rate residential real estate loans with an amortization of 15 years or less may be held in our portfolio or sold to Freddie Mac upon origination. We consider the direction of interest rates, the sensitivity of our balance sheet to changes in interest rates, and overall loan demand to determine whether or not to sell these loans to Freddie Mac.

Our lending policies generally limit the maximum loan-to-value ratio on residential real estate loans to 95% of the lower of the appraised value of the property or the purchase price, with the condition that private mortgage insurance is required on loans with loan-to-value ratios in excess of 80%. Substantially all loans upon origination have a loan to value ratio of less than 80%. Underwriting criteria for residential real estate loans include: evaluation of the borrower's ability to make monthly payments, the value of the property securing the loan, ensuring the payment of principal, interest, taxes, and hazard insurance does not exceed 28% of a borrower's gross income, all debt servicing does not exceed 36% of income, acceptable credit reports, verification of employment, income, and financial information. Appraisals are performed by independent appraisers and reviewed internally. All mortgage loan requests are reviewed by our mortgage loan committee or through a secondary market automated underwriting system; loans in excess of $500 require the approval of our Internal Loan Committee, the Executive Loan Committee, the Board of Directors' Loan Committee, or the Board of Directors.

Consumer loans include secured and unsecured personal loans. Loans are amortized for a period of up to 12 years based on the age and value of the underlying collateral. The underwriting emphasis is on a borrower's perceived intent and ability to pay rather than collateral value. No consumer loans are sold to the secondary market.

The ALLL is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the ALLL when we believe the uncollectability of the loan balance is confirmed. Subsequent recoveries, if any, are credited to the ALLL.

The ALLL is evaluated on a regular basis and is based upon a periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The primary factors behind the determination of the level of the ALLL are specific allocations for impaired loans, historical loss percentages, as well as unallocated components. Specific allocations for impaired loans are primarily determined based on the difference between the loan’s outstanding balance to the present value of expected future cash flows discounted at the loan’s effective interest rate, the loan’s obtainable market price, or the fair value of the collateral, less cost to sell. Historical loss allocations were calculated at the loan class and segment levels based on a migration analysis of the loan portfolio over the preceding five years. An unallocated component is maintained to cover uncertainties that we believe affect our estimate of probable losses based on qualitative factors. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A summary of changes in the ALLL and the recorded investment in loans by segments follows:

Allowance for Loan Losses
Year Ended December 31, 2014

	Commercial	Agricultural	Residential Real Estate	Consumer	Unallocated	Total
January 1, 2014	$6,048	$434	$3,845	$639	$534	$11,500
Charge-offs	(559)	(31)	(722)	(316)	—	(1,628)
Recoveries	550	—	197	149	—	896
Provision for loan losses	(2,216)	(187)	918	173	644	(668)
December 31, 2014	$3,823	$216	$4,238	$645	$1,178	$10,100

Allowance for Loan Losses and Recorded Investment in Loans
As of December 31, 2014

	Commercial	Agricultural	Residential Real Estate	Consumer	Unallocated	Total
ALLL						
Individually evaluated for impairment	$1,283	$—	$2,143	$1	$—	$3,427
Collectively evaluated for impairment	2,540	216	2,095	644	1,178	6,673
Total	$3,823	$216	$4,238	$645	$1,178	$10,100
Loans						
Individually evaluated for impairment	$12,029	$1,595	$12,160	$64		$25,848
Collectively evaluated for impairment	419,932	103,126	252,435	32,241		807,734
Total	$431,961	$104,721	$264,595	$32,305		$833,582

Allowance for Loan Losses
Year Ended December 31, 2013

	Commercial	Agricultural	Residential Real Estate	Consumer	Unallocated	Total
January 1, 2013	$6,862	$407	$3,627	$666	$374	$11,936
Charge-offs	(895)	(12)	(1,004)	(429)	—	(2,340)
Recoveries	363	—	181	249	—	793
Provision for loan losses	(282)	39	1,041	153	160	1,111
December 31, 2013	$6,048	$434	$3,845	$639	$534	$11,500

Allowance for Loan Losses and Recorded Investment in Loans
As of December 31, 2013

	Commercial	Agricultural	Residential Real Estate	Consumer	Unallocated	Total
ALLL						
Individually evaluated for impairment	$2,035	$30	$2,287	$—	$—	$4,352
Collectively evaluated for impairment	4,013	404	1,558	639	534	7,148
Total	$6,048	$434	$3,845	$639	$534	$11,500
Loans						
Individually evaluated for impairment	$13,816	$1,538	$14,302	$119		$29,775
	378,288	91,051	275,629	33,294		778,262

Collectively evaluated for impairment						
Total	$392,104	$92,589	$289,931	$33,413		$808,037

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The following table displays the credit quality indicators for commercial and agricultural credit exposures based on internally assigned credit risk ratings as of December 31:

	2014					
	Commercial			Agricultural		
	Real Estate	Other	Total	Real Estate	Other	Total
Rating						
1 - Excellent	$—	$492	$492	$—	$—	$—
2 - High quality	13,620	14,423	28,043	5,806	3,582	9,388
3 - High satisfactory	94,556	51,230	145,786	28,715	12,170	40,885
4 - Low satisfactory	184,000	49,869	233,869	33,361	17,560	50,921
5 - Special mention	8,456	1,322	9,778	1,607	65	1,672
6 - Substandard	11,055	123	11,178	1,602	147	1,749
7 - Vulnerable	2,687	116	2,803	106	—	106
8 - Doubtful	—	12	12	—	—	—
Total	$314,374	$117,587	$431,961	$71,197	$33,524	$104,721

	2013					
	Commercial			Agricultural		
	Real Estate	Other	Total	Real Estate	Other	Total
Rating						
1 - Excellent	$—	$—	$—	$—	$—	$—
2 - High quality	18,671	14,461	33,132	3,527	3,235	6,762
3 - High satisfactory	91,323	39,403	130,726	26,015	17,000	43,015
4 - Low satisfactory	149,921	43,809	193,730	26,874	10,902	37,776
5 - Special mention	13,747	1,843	15,590	1,609	922	2,531
6 - Substandard	16,974	473	17,447	1,232	1,273	2,505
7 - Vulnerable	1,041	238	1,279	—	—	—
8 - Doubtful	183	17	200	—	—	—
Total	$291,860	$100,244	$392,104	$59,257	$33,332	$92,589

Internally assigned credit risk ratings are reviewed, at a minimum, when loans are renewed or when management has knowledge of improvements or deterioration of the credit quality of individual credits. Descriptions of the internally assigned credit risk ratings for commercial and agricultural loans are as follows:

1. EXCELLENT – Substantially Risk Free

Credit has strong financial condition and solid earnings history, characterized by:

- High liquidity, strong cash flow, low leverage.
- Unquestioned ability to meet all obligations when due.
- Experienced management, with management succession in place.
- Secured by cash.

2. HIGH QUALITY – Limited Risk

Credit with sound financial condition and has a positive trend in earnings supplemented by:

- Favorable liquidity and leverage ratios.
- Ability to meet all obligations when due.
- Management with successful track record.
- Steady and satisfactory earnings history.
- If loan is secured, collateral is of high quality and readily marketable.
- Access to alternative financing.
- Well defined primary and secondary source of repayment.
- If supported by guaranty, the financial strength and liquidity of the guarantor(s) are clearly evident.

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3. HIGH SATISFACTORY – Reasonable Risk

Credit with satisfactory financial condition and further characterized by:

- Working capital adequate to support operations.
- Cash flow sufficient to pay debts as scheduled.
- Management experience and depth appear favorable.
- Loan performing according to terms.
- If loan is secured, collateral is acceptable and loan is fully protected.

4. LOW SATISFACTORY – Acceptable Risk

Credit with bankable risks, although some signs of weaknesses are shown:

- Would include most start-up businesses.
- Occasional instances of trade slowness or repayment delinquency – may have been 10-30 days slow within the past year.
- Management's abilities are apparent, yet unproven.
- Weakness in primary source of repayment with adequate secondary source of repayment.
- Loan structure generally in accordance with policy.
- If secured, loan collateral coverage is marginal.
- Adequate cash flow to service debt, but coverage is low.

To be classified as less than satisfactory, only one of the following criteria must be met.

5. SPECIAL MENTION – Criticized

Credit constitutes an undue and unwarranted credit risk but not to the point of justifying a classification of substandard. The credit risk may be relatively minor yet constitute an unwarranted risk in light of the circumstances surrounding a specific loan:

- Downward trend in sales, profit levels, and margins.
- Impaired working capital position.
- Cash flow is strained in order to meet debt repayment.
- Loan delinquency (30-60 days) and overdrafts may occur.
- Shrinking equity cushion.
- Diminishing primary source of repayment and questionable secondary source.
- Management abilities are questionable.
- Weak industry conditions.
- Litigation pending against the borrower.
- Collateral or guaranty offers limited protection.
- Negative debt service coverage, however the credit is well collateralized and payments are current.

6. SUBSTANDARD – Classified

Credit where the borrower's current net worth, paying capacity, and value of the collateral pledged is inadequate. There is a distinct possibility that we will implement collection procedures if the loan deficiencies are not corrected. In addition, the following characteristics may apply:

- Sustained losses have severely eroded the equity and cash flow.
- Deteriorating liquidity.
- Serious management problems or internal fraud.
- Original repayment terms liberalized.
- Likelihood of bankruptcy.
- Inability to access other funding sources.
- Reliance on secondary source of repayment.
- Litigation filed against borrower.
- Collateral provides little or no value.
- Requires excessive attention of the loan officer.

- Borrower is uncooperative with loan officer.

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7. VULNERABLE – Classified
Credit is considered "Substandard" and warrants placing on nonaccrual. Risk of loss is being evaluated and exit strategy options are under review. Other characteristics that may apply:
- Insufficient cash flow to service debt.
- Minimal or no payments being received.
- Limited options available to avoid the collection process.
- Transition status, expect action will take place to collect loan without immediate progress being made.

8. DOUBTFUL – Workout
Credit has all the weaknesses inherent in a "Substandard" loan with the added characteristic that collection and/or liquidation is pending. The possibility of a loss is extremely high, but its classification as a loss is deferred until liquidation procedures are completed, or reasonably estimable. Other characteristics that may apply:
- Normal operations are severely diminished or have ceased.
- Seriously impaired cash flow.
- Original repayment terms materially altered.
- Secondary source of repayment is inadequate.
- Survivability as a "going concern" is impossible.
- Collection process has begun.
- Bankruptcy petition has been filed.
- Judgments have been filed.
- Portion of the loan balance has been charged-off.

Our primary credit quality indicator for residential real estate and consumer loans is the individual loan's past due aging. The following tables summarize the past due and current loans as of December 31:

	2014						
	Accruing Interest and Past Due:				Total Past Due and Nonaccrual		
	30-59 Days	60-89 Days	90 Days or More	Nonaccrual		Current	Total
Commercial							
Commercial real estate	$1,155	$282	$—	$2,764	$4,201	$310,173	$314,374
Commercial other	153	24	2	116	295	117,292	117,587
Total commercial	1,308	306	2	2,880	4,496	427,465	431,961
Agricultural							
Agricultural real estate	101	—	—	106	207	70,990	71,197
Agricultural other	102	—	—	—	102	33,422	33,524
Total agricultural	203	—	—	106	309	104,412	104,721
Residential real estate							
Senior liens	1,821	425	146	668	3,060	210,138	213,198
Junior liens	235	18	—	130	383	10,750	11,133
Home equity lines of credit	468	20	—	250	738	39,526	40,264
Total residential real estate	2,524	463	146	1,048	4,181	260,414	264,595
Consumer							
Secured	107	2	—	10	119	28,229	28,348
Unsecured	19	—	—	—	19	3,938	3,957
Total consumer	126	2	—	10	138	32,167	32,305
Total	$4,161	$771	$148	$4,044	$9,124	$824,458	$833,582

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	2013 Accruing Interest and Past Due: 30-59 Days	60-89 Days	90 Days or More	Nonaccrual	Total Past Due and Nonaccrual	Current	Total
Commercial							
Commercial real estate	$1,226	$296	$—	$1,136	$2,658	$289,202	$291,860
Commercial other	368	15	13	238	634	99,610	100,244
Total commercial	1,594	311	13	1,374	3,292	388,812	392,104
Agricultural							
Agricultural real estate	34	295	—	—	329	58,928	59,257
Agricultural other	—	—	—	—	—	33,332	33,332
Total agricultural	34	295	—	—	329	92,260	92,589
Residential real estate							
Senior liens	3,441	986	129	1,765	6,321	229,865	236,186
Junior liens	408	44	—	29	481	13,074	13,555
Home equity lines of credit	181	—	—	25	206	39,984	40,190
Total residential real estate	4,030	1,030	129	1,819	7,008	282,923	289,931
Consumer							
Secured	167	11	—	50	228	28,444	28,672
Unsecured	25	5	—	1	31	4,710	4,741
Total consumer	192	16	—	51	259	33,154	33,413
Total	$5,850	$1,652	$142	$3,244	$10,888	$797,149	$808,037

Impaired Loans

Loans may be classified as impaired if they meet one or more of the following criteria:

1. There has been a charge-off of its principal balance (in whole or in part);
2. The loan has been classified as a TDR; or
3. The loan is in nonaccrual status.

Impairment is measured on a loan-by-loan basis for commercial and agricultural loans by comparing the loan’s outstanding balance to the present value of expected future cash flows discounted at the loan’s effective interest rate, the loan’s obtainable market price, or the fair value of the collateral, less cost to sell, if the loan is collateral dependent. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Impairment is measured on a loan-by-loan basis for residential real estate and consumer loans by comparing the loan’s unpaid principal balance to the present value of expected future cash flows discounted at the loan’s effective interest rate.

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We do not recognize interest income on impaired loans in nonaccrual status. For impaired loans not in nonaccrual status, interest income is recognized daily, as earned, according to the terms of the loan agreement. The following is a summary of information pertaining to impaired loans as of, and for the years ended, December 31:

	2014				
	Outstanding Balance	Unpaid Principal Balance	Valuation Allowance	Average Outstanding Balance	Interest Income Recognized
Impaired loans with a valuation allowance					
Commercial real estate	$7,115	$7,234	$1,279	$6,958	$392
Commercial other	609	828	4	704	51
Agricultural real estate	—	—	—	85	—
Agricultural other	—	—	—	—	—
Residential real estate senior liens	11,645	12,782	2,015	12,713	509
Residential real estate junior liens	265	275	53	133	—
Home equity lines of credit	250	650	75	229	21
Consumer secured	54	54	1	68	4
Total impaired loans with a valuation allowance	19,938	21,823	3,427	20,890	977
Impaired loans without a valuation allowance					
Commercial real estate	4,116	4,462		4,997	309
Commercial other	189	212		360	17
Agricultural real estate	1,529	1,529		1,455	89
Agricultural other	66	186		100	30
Home equity lines of credit	—	—		24	—
Consumer secured	10	10		6	—
Total impaired loans without a valuation allowance	5,910	6,399		6,942	445
Impaired loans					
Commercial	12,029	12,736	1,283	13,019	769
Agricultural	1,595	1,715	—	1,640	119
Residential real estate	12,160	13,707	2,143	13,099	530
Consumer	64	64	1	74	4
Total impaired loans	$25,848	$28,222	$3,427	$27,832	$1,422

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	2013				
	Outstanding Balance	Unpaid Principal Balance	Valuation Allowance	Average Outstanding Balance	Interest Income Recognized
Impaired loans with a valuation allowance					
Commercial real estate	$6,748	$6,888	$1,915	$7,256	$400
Commercial other	521	521	120	879	51
Agricultural real estate	90	90	30	91	4
Agricultural other	—	—	—	53	—
Residential real estate senior liens	14,061	15,315	2,278	11,111	442
Residential real estate junior liens	48	64	9	80	2
Home equity lines of credit	—	—	—	—	—
Consumer secured	—	—	—	—	—
Total impaired loans with a valuation allowance	21,468	22,878	4,352	19,470	899
Impaired loans without a valuation allowance					
Commercial real estate	5,622	6,499		4,312	337
Commercial other	925	1,035		989	83
Agricultural real estate	1,370	1,370		320	28
Agricultural other	78	198		357	(7)
Home equity lines of credit	193	493		180	16
Consumer secured	119	148		72	2
Total impaired loans without a valuation allowance	8,307	9,743		6,230	459
Impaired loans					
Commercial	13,816	14,943	2,035	13,436	871
Agricultural	1,538	1,658	30	821	25
Residential real estate	14,302	15,872	2,287	11,371	460
Consumer	119	148	—	72	2
Total impaired loans	$29,775	$32,621	$4,352	$25,700	$1,358

As of December 31, 2014 and December 31, 2013, we had committed to advance $0 and $134, respectively, in connection with impaired loans, which include TDRs.

Troubled Debt Restructurings

Loan modifications are considered to be TDRs when the modification includes terms outside of normal lending practices to a borrower who is experiencing financial difficulties.

Typical concessions granted include, but are not limited to:

1. Agreeing to interest rates below prevailing market rates for debt with similar risk characteristics.
2. Extending the amortization period beyond typical lending guidelines for loans with similar risk characteristics.
3. Forgiving principal.
4. Forgiving accrued interest.

To determine if a borrower is experiencing financial difficulties, factors we consider include:

1. The borrower is currently in default on any of their debt.
2. The borrower would likely default on any of their debt if the concession was not granted.
3. The borrower’s cash flow was insufficient to service all of their debt if the concession was not granted.
4. The borrower has declared, or is in the process of declaring, bankruptcy.
5. The borrower is unlikely to continue as a going concern (if the entity is a business).

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The following is a summary of information pertaining to TDRs granted in the years ended December 31:

	2014			2013		
	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Commercial other	9	$ 1,533	$ 1,533	18	$ 5,299	$ 5,103
Agricultural other	1	49	49	4	1,379	1,379
Residential real estate						
Senior liens	15	1,011	1,011	55	6,069	6,053
Junior liens	4	233	233	1	20	20
Home equity lines of credit	1	160	160	—	—	—
Total residential real estate	20	1,404	1,404	56	6,089	6,073
Consumer						
Secured	—	—	—	1	27	27
Unsecured	4	18	18	2	34	34
Total consumer	4	18	18	3	61	61
Total	34	$ 3,004	$ 3,004	81	$ 12,828	$ 12,616

The following tables summarize concessions we granted to borrowers in financial difficulty in the years ended December 31:

	2014				2013			
	Below Market Interest Rate		Below Market Interest Rate and Extension of Amortization Period		Below Market Interest Rate		Below Market Interest Rate and Extension of Amortization Period	
	Number of Loans	Pre-Modification Recorded Investment	Number of Loans	Pre-Modification Recorded Investment	Number of Loans	Pre-Modification Recorded Investment	Number of Loans	Pre-Modification Recorded Investment
Commercial other	8	$ 1,525	1	$ 8	12	$ 3,070	6	$ 2,229
Agricultural other	—	—	1	49	4	1,379	—	—
Residential real estate								
Senior liens	3	97	12	914	24	1,904	31	4,165
Junior liens	2	152	2	81	—	—	1	20
Home equity lines of credit	1	160	—	—	—	—	—	—
Total residential real estate	6	409	14	995	24	1,904	32	4,185
Consumer								
Secured	—	—	—	—	1	27	—	—
Unsecured	3	15	1	3	1	16	1	18
Total Consumer	3	15	1	3	2	43	1	18
Total	17	$ 1,949	17	$ 1,055	42	$ 6,396	39	$ 6,432

We did not restructure any loans by forgiving principal or accrued interest during 2014 or 2013.

Based on our historical loss experience, losses associated with TDRs are not significantly different than other impaired loans within the same loan segment. As such, TDRs, including TDRs that have been modified in the past 12 months that subsequently defaulted, are analyzed in the same manner as other impaired loans within their respective loan segment.

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Following is a summary of loans that defaulted in the years ended December 31, which were modified within 12 months prior to the default date:

	2014				2013			
	Number of Loans	Pre-Default Recorded Investment	Charge-Off Recorded Upon Default	Post-Default Recorded Investment	Number of Loans	Pre-Default Recorded Investment	Charge-Off Recorded Upon Default	Post-Default Recorded Investment
Residential real estate senior liens	—	$—	$—	$—	1	$62	$11	$51
Consumer unsecured	2	7	7	—	1	16	16	—
Total	2	$7	$7	$—	2	$78	$27	$51

The following is a summary of TDR loan balances as of December 31:

	2014	2013
TDRs	$23,341	$25,865

Note 6 – Premises and Equipment

A summary of premises and equipment at December 31 follows:

	2014	2013
Land	$5,429	$5,429
Buildings and improvements	25,441	24,765
Furniture and equipment	31,011	30,128
Total	61,881	60,322
Less: accumulated depreciation	36,000	34,603
Premises and equipment, net	$25,881	$25,719

Depreciation expense amounted to $2,551, $2,556, and $2,417 in 2014, 2013, and 2012, respectively.

Note 7 – Goodwill and Other Intangible Assets

The carrying amount of goodwill was $45,618 at December 31, 2014 and 2013.

Identifiable intangible assets were as follows as of December 31:

	2014		
	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
Core deposit premium resulting from acquisitions	$5,373	$4,863	$510

	2013		
	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
Core deposit premium resulting from acquisitions	$5,373	$4,680	$693

Amortization expense associated with identifiable intangible assets was $183, $221, and $260 in 2014, 2013, and 2012, respectively.

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Estimated amortization expense associated with identifiable intangibles for each of the next five years succeeding December 31, 2014, and thereafter is as follows:

	Estimated Amortization Expense
2015	$145
2016	106
2017	74
2018	62
2019	49
Thereafter	74
Total	$510

Note 8 – Deposits

Scheduled maturities of time deposits for the next five years, and thereafter, are as follows:

	Scheduled Maturities of Time Deposits
2015	$217,505
2016	75,192
2017	56,391
2018	50,550
2019	22,901
Thereafter	17,723
Total	$440,262

Interest expense on time deposits greater than $100 was $2,920 in 2014, $3,203 in 2013 and $3,854 in 2012.

Note 9 – Borrowed Funds

Borrowed funds consist of the following obligations at December 31:

	2014		2013	
	Amount	Rate	Amount	Rate
FHLB advances	$192,000	2.05 %	$162,000	2.02 %
Securities sold under agreements to repurchase without stated maturity dates	95,070	0.14 %	106,025	0.13 %
Securities sold under agreements to repurchase with stated maturity dates	439	3.25 %	11,301	3.30 %
Federal funds purchased	2,200	0.50 %	—	—
Total	$289,709	1.41 %	$279,326	1.35 %

FHLB advances are collateralized by a blanket lien on all qualified 1-4 family residential real estate loans, AFS securities, and FHLB stock.

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The following table lists the maturity and weighted average interest rates of FHLB advances as of December 31:

	2014			2013		
	Amount	Rate		Amount	Rate	
Fixed rate advances due 2014	$—	—		$10,000	0.48	%
Fixed rate advances due 2015	42,000	0.72	%	32,000	0.84	%
Fixed rate advances due 2016	10,000	2.15	%	10,000	2.15	%
Fixed rate advances due 2017	30,000	1.95	%	30,000	1.95	%
Fixed rate advances due 2018	40,000	2.35	%	40,000	2.35	%
Fixed rate advances due 2019	20,000	3.11	%	20,000	3.11	%
Fixed rate advances due 2020	10,000	1.98	%	10,000	1.98	%
Fixed rate advances due 2021	30,000	2.26	%	—	—	
Fixed rate advances due 2023	10,000	3.90	%	10,000	3.90	%
Total	$192,000	2.05	%	$162,000	2.02	%

Securities sold under agreements to repurchase are classified as secured borrowings and are reflected at the amount of cash received in connection with the transaction. The securities underlying the agreements have a carrying value and a fair value of $135,222 and $148,930 at December 31, 2014 and 2013, respectively. Such securities remain under our control. We may be required to provide additional collateral based on the fair value of underlying securities.

The following table lists the maturity and weighted average interest rates of securities sold under agreements to repurchase with stated maturity dates at December 31:

	2014			2013		
	Amount	Rate		Amount	Rate	
Repurchase agreements due 2014	$—	—		$10,876	3.30	%
Repurchase agreements due 2015	439	3.25	%	425	3.25	%
Total	$439	3.25	%	$11,301	3.30	%

Securities sold under repurchase agreements without stated maturity dates, federal funds purchased, and FRB Discount Window advances generally mature within one to four days from the transaction date. The following table provides a summary of securities sold under repurchase agreements without stated maturity dates, federal funds purchased, and FRB Discount Window advances borrowings for the years ended December 31:

	2014				2013			
	Maximum Month End Balance	Average Balance	Weighted Average Interest Rate During the Period		Maximum Month End Balance	Average Balance	Weighted Average Interest Rate During the Period	
Securities sold under agreements to repurchase without stated maturity dates	$95,070	$91,422	0.13	%	$106,025	$74,602	0.15	%
Federal funds purchased	17,700	4,589	0.48	%	13,700	4,445	0.61	%

We had pledged trading securities, AFS securities, and 1-4 family residential real estate loans in the following amounts at December 31:

	2014	2013
Pledged to secure borrowed funds	$324,584	$320,173
Pledged to secure repurchase agreements	135,222	148,930
Pledged for public deposits and for other purposes necessary or required by law	19,851	20,922
Total	$479,657	$490,025

As of December 31, 2014, we had the ability to borrow up to an additional $112,301, based on assets pledged as collateral. We had no investment securities that are restricted to be pledged for specific purposes.

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Note 10 – Other Noninterest Expenses

A summary of expenses included in other noninterest expenses is as follows for the years ended December 31:

	2014	2013	2012
Marketing and community relations	$1,431	$1,131	$1,965
FDIC insurance premiums	842	1,082	864
Audit and related fees	809	738	711
Director fees	775	819	885
Education and travel	625	502	588
Postage and freight	397	387	389
Printing and supplies	367	396	424
Loan underwriting fees	361	423	403
Consulting fees	349	315	482
Legal fees	320	359	268
Other losses	250	109	300
Amortization of deposit premium	183	221	260
State taxes	171	140	187
Foreclosed asset and collection	122	211	202
All other	1,628	1,517	1,123
Total other	$8,630	$8,350	$9,051

Note 11 – Federal Income Taxes

Components of the consolidated provision for federal income taxes are as follows for the years ended December 31:

	2014	2013	2012
Currently payable	$2,159	$3,404	$1,747
Deferred (benefit) expense	185	(1,208)	616
Income tax expense	$2,344	$2,196	$2,363

The reconciliation of the provision for federal income taxes and the amount computed at the federal statutory tax rate of 34% of income before federal income tax expense is as follows for the year ended December 31:

	2014	2013	2012
Income taxes at 34% statutory rate	$5,463	$5,000	$4,953
Effect of nontaxable income			
Interest income on tax exempt municipal securities	(1,999)	(1,746)	(1,675)
Earnings on corporate owned life insurance policies	(255)	(249)	(238)
Other	(263)	(154)	(147)
Total effect of nontaxable income	(2,517)	(2,149)	(2,060)
Effect of nondeductible expenses	156	146	137
Effect of tax credits	(758)	(801)	(667)
Federal income tax expense	$2,344	$2,196	$2,363

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Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for federal income tax purposes. Significant components of our deferred tax assets and liabilities, included in other assets in the accompanying consolidated balance sheets, are as follows as of December 31:

	2014	2013
Deferred tax assets		
Allowance for loan losses	$2,507	$2,988
Deferred directors' fees	2,414	2,313
Employee benefit plans	255	257
Core deposit premium and acquisition expenses	1,037	971
Net unrealized losses on trading securities	361	360
Net unrecognized actuarial losses on pension plan	1,962	1,100
Net unrealized losses on available-for-sale securities	—	1,345
Life insurance death benefit payable	804	804
Alternative minimum tax	650	729
Other	203	321
Total deferred tax assets	10,193	11,188
Deferred tax liabilities		
Prepaid pension cost	989	1,023
Premises and equipment	247	449
Accretion on securities	49	42
Core deposit premium and acquisition expenses	1,229	1,229
Net unrealized gains on available-for-sale securities	2,339	—
Other	449	547
Total deferred tax liabilities	5,302	3,290
Net deferred tax assets	$4,891	$7,898

We are subject to U.S. federal income tax; however, we are no longer subject to examination by taxing authorities for years before 2011. There are no material uncertain tax positions requiring recognition in our consolidated financial statements. We do not expect the total amount of unrecognized tax benefits to significantly increase in the next twelve months.

We recognize interest and/or penalties related to income tax matters in income tax expense. We do not have any amounts accrued for interest and penalties at December 31, 2014 and 2013 and we not aware of any claims for such amounts by federal income tax authorities.

Note 12 – Off-Balance-Sheet Activities

Credit-Related Financial Instruments

We are party to credit related financial instruments with off-balance-sheet risk. These financial instruments are entered into in the normal course of business to meet the financing needs of our customers. These financial instruments, which include commitments to extend credit and standby letters of credit, involve, to varying degrees, elements of credit and IRR in excess of the amounts recognized in the consolidated balance sheets. The contract or notional amounts of these instruments reflect the extent of involvement we have in a particular class of financial instrument.

	December 31	
	2014	2013
Unfunded commitments under lines of credit	$116,935	$121,959
Commercial and standby letters of credit	4,985	4,169
Commitments to grant loans	13,988	29,096

Unfunded commitments under lines of credit are commitments for possible future extensions of credit to existing customers. These commitments may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements.

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Commercial and standby letters of credit are conditional commitments we issued to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support private borrowing arrangements, including commercial paper, bond financing, and similar transactions. These commitments to extend credit and letters of credit mature within one year. The credit risk involved in these transactions is essentially the same as that involved in extending loans to customers. We evaluate each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if we deem necessary upon the extension of credit, is based on our credit evaluation of the borrower. While we consider standby letters of credit to be guarantees, the amount of the liability related to such guarantees on the commitment date is not significant and a liability related to such guarantees is not recorded on the consolidated balance sheets.

Commitments to grant loans are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The amount of collateral obtained, if we deem necessary, is based on our credit evaluation of the customer. Commitments to grant loans include loans committed to be sold to the secondary market.

Our exposure to credit-related loss in the event of nonperformance by the counter parties to the financial instruments for commitments to extend credit and standby letters of credit could be up to the contractual notional amount of those instruments. We use the same credit policies in deciding to make these commitments as we do for extending loans to customers. No significant losses are anticipated as a result of these commitments.

Note 13 – On-Balance Sheet Activities

Derivative Loan Commitments

Mortgage loan commitments are referred to as derivative loan commitments if the loan that will result from exercise of the commitment will be held for sale upon funding. We enter into commitments to fund residential mortgage loans at specific times in the future, with the intention that these loans will subsequently be sold in the secondary market. A mortgage loan commitment binds us to lend funds to a potential borrower at a specified interest rate within a specified period of time, generally up to 60 days after inception of the rate lock.

Outstanding derivative loan commitments expose us to the risk that the price of the loans arising from the exercise of the loan commitment might decline from the inception of the rate lock to funding of the loan due to increases in mortgage interest rates. If interest rates increase, the value of these loan commitments decreases. Conversely, if interest rates decrease, the value of these loan commitments increase. The notional amount of undesignated interest rate lock commitments was $632 and $182 at December 31, 2014 and 2013, respectively.

Forward Loan Sale Commitments

To protect against the price risk inherent in derivative loan commitments, we utilize both "mandatory delivery" and "best efforts" forward loan sale commitments to mitigate the risk of potential decreases in the values of loan that would result from the exercise of the derivative loan commitments.

With a "mandatory delivery" contract, we commit to deliver a certain principal amount of mortgage loans to an investor at a specified price on or before a specified date. If we fail to deliver the amount of mortgages necessary to fulfill the commitment by the specified date, we are obligated to pay a "pair-off" fee, based on then current market prices, to the investor to compensate the investor for the shortfall.

With a "best efforts" contract, we commit to deliver an individual mortgage loan of a specified principal amount and quality to an investor if the loan to the underlying borrower closes. Generally, the price the investor will pay the seller for an individual loan is specified prior to the loan being funded (e.g. on the same day the lender commits to lend funds to a potential borrower).

We expect that these forward loan sale commitments will experience changes in fair value opposite to the change in fair value of derivative loan commitments. The notional amount of undesignated forward loan sale commitments was $1,533 and $1,286 at December 31, 2014 and 2013, respectively.

The fair values of the rate lock loan commitments related to the origination of mortgage loans that will be held for sale and the forward loan sale commitments are deemed insignificant by management and, accordingly, are not recorded in our consolidated financial statements.

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Note 14 – Commitments and Other Matters

Banking regulations require us to maintain cash reserve balances in currency or as deposits with the FRB. At December 31, 2014 and 2013, the reserve balances amounted to $963 and $910, respectively.

Banking regulations limit the transfer of assets in the form of dividends, loans, or advances from the Bank to the Corporation. At December 31, 2014, substantially all of the Bank's assets were restricted from transfer to the Corporation in the form of loans or advances. Consequently, Bank dividends are the principal source of funds for the Corporation. Payment of dividends without regulatory approval is limited to the current year's retained net income plus retained net income for the preceding two years, less any required transfers to common stock. At January 1, 2015, the amount available to the Corporation for dividends from the Bank, without regulatory approval, was approximately $22,800.

Note 15 – Minimum Regulatory Capital Requirements

The Corporation (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by the FRB and the FDIC. Failure to meet minimum capital requirements can initiate mandatory and possibly additional discretionary actions by the FRB and the FDIC that if undertaken, could have a material effect on our financial statements. Under regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, we must meet specific capital guidelines that include quantitative measures of assets, liabilities, capital, and certain off-balance-sheet items, as calculated under regulatory accounting standards. Our capital amounts and classifications are also subject to qualitative judgments by the FRB and the FDIC about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require us to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and Tier 1 capital to average assets (as defined). We believe, as of December 31, 2014 and 2013, that we met all capital adequacy requirements.

As of December 31, 2014, the most recent notifications from the FRB and the FDIC categorized us as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since the notifications that we believe has changed our categories. Our actual capital amounts and ratios are also presented in the table.

	Actual			Minimum Capital Requirement			Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions		
	Amount	Ratio		Amount	Ratio		Amount	Ratio	
December 31, 2014									
Total capital to risk weighted assets									
Isabella Bank	$128,074	14.16	%	$72,341	8.00	%	$90,426	10.00	%
Consolidated	138,820	15.18		73,170	8.00		N/A	N/A	
Tier 1 capital to risk weighted assets									
Isabella Bank	117,974	13.05		36,170	4.00		54,255	6.00	
Consolidated	128,720	14.08		36,585	4.00		N/A	N/A	
Tier 1 capital to average assets									
Isabella Bank	117,974	7.96		59,297	4.00		74,121	5.00	
Consolidated	128,720	8.59		59,908	4.00		N/A	N/A	

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	Actual			Minimum Capital Requirement			Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions		
	Amount	Ratio		Amount	Ratio		Amount	Ratio	
December 31, 2013									
Total capital to risk weighted assets									
Isabella Bank	$120,067	13.84	%	$69,390	8.00	%	$86,738	10.00	%
Consolidated	131,398	14.92		70,452	8.00		N/A	N/A	
Tier 1 capital to risk weighted assets									
Isabella Bank	109,217	12.59		34,695	4.00		52,043	6.00	
Consolidated	120,384	13.67		35,226	4.00		N/A	N/A	
Tier 1 capital to average assets									
Isabella Bank	109,217	7.75		56,403	4.00		70,504	5.00	
Consolidated	120,384	8.46		56,932	4.00		N/A	N/A	

Note 16 – Benefit Plans

401(k) Plan

We have a 401(k) plan in which substantially all employees are eligible to participate. Employees may contribute up to 100% of their compensation subject to certain limits based on federal tax laws. The plan was amended in 2013 to provide a matching safe harbor contribution for all eligible employees equal to 100% of the first 5.0% of an employee's compensation contributed to the Plan during the year. Employees are 100% vested in the safe harbor matching contributions.

For 2012, we made 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 were 100% vested in the safe harbor contributions and were 0% vested through their first two years of employment and were 100% vested after 6 years of service for matching contributions.

For 2014, 2013 and 2012, expenses attributable to the Plan were $655, $608, and $662, respectively.

Defined Benefit Pension Plan

We maintain a noncontributory defined benefit pension plan, which was curtailed effective March 1, 2007. As a result of the curtailment, future salary increases are no longer considered (the projected benefit obligation is equal to the accumulated benefit obligation), and plan benefits are based on years of service and the individual employee’s five highest consecutive years of compensation out of the last ten years of service through March 1, 2007.

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Changes in the projected benefit obligation and plan assets during each year, the funded status of the plan, and the net amount recognized on our consolidated balance sheets using an actuarial measurement date of December 31, are summarized as follows during the years ended December 31:

	2014	2013
Change in benefit obligation		
Benefit obligation, January 1	$10,732	$12,209
Interest cost	486	450
Actuarial (gain) loss	3,049	(1,294)
Benefits paid, including plan expenses	(1,017)	(633)
Benefit obligation, December 31	13,250	10,732
Change in plan assets		
Fair value of plan assets, January 1	10,508	9,650
Investment return	699	1,276
Contributions	200	215
Benefits paid, including plan expenses	(1,017)	(633)
Fair value of plan assets, December 31	10,390	10,508
Deficiency in funded status at December 31, included on the consolidated balance sheets in accrued interest payable and other liabilities	$(2,860)	$(224)

	2014	2013
Change in accrued pension benefit costs		
Accrued benefit cost at January 1	$(224)	$(2,559)
Contributions	200	215
Net periodic benefit cost	(300)	(208)
Net change in unrecognized actuarial loss and prior service cost	(2,536)	2,328
Accrued pension benefit cost at December 31	$(2,860)	$(224)

We have recorded the funded status of the Plan in our consolidated balance sheets. We adjust the underfunded status in a liability account to reflect the current funded status of the plan. Our liability increased in 2014 as a result of changes in mortality tables and discount rates used to determine the current benefit obligation. Any gains or losses that arise during the year but are not recognized as components of net periodic benefit cost are recognized as a component of other comprehensive income (loss). The components of net periodic benefit cost are as follows for the years ended December 31:

	2014	2013	2012
Interest cost on benefit obligation	$486	$450	$470
Expected return on plan assets	(615)	(572)	(511)
Amortization of unrecognized actuarial net loss	169	330	292
Settlement loss	260	—	—
Net periodic benefit cost	$300	$208	$251

During 2014, an additional settlement loss of $260 was recognized in connection with lump-sum benefits distributions. Many plan participants elect to receive their retirement benefit payments in the form of lump-sum settlements. Pro rata settlement losses, which can occasionally occur as a result of these lump sum distributions, are recognized only in years when the total of such distributions exceed the sum of the service and interest expense components of net periodic benefit cost.

Accumulated other comprehensive income at December 31, 2014 includes net unrecognized pension costs before income taxes of $5,770, of which $241 is expected to be amortized into benefit cost during 2015.

The actuarial assumptions used in determining the benefit obligation are as follows for the years ended December 31:

	2014	2013	2012
Discount rate	3.80%	4.64%	3.75%
Expected long-term rate of return	6.00%	6.00%	6.00%

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The actuarial weighted average assumptions used in determining the net periodic pension costs are as follows for the years ended December 31:

	2014	2013	2012
Discount rate	4.64 %	3.75 %	4.22 %
Expected long-term return on plan assets	6.00 %	6.00 %	6.00 %

As a result of the curtailment of the Plan, there is no rate of compensation increase considered in the above assumptions.

The expected long term rate of return is an estimate of anticipated future long term rates of return on plan assets as measured on a market value basis. Factors considered in arriving at this assumption include:

- Historical long term rates of return for broad asset classes.
- Actual past rates of return achieved by the plan.
- The general mix of assets held by the plan.
- The stated investment policy for the plan.

The selected rate of return is net of anticipated investment related expenses.

Plan Assets

Our overall investment strategy is to moderately grow the portfolio by investing 50% of the portfolio in equity securities and 50% in fixed income securities. This strategy is designed to generate a long term rate of return of 6.00%. Equity securities primarily consist of the S&P 500 Index with a smaller allocation to the Small Cap and International Index. Fixed income securities are invested in the Bond Market Index. The Plan has appropriate assets invested in short term investments to meet near-term benefit payments.

The asset mix and the sector weighting of the investments are determined by our pension committee, which is comprised of members of our management. To manage the Plan, we retain a third party investment advisor to conduct consultations. We review the performance of the advisor at least annually.

The fair values of our pension plan assets by asset category were as follows as of December 31:

	2014		2013	
	Total	(Level 2)	Total	(Level 2)
Short-term investments	$804	$804	$142	$142
Common collective trusts				
Fixed income	4,738	4,738	5,064	5,064
Equity investments	4,848	4,848	5,302	5,302
Total	$10,390	$10,390	$10,508	$10,508

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2014 and 2013:

- Short-term investments: Shares of a money market portfolio, which is valued using amortized cost, which approximates fair value.
- Common collective trusts: These investments are public investment securities valued using the NAV provided by a third party investment advisor. The NAV is quoted on a private market that is not active; however, the unit price is based on underlying investments which are traded on an active market.

We anticipate contributions to the plan in 2015 to approximate net contribution costs.

The components of projected net periodic benefit cost are as follows for the year ending:

	December 31, 2015
Interest cost on projected benefit obligation	$493
Expected return on plan assets	(607)
Amortization of unrecognized actuarial net loss	355
Net periodic benefit cost	$241

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Estimated future benefit payments are as follows for the next ten years:

	Estimated Benefit Payments
2015	$535
2016	526
2017	555
2018	559
2019	604
2020 - 2024	3,425

Equity Compensation Plan

Pursuant to the terms of the Directors Plan, our directors are required to invest at least 25% of their board fees in our common stock. These stock investments can be made either through deferred fees or through the purchase of shares through the Dividend Reinvestment Plan. Deferred fees, under the Directors Plan, are converted on a quarterly basis into shares of our common stock based on the fair value of a share of common stock as of the relevant valuation date. Stock credited to a participant's account is eligible for stock and cash dividends as declared. Dividend Reinvestment Plan shares are purchased on a monthly basis pursuant to the Dividend Reinvestment 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 lump-sum, in-kind, distribution of all of the stock that is then in his or her account, and any unconverted cash will be converted to and rounded up to whole shares of stock and distributed, as well. The Directors Plan does not allow for cash settlement, and therefore, such share-based payment awards qualify for classification as equity. We may use authorized but unissued shares or purchase shares of common stock on the open market to meet our obligations under the Directors Plan.

We maintain the Rabbi Trust to fund 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 our obligations under the Directors Plan, the assets of the Rabbi Trust remain subject to the claims of our creditors and are included in the consolidated financial statements. 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 contributed to purchase shares of our common stock on the open market through our brokerage services department. Shares held in the Rabbi Trust are included in the calculation of earnings per share.

The components of shares eligible to be issued under the Directors Plan were as follows as of December 31:

	2014		2013	
	Eligible Shares	Market Value	Eligible Shares	Market Value
Unissued	173,435	$3,902	172,550	$4,115
Shares held in Rabbi Trust	13,934	314	12,761	304
Total	187,369	$4,216	185,311	$4,419

Other Employee Benefit Plans

We maintain two nonqualified supplementary employee retirement plans to provide supplemental retirement benefits to specified participants. Expenses related to these programs for 2014, 2013 and 2012 were $372, $375, and $382, respectively, and are being recognized over the participants' expected years of service.

We maintain a non-leveraged ESOP which was frozen to new participants on December 31, 2006. Contributions to the plan are discretionary and are approved by the Board of Directors and recorded as compensation expense. During 2012, the Board of Directors approved a contribution of $75 to the ESOP. We made no contributions in 2014 or 2013. Compensation cost related to the plan for 2014, 2013 and 2012 was $23, $29, and $102, respectively. Total allocated shares outstanding related to the ESOP at December 31, 2014, 2013, and 2012 were 241,958, 241,958, and 246,404, respectively. Such shares are included in the computation of dividends and earnings per share in each of the respective years.

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We maintain a self-funded medical plan under which we are responsible for the first $75 per year of claims made by a covered family. Expenses are accrued based on estimates of the aggregate liability for claims incurred and our experience. Expenses were $1,786 in 2014, $2,698 in 2013 and $2,534 in 2012.

Note 17 – Accumulated Other Comprehensive Income (Loss)

AOCI includes net income as well as unrealized gains and losses, net of tax, on AFS investment securities owned and changes in the funded status of our defined benefit pension plan, which are excluded from net income. Unrealized AFS securities gains and losses and changes in the funded status of the pension plan, net of tax, are excluded from net income, and are reflected as a direct charge or credit to shareholders' equity. Comprehensive income (loss) and the related components are disclosed in the consolidated statements of comprehensive income.

The following table summarizes the changes in AOCI by component for the years ended December 31 (net of tax):

	Unrealized Holding Gains (Losses) on AFS Securities	Change in Unrecognized Pension Cost on Defined Benefit Pension Plan	Total
Balance, January 1, 2012	$5,942	$(3,453)	$2,489
OCI before reclassifications	3,921	(580)	3,341
Amounts reclassified from AOCI	(837)	251	(586)
Subtotal	3,084	(329)	2,755
Tax effect	(348)	111	(237)
OCI, net of tax	2,736	(218)	2,518
Balance, December 31, 2012	8,678	(3,671)	5,007
OCI before reclassifications	(18,971)	2,120	(16,851)
Amounts reclassified from AOCI	(171)	208	37
Subtotal	(19,142)	2,328	(16,814)
Tax effect	6,257	(791)	5,466
OCI, net of tax	(12,885)	1,537	(11,348)
Balance, December 31, 2013	(4,207)	(2,134)	(6,341)
OCI before reclassifications	11,290	(2,836)	8,454
Amounts reclassified from AOCI	(97)	300	203
Subtotal	11,193	(2,536)	8,657
Tax effect	(3,684)	862	(2,822)
OCI, net of tax	7,509	(1,674)	5,835
Balance, December 31, 2014	$3,302	$(3,808)	$(506)

Included in OCI for the years ended December 31, 2014 and 2013 are changes in unrealized holding gains and losses related to auction rate money market preferred and preferred stocks. For federal income tax purposes, these securities are considered equity investments. As such, no deferred federal income taxes related to unrealized holding gains or losses are expected or recorded.

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A summary of the components of unrealized holding gains on AFS securities included in OCI follows for the years ended December 31:

	2014 Auction Rate Money Market Preferred and Preferred Stocks	All Other AFS Securities	Total	2013 Auction Rate Money Market Preferred and Preferred Stocks	All Other AFS Securities	Total	2012 Auction Rate Money Market Preferred and Preferred Stocks	All Other AFS securities	Total
Unrealized gains (losses) arising during the period	$355	$ 10,935	$11,290	$(737)	$(18,234)	$(18,971)	$2,059	$ 1,862	$3,921
Reclassification adjustment for net realized (gains) losses included in net income	—	(97)	(97)	—	(171)	(171)	—	(1,119)	(1,119)
Reclassification adjustment for impairment loss included in net income	—	—	—	—	—	—	—	282	282
Net unrealized gains (losses)	355	10,838	11,193	(737)	(18,405)	(19,142)	2,059	1,025	3,084
Tax effect	—	(3,684)	(3,684)	—	6,257	6,257	—	(348)	(348)
Unrealized gains (losses), net of tax	$355	$ 7,154	$7,509	$(737)	$(12,148)	$(12,885)	$2,059	$ 677	$2,736

The following table details reclassification adjustments and the related affected line items in our consolidated statements of income for the years ended December 31:

Details about AOCI components	Amount Reclassified from AOCI 2014	2013	2012	Affected Line Item in the Consolidated Statements of Income
Unrealized holding gains (losses) on AFS securities				
	$97	$171	$1,119	Net gains (losses) on sale of AFS securities
	—	—	(282)	Net AFS impairment loss
	97	171	837	Income before federal income tax expense
	33	58	285	Federal income tax expense
	$64	$113	$552	Net income
Change in unrecognized pension cost on defined benefit pension plan				
	$300	$208	$251	Compensation and benefits
	102	71	85	Federal income tax expense
	$198	$137	$166	Net income

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Note 18 – Related Party Transactions

In the ordinary course of business, we grant loans to principal officers and directors and their affiliates (including their families and companies in which they have 10% or more ownership). Annual activity consisted of the following for the years ended December 31:

	2014	2013
Balance, January 1	$4,178	$6,598
New loans	1,475	2,373
Repayments	(1,831)	(4,793)
Balance, December 31	$3,822	$4,178

Total deposits of these principal officers and directors and their affiliates amounted to $5,861 and $6,158 at December 31, 2014 and 2013, respectively. In addition, the ESOP held deposits with the Bank aggregating $392 and $292, respectively, at December 31, 2014 and 2013.

From time-to-time, we make charitable donations to the Isabella Bank Foundation (the “Foundation”), which is an affiliated nonprofit entity formed for the purpose of distributing charitable donations to recipient organizations generally located in the communities we service. Donations are expensed when committed to the Foundation. The assets and transactions of the Foundation are not included in our consolidated financial statements.

Assets of the Foundation include cash and cash equivalents, certificates of deposit, and shares of Isabella Bank Corporation common stock. The Foundation owned 34,350 and 16,850 shares of our common stock as of December 31, 2014 and 2013, respectively. Such shares are included in the computation of dividends and earnings per share.

The following table displays total asset balances of, and our donations to, the Foundation as of, and for the years ended, December 31:

	2014	2013	2012
Total assets	$2,090	$1,815	$1,766
Donations	$500	$200	$850

Note 19 – Fair Value

Following is a description of the valuation methodologies, key inputs, and an indication of the level of the fair value hierarchy in which the assets or liabilities are classified.

Cash and cash equivalents: The carrying amounts of cash and demand deposits due from banks and interest bearing balances due from banks approximate fair values. As such, we classify cash and cash equivalents as Level 1.

Certificates of deposit held in other financial institutions: Certificates of deposit held in other financial institutions include certificates of deposit and other short term interest bearing balances that mature within 3 years. Fair value is determined using prices for similar assets with similar characteristics. As such, we classify certificates of deposits held in other financial institutions as Level 2.

AFS securities: AFS securities are recorded at fair value on a recurring basis. Level 1 fair value measurement is based upon quoted prices for identical instruments. Level 2 fair value measurement is based upon quoted prices for similar instruments. If quoted prices are not available, fair values are measured using independent pricing models or other model based valuation techniques such as the present value of future cash flows, adjusted for the security’s credit rating, prepayment assumptions and other factors such as credit loss and liquidity assumptions. The values for Level 1 and Level 2 investment securities are generally obtained from an independent third party. On a quarterly basis, we compare the values provided to alternative pricing sources.

Mortgage loans AFS: Mortgage loans AFS are carried at the lower of cost or fair value. The fair value of Mortgage loans AFS are based on what price secondary markets are currently offering for portfolios with similar characteristics. As such, we classify Mortgage loans AFS subject to nonrecurring fair value adjustments as Level 2.

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Loans: For variable rate loans with no significant change in credit risk, fair values are based on carrying values. Fair values for fixed rate loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. The resulting amounts are adjusted to estimate the effect of changes in the credit quality of borrowers since the loans were originated. As such, we classify loans as Level 3 assets.

We do not record loans at fair value on a recurring basis. However, from time-to-time, loans are classified as impaired and a specific allowance for loan losses may be established. Loans for which it is probable that payment of interest and principal will be significantly different than the contractual terms of the original loan agreement are considered impaired. Once a loan is identified as impaired, we measure the estimated impairment. The fair value of impaired loans is estimated using one of several methods, including the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral, less cost to sell, if the loan is collateral dependent. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans.

We review the net realizable values of the underlying collateral for collateral dependent impaired loans on at least a quarterly basis for all loan types. To determine the collateral value, we utilize independent appraisals, broker price opinions, or internal evaluations. We review these valuations to determine whether an additional discount should be applied given the age of market information that may have been considered as well as other factors such as costs to carry and sell an asset if it is determined that the collateral will be liquidated in connection with the ultimate settlement of the loan. We use these valuations to determine if any specific reserves or charge-offs are necessary. We may obtain new valuations in certain circumstances, including when there has been significant deterioration in the condition of the collateral, if the foreclosure process has begun, or if the existing valuation is deemed to be outdated.

The following tables list the quantitative fair value information about impaired loans as of December 31:

	2014		
Valuation Techniques	Fair Value	Unobservable Input	Range
		Discount applied to collateral appraisal:	
		Real Estate	20% - 25%
		Equipment	30% - 40%
Discounted appraisal value	$8,720	Cash crop inventory	40%
		Other inventory	75%
		Accounts receivable	50%
		Liquor license	75%

	2013		
Valuation Techniques	Fair Value	Unobservable Input	Range
		Discount applied to collateral appraisal:	
		Real Estate	20% - 30%
		Equipment	50%
Discounted appraisal value	$13,902	Livestock	50%
		Cash crop inventory	50%
		Other inventory	75%
		Accounts receivable	75%

Discount factors with ranges are based on the age of the independent appraisal, broker price opinion, or internal evaluations.

Accrued interest receivable: The carrying amounts of accrued interest receivable approximate fair value. As such, we classify accrued interest receivable as Level 1.

Equity securities without readily determinable fair values: Included in equity securities without readily determinable fair values are FHLB stock and FRB stock as well as our ownership interests in Corporate Settlement Solutions, LLC and Valley Financial Corporation. The investment in Corporate Settlement Solutions, LLC, a title insurance company, was made in the first quarter 2008. We are not the managing entity of Corporate Settlement Solutions, LLC, and therefore, we account for our investment under the equity method of accounting. Valley Financial Corporation is the parent company of 1st State Bank in Saginaw, Michigan, which is a community bank that opened in 2005. We made investments in Valley Financial Corporation in 2004 and in 2007.

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The lack of an active market, or other independent sources to validate fair value estimates coupled with the impact of future capital calls and transfer restrictions, is an inherent limitation in the valuation process. As the fair values of these investments are not readily determinable, they are not disclosed under a specific fair value hierarchy; however, they are reviewed quarterly for impairment. If we were to record an impairment adjustment related to these securities, it would be classified as a nonrecurring Level 3 fair value adjustment. During 2014 and 2013, there were no impairments recorded on equity securities without readily determinable fair values.

Foreclosed assets: Upon transfer from the loan portfolio, foreclosed assets (which are included in other assets) are adjusted to and subsequently carried at the lower of carrying value or fair value less costs to sell. Net realizable value is based upon independent market prices, appraised values of the collateral, or management's estimation of the value of the collateral. Due to the inherent level of estimation in the valuation process, we record foreclosed assets as nonrecurring Level 3.

The table below lists the quantitative fair value information related to foreclosed assets as of:

	December 31, 2014		
Valuation Techniques	Fair Value	Unobservable Input	Range
Discounted appraisal value	$885	Discount applied to collateral appraisal: Real Estate	20% - 25%

	December 31, 2013		
Valuation Techniques	Fair Value	Unobservable Input	Range
Discounted appraisal value	$1,412	Discount applied to collateral appraisal: Real Estate	20% - 30%

Discount factors with ranges are based on the age of the independent appraisal, broker price opinion, or internal evaluations.

Goodwill and other intangible assets: Acquisition intangibles and goodwill are evaluated for potential impairment on at least an annual basis. Acquisition intangibles and goodwill are typically qualitatively evaluated to determine if it is more likely than not that the carrying balance is impaired. If it is determined that the carrying balance of acquisition intangibles or goodwill is more likely than not to be impaired, we perform a cash flow valuation to determine the extent of the potential impairment. If the testing resulted in impairment, we would classify goodwill and other acquisition intangibles subjected to nonrecurring fair value adjustments as Level 3. During 2014 and 2013, there were no impairments recorded on goodwill and other acquisition intangibles.

OMSR: OMSR (which are included in other assets) are subject to impairment testing. To test for impairment, we utilize a discounted cash flow analysis using interest rates and prepayment speed assumptions currently quoted for comparable instruments and discount rates. If the valuation model reflects a value less than the carrying value, OMSR are adjusted to fair value through a valuation allowance as determined by the model. As such, we classify OMSR subject to nonrecurring fair value adjustments as Level 2.

Deposits: The fair value of demand, savings, and money market deposits are, by definition, equal their carrying amounts and are classified as Level 1. Fair values for variable rate certificates of deposit approximate their carrying value. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits. As such, fixed rate certificates of deposit are classified as Level 2.

Borrowed funds: The carrying amounts of federal funds purchased, borrowings under overnight repurchase agreements, and other short-term borrowings maturing within ninety days approximate their fair values. The fair values of other borrowed funds are estimated using discounted cash flow analyses based on current incremental borrowing arrangements. As such, borrowed funds are classified as Level 2.

Accrued interest payable: The carrying amounts of accrued interest payable approximate fair value. As such, we classify accrued interest payable as Level 1.

Commitments to extend credit, standby letters of credit, and undisbursed loans: Our commitments to extend credit, standby letters of credit, and undisbursed funds have no carrying amount and are estimated to have no realizable fair value. Historically, a majority of the unused commitments to extend credit have not been drawn upon and, generally, we do not receive fees in connection with these commitments other than standby letter of credit fees, which are not significant.

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The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Although we believe our valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement.

Estimated Fair Values of Financial Instruments Not Recorded at Fair Value in their Entirety on a Recurring Basis

Disclosure of the estimated fair values of financial instruments, which differ from carrying values, often requires the use of estimates. In cases where quoted market values in an active market are not available, we use present value techniques and other valuation methods to estimate the fair values of our financial instruments. These valuation methods require considerable judgment and the resulting estimates of fair value can be significantly affected by the assumptions made and methods used.

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The carrying amount and estimated fair value of financial instruments not recorded at fair value in their entirety on a recurring basis were as follows as of December 31:

	2014 Carrying Value	Estimated Fair Value	(Level 1)	(Level 2)	(Level 3)
ASSETS					
Cash and cash equivalents	$19,326	$19,326	$19,326	$—	$—
Certificates of deposit held in other financial institutions	580	579	—	579	—
Mortgage loans AFS	901	911	—	911	—
Total loans	833,582	827,449	—	—	827,449
Less allowance for loan and lease losses	10,100	10,100	—	—	10,100
Net loans	823,482	817,349	—	—	817,349
Accrued interest receivable	5,851	5,851	5,851	—	—
Equity securities without readily determinable fair values (1)	20,076	—	—	—	—
OMSR	2,519	2,554	—	2,554	—
LIABILITIES		—			
Deposits without stated maturities	634,222	634,222	634,222	—	—
Deposits with stated maturities	440,262	440,964	—	440,964	—
Borrowed funds	289,709	293,401	—	293,401	—
Accrued interest payable	558	558	558	—	—

	2013 Carrying Value	Estimated Fair Value	(Level 1)	(Level 2)	(Level 3)
ASSETS					
Cash and cash equivalents	$41,558	$41,558	$41,558	$—	$—
Certificates of deposit held in other financial institutions	580	582	—	582	—
Mortgage loans AFS	1,104	1,123	—	1,123	—
Total loans	808,037	808,246	—	—	808,246
Less allowance for loan and lease losses	11,500	11,500	—	—	11,500
Net loans	796,537	796,746	—	—	796,746
Accrued interest receivable	5,442	5,442	5,442	—	—
Equity securities without readily determinable fair values (1)	18,293	18,293	—	—	—
OMSR	2,555	2,667	—	2,667	—
LIABILITIES					
Deposits without stated maturities	593,754	593,754	593,754	—	—
Deposits with stated maturities	450,012	452,803	—	452,803	—
Borrowed funds	279,326	283,060	—	283,060	—
Accrued interest payable	633	633	633	—	—

(1) Due to the characteristics of equity securities without readily determinable fair values, they are not disclosed under a specific fair value hierarchy. If we were to record an impairment adjustment related to these securities, such amount would be classified as a nonrecurring Level 3 fair value adjustment.

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Financial Instruments Recorded at Fair Value

The table below presents the recorded amount of assets and liabilities measured at fair value on December 31:

	2014 Total	(Level 1)	(Level 2)	(Level 3)	2013 Total	(Level 1)	(Level 2)	(Level 3)
Recurring items								
Trading securities								
States and political subdivisions	$—	$—	$—	$—	$525	$—	$525	$—
AFS securities								
Government-sponsored enterprises	24,136	—	24,136	—	23,745	—	23,745	—
States and political subdivisions	215,345	—	215,345	—	201,988	—	201,988	—
Auction rate money market preferred	2,619	—	2,619	—	2,577	—	2,577	—
Preferred stocks	6,140	6,140	—	—	5,827	5,827	—	—
Mortgage-backed securities	166,926	—	166,926	—	144,115	—	144,115	—
Collateralized mortgage obligations	152,368	—	152,368	—	133,810	—	133,810	—
Total AFS securities	567,534	6,140	561,394	—	512,062	5,827	506,235	—
Nonrecurring items								
Impaired loans (net of the ALLL)	8,720	—	—	8,720	13,902	—	—	13,902
Foreclosed assets	885	—	—	885	1,412	—	—	1,412
Total	$577,139	$6,140	$561,394	$9,605	$527,901	$5,827	$506,760	$15,314
Percent of assets and liabilities measured at fair value		1.06 %	97.27 %	1.67 %		1.10 %	96.00 %	2.90 %

The following table provides a summary of the changes in fair value of assets and liabilities recorded at fair value through earnings on a recurring basis and changes in assets and liabilities recorded at fair value on a nonrecurring basis, for which gains or losses were recognized in the years ended December 31:

	2014 Trading Losses	Other Gains (Losses)	Total	2013 Trading Losses	Other Gains (Losses)	Total
Recurring items						
Trading securities	$(5)	$—	$(5)	$(28)	$—	$(28)
Nonrecurring items						
Foreclosed assets	—	(123)	(123)	—	(156)	(156)
Total	$(5)	$(123)	$(128)	$(28)	$(156)	$(184)

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Note 20 – Parent Company Only Financial Information

Condensed Balance Sheets

	December 31	
	2014	2013
ASSETS		
Cash on deposit at the Bank	$1,035	$529
AFS securities	3,294	3,542
Investments in subsidiaries	124,827	110,192
Premises and equipment	1,982	2,013
Other assets	53,228	54,223
TOTAL ASSETS	$184,366	$170,499
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Other liabilities	$9,772	$9,890
Shareholders' equity	174,594	160,609
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY	$184,366	$170,499

Condensed Statements of Income

	Year Ended December 31		
	2014	2013	2012
Income			
Dividends from subsidiaries	$7,000	$7,000	$6,125
Interest income	150	161	174
Management fee and other	3,665	2,146	2,037
Total income	10,815	9,307	8,336
Expenses			
Compensation and benefits	3,688	2,811	2,424
Occupancy and equipment	1,082	476	370
Audit and related fees	404	345	351
Other	1,395	958	945
Total expenses	6,569	4,590	4,090
Income before income tax benefit and equity in undistributed earnings of subsidiaries	4,246	4,717	4,246
Federal income tax benefit	940	790	673
Income before equity in undistributed earnings of subsidiaries	5,186	5,507	4,919
Undistributed earnings of subsidiaries	8,538	7,003	7,287
Net income	$13,724	$12,510	$12,206

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Condensed Statements of Cash Flows

	Year Ended December 31		
	2014	2013	2012
Operating activities			
Net income	$13,724	$12,510	$12,206
Adjustments to reconcile net income to cash provided by operations			
Undistributed earnings of subsidiaries	(8,538)	(7,003)	(7,287)
Undistributed earnings of equity securities without readily determinable fair values	37	74	(459)
Share-based payment awards	495	554	643
Depreciation	144	174	114
Net amortization of AFS securities	1	2	4
Deferred income tax expense (benefit)	(159)	(305)	425
Changes in operating assets and liabilities which provided (used) cash			
Other assets	145	(51)	(513)
Accrued interest and other liabilities	1,516	1,238	(98)
Net cash provided by (used in) operating activities	7,365	7,193	5,035
Investing activities			
Maturities, calls, principal repayments, and sales of AFS securities	250	395	370
Purchases of premises and equipment	(81)	(146)	(239)
Advances to subsidiaries, net of repayments	641	(299)	(50)
Net cash provided by (used in) investing activities	810	(50)	81
Financing activities			
Net increase (decrease) in borrowed funds	(1,600)	(1,350)	(597)
Cash dividends paid on common stock	(6,843)	(6,456)	(6,074)
Proceeds from the issuance of common stock	4,227	3,618	2,898
Common stock repurchased	(3,122)	(2,375)	(1,980)
Common stock purchased for deferred compensation obligations	(331)	(383)	(505)
Net cash provided by (used in) financing activities	(7,669)	(6,946)	(6,258)
Increase (decrease) in cash and cash equivalents	506	197	(1,142)
Cash and cash equivalents at beginning of year	529	332	1,474
Cash and cash equivalents at end of year	$1,035	$529	$332

Note 21 – Operating Segments

Our reportable segments are based on legal entities that account for at least 10% of net operating results. The operations of the Bank as of December 31, 2014, 2013, and 2012 represent approximately 90% or more of our consolidated total assets and operating results. As such, no additional segment reporting is presented.

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Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.
None.
Item 9A. Controls and Procedures.
DISCLOSURE CONTROLS AND PROCEDURES
We carried out an evaluation, under the supervision and with the participation of the Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15(d)-15(e) under the Exchange Act) as of December 31, 2014, pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures as of December 31, 2014, were effective to ensure that information required to be disclosed in reports that we file or submit under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.
CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING
We also conducted an evaluation of internal control over financial reporting to determine whether any changes occurred during the quarter ended December 31, 2014, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on this evaluation, we have concluded that there have been no such changes during the quarter ended December 31, 2014.
Management’s Report on Internal Control Over Financial Reporting
We are responsible for the preparation and integrity of our published consolidated financial statements. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and, accordingly, include amounts based on judgments and estimates. We also prepared the other information included in the Annual Report on Form 10-K and are responsible for the accuracy and consistency with the consolidated financial statements.
We are responsible for establishing and maintaining a system of internal control over financial reporting, which is intended to provide reasonable assurance to our management and Board of Directors regarding the reliability of our consolidated financial statements. The system includes but is not limited to:

- A documented organizational structure and division of responsibility;
- Established policies and procedures, including a code of conduct to foster a strong ethical climate which is communicated throughout our Corporation;
- Internal auditors that monitor the operation of the internal control system and report findings and recommendations to management and the Audit Committee;
- Procedures for taking action in response to an internal audit finding or recommendation;
- Regular reviews of our consolidated financial statements by qualified individuals; and
- The careful selection, training and development of our people.

There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention or overriding of controls. Also, the effectiveness of an internal control system may change over time. We have implemented a system of internal control that was 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.
We have assessed our internal control system in relation to criteria for effective internal control over financial reporting described in “Internal Control-Integrated Framework” issued by the Committee of Sponsoring Organizations (2013 framework) of the Treadway Commission.
Based upon these criteria, we believe that, as of December 31, 2014, our system of internal control over financial reporting was effective.
Our independent registered public accounting firm, Rehmann Robson LLC ("Rehmann") has audited our 2014 consolidated financial statements and internal control over financial reporting as of December 31, 2014. Rehmann was given unrestricted access to all financial records and related data, including minutes of all meetings of stockholders, the Board of Directors and committees of the Board. Rehmann has issued an unqualified audit opinion on our 2014 consolidated financial statements as a result of the integrated audit and an unqualified opinion on the effectiveness of our internal controls as of December 31, 2014.

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Isabella Bank Corporation
By:
/s/ Jae A. Evans
Jae A. Evans
Chief Executive Officer
(Principal Executive Officer)
March 11, 2015

/s/ Dennis P. Angner
Dennis P. Angner
President and Chief Financial Officer
(Principal Financial Officer, Principal Accounting Officer)
March 11, 2015
Item 9B. Other Information.
None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance.

For information concerning our directors and certain executive officers, see "Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" in our Proxy Statement for the Annual Meeting of Shareholders to be held May 5, 2015 ("Proxy Statement") which is incorporated herein by reference.

For Information concerning our Audit Committee financial experts, see "Committees of the Board of Directors and Meeting Attendance" in the Proxy Statement which is incorporated herein by reference.

We have adopted a Code of Business Conduct and Ethics that applies to our Chief Executive Officer and Chief Financial Officer. We shall provide to any person without charge upon request, a copy of our Code of Business Conduct and Ethics. Written requests should be sent to: Secretary, Isabella Bank Corporation, 401 North Main Street, Mount Pleasant, Michigan 48858.

Item 11. Executive Compensation.

For information concerning executive compensation, see "Executive Officers," "Compensation Committee Report," "Compensation Committee Interlocks and Insider Participation," "Compensation Discussion and Analysis," and "Remuneration of Directors" in the Proxy Statement which is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

For information concerning the security ownership of certain owners and management, see "Security Ownership of Certain Beneficial Owners and Management" in the Proxy Statement which is incorporated herein by reference.

Equity Compensation Plan Information

The following table provides information as of December 31, 2014, with respect to compensation plans under which our common shares are authorized for issuance to directors, officers or employees in exchange for consideration in the form of goods or services.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights (A)	Weighted Average Exercise Price of Outstanding Options, Warrants, and Rights (B)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (A)) (C)
Equity compensation plans approved by Shareholders: None	—	—	—
Equity compensation plans not approved by shareholders (1) (2):			
Deferred director compensation plan	173.435	(1)(2)	(1)(2)
Total	173.435		

(1) Pursuant to the terms of the Directors Plan, our directors are required to invest at least 25% of their board fees in our common stock. These stock investments can be made either through deferred fees or through the purchase of shares through the Dividend Reinvestment 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 common stock as of the relevant valuation date. Stock credited to a participant's account is eligible for stock and cash dividends as declared. Dividend Reinvestment Plan shares are purchased on a monthly basis pursuant to the Dividend Reinvestment 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 lump-sum, in-kind, distribution of all of the stock that is then in his or her account, and any unconverted cash will be converted to and rounded up to whole shares of stock and distributed, as well. The Directors Plan does not allow for cash settlement, and therefore, such share based payment awards qualify for classification as equity. We may use authorized but unissued shares or purchase shares of common stock on the open market to meet our obligations under the Directors Plan. As of December 31, 2014, the Directors Plan had 187,369 shares eligible to be distributed under the Directors Plan.

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(2) The Rabbi Trust holds 13,934 shares for the benefit of participants pursuant to the Directors Plan. Accordingly, such shares are not included in the number of securities issuable in column (A) or the weighted average price calculation in column (B), nor are potential future contributions included in column (C).

Item 13. Certain Relationships and Related Transactions, and Director Independence.

For information, see "Indebtedness of and Transactions with Management" and "Election of Directors" in the Proxy Statement, which is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services.

For information concerning the principal accountant fees and services see "Fees for Professional Services Provided by Rehmann Robson LLC" and "Pre-approval Policies and Procedures" in the Proxy Statement which is incorporated herein by reference.

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PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) (1) Financial Statements: The following documents are filed as part of Item 8 of this report:

Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheets
Consolidated Statements of Changes in Shareholders' Equity
Consolidated Statements of Income
Consolidated Statements of Comprehensive Income (Loss)
Consolidated Statements of Cash Flows
Notes to Consolidated Financial Statements

(2) Financial Statement Schedules: All schedules are omitted because they are neither applicable nor required, or because the required information is included in the consolidated financial statements or related notes.

(3) See the exhibits listed below under Item 15(b):

(b) The following exhibits required by Item 601 of Regulation S-K are filed as part of this report:

3(a)	Amended Articles of Incorporation (1)
3(b)	Amendment to the Articles of Incorporation (2)
3(c)	Amendment to the Articles of Incorporation (3)
3(d)	Amendment to the Articles of Incorporation (4)
3(e)	Amendment to the Articles of Incorporation (8)
3(f)	Amended Bylaws (6)
3(g)	Amendment to Bylaws (7)
3(h)	Amendment to Bylaws (10)
3(i)	Amendment to Bylaws (11)
10(a)	Isabella Bank Corporation and Related Companies Deferred Compensation Plan for Directors (9)*
10(b)	Amendment to Isabella Bank Corporation and Related Companies Deferred Compensation Plan for Directors (12)*
10(c)	Isabella Bank Corporation Plan Death Benefit (9)*
10(d)	Isabella Bank Corporation Retirement Bonus Plan (9)*
14	Code of Business Conduct and Ethics (5)
21	Subsidiaries of the Registrant
23	Consent of Rehmann Robson LLC, Independent Registered Public Accounting Firm
31(a)	Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002 by the Chief Executive Officer
31(b)	Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002 by the Chief Financial Officer
32	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer
101.INS	XBRL Interactive Data File**
101.SCH	XBRL Interactive Data File**
101.CAL	XBRL Interactive Data File**
101.LAB	XBRL Interactive Data File**
101.PRE	XBRL Interactive Data File**
101.DEF	XBRL Interactive Data File**

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*	Management Contract or Compensatory Plan or Arrangement.
**	As provided by Rule 406T in Regulation S-T, this information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Exchange Act
(1)	Previously filed as an Exhibit to the Isabella Bank Corporation Form 10-K, filed March 12, 1991, and incorporated herein by reference
(2)	Previously filed as an Exhibit to the Isabella Bank Corporation Form 10-K, filed March 26, 1994, and incorporated herein by reference.
(3)	Previously filed as an Exhibit to Isabella Bank Corporation Form 10-K, filed March 22, 2000, and incorporated herein by reference.
(4)	Previously filed as an Exhibit to Isabella Bank Corporation Form 10-K, filed March 27, 2001, and incorporated herein by reference.
(5)	Previously filed as an Exhibit to Isabella Bank Corporation Form 8-K, filed April 25, 2006, and incorporated herein by reference.
(6)	Previously filed as an Exhibit to Isabella Bank Corporation Form 10-K, filed March 16, 2005, and incorporated herein by reference.
(7)	Previously filed as an Exhibit to Isabella Bank Corporation Form 8-K, filed November 22, 2006, and incorporated herein by reference.
(8)	Previously filed as an Exhibit to Isabella Bank Corporation Form 8-K, filed May 16, 2008, and incorporated herein by reference.
(9)	Previously filed as an Exhibit to Isabella Bank Corporation Form 8-K, filed December 19, 2008, and incorporated herein by reference.
(10)	Previously filed as an Exhibit to Isabella Bank Corporation Form 8-K, filed August 28, 2009, and incorporated herein by reference.
(11)	Previously filed as an Exhibit to Isabella Bank Corporation Form 8-K, filed December 23, 2009, and incorporated herein by reference.
(12)	Previously filed as an Exhibit to Isabella Bank Corporation Form 8-K, filed August 30, 2013, and incorporated herein by reference.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ISABELLA BANK CORPORATION
(Registrant)

By:	/s/ Jae A. Evans	Date:	March 11, 2015
	Jae A. Evans		
	Chief Executive Officer		
	(Principal Executive Officer)		

Pursuant to the requirements of the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signatures	Capacity	Date
/s/ Dennis P. Angner Dennis P. Angner	Chief Financial Officer (Principal Financial Officer, Principal Accounting Officer) and Director	March 11, 2015
/s/ Dr. Jeffrey J. Barnes Dr. Jeffrey J. Barnes	Director	March 11, 2015
/s/ Richard J. Barz Richard J. Barz	Director	March 11, 2015
/s/ Jae A. Evans Jae A. Evans	Chief Executive Officer and Director	March 11, 2015
/s/ G. Charles Hubscher G. Charles Hubscher	Director	March 11, 2015
/s/ Thomas L. Kleinhardt Thomas L. Kleinhardt	Director	March 11, 2015
/s/ Joseph LaFramboise Joseph LaFramboise	Director	March 11, 2015
/s/ David J. Maness David J. Maness	Director	March 11, 2015
/s/ W. Joseph Manifold W. Joseph Manifold	Director	March 11, 2015
/s/ W. Michael McGuire W. Michael McGuire	Director	March 11, 2015
/s/ Sarah R. Opperman Sarah R. Opperman	Director	March 11, 2015