

ISABELLA BANK CORP  
Form 10-Q  
May 04, 2015  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended March 31, 2015

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 (I.R.S. Employer  
incorporation or organization) Identification No.)

401 N. Main St, Mt. Pleasant, MI 48858  
(Address of principal executive offices) (Zip code)

(989) 772-9471  
(Registrant's telephone number, including area code)

N/A  
(Former name, former address and former fiscal year, if changed since last report)

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.  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).  Yes  No

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer   
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  No

The number of common shares outstanding of the registrant's Common Stock (no par value) was 7,789,803 as of April 30, 2015.

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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” and 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 Quarterly Report on Form 10-Q, or in our other filings. You may find it helpful to refer back to this page while reading this report.

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



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## PART I – FINANCIAL INFORMATION

## Item 1. Interim Condensed Consolidated Financial Statements (Unaudited)

## INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

	March 31 2015	December 31 2014
<b>ASSETS</b>		
Cash and cash equivalents		
Cash and demand deposits due from banks	\$ 19,243	\$ 18,058
Interest bearing balances due from banks	1,354	1,268
Total cash and cash equivalents	20,597	19,326
Certificates of deposit held in other financial institutions	580	580
AFS securities (amortized cost of \$595,211 in 2015 and \$561,893 in 2014)	605,208	567,534
Mortgage loans AFS	1,057	901
Loans		
Commercial	418,311	431,961
Agricultural	107,299	104,721
Residential real estate	257,516	264,595
Consumer	32,342	32,305
Gross loans	815,468	833,582
Less allowance for loan and lease losses	9,600	10,100
Net loans	805,868	823,482
Premises and equipment	26,170	25,881
Corporate owned life insurance policies	25,839	25,152
Accrued interest receivable	6,798	5,851
Equity securities without readily determinable fair values	20,049	20,076
Goodwill and other intangible assets	46,090	46,128
Other assets	13,319	14,632
<b>TOTAL ASSETS</b>	<b>\$ 1,571,575</b>	<b>\$ 1,549,543</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Deposits</b>		
Noninterest bearing	\$ 176,160	\$ 181,826
NOW accounts	197,364	190,984
Certificates of deposit under \$100 and other savings	478,590	456,774
Certificates of deposit over \$100	246,541	244,900
Total deposits	1,098,655	1,074,484
Borrowed funds	283,321	289,709
Accrued interest payable and other liabilities	9,946	10,756
Total liabilities	1,391,922	1,374,949
<b>Shareholders' equity</b>		
Common stock — no par value 15,000,000 shares authorized; issued and outstanding 7,781,820 shares (including 11,385 shares held in the Rabbi Trust) in 2015 and 7,776,274 shares (including 13,934 shares held in the Rabbi Trust) in 2014	138,903	138,755
Shares to be issued for deferred compensation obligations	4,265	4,242
Retained earnings	34,001	32,103
Accumulated other comprehensive income (loss)	2,484	(506 )
Total shareholders' equity	179,653	174,594
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 1,571,575</b>	<b>\$ 1,549,543</b>

See notes to interim condensed consolidated financial statements.

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## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands except per share amounts)

	Three Months Ended March 31	
	2015	2014
Interest income		
Loans, including fees	\$9,684	\$9,751
AFS securities		
Taxable	2,107	1,998
Nontaxable	1,482	1,457
Trading securities	—	5
Federal funds sold and other	139	153
Total interest income	13,412	13,364
Interest expense		
Deposits	1,466	1,616
Borrowings	1,022	884
Total interest expense	2,488	2,500
Net interest income	10,924	10,864
Provision for loan losses	(726	) (242
Net interest income after provision for loan losses	11,650	11,106
Noninterest income		
Service charges and fees	1,163	1,394
Net gain on sale of mortgage loans	149	115
Earnings on corporate owned life insurance policies	187	184
Other	629	556
Total noninterest income	2,128	2,249
Noninterest expenses		
Compensation and benefits	5,425	5,486
Furniture and equipment	1,314	1,268
Occupancy	721	742
Other	1,874	1,990
Total noninterest expenses	9,334	9,486
Income before federal income tax expense	4,444	3,869
Federal income tax expense	771	560
NET INCOME	\$3,673	\$3,309
Earnings per common share		
Basic	\$0.47	\$0.43
Diluted	\$0.46	\$0.42
Cash dividends per common share	\$0.23	\$0.22

See notes to interim condensed consolidated financial statements.

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## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Dollars in thousands)

	Three Months Ended	
	March 31	
	2015	2014
Net income	\$3,673	\$3,309
Unrealized gains (losses) on AFS securities arising during the period	4,356	5,520
Tax effect (1)	(1,366	) (1,739
Other comprehensive income (loss), net of tax	2,990	3,781
Comprehensive income (loss)	\$6,663	\$7,090

(1) See "Note 11 – Accumulated Other Comprehensive Income (Loss)" for tax effect reconciliation.

See notes to interim condensed consolidated financial statements.



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## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Dollars in thousands except per share amounts)

	Common Stock		Common	Retained	Accumulated	Totals
	Common	Amount	Shares to be	Earnings	Other	
	Shares		Issued for		Comprehensive	
	Outstanding		Deferred		Income (Loss)	
			Compensation			
			Obligations			
Balance, January 1, 2014	7,723,023	\$ 137,580	\$ 4,148	\$ 25,222	\$ (6,341 )	\$ 160,609
Comprehensive income (loss)	—	—	—	3,309	3,781	7,090
Issuance of common stock	35,814	850	—	—	—	850
Common stock issued for deferred compensation obligations	6,125	143	(143 )	—	—	—
Common stock transferred from the Rabbi Trust to satisfy deferred compensation obligations	—	250	(250 )	—	—	—
Share-based payment awards under equity compensation plan	—	—	137	—	—	137
Common stock purchased for deferred compensation obligations	—	(126 )	—	—	—	(126 )
Common stock repurchased pursuant to publicly announced repurchase plan	(37,415 )	(893 )	—	—	—	(893 )
Cash dividends paid (\$0.22 per common share)	—	—	—	(1,696 )	—	(1,696 )
Balance, March 31, 2014	7,727,547	\$ 137,804	\$ 3,892	\$ 26,835	\$ (2,560 )	\$ 165,971
Balance, January 1, 2015	7,776,274	\$ 138,755	\$ 4,242	\$ 32,103	\$ (506 )	\$ 174,594
Comprehensive income (loss)	—	—	—	3,673	2,990	6,663
Issuance of common stock	41,217	945	—	—	—	945
Common stock issued for deferred compensation obligations	—	—	—	—	—	—