ISABELLA BANK CORP
Form 10-Q
November 10, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.**
For the quarterly period ended September 30, 2008
or

o **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.)
200 East Broadway, 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.
þ Yes o 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 o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes þ No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Common Stock no par value, 7,481,776 as of October 15, 2008

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Item 1 Condensed Consolidated Financial Statements (Unaudited)

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Dollars in thousands)

	September 30 2008	December 31 2007
ASSETS		
Cash and demand deposits due from banks	$ 23,831	$ 25,583
Trading securities	22,628	25,064
Available-for-sale securities (amortized cost of $234,871 in 2008 and $212,285 in 2007)	231,821	213,127
Mortgage loans available for sale	706	2,214
Loans		
Agricultural	60,750	47,407
Commercial	312,560	238,306
Installment	34,122	29,037
Residential real estate mortgage	323,431	297,937
Total loans	**730,863**	**612,687**
Less allowance for loan losses	8,797	7,301
Net loans	**722,066**	**605,386**
Accrued interest receivable	6,886	5,948
Premises and equipment	22,176	22,516
Corporate-owned life insurance policies	15,611	13,195
Acquisition intangibles and goodwill, net	47,903	27,010
Equity securities without readily determinable fair values	15,930	7,353
Other assets	13,737	9,886
TOTAL ASSETS	**$ 1,123,295**	**$ 957,282**
LIABILITIES AND SHAREHOLDERS EQUITY		
Deposits		
Noninterest bearing	$ 96,199	$ 84,846
NOW accounts	115,099	105,526
Certificates of deposit and other savings	463,228	410,782
Certificates of deposit over $100,000	144,460	132,319
Total deposits	**818,986**	**733,473**
Other borrowed funds ($22,219 carried at fair value in 2008, $7,523 in 2007)	156,991	92,887
Escrow funds payable		1,912
Accrued interest and other liabilities	6,798	5,930
Total liabilities	**982,775**	**834,202**
Shareholders Equity Common stock no par value 15,000,000 shares authorized; outstanding 7,481,776 in 2008 (6,364,120 in 2007)	136,718	116,319
Retained earnings	6,636	7,027

Accumulated other comprehensive loss	(2,834)	(266)
Total shareholders equity	**140,520**	**123,080**
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	**$ 1,123,295**	**$ 957,282**

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (UNAUDITED)

(Dollars in thousands except per share data)

	Nine Months Ended September 30	
	2008	2007
Number of Shares of Common Stock Outstanding		
Balance at beginning of period	6,364,120	6,335,861
Common stock dividends	687,599	
Shares issued in exchange for bank acquisition	514,809	
Other issuances of common stock	63,584	43,252
Common stock repurchased	(148,336)	(41,428)
Balance end of period	**7,481,776**	**6,337,685**
Common Stock		
Balance at beginning of period	$ 116,319	$ 114,785
Common stock dividends (10%)	30,256	
Transfer	(28,000)	
Issuance of common stock in exchange for bank acquisition	22,652	
Other issuances of common stock	1,610	1,470
Share-based payment awards under equity compensation plan	321	621
Common stock repurchased	(6,440)	(1,801)
Balance end of period	**136,718**	**115,075**
Retained Earnings		
Balance at beginning of period	7,027	4,451
Adjustment to initially apply FASB Statement No. 159, net of tax		(1,050)
Adjustment to initially apply EITF 06-4, net of tax	(1,571)	
Net income	6,142	5,662
Common stock dividends (10%)	(30,256)	
Transfer	28,000	
Cash dividends ($0.36 per share in 2008 and $0.33 per share in 2007)	(2,706)	(2,276)
Balance end of period	**6,636**	**6,787**
Accumulated Other Comprehensive Loss		
Balance at beginning of period	(266)	(3,487)
Adjustment to initially apply fair value provisions of FASB Statement No. 159, net of tax		897
Other comprehensive (loss) income	(2,568)	1,910
Balance end of period	**(2,834)**	**(680)**
Total shareholders equity end of period	**$ 140,520**	**$ 121,182**

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(Dollars in thousands except per share data)

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Interest Income				
Loans, including fees	$ 12,566	$ 11,227	$ 37,511	$ 32,625
Investment securities				
Taxable	1,288	967	4,023	2,609
Nontaxable	1,161	954	3,466	2,659
Trading account securities	221	389	856	1,809
Federal funds sold and other	165	257	430	523
Total interest income	**15,401**	**13,794**	**46,286**	**40,225**
Interest Expense				
Deposits	4,773	5,783	15,720	17,030
Borrowings	1,536	907	4,050	2,463
Total interest expense	**6,309**	**6,690**	**19,770**	**19,493**
Net interest income	**9,092**	**7,104**	**26,516**	**20,732**
Provision for loan losses	975	268	3,775	618
Net interest income after provision for loan losses	**8,117**	**6,836**	**22,741**	**20,114**
Noninterest Income				
Service charges and fees	1,507	1,223	4,185	3,572
Title insurance revenue (Note 2)		611	234	1,738
Trust fees	240	262	685	708
Gain on sale of mortgage loans	38	50	195	149
Net gain (loss) on trading securities	20	320	(22)	263
Change in the fair value of other borrowings carried at fair market value	182	(74)	304	9
Other	390	327	1,091	918
Total noninterest income	**2,377**	**2,719**	**6,672**	**7,357**
Noninterest Expenses				
Compensation and benefits	4,156	3,933	12,693	11,750
Occupancy	512	440	1,533	1,329
Furniture and equipment	959	841	2,829	2,504
Other	1,803	1,781	5,272	5,049
Total noninterest expenses	**7,430**	**6,995**	**22,327**	**20,632**
Income before federal income taxes	**3,064**	**2,560**	**7,086**	**6,839**
Federal income taxes	540	464	944	1,177

NET INCOME	**$ 2,524**	**$ 2,096**	**$ 6,142**	**$ 5,662**
Earnings per share				
Basic	**$ 0.34**	**$ 0.30**	**$ 0.82**	**$ 0.81**
Diluted	**$ 0.33**	**$ 0.29**	**$ 0.80**	**$ 0.79**
Cash dividends per basic share	**$ 0.12**	**$ 0.11**	**$ 0.36**	**$ 0.33**

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
(Dollars in thousands)

	Three months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Net Income	**$ 2,524**	**$ 2,096**	**$ 6,142**	**$ 5,662**
Unrealized (losses) gains on available-for-sale securities:				
Unrealized holding (losses) gains arising during the period	(2,299)	1,860	(3,877)	(165)
Reclassification adjustment for net realized (gains) losses included in net income	(15)		(15)	30
Net unrealized (losses) gains	(2,314)	1,860	(3,892)	(135)
Tax effect	787	(632)	1,324	46
Unrealized (losses) gains, net of tax	(1,527)	1,228	(2,568)	(89)
Change in unrecognized actuarial loss of defined benefit pension plan, principally due to curtailment				3,029
Tax effect				(1,030)
Change in unrecognized actuarial loss of defined benefit pension plan, principally due to curtailment, net of tax				1,999
Other comprehensive (loss) income, net of tax	**(1,527)**	**1,228**	**(2,568)**	**1,910**
Comprehensive income	**$ 997**	**$ 3,324**	**$ 3,574**	**$ 7,572**

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Dollars in thousands)

	Nine months ended September 30	
	2008	2007
OPERATING ACTIVITIES		
Net income	$ 6,142	$ 5,662
Reconciliation of net income to cash provided by operations:		
Provision for loan losses	3,775	618
Provision for foreclosed asset losses	8	
Depreciation	1,608	1,471
Amortization and impairment of mortgage servicing rights	167	156
Amortization of acquisition intangibles	316	213
Net amortization of investment securities	228	136
Realized (gain) loss on sale of available-for-sale investment securities	(15)	30
Unrealized losses (gains) on trading securities	22	(263)
Unrealized gains on borrowings measured at their fair values	(304)	(9)
Earnings on corporate owned life insurance policies	(385)	(321)
Share-based payment awards	321	621
Deferred income tax (benefit) expense	(212)	23
Net changes in operating assets and liabilities which provided (used) cash, net in 2008 of bank acquisition and joint venture formation:		
Trading securities	7,393	48,040
Loans held for sale	1,508	1,352
Accrued interest receivable	(338)	(854)
Other assets	(1,555)	(3,722)
Escrow funds payable	(46)	1,232
Accrued interest and other liabilities	(1,459)	420
Net Cash Provided By Operating Activities	**17,174**	**54,805**
INVESTING ACTIVITIES		
Activity in available-for-sale securities		
Maturities, calls, and sales	51,346	39,596
Purchases	(67,138)	(87,269)
Loan principal originations, net	(34,715)	(19,753)
Proceeds from sales of foreclosed assets	1,680	
Purchases of premises and equipment	(1,372)	(2,163)
Bank acquisition, net of cash acquired	(9,465)	
Title company joint venture formation, net of cash exchanged	(4,542)	
Purchase of corporate owned life insurance policies	(1,250)	
Net Cash Used In Investing Activities	**(65,456)**	**(69,589)**
FINANCING ACTIVITIES		
Net increase (decrease) in noninterest bearing deposits	1,204	(5,432)
Net (decrease) increase in interest bearing deposits	(5,740)	6,361
Net increase in other borrowed funds	58,602	8,630
Cash dividends paid on common stock	(2,706)	(2,276)
Proceeds from issuance of common stock	1,610	1,470

Common stock repurchased	(6,440)	(1,801)
Net Cash Provided By Financing Activities	**46,530**	**6,952**
DECREASE IN CASH AND CASH EQUIVALENTS	**(1,752)**	**(7,832)**
Cash and cash equivalents at beginning of period	25,583	31,359
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$ 23,831**	**$ 23,527**
Supplemental cash flows information:		
Transfer of foreclosed loans to foreclosed assets	$ 2,475	$ 653

See notes to condensed consolidated financial statements.

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ISABELLA BANK CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals with the exception of the fair value reporting election described in Note 6 and the adoption of EITF 06-4 described in Note 7) considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. For further information, refer to the consolidated financial statements and footnotes thereto included in the Corporation s annual report for the year ended December 31, 2007.

All amounts other than share and per share amounts have been rounded to the nearest thousand ($000) in this report.

Effective January 1, 2008, the Corporation acquired Greenville Community Financial Corporation (GCFC). The condensed consolidated financial statements include the results of operations of GCFC since January 1, 2008 (see Note 2). Effective March 1, 2008, the Corporation entered into a joint venture with Corporate Title Agency, LLC. The condensed consolidated financial statements include the results of operations from this new entity since March 1, 2008 (see Note 2). Refer to Management s Discussion and Analysis for further consideration of the impact of these transactions on the condensed consolidated financial statements.

The accounting policies are the same as those discussed in Note 1 to the Consolidated Financial Statements included in the Corporation s annual report for the year ended December 31, 2007, with the addition of new pronouncements adopted during 2008 (see Note 7).

NOTE 2 BUSINESS COMBINATION AND JOINT VENTURE FORMATION

Bank Acquisition

On the opening of business on January 1, 2008, Isabella Bank Corporation acquired 100 percent of Greenville Community Financial Corporation (GCFC). As a result of this acquisition, Greenville Community Bank, a wholly owned subsidiary of GCFC, merged with and into Isabella Bank (the Bank). Under the terms of the merger agreement, each share of GCFC common stock was automatically converted into the right to receive 0.6659 shares of Isabella Bank Corporation common stock and $14.70 per share in cash. Exclusive of the effects of the 10% stock dividend paid February 29, 2008, the Corporation issued 514,809 shares of Isabella Bank Corporation common stock valued at $22,652 and paid a total of $11,365 in cash to GCFC shareholders. The total consideration exchanged including the value of the common stock issued, cash paid to shareholders, plus cash paid for $564 in transaction costs resulted in a total purchase price of $34,581. The purchase price was determined using the latest Isabella Bank Corporation stock transaction price known to management as of November 27, 2007, the date of the merger agreement. The acquisition of Greenville has increased the overall market share for Isabella Bank Corporation in furtherance of the Bank s strategic plan to pursue certain acquisitions.

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The following table summarizes the estimate of the total purchase price of the transaction as well as adjustments to allocate the purchase price based on the preliminary estimates of fair values of the assets and liabilities of GCFC.

	Greenville January 1, 2008	Fair Value Adjustments of Nonintangible Net Assets Acquired	Fair Value of Net Assets Acquired
ASSETS			
Cash and cash equivalents	$ 2,339	$	$ 2,339
Federal funds sold	125		125
Trading securities	4,979		4,979
Securities available for sale	7,007		7,007
Loans, net	88,613	(398)	88,215
Bank premises and equipment	2,054	194	2,248
Other assets	2,870		2,870
Total assets acquired	**107,987**	**(204)**	**107,783**
LIABILITIES AND SHAREHOLDERS EQUITY			
Liabilities			
Deposits	90,151	(102)	90,049
Other borrowed funds	5,625	181	5,806
Accrued interest and other liabilities	146		146
Total liabilities assumed	**95,922**	**79**	**96,001**
Net assets acquired	**$ 12,065**	**$ (283)**	**11,782**
Core deposit intangible			1,480
Goodwill			21,319
Total consideration paid			**$ 34,581**

The fair value adjustments of tangible net assets acquired are being amortized over two years using the straight line amortization method. The core deposit intangible is being amortized using a 15 year sum-of-the-years digits amortization schedule. Goodwill, which is not amortized, is tested for impairment at least annually. As the acquisition was considered a stock transaction, goodwill is not deductible for federal income tax purposes.

The 2008 interim consolidated statements of income include operating results of GCFC since the date of acquisition.

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The unaudited pro forma information presented in the following table has been prepared based on Isabella Bank Corporation s historical results combined with GCFC. The information has been combined to present the results of operations as if the acquisition had occurred at the beginning of the earliest period presented. The pro forma results are not necessarily indicative of the results which would have actually been attained if the acquisition had been consummated in the past or what may be attained in the future (as adjusted for the 10% stock dividend paid February 29, 2008):

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Net interest income	$ 9,092	$ 8,013	$ 26,516	$ 23,402
Net income	$ 2,524	$ 2,311	$ 6,142	$ 6,358
Basic earnings per share	$ 0.34	$ 0.30	$ 0.82	$ 0.81

Title Joint Venture Formation

On March 1, 2008, IBT Title and Insurance Agency, Inc. (IBT Title), a wholly owned subsidiary of Isabella Bank Corporation, merged its assets and liabilities with Corporate Title Agency, LLC (Corporate Title), a third-party title business based in Traverse City, Michigan, to form CT/IBT Title Agency, LLC. As a result of this transaction, the Corporation became a 50 percent joint venture owner in CT/IBT Title Agency, LLC. The purpose of this joint venture was to help IBT Title and Insurance Agency, Inc. expand its service area and to take advantage of economies of scale. As the Corporation is a 50 percent owner of this new entity, revenues and expenses will now be recorded under the equity method, and as such net income from the joint venture will be included in other income. As of September 30, 2008, the Corporation had a recorded investment of $7,064 in the new entity, which is included in equity securities without readily determinable fair values. The following table summarizes the balance sheet of IBT Title as of March 1, 2008. These amounts were excluded from the balance sheet detail of the Corporation and are now included in investment in equity securities without readily determinable fair values.

	IBT Title March 1, 2008
ASSETS	
Cash and cash equivalents	$ 4,542
Premises and equipment	2,352
Other assets	2,339
Total assets	**9,233**
LIABILITIES AND SHAREHOLDERS EQUITY	
Liabilities	
Escrow funds	$ 1,866
Other liabilities	194
Total liabilities	**2,060**
Total equity	**7,173**
Total liabilities & equity	**$ 9,233**

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NOTE 3 COMPUTATION OF EARNINGS PER SHARE

Basic earnings per share represents income available to common stockholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustments to income that would result from the assumed issuance. Potential common shares that may be issued by the Corporation relate solely to outstanding shares in the Corporation s Deferred Director fee plan.

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Average number of common shares outstanding for basic calculation*	7,477,290	6,971,829	7,492,152	6,970,965
Potential effect of shares in the Deferred Director fee plan*	184,667	198,326	183,891	196,896
Average number of common shares outstanding used to calculate diluted earnings per common share	7,661,957	7,170,155	7,676,043	7,167,861
Net Income	$ 2,524	$ 2,096	$ 6,142	$ 5,662
Earnings per share				
Basic	$ 0.34	$ 0.30	$ 0.82	$ 0.81
Diluted	$ 0.33	$ 0.29	$ 0.80	$ 0.79

* As adjusted for the 10% stock dividend paid February 29, 2008

NOTE 4 OPERATING SEGMENTS

The Corporation s reportable segments are based on legal entities that account for at least 10 percent of net operating results. In April 2007, the individual bank charters of Isabella Bank and Trust and FSB Bank were consolidated into one bank charter as a part of the Corporation s strategy to increase efficiencies. As of September 30, 2008 and 2007 and the nine month periods then ended, retail banking operations represent more than 90 percent of the Corporation s total assets and operating results. As such, no segment reporting is presented.

NOTE 5 DEFINED BENEFIT PENSION PLAN

The Corporation has a non-contributory defined benefit pension plan. In December 2006, the Board of Directors voted to curtail the defined benefit plan effective March 1, 2007. The effect of the curtailment, which was recognized in the first quarter of 2007, suspended the current participants accrued benefits as of March 1, 2007 and limited participation in the plan to eligible employees as of December 31, 2006. As a result of the curtailment, the Corporation recognized a loss of $37 in the first quarter of 2007 in accordance with SFAS No. 88, *Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*. Due to the curtailment, future salary increases will not be considered and the plan benefits are based on years of service and the employees five highest consecutive years of compensation out of the last ten years of service through March 1, 2007. As a result of the curtailment, the Corporation does not anticipate contributing to the plan in the future.

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The components of net periodic benefit (income) cost for the three and nine month periods ended September 30 are as follows:

	Pension Benefits			
	Three months ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Net periodic benefit (income) cost				
Service cost on benefits earned for services rendered during the period	$	$ 27	$	$ 82
Interest cost on projected benefit obligation	125	126	377	379
Expected return on plan assets	(165)	(158)	(495)	(476)
Amortization of unrecognized prior service cost				2
Amortization of unrecognized actuarial net loss	1	10	3	32
Net periodic benefit (income) cost	**(39)**	**5**	**(115)**	**19**
Loss on plan curtailment				37
Total net periodic benefit (income) cost	**$ (39)**	**$ 5**	**$ (115)**	**$ 56**

NOTE 6 FINANCIAL INSTRUMENTS RECORDED AT FAIR VALUE

Fair value is the price that would be expected to be received upon the sale of an asset or transfer of a liability in an orderly transaction between market participants at the measurement date. To increase consistency and comparability in fair value measurements and related disclosures, the fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement in its entirety falls shall be determined based on the lowest level input that is significant to the fair value measurement in its entirety. The fair value hierarchy levels are summarized below.

Level 1 Inputs - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.

Level 3 Inputs - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity s own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

SFAS 157 states that inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability and characterizes the inputs as observable or unobservable.

Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity.

Unobservable inputs are inputs that reflect the reporting entity s own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The Corporation has invested in $11,000 of auction rate money market preferred investment security instruments, which are classified as available for sale securities and reflected at fair value. Due to recent events in credit markets these investments have become illiquid. As such, the fair values of these securities were estimated utilizing a discounted cash flow analysis or other type of valuation adjustment methodology as of September 30, 2008; previously the fair value of these investments was based on observable market data (Level 2). These analyses consider, among other items, the collateral underlying the security investments, the creditworthiness of the counterparty, the timing of expected future cash flows, estimates of the next time the security is expected to have a successful

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auction, and the Corporation s intent and ability to hold such securities until credit markets improve. These securities were also compared, when possible, to other securities with similar characteristics.

Due to the lack of marketability of these instruments at this time, management conducted an analysis to determine whether these investments should be considered other than temporarily impaired (OTTI). Such analyses included the following criteria:

Has the value of the investment declined more than 20% based on a risk and maturity adjusted discount rate?

Is the investment credit rating below investment grade?

Is it probable that the issuer will be unable to pay the amount when due?

Does the Corporation have the ability and intent to hold the security until maturity?

Has the duration of the investment been extended by more than 7 years?

Based on the Corporation s analysis using the above criteria, management does not believe that the values of these or any other securities are other than temporarily impaired. The Corporation had no assets classified as Level 3 as of September 30, 2007.

The table below represents the activity in Level 3 inputs for the nine month period ended September 30, 2008:

Level 3 inputs January 1	$
Transfers into level 3 due to changes in the observability of significant inputs	11,000
Unrealized losses on available-for-sale investment securities	(762)
Level 3 inputs September 30	$ 10,238

	Fair Value Measurements at September 30, 2008 Using				Fair Value Measurements at September 30, 2007 Using		
Description	Fair Value Measurements 9/30/2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value Measurements 9/30/2007	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Recurring Items							
Trading securities	$ 22,628	$	$ 22,628	$	$ 30,062	$	$ 30,062
Investment securities available for sale	231,821	4,014	217,569	10,238	182,983	3,981	179,002
Mortgage loans available for sale	706		706		1,382		1,382
	22,219		22,219		7,479		7,479

Other borrowed funds				
Nonrecurring Items				
Mortgage servicing rights	2,224	2,224	2,192	2,192
Foreclosed assets	2,853	2,853	755	755

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	Changes in Fair Value for the 3-month Period Ended September 30, 2008 for Items Measured at Fair Value Pursuant to Election of the Fair Value Option			Changes in Fair Value for the 9-month Period Ended September 30, 2008 for Items Measured at Fair Value Pursuant to Election of the Fair Value Option		
Description	Trading Gains and (Losses)	Other Gains and (Losses)	Total Changes in Fair Values Included in Current Period Earnings	Trading Gains and (Losses)	Other Gains and (Losses)	Total Changes in Fair Values Included in Current Period Earnings
Recurring Items						
Trading securities	$ 20	$	$ 20	$ (22)	$	$ (22)
Other borrowed funds		182	182		304	304
Nonrecurring Items						
Mortgage servicing rights		8	8		8	8
Foreclosed assets					(8)	(8)
			$ 210			$ 282

During the first quarter of 2008, primarily as a result of declines in the rates offered on new residential mortgage loans, the Corporation recorded impairment charges of $30 related to the carrying value of its mortgage servicing rights, in accordance with the provisions of SFAS No. 156. This decline in offering rates decreased the expected lives of the loans serviced and in turn decreased the value of the serving rights. However, in the second and third quarters of 2008, the Corporation reduced the recorded impairment on mortgage servicing rights by $30 and $8, respectively, as offering rates increased. As such, the net effect of changes in the fair value of the mortgage servicing rights was a reduction in the recorded impairment of $8 for the nine month period ended September 30, 2008.

The impairment charges to other real estate owned of $38 for the three month and $64 for the nine month period ended September 30, 2008 were the result of the real estate held declining in value subsequent to the properties being transferred to other real estate.

	Changes in Fair Value for the 3-month Period Ended September 30, 2007 for Items Measured at Fair Value Pursuant to Election of the Fair Value Option			Changes in Fair Value for the 9-month Period Ended September 30, 2007 for Items Measured at Fair Value Pursuant to Election of the Fair Value Option		
Description	Trading Gains and (Losses)	Other Gains and (Losses)	Total Changes in Fair Values Included in Current Period Earnings	Trading Gains and (Losses)	Other Gains and (Losses)	Total Changes in Fair Values Included in Current Period Earnings
Recurring Items						

Trading securities	$ 320	$	$ 320	$ 263	$	$ 263
Other borrowed funds		(74)	(74)		9	9
Nonrecurring Items						
Mortgage servicing rights						
Foreclosed assets		(38)	(38)		(64)	(64)
			$ 208			$ 208

The activity in the trading portfolio of investment securities for the three and nine month periods ended September 30, 2008 and 2007 was as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Purchases	$	$	$ 9,052	$ 3,337
Sales, calls, and maturities	(2,484)	(12,035)	(11,466)	(51,377)
Total	**$ (2,484)**	**$ (12,035)**	**$ (2,414)**	**$ (48,040)**

The net loss on trading securities represents mark-to-market adjustments. Included in the net trading losses of $22 during the nine month period ended September 30, 2008, was $10 of net trading gains on securities that were held in the Corporation s trading portfolio as of September 30, 2008.

The activity in borrowings carried at fair market value for the three and nine month periods ended September 30, 2008 and 2007 was as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Issuances	$ 5,000 15	$	$ 15,000	$

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NOTE 7 RECENT ACCOUNTING PRONOUNCEMENTS

In September of 2006, EITF Issue No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangement*, was ratified by the FASB. The EITF reached a consensus that for an endorsement split-dollar life insurance arrangement within the scope of this Issue, an employer should recognize a liability for future benefits. The Corporation has purchased corporation-owned life insurance on certain of its employees. The cash surrender value of these policies is carried as an asset on the condensed consolidated balance sheets. The carrying value was $13,195 at December 31, 2007. These life insurance policies are generally subject to endorsement split-dollar life insurance arrangements. These arrangements were designed to provide a pre-and postretirement benefit for senior officers of the Corporation. The Corporation adopted EITF Issue No. 06-4 effective January 1, 2008 and as a result recorded an initial liability of $2,375. To establish this liability, the Corporation recorded a one time charge of $1,571, net of tax, directly to retained earnings at that date. The periodic policy maintenance costs were $18 and $53 for the three and nine month periods ended September 30, 2008, respectively.

On March 19, 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 161 (SFAS No.161) *Disclosures about Derivative Instruments and Hedging Activities.* The objective of SFAS No. 161 is to enhance disclosures about an entity s derivative and hedging activities and thereby improve the transparency of financial reporting. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008 and is not expected to have a significant impact on the Corporation s consolidated financial statements.

In May 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 163 (SFAS No.163) *Accounting for Financial Guarantee Insurance Contracts-an Interpretation of FASB Statement No.*60. The objective of SFAS No. 163 is to clarify how Statement No. 60 applies to financial guarantee insurance contracts, including the recognition and measurement to be used to account for premium revenue and claim liabilities. This statement also requires that an insurance enterprise recognize a claim liability prior to an event of default (insured event) when there is evidence that credit deterioration has occurred in an insured financial obligation. SFAS No. 163 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008 and will not have an impact on the Corporation s consolidated financial statements.

In May 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 162 (SFAS No.162) T*he Hierarchy of Generally Accepted Accounting Principles.* The objective of SFAS No. 162 is to identify the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). SFAS No. 162 is effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles* and is not expected to have a significant impact on the Corporation s consolidated financial statements.

In October 2008, the Financial Accounting Standards Board (FASB) staff issued Staff Position No. FSP 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active*. FSP 157-3 clarifies the application of SFAS 157, which the Corporation adopted as of January 1, 2008, in cases where a market is not active. The Corporation has considered the guidance provided by FSP 157-3, which was effective on October 10, 2008, in its determination of estimated fair values as of September 30, 2008, and the impact was not material.

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Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations

The following is management s discussion and analysis of the major factors that influenced Isabella Bank Corporation s financial performance. This analysis should be read in conjunction with the Corporation s 2007 annual report and with the unaudited interim condensed consolidated financial statements and notes, as set forth on pages 3 through 15 of this report.

CRITICAL ACCOUNTING POLICIES: A summary of the Corporation s significant accounting policies is set forth in Note 1 of the Consolidated Financial Statements included in the Corporation s Annual Report for the year ended December 31, 2007. Of these significant accounting policies, the Corporation considers its policies regarding the allowance for loan losses, acquisition intangibles, and the determination of the fair value of investment securities to be its most critical accounting policies.

The allowance for loan losses requires management s most subjective and complex judgment. Changes in economic conditions can have a significant impact on the allowance for loan losses and, therefore, the provision for loan losses and results of operations. The Corporation has developed appropriate policies and procedures for assessing the adequacy of the allowance for loan losses, recognizing that this process requires a number of assumptions and estimates with respect to its loan portfolio. The Corporation s 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 management at the time of the issuance of the consolidated financial statements. For additional discussion concerning the Corporation s allowance for loan losses and related matters, see Provision for Loan Losses and Allowance for Loan Losses in the Corporation s 2007 Annual Report and herein.

Generally accepted accounting principles require the Corporation to determine the fair value of all of the assets and liabilities of an acquired entity, and record their fair value on the date of acquisition. The Corporation employs a variety of means in determination of the fair value, including the use of discounted cash flow analysis, market comparisons, and projected future revenue streams. For certain items that management believes it has the appropriate expertise to determine the fair value, management may choose to use its own calculations of the value. In other cases, where the value is not easily determined, the Corporation consults 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 value of its balance sheet, including identifiable intangibles, is recorded as goodwill. This goodwill is not amortized, but is tested for impairment on at least an annual basis.

The Corporation currently has both available-for-sale and trading investment securities and are carried at their fair value. Changes in the fair value of available-for-sale investment securities are included in other comprehensive income, while declines in the fair value of these securities below their cost that are other than temporary are reflected as realized losses. The change in value of trading investment securities is included in current earnings.

The market values for available-for-sale and trading investment securities are typically obtained from outside sources and applied to individual securities within the portfolio. The fair values of investment securities with illiquid markets are estimated utilizing a discounted cash flow analysis or other type of valuation adjustment methodology. These securities are also compared, when possible, to other securities with similar characteristics.

RESULTS OF OPERATIONS

The following table outlines the results of operations for the three and nine month periods ended September 30, 2008 and 2007. Return on average assets measures the ability of the Corporation to profitably and efficiently employ its resources. Return on average equity indicates how effectively the Corporation is able to generate earnings on shareholder invested capital.

SUMMARY OF SELECTED FINANCIAL DATA

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
INCOME STATEMENT DATA				
Net interest income	$9,092	$7,104	$26,516	$20,732
Provision for loan losses	975	268	3,775	618
Net income	2,524	2,096	6,142	5,662
PER SHARE DATA				
Earnings per share:				
Basic	$ 0.34	$ 0.30	$ 0.82	$ 0.81
Diluted	0.33	0.29	0.80	0.79
Cash dividends per common share	0.12	0.11	0.36	0.33
Book value (at end of period)	18.78	17.38	18.78	17.38
RATIOS				
Average primary capital to average assets	13.29%	13.71%	13.71%	13.52%
Net income to average assets	0.90	0.91	0.74	0.82
Net income to average equity	7.14	6.98	5.69	6.39
Net income to average tangible equity	10.81	8.89	8.60	8.14

Net Interest Income

Net interest income equals interest income less interest expense and is the primary source of income for Isabella Bank Corporation. Interest income includes loan fees of $428 and $1,390 for the three and nine month periods ended September 30, 2008, respectively, as compared to $381 and $957 during the same periods in 2007. For analytical purposes, net interest income is adjusted to a taxable equivalent basis by adding the income tax savings from interest on tax-exempt loans and securities, thus making year-to-year comparisons more meaningful.

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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. This schedule also presents an analysis of interest income and interest expense for the periods indicated. All interest income is reported on a fully taxable equivalent (FTE) basis using a 34% tax rate. Nonaccruing loans, for the purpose of the following computations, are included in the average loan amounts outstanding. Federal Reserve and Federal Home Loan Bank restricted equity holdings are included in Other.

Results for the three month periods ended September 30, 2008 and September 30, 2007 are as follows:

	Three Months Ended					
	September 30, 2008			September 30, 2007		
	Average Balance	Tax Equivalent Interest	Average Yield\ Rate	Average Balance	Tax Equivalent Interest	Average Yield\ Rate
INTEREST EARNING ASSETS:						
Loans	$ 723,038	$ 12,566	6.95%	$ 608,033	$ 11,227	7.39%
Taxable investment securities	105,163	1,288	4.90%	71,461	967	5.41%
Nontaxable investment securities	121,231	1,805	5.96%	100,295	1,491	5.95%
Trading account securities	24,095	271	4.50%	35,694	445	4.99%
Federal funds sold	11,863	55	1.85%	13,953	172	4.93%
Other	18,377	110	2.39%	7,892	85	4.31%
Total earning assets	1,003,767	16,095	6.41%	837,328	14,387	6.87%
NON EARNING ASSETS:						
Allowance for loan losses	(8,512)			(7,627)		
Cash and due from banks	19,330			21,299		
Premises and equipment	22,390			21,468		
Accrued income and other assets	82,743			55,186		
Total assets	$ 1,119,718			$ 927,654		
INTEREST BEARING LIABILITIES:						
Interest-bearing demand deposits	$ 111,346	171	0.61%	$ 105,670	411	1.56%
Savings deposits	219,103	614	1.12%	194,843	1,200	2.46%
Time deposits	391,037	3,988	4.08%	348,807	4,172	4.78%
Other borrowed funds	151,331	1,536	4.06%	70,168	907	5.17%
Total interest bearing liabilities	872,817	6,309	2.89%	719,488	6,690	3.72%

NONINTEREST BEARING LIABILITIES:						
Demand deposits	99,220			78,984		
Other	6,286			9,058		
Shareholders equity	141,395			120,124		
Total liabilities and equity	$ 1,119,718			$ 927,654		
Net interest income (FTE)		$ 9,786			$ 7,697	
Net yield on interest earning assets (FTE)			3.90%			3.68%

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Results for the nine month periods ended September 30, 2008 and September 30, 2007 are as follows:

	Nine Months Ended					
	September 30, 2008			September 30, 2007		
	Average Balance	Tax Equivalent Interest	Average Yield\ Rate	Average Balance	Tax Equivalent Interest	Average Yield\ Rate
INTEREST EARNING ASSETS:						
Loans	$ 711,371	$ 37,511	7.03%	$ 602,077	$ 32,625	7.22%
Taxable investment securities	104,620	4,023	5.13%	64,278	2,609	5.41%
Nontaxable investment securities	120,644	5,389	5.96%	93,827	4,167	5.92%
Trading account securities	27,762	1,019	4.89%	59,053	1,956	4.42%
Federal funds sold	6,420	110	2.28%	8,078	311	5.13%
Other	16,457	320	2.59%	6,413	212	4.41%
Total earning assets	987,274	48,372	6.53%	833,726	41,880	6.70%
NON EARNING ASSETS:						
Allowance for loan losses	(8,616)			(7,646)		
Cash and due from banks	19,054			20,405		
Premises and equipment	22,910			21,263		
Accrued income and other assets	83,921			56,506		
Total assets	$ 1,104,543			$ 924,254		
INTEREST BEARING LIABILITIES:						
Interest-bearing demand deposits	$ 116,332	728	0.83%	$ 111,693	1,520	1.81%
Savings deposits	216,082	2,096	1.29%	186,740	3,141	2.24%
Time deposits	396,913	12,896	4.33%	350,997	12,369	4.70%
Other borrowed funds	129,816	4,050	4.16%	66,809	2,463	4.92%
Total interest bearing liabilities	859,143	19,770	3.07%	716,239	19,493	3.63%
NONINTEREST BEARING LIABILITIES:						
Demand deposits	94,655			79,563		
Other	6,717			10,252		
Shareholders equity	144,028			118,200		
Total liabilities and equity	$ 1,104,543			$ 924,254		

Net interest income (FTE)	$ 28,602	$ 22,387
Net yield on interest earning assets (FTE)	3.86%	3.58%

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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 Variance change in volume multiplied by the previous year s rate.

Rate Variance change in the fully taxable equivalent (FTE) rate multiplied by the prior year 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.

	Three Months Ended September 30, 2008 compared to September 30, 2007 Increase (Decrease) Due to			Nine Months Ended September 30, 2008 compared to September 30, 2007 Increase (Decrease) Due to		
	Volume	Rate	Net	Volume	Rate	Net
CHANGES IN INTEREST INCOME:						
Loans	$ 2,028	$ (689)	$ 1,339	$ 5,784	$ (898)	$ 4,886
Taxable investment securities	420	(99)	321	1,558	(144)	1,414
Nontaxable investment securities	312	2	314	1,198	24	1,222
Trading account securities	(134)	(40)	(174)	(1,130)	193	(937)
Federal funds sold	(23)	(94)	(117)	(54)	(147)	(201)
Other	75	(50)	25	224	(116)	108
Total changes in interest income	2,678	(970)	1,708	7,580	(1,088)	6,492
CHANGES IN INTEREST EXPENSE:						
Interest bearing demand deposits	21	(261)	(240)	61	(853)	(792)
Savings deposits	134	(720)	(586)	437	(1,482)	(1,045)
Time deposits	472	(656)	(184)	1,539	(1,012)	527
Other borrowings	859	(230)	629	2,016	(429)	1,587
Total changes in interest expense	1,486	(1,867)	(381)	4,053	(3,776)	277
Net change in interest margin (FTE)	$ 1,192	$ 897	$ 2,089	$ 3,527	$ 2,688	$ 6,215

Net yield on interest earning assets increased 0.22% and 0.28% during the three and nine month periods ended September 30, 2008 when compared to the same periods in 2007. The primary reason for this increase was that in early 2007, the Corporation, as part of a balance sheet management strategy, extended the maturities of interest earning assets, which as interest rates declined in the latter half of 2007, had a positive impact on interest margins as the cost of funding sources decreased more rapidly than the rates earned on interest earning assets. Another contributing factor for the increase in margins was a result of the loan growth, primarily in the commercial loans which are higher yielding than residential mortgage loans.

The total volume and rate variances resulted in net increases in net FTE interest margin of $1,192 related to volume, which was primarily the result of the acquisition of Greenville Community Financial Corporation (See Note 2) and $897 related to rates, when the three month period ended September 30, 2008 is compared to the same period in 2007. During the nine month period ended September 30, 2008, variances in volume provided $3,527 of additional net FTE interest margin and variances in rates provided $2,688 of additional interest margin compared to the same period in

2007.

The yield curve began to normalize during the third quarter of 2007, primarily as a result of a 0.50% decrease in the federal funds target rate, resulting in lower short term interest rates. The yield curve further normalized during the fourth quarter of 2007 and during the first nine months of 2008 as a result of further rate cuts by the Federal Reserve. Through September 30, 2008, the national prime rate has decreased 3.25% since the second quarter of 2007.

The Corporation s balance sheet is currently well positioned to protect interest margins in a decreasing rate environment, as it is currently liability sensitive. Given the current liability sensitivity of the Corporation s balance sheet and the current interest rate

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environment (which encourages depositors to invest in the short term and loan customers to borrow in the long term), the Corporation s balance sheet has the potential to continue to be liability sensitive. Management further believes that, due to current economic conditions, it would be prudent to remain liability sensitive as further rate cuts are anticipated (beyond the 0.50% decrease made by the Federal Reserve Board in October 2008) prior to year end.

Allowance for Loan Losses

The viability of any financial institution is ultimately determined by its management of credit risk. Total loans outstanding represent 65.1% of the Corporation s total assets and is the Corporation s single largest concentration of risk. The allowance for loan losses is management s estimation of potential future losses inherent in the existing loan portfolio. Factors used to evaluate the loan portfolio, and thus to determine the current charge to expense, include recent loan loss history, financial condition of borrowers, amount of nonperforming and impaired loans, overall economic conditions, and other factors. The following table summarizes the Corporation s charge off and recovery activity for the nine month periods ended September 30, 2008 and 2007.

	Nine Months ended September 30	
	2008	2007
Allowance for loan losses January 1	$ 7,301	$ 7,605
Allowance of acquired bank	822	
Loans charged off		
Commercial and agricultural	1,090	414
Real estate mortgage	1,905	199
Consumer	581	446
Total loans charged off	**3,576**	**1,059**
Recoveries		
Commercial and agricultural	102	228
Real estate mortgage	165	10
Consumer	208	212
Total recoveries	**475**	**450**
Net loans charged off	3,101	609
Provision charged to income	3,775	618
Allowance for loan losses September 30	**$ 8,797**	**$ 7,614**
Year to date average loans	**$ 711,371**	**$ 602,077**
Net loans charged off to average loans outstanding	**0.44%**	**0.10%**
Total amount of loans outstanding at September 30	**$ 730,863**	**$ 610,186**
Allowance for loan losses as a % of loans	**1.20%**	**1.25%**

The allowance for loan losses as a percentage of loans has decreased from 1.25% as of September 30, 2007 to 1.20% as of September 30, 2008. The provision for loan losses was increased by $3,157 in 2008. This increase in the provision was the result of the increased level of net loans charged off as well as management s knowledge of current economic conditions. The Corporation has experienced an increase in foreclosed loans and an increase in loans charged off due mainly to the downturn in the residential real estate mortgage market, which has also resulted in an increase in other real estate owned.

The nationwide increase in residential mortgage loans past due and in foreclosures has received considerable attention by the Federal Government, the media, and banking regulators. Based on information provided by The Mortgage Bankers Association, a substantial portion of the nationwide increases in both past dues and foreclosures are related to fixed and adjustable rate sub-prime mortgages. Additionally, a substantial portion of sub-prime adjustable rate mortgages are scheduled to reset at higher rates throughout the remainder of 2008. As a result of the rates resetting on these mortgages, it is expected that troubled sub-prime loans nationally will increase substantially through the end of 2008. While the Corporation does not hold sub-prime mortgage loans, the difficulties experienced in the sub-prime market have adversely impacted the entire market, and thus the overall credit quality of the Corporation s residential mortgage portfolio. The increase in troubled residential mortgage loans and a tightening of underwriting standards will most likely result in a continued increase in the inventory of unsold homes. The inventory of unsold homes has not

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reached these levels since the 1991 recession. The combination of all of these factors is expected to further reduce average home values and thus homeowner s equity on a national level.

The Corporation originates and sells fixed rate residential real estate mortgages to the Federal Home Loan Mortgage Corporation (Freddie Mac) and US Bank. The Corporation has not originated loans for either trading or its own portfolio that would be classified as sub-prime or financed loans for more than 80% of market value unless insured by private third party insurance.

NONPERFORMING ASSETS

	September 30	
	2008	2007
Nonaccrual loans	$ 6,795	$ 4,745
Accruing loans past due 90 days or more	2,341	1,120
Restructured loans	1,219	686
Total nonperforming loans	**10,355**	**6,551**
Other real estate owned	2,802	755
Repossessed assets	51	
Total nonperforming assets	**$ 13,208**	**$ 7,306**
Nonperforming loans as a % of total loans	**1.42%**	**1.07%**
Nonperforming assets as a % of total assets	**1.18%**	**0.79%**

Due to the aforementioned residential real estate market difficulties inherent in the market, the Corporation has increased its efforts to identify potential problem loans. Residential real estate loans are placed in nonaccrual status when the foreclosure process has begun, unless there is an abundance of collateral. Additionally, these loans are charged down to their estimated net realizable value when placed on nonaccrual. Historically, residential real estate loans were placed in nonaccrual status upon reaching the beginning of the legally mandated borrower redemption period, which is typically six months. Chargeoffs of any expected deficiency were recognized at the end of the six month redemption period. These efforts have had a significant impact on the increase in loans classified as nonaccrual as well as the increase in gross chargeoffs in the first nine months of 2008.

The increase in the Corporation s nonperforming loans is primarily related to the current market difficulties previously discussed. The majority of the increase in other real estate owned is related to two properties, which total $1,182 as of September 30, 2008.

The current turmoil in financial markets and resulting uncertainty has resulted in severe losses suffered by financial institutions causing the credit markets to tighten significantly. This tightening may lead to a severe economic downturn in the U.S. and local economy. Management will continue to closely monitor loan quality to be certain we have adequately provided for our loan loss risk. Based on management s analysis of the allowance for loan losses, the current allowance falls within the acceptable range and, therefore, the allowance for loan losses is considered adequate as of September 30, 2008.

Management has devoted considerable attention to identifying loans for which losses are possible adjusting the value of these loans to their current net realizable values. To management s knowledge, there are no other loans which cause management to have serious doubts as to the ability of a borrower to comply with their loan repayment terms. A continued decline in residential real estate values may require further write downs of loans in foreclosure and other real estate owned and could potentially have an adverse impact on the Corporation s financial performance.

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NONINTEREST INCOME AND EXPENSES

The following discussions of noninterest income and noninterest expenses have been adjusted for the acquisition of Greenville Community Financial Corporation (GCFC) on January 1, 2008 to make the line items this quarter and year-to-date more comparable with the corresponding prior period numbers.

Noninterest Income

Noninterest income consists of trust fees, deposit service charges, fees for other financial services, gains on the sale of mortgage loans, and other. Significant account balances are highlighted in the accompanying tables with additional descriptions of significant fluctuations:

	Three Months Ended September 30					
	2008			2007		
			Adjusted w/o		Adjusted Change	
	Consolidated	GCFC	GCFC	Consolidated	$	%
Service charges and fee income						
NSF and overdraft fees	$ 932	$ 86	$ 846	$ 753	$ 93	12.4%
Freddie Mac servicing fee	157		157	150	7	4.7%
ATM and debit card fees	283	7	276	195	81	41.5%
Service charges on deposit accounts	95	9	86	85	1	1.2%
Net OMSR income	8		8	1	7	N/M
All other	32	3	29	39	(10)	-25.6%
Total service charges and fees	**1,507**	**105**	**1,402**	**1,223**	**179**	**14.6%**
Title insurance revenue				**611**	**(611)**	**-100.0%**
Trust fees	**240**		**240**	**262**	**(22)**	**-8.4%**
Gain on sale of mortgage loans	**38**	**3**	**35**	**50**	**(15)**	**-30.0%**
Net gain on trading securities	**20**		**20**	**320**	**(300)**	**-93.8%**
Change in the fair value of other borrowings carried at fair market value	**182**		**182**	**(74)**	**256**	**N/M**
Other						
Income on Corporate owned life insurance policies	224		224	109	115	105.5%
Brokerage and advisory fees	123	17	106	73	33	45.2%
All other	43	(19)	62	145	(83)	-57.2%
Total other	390	(2)	392	327	65	19.9%
Total noninterest income	**$ 2,377**	**$ 106**	**$ 2,271**	**$ 2,719**	**$ (448)**	**-16.5%**

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	Nine Months Ended September 30					
	2008			2007		
			Adjusted w/o		Adjusted Change	
	Consolidated	GCFC	GCFC	Consolidated	$	%
Service charges and fee income						
NSF and overdraft fees	$ 2,540	$ 230	$ 2,310	$ 2,162	$ 148	6.8%
Freddie Mac servicing fee	470		470	464	6	1.3%
ATM and debit card fees	761	28	733	535	198	37.0%
Service charges on deposit accounts	280	33	247	251	(4)	-1.6%
Net OMSR income	26		26	37	(11)	-29.7%
All other	108	15	93	123	(30)	-24.4%
Total service charges and fees	**4,185**	**306**	**3,879**	**3,572**	**307**	**8.6%**
Title insurance revenue	**234**		**234**	**1,738**	**(1,504)**	**-86.5%**
Trust fees	**685**		**685**	**708**	**(23)**	**-3.2%**
Gain on sale of mortgage loans	**195**	**37**	**158**	**149**	**9**	**6.0%**
Net (loss) gain on trading securities	**(22)**	**9**	**(31)**	**263**	**(294)**	**-111.8%**
Change in the fair value of other borrowings carried at fair market value	**304**		**304**	**9**	**295**	**N/M**
Other						
Income on Corporate owned life insurance policies	445	12	433	319	114	35.7%
Brokerage and advisory fees	382	43	339	198	141	71.2%
Gain (loss) on sale of available for sale investment securities	15		15	(30)	45	N/M
All other	249	(4)	253	431	(178)	-41.3%
Total other	**1,091**	**51**	**1,040**	**918**	**122**	**13.3%**
Total noninterest income	**$ 6,672**	**$ 403**	**$ 6,269**	**$ 7,357**	**$ (1,088)**	**-14.8%**

Management continuously analyzes various fees related to deposit accounts, including service charges, NSF and overdraft fees, and ATM and debit card fees. Based on these analyses, the Corporation makes any necessary adjustments to ensure that its fee structure is within the range of its competitors, while at the same time making sure that the fees remain fair to deposit customers. Management does not expect significant changes to its deposit fee structure in 2008.

The increases in ATM and debit card fees are primarily the result of the increased usage of debit cards by the Bank s customers. Management expects ATM and debit card fees to approximate current levels for the remainder of the year.

The decline in net OMSR (originated mortgage servicing rights) income for the first nine months of 2008 was the result of increases in amortization expense. This increase in amortization was the result of the estimated lives on the mortgage loans serviced decreasing, which was driven by decreases in the rates offered on new loans in the later part of the first quarter 2008. This temporary decline in rates also helped increase the gain on sale of mortgage loans. However, towards the end of the second quarter of 2008, rates began to increase which resulted in an increase in net OMSR income when the three month period ended September 30, 2008 is compared to the same period in 2007.

Title insurance fees have decreased as a result of IBT Title and Insurance Agency s merger with Corporate Title on March 1, 2008 (See Note 2 of Notes to Condensed Consolidated Financial Statements).

Net gains from trading activities have declined significantly from last year. In fact, exclusive of the effects of the merger with GCFC, through September 30, 2008, the Corporation had recorded net trading losses of $31, which is a $294 decrease from the prior year. The majority of losses on trading securities were incurred in the second quarter and were primarily related to municipal investment securities. The reason for the large declines in value in this sector was related to the downgrading of the two largest bond insurers from AAA to AA in June 2008. These downgrades caused the market to demand higher returns on insured bonds, which has resulted in declines in the value of the Corporation s municipal bond portfolio, as the majority of the portfolio is insured. Offsetting the losses on trading securities were gains on other borrowings carried at fair market value as there is an inverse relationship between the changes in the value of investments and borrowings.

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The increase in income from corporate owned life insurance policies was caused by the re-evaluation of the policies due to a change in record keepers, the purchase of additional policies, and $60 in death benefit proceeds received in the third quarter of 2008.

The first nine months of 2008 have been outstanding months for brokerage and advisory services income, and some of the most productive months in the Corporation s history. These results are due to an increase in customer base and a conscious effort by management to expand the Bank s presence in the local market. The Corporation anticipates this trend to continue throughout the rest of the year.

Losses on sales of available for sale investment securities were incurred by the Corporation in the first quarter of 2007. This was a result of the Corporation selling investments nearing maturity at low interest rates and reinvesting the proceeds in higher yielding longer term securities as part of asset and liability management. The additional interest income earned upon the reinvestment of the proceeds exceeded the losses recognized in the fourth quarter of 2007.

Noninterest Expenses

Noninterest expenses include compensation, occupancy, furniture and equipment, and other expenses. Significant account balances are highlighted in the accompanying tables with additional descriptions of significant fluctuations:

	Three Months Ended September 30					
	2008			2007	Adjusted Change	
	Consolidated	GCFC	Adjusted w/o GCFC	Consolidated	$	%
Compensation						
Leased employee salaries	$ 3,025	$ 254	$ 2,771	$ 2,869	$ (98)	-3.4%
Leased employee benefits	1,071	82	989	1,023	(34)	-3.3%
All other	60	13	47	41	6	14.6%
Total compensation	**4,156**	**349**	**3,807**	**3,933**	**(126)**	**-3.2%**
Occupancy						
Depreciation	126	15	111	111		0.0%
Outside services	119	18	101	67	34	50.7%
Property taxes	104	9	95	93	2	2.2%
Utilities	96	7	89	81	8	9.9%
Building repairs	56	6	50	58	(8)	-13.8%
All other	11	3	8	30	(22)	-73.3%
Total occupancy	**512**	**58**	**454**	**440**	**14**	**3.2%**
Furniture and equipment						
Depreciation	419	28	391	383	8	2.1%
Computer costs	375	16	359	330	29	8.8%
ATM and debit card	161	4	157	112	45	40.2%
All other	4		4	16	(12)	-75.0%
Total furniture and equipment	**959**	**48**	**911**	**841**	**70**	**8.3%**
Other						
	84	2	82	50	32	64.0%

Audit and SOX compliance fees						
Marketing	140	17	123	171	(48)	-28.1%
Directors fees	221	26	195	203	(8)	-3.9%
Printing and supplies	191	7	184	108	76	70.4%
Education and travel	109	11	98	78	20	25.6%
Postage and freight	145	3	142	110	32	29.1%
All other	913	121	792	1,061	(269)	-25.4%
Total other	**1,803**	**187**	**1,616**	**1,781**	**(165)**	**-9.3%**
Total noninterest expenses	**$ 7,430**	**$ 642**	**$ 6,788**	**$ 6,995**	**$ (207)**	**-3.0%**

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	Nine Months Ended September 30					
	2008			2007	Adjusted Change	
	Consolidated	GCFC	Adjusted w/o GCFC	Consolidated	$	%
Compensation						
Leased employee salaries	$ 9,178	$ 844	$ 8,334	$ 8,466	$ (132)	-1.6%
Leased employee benefits	3,330	265	3,065	3,163	(98)	-3.1%
All other	185	41	144	121	23	19.0%
Total compensation	**12,693**	**1,150**	**11,543**	**11,750**	**(207)**	**-1.8%**
Occupancy						
Depreciation	378	47	331	335	(4)	-1.2%
Outside services	358	76	282	244	38	15.6%
Property taxes	335	25	310	276	34	12.3%
Utilities	286	20	266	261	5	1.9%
Building repairs	133	14	119	126	(7)	-5.6%
All other	43	5	38	87	(49)	-56.3%
Total occupancy	**1,533**	**187**	**1,346**	**1,329**	**17**	**1.3%**
Furniture and equipment						
Depreciation	1,230	76	1,154	1,136	18	1.6%
Computer costs	1,156	192	964	994	(30)	-3.0%
ATM and debit card	418	12	406	322	84	26.1%
All other	25	5	20	52	(32)	-61.5%
Total furniture and equipment	**2,829**	**285**	**2,544**	**2,504**	**40**	**1.6%**
Other						
Audit and SOX compliance fees	323	8	315	345	(30)	-8.7%
Marketing	579	44	535	527	8	1.5%
Directors fees	670	76	594	596	(2)	-0.3%
Printing and supplies	416	23	393	307	86	28.0%
Education and travel	319	38	281	317	(36)	-11.4%
Postage and freight	387	24	363	336	27	8.0%
All other	2,578	367	2,211	2,621	(410)	-15.6%
Total other	**5,272**	**580**	**4,692**	**5,049**	**(357)**	**-7.1%**
Total noninterest expenses	**$ 22,327**	**$ 2,202**	**$ 20,125**	**$ 20,632**	**$ (507)**	**-2.5%**

Leased employee salaries and benefit expenses have decreased as a result of the new joint venture entered into during the first quarter of 2008 (See Note 2) as well as from the Corporation curtailing its defined benefit pension plan in 2007. Exclusive of the effects of this joint venture, leased employee salaries and benefit expenses have increased due to annual merit increases and the continued growth of the Corporation. Management believes that leased employee salary and benefit expenses will approximate current levels for the remainder of 2008.

Exclusive of the increase in property taxes and ATM and debit card expenses; occupancy expenses and furniture and equipment expenses have decreased since 2007. These decreases are a result of IBT Title and Insurance Agency s merger with Corporate Title, Inc. on March 1, 2008 (See Note 2 of Notes to Condensed Consolidated Financial Statements). ATM and debit card expenses have increased as the result of increased usage of debit cards by the Bank s customers.

The increase in property taxes is related to the Corporation purchasing two new locations as well as increases in the taxable value of other branch locations due to improvements. Property taxes are anticipated to approximate current levels for the remainder of 2008.

Management has been diligently working to decrease audit and Sarbanes Oxley (SOX) compliance fees through improved efficiencies. These fees have steadily declined over the past few years as a result of the centralization of corporate processes.

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Marketing expenses include costs incurred to develop a new brand for the Corporation, which was publically presented in April 2008. Marketing expenses are expected to remain at current levels for the remainder of the year. Printing and supplies have increased primarily as a result of the Bank and Corporation s new branding. As a result of implementing this new brand, the Corporation purchased new business cards, stationary, banking tickets, as well as other supply related items.

The Corporation places a strong emphasis on continuing education for its employees as it is believed that an investment in employees today will pay dividends for years to come. These educational programs help provide team members with a competitive edge in the market place. During the first three months of 2007, the Corporation offered structured leadership training to its employees. This program was designed to help develop and optimize the communication skills of its participants. A leadership training class started during the third quarter of 2008, which contributed to the increase in expenses during the third quarter of 2008 when compared to 2007.

All other expenses include consulting fees, legal fees, title insurance expenses, as well as other miscellaneous expenses. The declines in all other expenses was the result of the new joint venture entered into during the first quarter of 2008 (See Note 2) as well as the fact that in August of 2007, the Corporation paid $119 to be released from Farwell s core software service provider. The other declines were the result of management s diligence in monitoring and controlling expenditures.

ANALYSIS OF CHANGES IN FINANCIAL CONDITION

	September 30 2008	December 31 2007	$ Change	% Change (unannualized)
ASSETS				
Cash and demand deposits due from banks	$ 23,831	$ 25,583	$ (1,752)	-6.8%
Trading securities	22,628	25,064	(2,436)	-9.7%
Securities available for sale	231,821	213,127	18,694	8.8%
Mortgage loans available for sale	706	2,214	(1,508)	-68.1%
Loans	730,863	612,687	118,176	19.3%
Allowance for loan losses	(8,797)	(7,301)	(1,496)	20.5%
Bank premises and equipment	22,176	22,516	(340)	-1.5%
Equity securities without readily determinable fair values	15,930	7,353	8,577	116.6%
Other assets	84,137	56,039	28,098	50.1%
TOTAL ASSETS	**$ 1,123,295**	**$ 957,282**	**$ 166,013**	**17.3%**
LIABILITIES AND SHAREHOLDERS EQUITY				
Liabilities				
Deposits	$ 818,986	$ 733,473	$ 85,513	11.7%
Other borrowed funds	156,991	92,887	64,104	69.0%
Escrow funds payable		1,912	(1,912)	-100.0%
Accrued interest and other liabilities	6,798	5,930	868	14.6%
Total liabilities	**982,775**	**834,202**	**148,573**	**17.8%**
Shareholders equity	**140,520**	**123,080**	**17,440**	**14.2%**
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	**$ 1,123,295**	**$ 957,282**	**$ 166,013**	**17.3%**

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Excluding the effects of the GCFC merger:

	September 30 2008 (w/o GCFC)	December 31 2007	$ Change	% Change (unannualized)
ASSETS				
Cash and demand deposits due from banks	$ 17,565	$ 25,583	$ (8,018)	-31.3%
Trading securities	22,628	25,064	(2,436)	-9.7%
Securities available for sale	222,885	213,127	9,758	4.6%
Mortgage loans available for sale	706	2,214	(1,508)	-68.1%
Loans	642,735	612,687	30,048	4.9%
Allowance for loan losses	(7,831)	(7,301)	(530)	7.3%
Bank premises and equipment	20,132	22,516	(2,384)	-10.6%
Equity securities without readily determinable fair values	15,930	7,353	8,577	116.6%
Other assets	56,151	56,039	112	0.2%
TOTAL ASSETS	**$ 990,901**	**$ 957,282**	**$ 33,619**	**3.5%**
LIABILITIES AND SHAREHOLDERS EQUITY				
Liabilities				
Deposits	$ 728,561	$ 733,473	$ (4,912)	-0.7%
Other borrowed funds	138,020	92,887	45,133	48.6%
Escrow funds payable		1,912	(1,912)	-100.0%
Accrued interest and other liabilities	6,452	5,930	522	8.8%
Total liabilities	**873,033**	**834,202**	**38,831**	**4.7%**
Shareholders equity	**117,868**	**123,080**	**(5,212)**	**-4.2%**
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	**$ 990,901**	**$ 957,282**	**$ 33,619**	**3.5%**

The increase in securities available for sale is related to purchases of mortgage backed securities, which are issued by US Government sponsored agencies.

The large increase in equity securities without readily determinable fair values was the result of the merger between IBT Title and Insurance Agency and Corporate Title Agency, LLC (see Note 2 of Notes to Condensed Consolidated Financial Statements). As a result of this transaction, the Corporation is now recording its investment in the new entity as a joint venture under the equity method of accounting. As of September 30, 2008, the Corporation had an investment recorded in the amount of $7,064.

The proceeds from other borrowed funds was used to help fund common stock repurchases of $6,440 and a $2,500 investment in CT/IBT Title as part of the joint venture agreement. The remainder of the funds were used to purchase investment securities and fund loan growth. The balance in other borrowed funds fluctuates based on the Corporation s funding needs. Management does not anticipate that other borrowed funds will fluctuate significantly during the fourth quarter of 2008.

The majority of the decrease in premises and equipment and escrow funds payable are a result of the merger of assets and liabilities between IBT Title and Insurance Agency and Corporate Title Agency, LLC (see Note 2 of Notes to Condensed Consolidated Financial Statements), resulting in a reduction in such assets and liabilities.

The decline in shareholders equity is primarily related to the Corporation repurchasing and retiring $6,440 of its common stock during the first nine months of 2008 pursuant to its previously announced repurchase program.

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The following table outlines the changes in the loan portfolio:

	September 30 2008	December 31 2007	$ Change	% Change (unannualized)
Commercial	$ 312,560	$ 238,306	$ 74,254	31.2%
Agricultural	60,750	47,407	13,343	28.1%
Residential real estate mortgage	323,431	297,937	25,494	8.6%
Installment	34,122	29,037	5,085	17.5%
Total gross loans	**$ 730,863**	**$ 612,687**	**$ 118,176**	**19.3%**

Excluding the effects of the GCFC merger:

	September 30 2008	December 31 2007	$ Change	% Change (unannualized)
Commercial	$ 269,451	$ 238,306	$ 31,145	13.1%
Agricultural	59,643	47,407	12,236	25.8%
Residential real estate mortgage	286,058	297,937	(11,879)	-4.0%
Installment	27,583	29,037	(1,454)	-5.0%
Total gross loans	**$ 642,735**	**$ 612,687**	**$ 30,048**	**4.9%**

As shown in the above table, management has been successful in increasing the commercial and agricultural loan portfolios and this trend is expected to continue throughout 2008.

Exclusive of the effects of the GCFC merger, residential real estate mortgage loans have declined as a result of the continued soft mortgage market in Michigan and management expects this trend to continue. Excluding the effects of the GCFC merger, the installment loan portfolio has been steadily decreasing over the past few years as a result of increased competition. Management anticipates the installment loan portfolio to remain stable throughout the remainder of 2008.

The following table outlines the changes in the deposit portfolio:

	September 30 2008	December 31 2007	$ Change	% Change (unannualized)
Noninterest bearing demand deposits	$ 96,199	$ 84,846	$ 11,353	13.4%
Interest bearing demand deposits	115,099	105,526	9,573	9.1%
Savings deposits	222,279	196,682	25,597	13.0%
Certificates of deposit	341,685	311,976	29,709	9.5%
Brokered certificates of deposit	30,956	28,197	2,759	9.8%
Internet certificates of deposit	12,768	6,246	6,522	104.4%
Total	**$ 818,986**	**$ 733,473**	**$ 85,513**	**11.7%**

Excluding the effects of the Greenville merger:

	September 30 2008	December 31 2007	$ Change	% Change (unannualized)
Noninterest bearing demand deposits	$ 84,140	$ 84,846	$ (706)	-0.8%
Interest bearing demand deposits	103,086	105,526	(2,440)	-2.3%
Savings deposits	211,911	196,682	15,229	7.7%
Certificates of deposit	302,700	311,976	(9,276)	-3.0%
Brokered certificates of deposit	21,956	28,197	(6,241)	-22.1%
Internet certificates of deposit	4,768	6,246	(1,478)	-23.7%
Total	**$ 728,561**	**$ 733,473**	**$ (4,912)**	**-0.7%**

As shown in the preceding table total deposits have declined slightly since year end, excluding the effects of the GCFC merger. While deposits as a whole have declined slightly, savings deposits have increased as a result of increased customer demand for money market products. Local, brokered, and internet certificate of deposit rates have increased in relation to other sources of funding, especially for deposits secured through repurchase agreements and Federal Home Loan Bank (FHLB) borrowings. As a result, the Corporation is currently using borrowed funds for loan growth and other funding needs.

Capital

The capital of the Corporation consists solely of common stock, capital surplus, retained earnings, and accumulated other comprehensive loss. The Corporation offers dividend reinvestment and employee and director stock purchase plans. Under the provisions of these plans, the Corporation issued 63,028 shares or $1,610 of common stock during the first nine months of 2008, as compared to 43,252 shares or $1,470 of common stock as of the same period in 2007. The Corporation also offers share-based payment awards through its equity compensation plan. Pursuant to this plan, the Corporation increased common stock by $321 and $621 during the nine month periods ending September 30, 2008 and 2007, respectively.

In October 2002, the Board of Directors authorized management to repurchase up to $2,000 in dollar value of the Corporation s common stock. In March 2007, the Board of Directors amended this plan which allowed for the repurchase of up to 150,000 of additional shares. In May and July 2008 they further amended the plan to allow for the repurchase of an additional 25,000 and 5,000 shares, respectively. During the first nine months of 2008 and 2007, pursuant to these plans, the Corporation repurchased 148,336 shares of common stock at an average price of $43.41 and 41,428 shares of common stock at an average price of $43.47, respectively.

Accumulated other comprehensive loss increased $2,568 for the nine month period ended September 30, 2008, net of tax, and is a result of a unrealized losses on available-for-sale investment securities, of which a substantial portion was related to a significant decline in the value of the Corporation s municipal bond portfolio as well as auction rate money market preferred securities. One of the factors contributing to decline in municipal bond portfolio was related to the downgrading of the two largest bond insurers from AAA to AA in June 2008. These downgrades have caused the market to demand higher returns on insured bonds, which has resulted in declines in the value of the Corporation s municipal bond portfolio, as the majority of the portfolio is insured. Further unrealized losses were observed as a result of the overall decline in the economic markets toward the end of the third quarter of 2008. The declines in value of the Corporation s auction rate money market preferred securities was the result of the current illiquidity of these securities. However, it is the Corporation s intention to hold these securities until maturity. Management has reviewed the credit quality of its bond portfolio and believes that there are no losses that are other than temporary.

There are no significant regulatory constraints placed on the Corporation s capital. The Federal Reserve Board s current recommended minimum primary capital to assets requirement is 6.0%. The Corporation s primary capital to adjusted average assets, which consists of shareholders equity plus the allowance for loan losses less acquisition intangibles, was 9.60% as of September 30, 2008. There are no commitments for significant capital expenditures during the fourth quarter of 2008.

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The Federal Reserve Board has established a minimum risk based capital standard. Under this standard, 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%, of which at least 4% must consist of equity capital net of goodwill. The following table sets forth the percentages required under the Risk Based Capital guidelines and the Corporation s values at September 30, 2008:

Percentage of Capital to Risk Adjusted Assets

	Isabella Bank Corporation September 30, 2008	
	Required	Actual
Equity Capital	4.00%	13.01%
Secondary Capital	4.00%	1.25%
Total Capital	8.00%	14.26%

Isabella Bank Corporation s secondary capital includes only the allowance for loan losses. The percentage for the secondary capital under the required column is the maximum amount allowed from all sources.

The Federal Reserve and FDIC also prescribe minimum capital requirements for the Corporation s subsidiary Bank. At September 30, 2008, the Bank exceeded these minimum capital requirements. On October 14, 2008, the U.S. Treasury Department (the Treasury) announced a Capital Purchase Program and is encouraging non troubled financial institutions to participate. Under the Treasury s proposal, the participating institutions would issue 5.0% senior preferred stock, which the Treasury would buy. The Treasury feels that this program will increase banks abilities to lend to both consumers, as well as each other. The Corporation is currently evaluating whether or not to participate in the program.

Liquidity

The primary sources of the Corporation s liquidity are cash and demand deposits due from banks, trading securities, and available-for-sale securities. These categories totaled $272,280 or 24.8% of assets as of September 30, 2008 as compared to $263,774 or 27.6% as of December 31, 2007. 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.

Operating activities provided $17,174 of cash in the first nine months of 2008, as compared to $54,805 during the same period in 2007. The reduction in cash provided by operating activities, when the first nine months of 2008 are compared to 2007, was the result of the Corporation reducing its trading portfolio by $7,393 in 2008 as compared to $48,040 in 2007. Net cash provided by financing activities equaled $46,530 and $6,952 in the nine month periods ended September 30, 2008 and 2007, respectively and was primarily the result of increase in other borrowed funds during 2008. The Corporation s investing activities used cash amounting to $65,456 in the first nine months of 2008 and $69,589 in the same period in 2007. The accumulated effect of the Corporation s operating, investing, and financing activities used cash aggregating $1,752 and $7,832 in the nine months ended September 30, 2008 and 2007, respectively.

Historically, the primary source of funds for the Bank has been deposits. The Bank emphasizes interest-bearing time deposits as part of its funding strategy. The Bank also seeks noninterest bearing deposits, or checking accounts, which reduce the Bank s cost of funds in an effort to expand the customer base. However, as the competition for core deposits continues to increase, the Corporation has become more dependent on borrowings and other noncore funding sources to fund its growth.

In addition to these primary sources of liquidity, the Corporation has the ability to borrow in the federal funds market and at both the Federal Reserve Bank and the Federal Home Loan Bank, some obligations of which have been reported at fair value to mitigate the Corporation s interest rate risk. The Corporation s liquidity is considered adequate by the management of the Corporation. The acquisition of Greenville Community Financial Corporation (see Note 2 of Notes to Condensed Consolidated Financial Statements) did not materially affect the Corporation s liquidity.

FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET ARRANGEMENTS

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

The Corporation s exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. The Corporation uses the same credit policies in deciding to make these commitments as it does for extending loans to customers.

Commitments to extend credit, which include unfunded commitments to grant loans and unfunded commitments under lines of credit, totaled $136,562 at September 30, 2008. Commitments generally have variable interest rates, fixed expiration dates, or other termination clauses and may require the payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Standby letters of credit are conditional commitments issued by the Corporation 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. At September 30, 2008, the Corporation had a total of $5,873 in outstanding standby letters of credit.

Generally, 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. The Corporation evaluates each customer s credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon the extension of credit, is based on management s credit evaluation of the borrower. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and other income producing commercial properties.

Isabella Bank , a subsidiary of the Corporation, sponsors the IBT Foundation (the Foundation), which is a nonprofit entity formed for the purpose of distributing charitable donations to recipient organizations generally located in the communities serviced by Isabella Bank. The Bank periodically makes charitable contributions in the form of cash transfers to the Foundation. The Foundation is administered by members of the Corporation s Board of Directors. The assets and transactions of the Foundation are not included in the consolidated financial statements of the Corporation. The assets of the Foundation as of September 30, 2008 were $917.

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. The Corporation intends 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 is including 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 of the Corporation, are generally identifiable by use of the words believe, expect, intend, anticipate, estimate, project, or similar expressions. The Corporation s 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 of the Corporation and its subsidiaries include, but are not limited to, changes in: interest rates, general economic conditions, legislative/regulatory changes, monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board, 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 the Corporation s 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 the Corporation and its business, including additional factors that could materially affect the Corporation s financial results, is included in the Corporation s filings with the Securities and Exchange Commission.

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Item 3 Quantitative and Qualitative Disclosures about Market Risk

The Corporation s primary market risks are interest rate risk and, to a lesser extent, liquidity risk. The Corporation has very limited foreign exchange risk and does not utilize interest rate swaps or derivatives in the management of its interest rate risk. The Corporation does have a significant amount of loans extended to borrowers involved in agricultural production. Cash flow and ability to service debt of such customers is largely dependent on growing conditions and the commodity prices for corn, soybeans, sugar beets, milk, beef and a variety of dry beans. The Corporation mitigates these risks by using conservative price and production yields when calculating a borrower s available cash flow to service their debt.

Interest rate risk (IRR) is the exposure to the Corporation s net interest income, its primary source of 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. Interest rate risk is the fundamental method by which financial institutions earn income and create shareholder value. Excessive exposure to interest rate risk could pose a significant risk to the Corporation s earnings and capital.

The Federal Reserve, the Corporation s primary Federal regulator, has adopted a policy requiring the Board of Directors and senior management to effectively manage the various risks that can have a material impact on the safety and soundness of the Corporation. The risks include credit, interest rate, liquidity, operational, and reputational. The Corporation has policies, procedures and internal controls for measuring and managing these risks. Specifically, the IRR 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 the Board of Directors.

The Corporation uses two main techniques to manage interest rate risk. The first method is gap analysis. Gap analysis measures the cash flows and/or the earliest repricing of the Corporation s 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 imbedded repricing options contained in assets and liabilities. A substantial portion of the Corporation s assets are invested in loans and investment securities. These assets have imbedded options that allow the borrower to repay the balance prior to maturity without penalty. The amount of prepayments is dependent upon many factors, including the interest rate of a given loan in comparison to the current interest rates; for residential mortgages 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 the Corporation s cash flows from these assets. Investment securities, other than those that are callable, do not have any significant imbedded options. Savings and checking deposits may generally be withdrawn on request without prior notice. The timing of cash flow from these deposits is estimated based on historical experience. Time deposits have penalties which discourage early withdrawals. Cash flows may vary based on current offering rates, competition, customer need for deposits, and overall economic activity. As noted above, the Corporation has reclassified a portion of its investment portfolio and its borrowings into trading accounts. Management feels that these practices help it mitigate the volatility of the current interest rate environment.

The second technique used in the management of interest rate risk is to combine the projected cash flows and repricing characteristics generated by the gap analysis and the interest rates associated with those cash flows and projected future interest income. By changing the amount and timing of the cash flows and the repricing interest rates of those cash flows, the Corporation can project the effect of changing interest rates on its interest income.

The following table provides information about the Corporation s assets and liabilities that are sensitive to changes in interest rates as of September 30, 2008. The Corporation has no interest rate swaps, futures contracts, or other derivative financial options, except for derivative loan commitments, which are not significant. The principal amounts of assets and time deposits maturing were calculated based on the contractual maturity dates. Savings and NOW accounts are based on management s estimate of their future cash flows.

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(dollars in thousands)	September 30, 2008							Fair Value
	2009	2010	2011	2012	2013	Thereafter	Total	09/30/08
Rate sensitive assets								
Other interest bearing assets	$ 786	$	$	$	$	$	$ 786	$ 786
Average interest rates	1.65%						1.65%	
Trading securities	10,203	4,150	2,951	3,001	1,076	1,247	$ 22,628	$ 22,628
Average interest rates	1.84%	3.70%	3.88%	3.62%	3.63%	3.37%	2.85%	
Fixed interest rate securities	79,220	18,923	11,024	6,046	11,476	105,132	$231,821	$231,821
Average interest rates	5.24%	4.97%	4.17%	4.31%	3.78%	3.90%	4.46%	
Fixed interest rate loans	135,251	105,328	109,692	76,189	81,263	53,822	$561,545	$565,930
Average interest rates	6.67%	6.87%	6.90%	7.17%	6.65%	6.19%	6.77%	
Variable interest rate loans	70,005	30,614	16,820	9,685	23,387	18,807	$169,318	$169,318
Average interest rates	5.58%	6.15%	7.29%	7.25%	7.02%	4.90%	6.07%	
Rate sensitive liabilities								
Borrowed funds	28,766	29,000	32,225	17,000	15,000	35,000	$156,991	$204,595
Average interest rates	3.05%	4.45%	4.06%	4.37%	3.59%	4.58%	4.05%	
Savings and NOW accounts	150,261	69,654	75,594	26,662	8,607	6,600	$337,378	$337,378
Average interest rates	1.40%	0.48%	0.45%	0.61%	1.28%	2.33%	0.95%	
Fixed interest rate time deposits	232,944	70,998	30,385	26,035	21,447	1,782	$383,591	$385,044
Average interest rates	3.61%	4.32%	4.52%	4.72%	4.22%	4.44%	3.93%	
Variable interest rate time deposits	1,299	515	4	0	0	0	$ 1,818	$ 1,818
Average interest rates	2.81%	2.37%	2.37%	0.00%	0.00%	0.00%	2.68%	

	September 30, 2007							Fair Value
	2008	2009	2010	2011	2012	Thereafter	Total	09/30/07
Rate sensitive assets								
Other interest bearing assets	$ 1,959	$	$	$	$	$	$ 1,959	$ 1,959
Average interest rates	4.78%						4.78%	
	$ 12,696	$ 2,433	$ 3,468	$ 2,576	$ 3,143	$ 5,746	$ 30,062	$ 30,062

Trading securities								
Average interest rates	4.91%	5.75%	4.82%	4.81%	3.77%	3.67%	4.60%	
Fixed interest rate securities	$ 73,223	$ 10,144	$ 7,991	$10,124	$ 8,180	$73,321	$182,983	$182,983
Average interest rates	5.17%	4.78%	4.88%	4.30%	5.36%	3.84%	4.56%	
Fixed interest rate loans	$118,354	$102,097	$98,443	$81,327	$65,302	$57,601	$523,124	$525,639
Average interest rates	6.70%	6.57%	6.84%	7.06%	7.31%	6.49%	6.81%	
Variable interest rate loans	$ 41,870	$ 14,848	$16,974	$ 4,051	$ 5,602	$ 3,717	$ 87,062	$ 87,062
Average interest rates	8.58%	8.35%	8.35%	7.98%	7.76%	7.65%	8.38%	
Rate sensitive liabilities								
Borrowed funds	$ 13,577	$ 11,500	$17,000	$ 3,000	$12,000	$10,000	$ 67,077	$ 66,632
Average interest rates	5.12%	4.59%	4.81%	4.98%	4.49%	4.84%	4.79%	
Savings and NOW accounts	$147,194	$ 66,724	$63,080	$20,658	$ 4,264	$	$301,920	$301,920
Average interest rates	3.48%	1.17%	0.75%	0.67%			2.16%	
Fixed interest rate time deposits	$216,904	$ 39,740	$42,882	$21,044	$23,531	$ 244	$344,345	$345,938
Average interest rates	4.69%	4.44%	4.59%	4.70%	4.85%	5.03%	4.66%	
Variable interest rate time deposits	$ 1,389	$ 645	$	$	$	$	$ 2,034	$ 2,034
Average interest	4.29%	4.49%					4.35%	

rates

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Item 4 Controls and Procedures

DISCLOSURE CONTROLS AND PROCEDURES

The Corporation s management 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 the Corporation s disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15(d)-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)) as of September 30, 2008, pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that the Corporation s disclosure controls and procedures as of September 30, 2008, were effective to ensure that information required to be disclosed by the Corporation in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

During the most recent fiscal quarter, no change occurred in the Corporation s internal control over financial reporting that materially affected, or is likely to materially effect, the Corporation s internal control over financial reporting. The Corporation is currently evaluating what changes, if any, might be necessary in internal control arising as a result of the January 1, 2008 acquisition of Greenville Community Financial Corporation.

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PART II OTHER INFORMATION

Item 1 Legal Proceedings

The Corporation is not involved in any material legal proceedings. The Corporation and the Bank are involved in ordinary, routine litigation incidental to its business, however, no such routine proceedings are expected to result in any material adverse effect on our operations, earnings, or financial condition.

Item 1A Risk Factors

There have been no material changes to the risk factors disclosed in Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2007.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

(A) None

(B) None

(C) Repurchases of Common Stock

On March 22, 2007, the Board of Directors adopted a repurchase plan which allows for the repurchase of up to 150,000 shares of the Corporation s common stock. This plan was amended in May 2008 to allow for the repurchase of an additional 25,000 shares. The plan was further amended to allow for an additional 5,000 shares to be repurchased in July 2008. 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. The following table provides information for the three month period ended September 30, 2008, with respect to this 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 Plan or Program
	Number	Average Price Per Share		
Balance, June 30 2008				541
July 1-23, 2008		$		541
Additional Authorization				5,541
July 24-31, 2008	4,497	40.43	4,497	1,044
August 1 - 31, 2008				1,044
September 1 - 30, 2008				1,044
Balance, September 30 2008	4,497	$ 40.43	4,497	1,044

Item 6 Exhibits

(a) Exhibits

31(a) Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Principal Executive Officer

31(b) Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Principal Financial Officer

32 Section 1350 Certification of Principal Executive Officer and Principal Financial Officer

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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

Date: November 5, 2008

/s/ Dennis P. Angner
Dennis P. Angner
Chief Executive Officer

/s/ Peggy L. Wheeler
Peggy L. Wheeler
Principal Financial Officer