ISABELLA BANK CORP
Form 10-Q
November 08, 2011
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.**
For the quarterly period ended September 30, 2011

or

¨ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.**
For the transition period from to

Commission File Number: 0-18415

Isabella Bank Corporation

(Exact name of registrant as specified in its charter)

Michigan **(State or other jurisdiction of** **incorporation or organization)**	**38-2830092** **(I.R.S. Employer** **identification No.)**
401 N. Main St, Mt. Pleasant, MI **(Address of principal executive offices)**	**48858** **(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. x Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of accelerated filer , large accelerated filer , and smaller reporting company , in Rule 12b-2 of the Exchange Act (Check One).

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes x 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, 7,579,705 as of October 21, 2011

ISABELLA BANK CORPORATION

QUARTERLY REPORT ON FORM 10-Q

Table of Contents

Table of Contents

PART I FINANCIAL INFORMATION

Item 1 Interim Condensed Consolidated Financial Statements (Unaudited)

INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(Dollars in thousands)

	September 30 2011	December 31 2010
ASSETS		
Cash and cash equivalents		
Cash and demand deposits due from banks	$ 20,323	$ 16,978
Interest bearing balances due from banks	898	1,131
Total cash and cash equivalents	**21,221**	**18,109**
Certificates of deposit held in other financial institutions	9,649	15,808
Trading securities	4,886	5,837
Available-for-sale securities (amortized cost of $404,540 in 2011 and $329,435 in 2010)	415,879	330,724
Mortgage loans available-for-sale	2,976	1,182
Loans		
Agricultural	75,399	71,446
Commercial	362,316	348,852
Installment	31,789	30,977
Residential real estate mortgage	280,659	284,029
Total loans	**750,163**	**735,304**
Less allowance for loan losses	12,373	12,373
Net loans	**737,790**	**722,931**
Premises and equipment	24,294	24,627
Corporate owned life insurance	21,894	17,466
Accrued interest receivable	6,523	5,456
Equity securities without readily determinable fair values	17,093	17,564
Goodwill and other intangible assets	46,862	47,091
Other assets	15,026	19,015
TOTAL ASSETS	**$ 1,324,093**	**$ 1,225,810**
LIABILITIES AND SHAREHOLDERS EQUITY		
Deposits		
Noninterest bearing	$ 120,433	$ 104,902
NOW accounts	155,311	142,259
Certificates of deposit under $100 and other savings	439,504	425,981
Certificates of deposit over $100	227,193	204,197
Total deposits	**942,441**	**877,339**
Borrowed funds ($5,264 in 2011 and $10,423 in 2010 at fair value)	216,888	194,917
Accrued interest payable and other liabilities	9,185	8,393
Total liabilities	**1,168,514**	**1,080,649**

Shareholders equity		
Common stock - no par value 15,000,000 shares authorized; issued and outstanding 7,578,257 (including 37,433 shares held in the Rabbi Trust) in 2011 and 7,550,074 (including 32,686 shares held in the Rabbi Trust) in 2010	134,002	133,592
Shares to be issued for deferred compensation obligations	4,914	4,682
Retained earnings	11,764	8,596
Accumulated other comprehensive income (loss)	4,899	(1,709)
Total shareholders equity	**155,579**	**145,161**
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	**$ 1,324,093**	**$ 1,225,810**

See notes to interim condensed consolidated financial statements.

Table of Contents

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(UNAUDITED)

(Dollars in thousands except per share data)

	Common Stock Shares Outstanding	Common Stock	Shares to be Issued for Deferred Compensation Obligations	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Totals
Balance, January 1, 2010	**7,535,193**	**$ 133,443**	**$ 4,507**	**$ 4,972**	**$ (2,119)**	**$ 140,803**
Comprehensive income				6,727	4,095	10,822
Issuance of common stock	90,068	2,067				2,067
Common stock issued for deferred compensation obligations	26,898	537	(448)			89
Share based payment awards under equity compensation plan			502			502
Common stock purchased for deferred compensation obligations		(404)				(404)
Common stock repurchased pursuant to publicly announced repurchase plan	(119,300)	(2,219)				(2,219)
Cash dividends ($0.54 per share)				(4,064)		(4,064)
Balance, September 30, 2010	**7,532,859**	**$ 133,424**	**$ 4,561**	**$ 7,635**	**$ 1,976**	**$ 147,596**
Balance, January 1, 2011	**7,550,074**	**$ 133,592**	**$ 4,682**	**$ 8,596**	**$ (1,709)**	**$ 145,161**
Comprehensive income				7,499	6,608	14,107
Issuance of common stock	90,049	1,891				1,891
Common stock issued for deferred compensation obligations	14,842	266	(254)			12
Share based payment awards under equity compensation plan			486			486
Common stock purchased for deferred compensation obligations		(356)				(356)
Common stock repurchased pursuant to publicly announced repurchase plan	(76,708)	(1,391)				(1,391)
Cash dividends ($0.57 per share)				(4,331)		(4,331)
Balance, September 30, 2011	**7,578,257**	**$ 134,002**	**$ 4,914**	**$ 11,764**	**$ 4,899**	**$ 155,579**

See notes to interim condensed consolidated financial statements.

Table of Contents

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

(Dollars in thousands except per share data)

	Three Months Ended September 30 2011	Three Months Ended September 30 2010	Nine Months Ended September 30 2011	Nine Months Ended September 30 2010
Interest income				
Loans, including fees	$ 11,365	$ 11,769	$ 34,190	$ 34,937
Investment securities				
Taxable	1,800	1,288	5,149	3,913
Nontaxable	1,201	1,070	3,569	3,243
Trading account securities	45	60	143	251
Federal funds sold and other	121	119	388	333
Total interest income	**14,532**	**14,306**	**43,439**	**42,677**
Interest expense				
Deposits	2,725	2,888	8,286	8,645
Borrowings	1,345	1,408	3,938	4,342
Total interest expense	**4,070**	**4,296**	**12,224**	**12,987**
Net interest income	**10,462**	**10,010**	**31,215**	**29,690**
Provision for loan losses	963	968	2,383	3,231
Net interest income after provision for loan losses	**9,499**	**9,042**	**28,832**	**26,459**
Noninterest income				
Service charges and fees	1,341	1,576	4,434	4,698
Gain on sale of mortgage loans	111	178	293	345
Net (loss) gain on trading securities	(24)	2	(51)	(36)
Net gain on borrowings measured at fair value	42	43	159	96
Gain on sale of available-for-sale investment securities		292		348
Other	389	543	950	1,220
Total noninterest income	**1,859**	**2,634**	**5,785**	**6,671**
Noninterest expenses				
Compensation and benefits	4,814	4,685	14,565	13,845
Occupancy	633	606	1,892	1,725
Furniture and equipment	1,151	1,118	3,384	3,231
FDIC insurance premiums	209	312	874	931
Other	1,706	1,899	5,164	5,517
Total noninterest expenses	**8,513**	**8,620**	**25,879**	**25,249**
Income before federal income tax expense	**2,845**	**3,056**	**8,738**	**7,881**
Federal income tax expense	334	503	1,239	1,154

NET INCOME	**$ 2,511**	**$ 2,553**	**$ 7,499**	**$ 6,727**
Earnings per share				
Basic	**$ 0.33**	**$ 0.34**	**$ 0.99**	**$ 0.89**
Diluted	**$ 0.32**	**$ 0.33**	**$ 0.97**	**$ 0.87**
Cash dividends per basic share	**$ 0.19**	**$ 0.18**	**$ 0.57**	**$ 0.54**

See notes to interim condensed consolidated financial statements.

Table of Contents

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

(Dollars in thousands)

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Net income	**$ 2,511**	**$ 2,553**	**$ 7,499**	**$ 6,727**
Unrealized holding gains on available-for-sale securities:				
Unrealized holding gains arising during the period	4,721	949	10,050	6,942
Reclassification adjustment for net realized gains included in net income		(292)		(348)
Net unrealized gains	4,721	657	10,050	6,594
Tax effect	(1,835)	(306)	(3,442)	(2,499)
Other comprehensive income, net of tax	2,886	351	6,608	4,095
COMPREHENSIVE INCOME	**$ 5,397**	**$ 2,904**	**$ 14,107**	**$ 10,822**

See notes to interim condensed consolidated financial statements.

Table of Contents

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(Dollars in thousands)

	Nine Months Ended September 30	
	2011	2010
OPERATING ACTIVITIES		
Net income	$ 7,499	$ 6,727
Reconciliation of net income to net cash provided by operations:		
Provision for loan losses	2,383	3,231
Impairment of foreclosed assets	45	90
Depreciation	1,909	1,891
Amortization and impairment of originated mortgage servicing rights	606	508
Amortization of acquisition intangibles	229	258
Net amortization of available-for-sale securities	1,117	774
Gain on sale of available-for-sale securities		(348)
Net unrealized losses on trading securities	51	36
Net gain on sale of mortgage loans	(293)	(345)
Net unrealized gains on borrowings measured at fair value	(159)	(96)
Increase in cash value of corporate owned life insurance	(428)	(493)
Realized gain on redemption of corporate owned life insurance		(21)
Share-based payment awards under equity compensation plan	486	502
Origination of loans held for sale	(31,225)	(46,820)
Proceeds from loan sales	29,724	45,855
Net changes in operating assets and liabilities which provided (used) cash:		
Trading securities	900	7,377
Accrued interest receivable	(1,067)	(385)
Other assets	423	(1,092)
Accrued interest payable and other liabilities	792	153
Net cash provided by operating activities	**12,992**	**17,802**
INVESTING ACTIVITIES		
Net change in certificates of deposit held in other financial institutions	6,159	(8,387)
Activity in available-for-sale securities		
Maturities, calls, and sales	52,117	71,706
Purchases	(128,339)	(108,684)
Loan principal originations and collections, net	(18,923)	(9,044)
Proceeds from sales of foreclosed assets	1,625	2,051
Purchases of premises and equipment	(1,576)	(2,756)
Purchases of corporate owned life insurance	(4,000)	(175)
Proceeds from the redemption of corporate owned life insurance		154
Net cash used in investing activities	**(92,937)**	**(55,135)**

Table of Contents

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(UNAUDITED)

(Dollars in thousands)

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30	
	2011	2010
FINANCING ACTIVITIES		
Acceptances and withdrawals of deposits, net	65,102	58,414
Increase in other borrowed funds	22,130	5,890
Cash dividends paid on common stock	(4,331)	(4,064)
Proceeds from issuance of common stock	1,637	1,619
Common stock repurchased	(1,125)	(1,682)
Common stock purchased for deferred compensation obligations	(356)	(404)
Net cash provided by financing activities	**83,057**	**59,773**
INCREASE IN CASH AND CASH EQUIVALENTS	**3,112**	**22,440**
Cash and cash equivalents at beginning of period	18,109	22,706
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$ 21,221**	**$ 45,146**
SUPPLEMENTAL CASH FLOWS INFORMATION:		
Interest paid	$ 12,292	$ 13,025
Federal income taxes paid	672	683
SUPPLEMENTAL NONCASH INFORMATION:		
Transfers of loans to foreclosed assets	$ 1,681	$ 3,100
Common stock issued for deferred compensation obligations	254	448
Common stock repurchased from an associated grantor trust (Rabbi Trust)	(266)	(537)

See notes to interim condensed consolidated financial statements.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(Dollars in thousands except per share amounts)

NOTE 1 BASIS OF PRESENTATION

The accompanying unaudited interim 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 management s opinion, all adjustments considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. 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, 2010.

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, 2010.

NOTE 2 ACCOUNTING STANDARDS UPDATES

Recently Adopted Accounting Standards Updates

Accounting Standards Update (ASU) No. 2010-06: *Improving Disclosures about Fair Value Measurement*

In January 2010, ASU No. 2010-06 amended Accounting Standards Codification (ASC) Topic 820 Fair Value Measurements and Disclosures to add new disclosures for: (1) Significant transfers in and out of Level 1 and Level 2 fair value measurements and the reasons for the transfers and (2) Presenting separately information about purchases, sales, issuances and settlements for Level 3 fair value instruments (as opposed to reporting activity as net).

ASU No. 2010-06 also clarified existing disclosures by requiring reporting entities to provide fair value measurement disclosures for each class of assets and liabilities and to provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements.

The new authoritative guidance was effective for interim and annual periods beginning after December 15, 2009 except for the disclosures about purchases, sales, issuances and settlements in the rollforward of activity in Level 3 fair value measurements, which was effective for interim and annual periods beginning after December 15, 2010. The new guidance did not have a significant impact on the Corporation s consolidated financial statements.

ASU No. 2011-01: *Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20.*

In January 2011, ASU No. 2011-01 amended ASC Topic 310, Receivables to temporarily delay the effective date of new disclosures related to troubled debt restructurings as required in ASU No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* , which was initially intended to be effective for interim and annual periods ending after December 15, 2010. The effective date of the new disclosures about troubled debt restructurings was delayed to coordinate with the newly issued guidance for determining what constitutes a troubled debt restructuring (ASU NO. 2011-02). The new disclosures were effective for interim and annual periods beginning on or after June 15, 2011 and increased the level of reporting disclosures related to troubled debt restructurings.

Table of Contents

ASU No. 2011-02: *A Creditor s Determination of Whether a Restructuring Is a Troubled Debt Restructuring.*

In April 2011, ASU No. 2011-02 amended ASC Topic 310, Receivables to clarify authoritative guidance as to what loan modifications constitute concessions, and would therefore be considered a troubled debt restructuring. Classification as a troubled debt restructuring will automatically classify such loans as impaired. ASU No. 2011-02 clarifies that:

If a debtor does not otherwise have access to funds at a market rate for debt with similar risk characteristics as the modified debt, the modification would be considered to be at a below-market rate, which may indicate that the creditor has granted a concession.

A modification that results in a temporary or permanent increase in the contractual interest rate cannot be presumed to be at a rate that is at or above a market rate and therefore could still be considered a concession.

A creditor must consider whether a borrower s default is probable on any of its debt in the foreseeable future when assessing financial difficulty.

A modification that results in an insignificant delay in payments is not a concession.

In addition, ASU No. 2011-02 clarifies that a creditor is precluded from using the effective interest rate test in the debtor s guidance on modification of payables (ASC Topic 470, Debt) when evaluating whether a modification constitutes a troubled debt restructuring. The new authoritative guidance was effective for interim and annual periods beginning on or after June 15, 2011 and increased the volume of loans that the Corporation classified as troubled debt restructurings as of September 30, 2011 and required additional disclosures (see Note 6 Loans and Allowance for Loan Losses).

Pending Accounting Standards Updates

ASU No. 2011-03: Reconsideration of Effective Control for Repurchase Agreements

In April 2011, ASU No. 2011-03 amended ASC Topic 310, Transfers and Servicing to eliminate from the assessment of effective control, the criteria calling for the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed upon terms, even in the event of the transferee s default. The assessment of effective control should instead focus on the transferor s contractual rights and obligations. The new authoritative guidance is effective for interim and annual periods beginning on or after December 15, 2011 and is not expected to impact the Corporation s consolidated financial statements.

ASU No. 2011-04: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS

In May 2011, ASU No. 2011-04 amended ASC Topic 820, Fair Value Measurement to align fair value measurements and disclosures in U.S. Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS). The ASU changes the wording used to describe the requirements in GAAP for measuring fair value and disclosures about fair value.

The ASU clarifies the application of existing fair value measurements and disclosure requirements related to:

The application of highest and best use and valuation premise concepts.

Measuring the fair value of an instrument classified in a reporting entity s stockholders equity.

Disclosure about fair value measurements within Level 3 of the fair value hierarchy.

The ASU also changes particular principles or requirements for measuring fair value and disclosing information measuring fair value and disclosures related to:

Measuring the fair value of financial instruments that are managed within a portfolio.

Application of premiums and discounts in a fair value measurement.

Table of Contents

The new authoritative guidance is effective for interim and annual periods beginning on or after December 15, 2011 and is not expected to have a significant impact on the Corporation s consolidated financial statements.

ASU No. 2011-05: Presentation of Comprehensive Income

In June 2011, ASU No. 2011-05 amended ASC Topic 220, Comprehensive Income to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. In addition, to increase the prominence of items reported in other comprehensive income, and to facilitate the convergence of GAAP and IFRS, the FASB eliminated the option to present components of other comprehensive income as part of the statement of changes in shareholders equity.

The new authoritative guidance is effective for interim and annual periods beginning on or after December 15, 2011 and is not expected to have a significant impact on Corporation s consolidated financial statements since the Corporation has always elected to present a separate statement of comprehensive income.

ASU No. 2011-08: Testing Goodwill for Impairment

In September 2011, ASU No. 2011-08 amended ASC Topic 350, Goodwill and Other to simplify the testing of goodwill impairments. This update will allow for a qualitative assessment of goodwill to determine whether or not it is necessary to perform the two-step impairment test described in ASC Topic 350. The new authoritative guidance is effective for fiscal years beginning after December 15, 2011, with early adoption permitted, and is not expected to have a significant impact on the Corporation s consolidated financial statements.

NOTE 3 COMPUTATION OF EARNINGS PER SHARE

Basic earnings per share represents income available to common shareholders 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 Isabella Bank Corporation and Related Companies Deferred Compensation Plan for Directors (the Directors Plan).

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Average number of common shares outstanding for basic calculation	7,577,388	7,537,014	7,568,551	7,540,779
Average potential effect of shares in the Directors Plan (1)	197,937	190,693	195,360	186,373
Average number of common shares outstanding used to calculate diluted earnings per common share	7,775,325	7,727,707	7,763,911	7,727,152
Net income	$ 2,511	$ 2,553	$ 7,499	$ 6,727
Earnings per share				
Basic	**$ 0.33**	**$ 0.34**	**$ 0.99**	**$ 0.89**
Diluted	**$ 0.32**	**$ 0.33**	**$ 0.97**	**$ 0.87**

(1) Exclusive of shares held in the Rabbi Trust

Table of Contents

NOTE 4 TRADING SECURITIES

Trading securities, at fair value, consist of the following investments at:

	September 30 2011	December 31 2010
States and political subdivisions	$ 4,886	$ 5,837

Included in the net trading losses of $51 during the first nine months of 2011 were $45 of net unrealized trading losses on securities that were held in the Corporation s trading portfolio as of September 30, 2011.

NOTE 5 AVAILABLE-FOR-SALE SECURITIES

The amortized cost and fair value of available-for-sale securities, with gross unrealized gains and losses, are as follows at:

	September 30, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Government sponsored enterprises	$ 394	$ 3	$	$ 397
States and political subdivisions	166,874	6,286	91	173,069
Auction rate money market preferred	3,200		737	2,463
Preferred stocks	7,800	8	542	7,266
Mortgage-backed securities	126,902	3,030	67	129,865
Collateralized mortgage obligations	99,370	3,449		102,819
Total	**$ 404,540**	**$ 12,776**	**$ 1,437**	**$ 415,879**

	December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Government sponsored enterprises	$ 5,394	$ 10	$	$ 5,404
States and political subdivisions	167,328	3,349	960	169,717
Auction rate money market preferred	3,200		335	2,865
Preferred stocks	7,800		864	6,936
Mortgage-backed securities	101,096	1,633	514	102,215
Collateralized mortgage obligations	44,617	103	1,133	43,587
Total	**$ 329,435**	**$ 5,095**	**$ 3,806**	**$ 330,724**

Table of Contents

The amortized cost and fair value of available-for-sale securities by contractual maturity at September 30, 2011 are as follows:

	Maturing				Securities With Variable Monthly Payments	Total
	Due in One Year or Less	After One Year But Within Five Years	After Five Years But Within Ten Years	After Ten Years		
Government sponsored enterprises	$	$	$ 394	$	$	$ 394
States and political subdivisions	877	33,176	86,272	46,549		166,874
Auction rate money market preferred					3,200	3,200
Preferred stocks					7,800	7,800
Mortgage-backed securities					126,902	126,902
Collateralized mortgage obligations					99,370	99,370
Total amortized cost	**$ 877**	**$ 33,176**	**$ 86,666**	**$ 46,549**	**$ 237,272**	**$ 404,540**
Fair value	**$ 878**	**$ 34,212**	**$ 90,677**	**$ 57,428**	**$ 232,684**	**$ 415,879**

Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations.

Because of their variable monthly payments, auction rate money market preferreds, preferred stocks, mortgage-backed securities, and collateralized mortgage obligations are not reported by a specific maturity group.

A summary of the activity related to sales of available-for-sale securities was as follows for the nine month period ended September 30, 2010:

Proceeds from sales of securities	$ 3,722
Gross realized gains	$ 351
Gross realized losses	(3)
Net realized gains	$ 348
Applicable income tax expense	$ 118

There were no sales of available-for-sale securities in the first nine months of 2011. The cost basis used to determine the realized gains or losses of securities sold was the amortized cost of the individual investment security as of the trade date.

Table of Contents

Information pertaining to available-for-sale securities with gross unrealized losses at September 30, 2011 and December 31, 2010 aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	September 30, 2011				
	Less Than Twelve Months		Over Twelve Months		
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Total Unrealized Losses
States and political subdivisions	$ 91	$ 5,387	$	$	$ 91
Auction rate money market preferred			737	2,463	737
Preferred stocks	78	2,922	464	3,336	542
Mortgage-backed securities	67	25,833			67
Total	**$ 236**	**$ 34,142**	**$ 1,201**	**$ 5,799**	**$ 1,437**
Number of securities in an unrealized loss position:		**26**		**4**	**30**

	December 31, 2010				
	Less Than Twelve Months		Over Twelve Months		
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Total Unrealized Losses
States and political subdivisions	$ 960	$ 29,409	$	$	$ 960
Auction rate money market preferred			335	2,865	335
Preferred stocks			864	2,936	864
Mortgage-backed securities	514	38,734			514
Collateralized mortgage obligations	1,133	33,880			1,133
Total	**$ 2,607**	**$ 102,023**	**$ 1,199**	**$ 5,801**	**$ 3,806**
Number of securities in an unrealized loss position:		**82**		**4**	**86**

The Corporation invested $11,000 in auction rate money market preferred investment security instruments, which are classified as available-for-sale securities and reflected at estimated fair value. Due to market uncertainty, the trading for these securities has been limited. As a result of the limited trading of these securities, $7,800 converted to preferred stock with debt like characteristics in 2009.

Due to the limited trading activity of these securities, the fair values were estimated utilizing a hybrid of market value and discounted cash flow analysis as of September 30, 2011 and a discounted cash flow analysis as of December 31, 2010. These analyses considered creditworthiness of the counterparty, the timing of expected future cash flows, the current volume of trading activity, and recent trade prices. The discount rates used were determined by using the interest rates of similarly rated financial institutions debt based on the weighted average of a range of terms for corporate bond interest rates, which were obtained from published sources. All securities have continual call dates. The Corporation calculated the present value assuming a 3 year nonamortizing balloon using discount rates between 4.79% and 6.89% as of September 30, 2011.

As of September 30, 2011, the Corporation held an auction rate money market preferred security and preferred stocks which continued to be in an unrealized loss position as a result of the securities interest rates, as they are currently lower than the offering rates of securities with similar characteristics. Despite the limited trading of these securities, management has determined that any declines in the fair value of these securities are the result of changes in interest rates and not risks related to the underlying credit quality of the security. Additionally, none of these securities are deemed to be below investment grade, and management does not intend to sell the securities in an unrealized loss position, and it is more likely than not that the Corporation will not have to sell the securities before recovery of their cost basis. As a result, the Corporation has not recognized an other-than-temporary impairment related to these declines in fair value.

14

Table of Contents

As of September 30, 2011 and December 31, 2010, management conducted an analysis to determine whether all securities currently in an unrealized loss position, including auction rate money market preferred securities and preferred stocks, should be considered other-than-temporarily-impaired (OTTI). Such analyses considered, among other factors, the following criteria:

Has the value of the investment declined more than what is deemed to be reasonable based on a risk and maturity adjusted discount rate?

Is the investment credit rating below investment grade?

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

Is it more likely than not that the Corporation will not have to sell the security before recovery of its cost basis?

Has the duration of the investment been extended?

Based on the Corporation s analysis using the above criteria, the fact that management has asserted that it does not have the intent to sell these securities in an unrealized loss position, and that it is more likely than not the Corporation will not have to sell the securities before recovery of their cost basis, management does not believe that the values of any such securities are other-than-temporarily impaired as of September 30, 2011 or December 31, 2010.

NOTE 6 LOANS AND ALLOWANCE FOR LOAN LOSSES

The Corporation grants commercial, agricultural, consumer and residential loans to customers situated primarily in Isabella, Gratiot, Mecosta, Midland, Western Saginaw, Montcalm and Southern Clare counties in Michigan. The ability of the borrowers to honor their repayment obligations is often dependent upon the real estate, agricultural, light manufacturing, retail, gaming and tourism, higher education, and general economic conditions of this region. Substantially all of the consumer and residential mortgage loans are secured by various items of property, while commercial loans are secured primarily by real estate, business assets, and personal guarantees; a portion of loans are unsecured.

Loans that management has the intent and ability to hold in its portfolio are reported at their outstanding principal balance adjusted for any charge-offs, the allowance for loans losses, and any deferred fees or costs on originated loans. Interest income on loans is accrued over the term of the loan based on the principal amount outstanding. Loan origination fees and certain direct loan origination costs are capitalized and recognized as a component of interest income over the term of the loan using the constant yield method.

The accrual of interest on mortgage and commercial loans is typically discontinued at the time the loan is 90 days or more past due unless the credit is well-secured and in the process of collection. Credit card loans and other personal loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

For loans that are placed on nonaccrual status or charged off, all interest accrued in the current calendar year, but not collected, is reversed against interest income while interest accrued in prior calendar years, but not collected, is charged against the allowance for loan losses. The interest on these loans is accounted for on the cash basis, until qualifying for return to accrual status. Loans are returned to accrual status after six months of continuous performance. For impaired loans not classified as nonaccrual, interest income continues to be accrued over the term of the loan based on the principal amount outstanding.

Commercial loans include loans for commercial real estate, commercial operating loans, farmland and agricultural production, and state and political subdivisions. Repayment of commercial loans is often dependent upon the successful operation and management of a business; thus, these loans generally involve greater risk than other types of lending. The Corporation minimizes its risk by limiting the amount of loans to any one borrower to $12,500. Borrowers with credit needs of more than $12,500 are serviced through the use of loan participations with other commercial banks. Commercial real estate loans generally require loan to value limits of less than 80%. Depending upon the type of loan, past credit history, and current operating results, the Corporation may require the borrower to pledge accounts receivable, inventory, and fixed assets.

Personal guarantees are generally required from the owners of closely held corporations, partnerships, and sole proprietorships. In addition, the Corporation requires annual financial statements, prepares cash flow analyses, and reviews credit reports as deemed necessary.

The Corporation offers adjustable rate mortgages, fixed rate balloon mortgages, and fixed rate mortgage loans which typically have amortization periods up to a maximum of 30 years. Fixed rate loans with an amortization of greater than 15 years are generally sold

Table of Contents

upon origination to the Federal Home Loan Mortgage Association. Fixed rate residential mortgage loans with an amortization of 15 years or less may be held in the Corporation s portfolio, held for future sale, or sold upon origination. Factors used in determining when to sell these mortgages include management s judgment about the direction of interest rates, the Corporation s need for fixed rate assets in the management of its interest rate sensitivity, and overall loan demand.

Residential construction and land development loans consist primarily of 1-4 family residential properties. These loans primarily have a 6 to 9 month maturity and are made using the same underwriting criteria as residential mortgages. Loan proceeds are disbursed in increments as construction progresses and inspections warrant. Construction loans are typically converted to permanent loans at the completion of construction.

Lending policies generally limit the maximum loan to value ratio on residential mortgages to 95% of the lower of the appraised value of the property or the purchase price, with the condition that private mortgage insurance is required on loans with loan to value ratios in excess of 80%. Substantially all loans upon origination have a loan to value ratio of less than 80%. Underwriting criteria for residential real estate loans include: evaluation of the borrower s ability to make monthly payments, the value of the property securing the loan, ensuring the payment of principal, interest, taxes, and hazard insurance does not exceed 28% of a borrower s gross income, all debt servicing does not exceed 36% of income, acceptable credit reports, verification of employment, income, and financial information. Appraisals are performed by independent appraisers. All mortgage loan requests are reviewed by a mortgage loan committee or through a secondary market automated underwriting system; loans in excess of $400 require the approval of the Bank s Internal Loan Committee, Board of Directors, or the Board of Director s Loan Committee.

Consumer loans include automobile loans, secured and unsecured personal loans, credit cards, student loans, and overdraft protection related loans. Loans are amortized generally for a period of up to 6 years. The underwriting emphasis is on a borrower s ability to pay rather than collateral value. No consumer loans are sold to the secondary market.

A summary of changes in the allowance for loan losses and the recorded investment in loans by segments follows:

	Allowance for Credit Losses For the Three Months Ended September 30, 2011					
	Commercial	Agricultural	Residential Real Estate	Consumer	Unallocated	Total
Allowance for loan losses						
July 1, 2011	$ 6,738	$ 764	$ 2,885	$ 660	$ 1,331	$ 12,378
Loans charged off	(215)		(857)	(98)		(1,170)
Recoveries	75	1	39	87		202
Provision for loan losses	116	(331)	1,148	(3)	33	963
September 30, 2011	**$ 6,714**	**$ 434**	**$ 3,215**	**$ 646**	**$ 1,364**	**$ 12,373**

16

Table of Contents

Allowance for Credit Losses and Recorded Investment in Loans
For the Nine Months Ended September 30, 2011

	Commercial	Agricultural	Residential Real Estate	Consumer	Unallocated	Total
Allowance for loan losses						
January 1, 2011	$ 6,048	$ 1,033	$ 3,198	$ 605	$ 1,489	$ 12,373
Loans charged off	(1,084)	(1)	(1,735)	(382)		(3,202)
Recoveries	421	1	142	255		819
Provision for loan losses	1,329	(599)	1,610	168	(125)	2,383
September 30, 2011	**$ 6,714**	**$ 434**	**$ 3,215**	**$ 646**	**$ 1,364**	**$ 12,373**
Allowance for loan losses as of September 30, 2011						
Individually evaluated for impairment	$ 2,527	$ 235	$ 903	$	$	$ 3,665
Collectively evaluated for impairment	4,187	199	2,312	646	1,364	8,708
Total	**$ 6,714**	**$ 434**	**$ 3,215**	**$ 646**	**$ 1,364**	**$ 12,373**
Loans as of September 30, 2011						
Individually evaluated for impairment	$ 14,924	$ 3,961	$ 7,308	$ 73		$ 26,266
Collectively evaluated for impairment	347,392	71,438	273,351	31,716		723,897
Total	**$ 362,316**	**$ 75,399**	**$ 280,659**	**$ 31,789**		**$ 750,163**

Following is a summary of changes in the allowance for loan losses (ALLL) for the three and nine months ended September 30, 2010:

	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
Balance at beginning of period	$ 13,018	$ 12,979
Loans charged off	(1,125)	(4,094)
Recoveries	158	903
Provision charged to income	968	3,231
September 30, 2010	**$ 13,019**	**$ 13,019**

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

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

The primary factors behind the determination of the level of the ALLL are specific allocations for impaired loans, historical loss percentages, as well as unallocated components. Specific allocations for impaired loans are primarily determined based on the difference between the net realizable value of the loan s underlying collateral or the net present value of the projected payment stream and its recorded investment. Historical loss allocations are calculated at the loan class and segment levels based on a migration analysis of the loan portfolio over the preceding three years. An unallocated component is maintained to cover uncertainties that

Table of Contents

management believes affect its estimate of probable losses based on qualitative factors. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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

	September 30, 2011					
	Commercial			Agricultural		
	Real Estate	Other	Total	Real Estate	Other	Total
Rating						
1 - Excellent	$ 788	$ 10	$ 798	$	$	$
2 - High quality	10,451	18,181	28,632	2,952	1,577	4,529
3 - High satisfactory	91,163	27,758	118,921	11,056	4,993	16,049
4 - Low satisfactory	116,620	48,595	165,215	23,923	17,128	41,051
5 - Special mention	21,895	4,189	26,084	3,077	3,576	6,653
6 - Substandard	13,334	5,185	18,519	2,507	3,885	6,392
7 - Vulnerable	364		364			
8 - Doubtful	3,739	44	3,783	190	535	725
Total	**$ 258,354**	**$ 103,962**	**$ 362,316**	**$ 43,705**	**$ 31,694**	**$ 75,399**

	December 31, 2010					
	Commercial			Agricultural		
	Real Estate	Other	Total	Real Estate	Other	Total
Rating						
2 - High quality	$ 10,995	$ 13,525	$ 24,520	$ 3,792	$ 1,134	$ 4,926
3 - High satisfactory	74,912	30,322	105,234	11,247	3,235	14,482
4 - Low satisfactory	119,912	57,403	177,315	22,384	14,862	37,246
5 - Special mention	19,560	6,507	26,067	4,169	3,356	7,525
6 - Substandard	10,234	1,104	11,338	2,654	4,613	7,267
7 - Vulnerable	3,339	54	3,393			
8 - Doubtful	858	127	985			
Total	**$ 239,810**	**$ 109,042**	**$ 348,852**	**$ 44,246**	**$ 27,200**	**$ 71,446**

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

1. **EXCELLENT Substantially Risk Free**
Credit has strong financial condition and solid earnings history, characterized by:

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

2. **HIGH QUALITY Limited Risk**
Credit with sound financial condition and has a positive trend in earnings supplemented by:

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

3. **HIGH SATISFACTORY Reasonable Risk**
Credit with satisfactory financial condition and further characterized by:

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

4. **LOW SATISFACTORY Acceptable Risk**
Credit with bankable risks, although some signs of weaknesses are shown:

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

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

5. **SPECIAL MENTION Criticized**

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

Downward trend in sales, profit levels and margins.

Impaired working capital position.

Cash flow is strained in order to meet debt repayment.

Loan delinquency (30-60 days) and overdrafts may occur.

Shrinking equity cushion.

Diminishing primary source of repayment and questionable secondary source.

Management abilities are questionable.

Weak industry conditions.

Litigation pending against the borrower.

Loan may need to be restructured to improve collateral position or reduce payments.

Collateral / guaranty offers limited protection.

Negative debt service coverage, however the credit is well collateralized and payments are current.

6. **SUBSTANDARD Classified**

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

Sustained losses have severely eroded the equity and cash flow.

Deteriorating liquidity.

Serious management problems or internal fraud.

Original repayment terms liberalized.

Likelihood of bankruptcy.

Inability to access other funding sources.

Reliance on secondary source of repayment.

Litigation filed against borrower.

Collateral provides little or no value.

Requires excessive attention of the loan officer.

Borrower is uncooperative with loan officer.

7. **VULNERABLE Classified**
Credit is considered Substandard and warrants placing on nonaccrual. Risk of loss is being evaluated and exit strategy options are under review. Other characteristics that may apply:

Insufficient cash flow to service debt.

Minimal or no payments being received.

Limited options available to avoid the collection process.

Transition status, expect action will take place to collect loan without immediate progress being made.

8. **DOUBTFUL Workout**
Credit has all the weaknesses inherent in a Substandard loan with the added characteristic that collection and/or liquidation is pending. The possibility of a loss is extremely high, but its classification as a loss is deferred until liquidation procedures are completed, or reasonably estimable. Other characteristics that may apply:

Normal operations are severely diminished or have ceased.

Seriously impaired cash flow.

Original repayment terms materially altered.

Secondary source of repayment is inadequate.

Survivability as a going concern is impossible.

Collection process has begun.

Bankruptcy petition has been filed.

Judgments have been filed.

Portion of the loan balance has been charged-off.

9. **LOSS Charge off**

Credits are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification is for charged off loans but does not mean that the asset has absolutely no recovery or salvage value. These loans are further characterized by:

- Liquidation or reorganization under bankruptcy, with poor prospects of collection.
- Fraudulently overstated assets and/or earnings.
- Collateral has marginal or no value.
- Debtor cannot be located.
- Over 120 days delinquent.

Table of Contents

The Corporation s primary credit quality indicators for residential real estate and consumer loans is the individual loan s past due aging. The following tables summarize the Corporation s past due and current loans as of:

	September 30, 2011					
	Accruing Interest and Past Due: 30-89 Days	90 Days or More	Nonaccrual	Total Past Due and Nonaccrual	Current	Total
Commercial						
Commercial real estate	$ 1,392	$ 189	$ 2,881	$ 4,462	$ 253,892	$ 258,354
Commercial other	1,548	79		1,627	102,335	103,962
Total commercial	2,940	268	2,881	6,089	356,227	362,316
Agricultural						
Agricultural real estate	424		189	613	43,092	43,705
Agricultural other	622		535	1,157	30,537	31,694
Total agricultural	1,046		724	1,770	73,629	75,399
Residential mortgage						
Senior liens	2,803	491	1,457	4,751	214,720	219,471
Junior liens	332	1	31	364	22,089	22,453
Home equity lines of credit	141		200	341	38,394	38,735
Total residential mortgage	3,276	492	1,688	5,456	275,203	280,659
Consumer						
Secured	124			124	26,358	26,482
Unsecured	55	1		56	5,251	5,307
Total consumer	179	1		180	31,609	31,789
Total	**$ 7,441**	**$ 761**	**$ 5,293**	**$ 13,495**	**$ 736,668**	**$ 750,163**

	December 31, 2010					
	Accruing Interest and Past Due: 30-89 Days	90 Days or More	Nonaccrual	Total Past Due and Nonaccrual	Current	Total
Commercial						
Commercial real estate	$ 4,814	$ 125	$ 4,001	$ 8,940	$ 230,870	$ 239,810
Commercial other	381		139	520	108,522	109,042
Total commercial	5,195	125	4,140	9,460	339,392	348,852
Agricultural						
Agricultural real estate	92			92	44,154	44,246
Agricultural other	4	50		54	27,146	27,200

Total agricultural	96	50		146	71,300	71,446
Residential mortgage						
Senior liens	5,265	310	1,421	6,996	213,003	219,999
Junior liens	476		49	525	26,187	26,712
Home equity lines of credit	598			598	36,720	37,318
Total residential mortgage	6,339	310	1,470	8,119	275,910	284,029
Consumer						
Secured	298			298	24,781	25,079
Unsecured	10	1		11	5,887	5,898
Total consumer	308	1		309	30,668	30,977
Total	**$ 11,938**	**$ 486**	**$ 5,610**	**$ 18,034**	**$ 717,270**	**$ 735,304**

Table of Contents

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

	September 30, 2011			December 31, 2010		
	Outstanding Balance	Unpaid Principal Balance	Valuation Allowance	Outstanding Balance	Unpaid Principal Balance	Valuation Allowance
Impaired loans with a valuation allowance						
Commercial real estate	$ 5,793	$ 5,893	$ 1,942	$ 3,010	$ 4,110	$ 472
Commercial other	1,136	1,136	585	18	18	18
Agricultural real estate	115	115	4			
Agricultural other	2,196	2,196	231	2,196	2,196	558
Residential mortgage senior liens	6,950	8,249	877	4,292	5,236	698
Residential mortgage junior liens	158	245	26	172	250	34
Total impaired loans with a valuation allowance	**$ 16,348**	**$ 17,834**	**$ 3,665**	**$ 9,688**	**$ 11,810**	**$ 1,780**
Impaired loans without a valuation allowance						
Commercial real estate	$ 6,013	$ 8,216		$ 1,742	$ 2,669	
Commercial other	1,982	2,023		169	269	
Agricultural real estate	223	223				
Agricultural other	1,427	1,427				
Residential mortgage senior liens		68		401	501	
Residential mortgage junior liens		6				
Home equity lines of credit	200	500				
Consumer secured	73	110		48	85	
Total impaired loans without a valuation allowance	**$ 9,918**	**$ 12,573**		**$ 2,360**	**$ 3,524**	
Impaired loans						
Commercial	$ 14,924	$ 17,268	$ 2,527	$ 4,939	$ 7,066	$ 490
Agricultural	3,961	3,961	235	2,196	2,196	558
Residential mortgage	7,308	9,068	903	4,865	5,987	732
Consumer	73	110		48	85	
Total impaired loans	**$ 26,266**	**$ 30,407**	**$ 3,665**	**$ 12,048**	**$ 15,334**	**$ 1,780**

Table of Contents

The following is a summary of information pertaining to impaired loans for the three and nine month periods ended September 30, 2011:

	Three Months Ended September 30, 2011		Nine Months Ended September 30, 2011	
	Average Outstanding Balance	Interest Income Recognized	Average Outstanding Balance	Interest Income Recognized
Impaired loans with a valuation allowance				
Commercial real estate	$ 4,770	$ 130	$ 4,402	$ 250
Commercial other	586	16	577	16
Agricultural real estate	58	3	58	3
Agricultural other	720	(38)	1,140	4
Residential mortgage senior liens	6,174	115	5,621	221
Residential mortgage junior liens	179	1	165	5
Total impaired loans with a valuation allowance	**$ 12,487**	**$ 227**	**$ 11,963**	**$ 499**
Impaired loans without a valuation allowance				
Commercial real estate	$ 5,743	$ 124	$ 3,878	$ 219
Commercial other	1,941	37	1,076	124
Agricultural real estate	207	2	112	1
Agricultural other	2,411	112	1,770	151
Residential mortgage senior liens		1	201	1
Home equity lines of credit	100	10	100	10
Consumer secured	50	2	61	5
Total impaired loans without a valuation allowance	**$ 10,452**	**$ 288**	**$ 7,198**	**$ 511**
Impaired loans				
Commercial	$ 13,040	$ 307	$ 9,933	$ 609
Agricultural	3,396	79	3,080	159
Residential mortgage	6,453	127	6,087	237
Consumer	50	2	61	5
Total impaired loans	**$ 22,939**	**$ 515**	**$ 19,161**	**$ 1,010**
Total impaired loans September 30, 2010			**$ 12,393**	**$ 308**

As a result of adopting the amendments in ASU No. 2011-02, the Corporation reassessed all loan restructurings that occurred on or after January 1, 2011 for identification as troubled debt restructurings (TDR s). The Corporation identified as TDR s certain loans for which the allowance for loan losses had previously been measured under a general allowance for loan losses methodology. Upon identifying those loans as TDR s, the Corporation classified them as impaired. The amendments in ASU No. 2011-02 require retrospective application of the impairment measurement guidance for those loans newly identified as impaired during the period. The Corporation s recorded investment in loans for which the allowance for credit losses was previously measured under a general allowance for credit losses methodology and are now impaired was $9,081, with a specific valuation allowance of $1,601 as of September 30, 2011.

Table of Contents

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

1. There has been a chargeoff of its principal balance (in whole or in part);

2. The loan has been classified as a TDR; or

3. The loan is in nonaccrual status.

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

Interest income is recognized on impaired loans in nonaccrual status on the cash basis, but only after all principal has been collected. For impaired loans not in nonaccrual status, interest income is recognized daily as earned according to the terms of the loan agreement.

The Corporation had pledged to advance $68 in connection with impaired loans, which include TDR s, as of September 30, 2011.

The following is a summary of information pertaining to TDR s for the three and nine month periods ended September 30, 2011:

	Loans Restructured in the Three Month Period ended September 30, 2011			Loans Restructured in the Nine Month Period ended September 30, 2011		
	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Commercial						
Commercial real estate	1	$ 408	$ 408	1	$ 408	$ 408
Commercial other	21	4,069	3,737	42	12,143	11,700
Total commercial	22	4,477	4,145	43	12,551	12,108
Agricultural other	3	143	143	11	1,481	1,481
Residential mortgage senior liens	3	165	165	23	2,454	2,424
Consumer secured	3	34	34	5	50	50
Total	**31**	**$ 4,819**	**$ 4,487**	**$ 82**	**$ 16,536**	**$ 16,063**

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

Typical concessions granted include, but are not limited to:

1. Agreeing to interest rates below prevailing market rates for debt with similar risk characteristics.

2. Extending the amortization period beyond typical lending guidelines for debt with similar risk characteristics.

3. Forbearance of principal.

4. Forbearance of accrued interest.

To determine if a borrower is experiencing financial difficulties, the Corporation considers if:

1. The borrower is currently in default on any of their debt.

2. It is likely that the borrower would default on any of their debt if the concession was not granted.

3. The borrower s cash flow was sufficient to service all of their debt if the concession was not granted.

4. The borrower has declared, or is in the process of declaring, bankruptcy.

5. The borrower is a going concern (if the entity is a business).

The following tables summarize concessions granted by the Corporation to borrowers in financial difficulties in the three and nine month periods ended September 30, 2011:

	Loans Restructured in the Three Months Ended September 30, 2011					
	Below Market Interest Rate		Extension of Amortization Period		Below Market Interest Rate and Extension of Amortization Period	
	Number of Loans	Pre-Modification Recorded Investment	Number of Loans	Pre-Modification Recorded Investment	Number of Loans	Pre-Modification Recorded Investment
Commercial						
Commercial real estate	1	$ 408		$		$
Commercial other	21	4,069				
Total commercial	22	4,477				
Agricultural other	3	143				
Residential mortgage Senior liens	1	85	1	7	1	73
Consumer secured	3	34				
Total	**29**	**$ 4,739**	**1**	**$ 7**	**1**	**$ 73**

	Loans Restructured in the Nine Months Ended September 30, 2011					
	Below Market Interest Rate		Extension of Amortization Period		Below Market Interest Rate and Extension of Amortization Period	
	Number of Loans	Pre-Modification Recorded Investment	Number of Loans	Pre-Modification Recorded Investment	Number of Loans	Pre-Modification Recorded Investment
Commercial						
Commercial real estate	1	$ 408		$		$
Commercial other	38	9,500	3	913	1	1,730
Total commercial	39	9,908	3	913	1	1,730
Agricultural other	11	1,481				
Residential mortgage Senior liens	18	2,083	2	57	3	314
Consumer secured	5	50				
Total	**73**	**$ 13,522**	**5**	**$ 970**	**4**	**$ 2,044**

The Corporation did not restructure any loans through the forbearance of principal or accrued interest in the three and nine month periods ended September 30, 2011.

Table of Contents

Based on the Corporation s historical loss experience, losses associated with TDR s are not significantly different than other impaired loans within the same loan segment. As such, TDR s, including TDR s that have been modified in the past 12 months that subsequently defaulted, are analyzed in the same manner as other impaired loans within their respective loan segment. The Corporation had no loans that were modified as troubled debt restructurings since January 1, 2010 that subsequently defaulted.

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

	September 30 2011	December 31 2010
Troubled debt restructurings	$ 20,137	$ 5,763

NOTE 7 EQUITY SECURITIES WITHOUT READILY DETERMINABLE FAIR VALUES

Included in equity securities without readily determinable fair values are restricted securities, which are carried at cost, and investments in nonconsolidated entities accounted for under the equity method of accounting.

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

	September 30 2011	December 31 2010
Federal Home Loan Bank Stock	$ 7,380	$ 7,596
Investment in Corporate Settlement Solutions	6,511	6,793
Federal Reserve Bank Stock	1,879	1,879
Investment in Valley Financial Corporation	1,000	1,000
Other	323	296
Total	**$ 17,093**	**$ 17,564**

NOTE 8 BORROWED FUNDS

Borrowed funds consist of the following obligations as of:

	September 30, 2011		December 31, 2010	
	Amount	Rate	Amount	Rate
Federal Home Loan Bank advances	$ 132,264	3.31%	$ 113,423	3.64%
Securities sold under agreements to repurchase without stated maturity dates	49,583	0.25%	45,871	0.25%
Securities sold under agreements to repurchase with stated maturity dates	16,741	3.35%	19,623	3.01%
Federal funds purchased	18,300	0.45%	16,000	0.60%
Total	**$ 216,888**	**2.37%**	**$ 194,917**	**2.53%**

The Federal Home Loan Bank (FHLB) advances are collateralized by a blanket lien on all qualified 1-4 family mortgage loans and U.S. government and federal agency securities. Advances are also secured by FHLB stock owned by the Corporation. The Corporation had the ability to borrow up to an additional $98,322 based on the assets pledged as collateral as of September 30, 2011.

Securities sold under agreements to repurchase are classified as secured borrowings. Securities sold under agreements to repurchase without stated maturity dates generally mature within one to four days from the transaction date. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The securities underlying the agreements have a carrying value and a fair value of $79,464 and $86,381 at September 30, 2011 and December 31, 2010, respectively. Such securities remain under the control of the Corporation. The Corporation may be required to provide additional collateral based on the fair value of underlying securities.

Table of Contents

Securities sold under repurchase agreements without stated maturity dates and federal funds purchased generally mature within one to four days from the transaction date. The following table provides a summary of short term borrowings for the three and nine month periods ended September 30:

	Three Months Ended September 30					
	2011			2010		
	Maximum Month-End Balance	QTD Average Balance	Weighted Average Interest Rate During the Period	Maximum Month-End Balance	QTD Average Balance	Weighted Average Interest Rate During the Period
Securities sold under agreements to repurchase without stated maturity dates	$ 49,583	$ 47,871	0.25%	$ 56,410	$ 56,247	0.28%
Federal funds purchased	18,300	2,563	0.46%		32	0.50%

	Nine Months Ended September 30					
	2011			2010		
	Maximum Month-End Balance	YTD Average Balance	Weighted Average Interest Rate During the Period	Maximum Month-End Balance	YTD Average Balance	Weighted Average Interest Rate During the Period
Securities sold under agreements to repurchase without stated maturity dates	$ 49,583	$ 42,515	0.25%	$ 56,410	$ 42,881	0.29%
Federal funds purchased	18,300	2,776	0.51%		136	0.50%

The Corporation had pledged certificates of deposit held in other financial institutions, trading securities, available-for-sale securities, and 1-4 family mortgage loans in the following amounts at:

	September 30 2011	December 31 2010
Pledged to secure borrowed funds	$ 289,263	$ 297,297
Pledged to secure repurchase agreements	79,464	86,381
Pledged for public deposits and for other purposes necessary or required by law	23,036	14,626
Total	**$ 391,763**	**$ 398,304**

The Corporation had no investment securities that are restricted to be pledged for specific purposes.

28

Table of Contents

NOTE 9 OTHER NONINTEREST EXPENSES

A summary of expenses included in other noninterest expenses are as follows for the three and nine month periods ended September 30:

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Marketing and community relations	$ 228	$ 284	$ 978	$ 944
Directors fees	203	210	620	655
Audit and SOX compliance fees	195	92	518	438
Foreclosed asset and collection	143	317	420	671
Education and travel	102	107	306	319
Postage and freight	103	106	299	289
Printing and supplies	108	119	297	316
Amortization of deposit premium	77	86	229	258
Legal fees	82	103	198	301
Consulting fees	63	25	163	125
All other	402	450	1,136	1,201
Total other	**$ 1,706**	**$ 1,899**	**$ 5,164**	**$ 5,517**

NOTE 10 FEDERAL INCOME TAXES

The reconciliation of the provision for federal income taxes and the amount computed at the federal statutory tax rate of 34% of income before federal income tax expense is as follows for the three and nine month periods ended September 30:

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Income taxes at 34% statutory rate	$ 967	$ 1,039	$ 2,971	$ 2,680
Effect of nontaxable income				
Interest income on tax exempt municipal bonds	(389)	(348)	(1,157)	(1,052)
Earnings on corporate owned life insurance	(48)	(69)	(146)	(175)
Other	(204)	(130)	(460)	(323)
Total effect of nontaxable income	(641)	(547)	(1,763)	(1,550)
Effect of nondeductible expenses	8	11	31	24
Federal income tax expense	**$ 334**	**$ 503**	**$ 1,239**	**$ 1,154**

Included in other comprehensive income for the three and nine month periods ended September 30 are changes in unrealized holding losses of $675 and $72 in 2011 and losses of $247 and $757 in 2010, respectively, related to auction rate money market preferred stock securities and preferred stocks. For federal income tax purposes, these securities are considered equity investments. As such, no deferred federal income taxes related to unrealized holding gains or losses are expected or recorded.

Table of Contents

NOTE 11 DEFINED BENEFIT PENSION PLAN

The Corporation has a noncontributory defined benefit pension plan, which was curtailed effective March 1, 2007. As a result of the curtailment, future salary increases are no longer considered and 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. The Corporation made a $140 contribution to the pension plan during the three and nine month periods ended September 30, 2011 and made no contributions to the plan in the three or nine month periods ended September 30, 2010.

Following are the components of net periodic benefit cost for the three and nine month periods ended September 30:

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Interest cost on projected benefit obligation	$ 126	$ 132	$ 380	$ 398
Expected return on plan assets	(131)	(122)	(392)	(368)
Amortization of unrecognized actuarial net loss	38	38	115	115
Net periodic benefit cost	**$ 33**	**$ 48**	**$ 103**	**$ 145**

NOTE 12 FAIR VALUE

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

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

The carrying amount and estimated fair value of financial instruments not recorded at fair value in their entirety on a recurring basis on the Corporation s consolidated balance sheets are as follows:

	September 30, 2011		December 31, 2010	
	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value
ASSETS				
Cash and demand deposits due from banks	$ 21,221	$ 21,221	$ 18,109	$ 18,109
Certificates of deposit held in other financial institutions	9,720	9,649	15,908	15,808
Mortgage loans available-for-sale	2,976	2,976	1,182	1,182
Net loans	756,806	737,790	734,634	722,931
Accrued interest receivable	6,523	6,523	5,456	5,456
Equity securities without readily determinable fair values	17,093	17,093	17,564	17,564
Originated mortgage servicing rights	2,292	2,292	2,673	2,667
LIABILITIES				
Deposits without stated maturities	468,283	468,283	424,978	424,978
Deposits with stated maturities	484,524	474,158	454,332	452,361
Borrowed funds	218,545	211,624	190,180	184,494
Accrued interest payable	935	935	1,003	1,003

Table of Contents

Financial Instruments Recorded at Fair Value

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

	September 30, 2011			December 31, 2010		
Description	Total	Level 2	Level 3	Total	Level 2	Level 3
Recurring items						
Trading securities						
States and political subdivisions	$ 4,886	$ 4,886	$	$ 5,837	$ 5,837	$
Available-for-sale investment securities						
Government sponsored enterprises	397	397		5,404	5,404	
States and political subdivisions	173,069	173,069		169,717	169,717	
Auction rate money market preferred	2,463		2,463	2,865		2,865
Preferred stocks	7,266		7,266	6,936		6,936
Mortgage-backed securities	129,865	129,865		102,215	102,215	
Collateralized mortgage obligations	102,819	102,819		43,587	43,587	
Total available-for-sale investment securities	415,879	406,150	9,729	330,724	320,923	9,801
Borrowed funds	5,264	5,264		10,423	10,423	
Nonrecurring items						
Impaired loans	26,266		26,266	12,048		12,048
Originated mortgage servicing rights	2,292	2,292		2,667	2,667	
Foreclosed assets	2,078	2,078		2,067	2,067	
	$ 456,665	$ 420,670	$ 35,995	$ 363,766	$ 341,917	$ 21,849
Percent of assets and liabilities measured at fair value		92.12%	7.88%		93.99%	6.01%

As of September 30, 2011 and December 31, 2010, the Corporation had no assets or liabilities measured utilizing Level 1 valuation techniques.

Following is a description of the valuation methodologies and key inputs used to measure financial assets and liabilities recorded at fair value, as well as a description of the methods and significant assumptions used to estimate fair value disclosures for financial instruments not recorded at fair value in their entirety on a recurring basis. For financial assets and liabilities recorded at fair value, the description includes an indication of the level of the fair value hierarchy in which the assets or liabilities are classified.

Cash and demand deposits due from banks: The carrying amounts of cash and short term investments, including Federal funds sold, approximate fair values.

Certificates of deposit held in other financial institutions: Interest bearing balances held in unaffiliated financial institutions include certificates of deposit and other short term interest bearing balances that mature within 3 years. Fair value is determined using prices for similar assets with similar characteristics.

Investment securities: Investment securities are recorded at fair value on a recurring basis. Level 2 fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model based valuation techniques such as the present value of future cash flows, adjusted for the security s credit rating, prepayment assumptions and other factors such as credit loss and liquidity assumptions. Level 2 securities include bonds issued by government sponsored enterprises, states and political subdivisions, mortgage-backed securities, and collateralized mortgage obligations issued by government sponsored enterprises.

Securities classified as Level 3 include securities in less liquid markets and include auction rate money market preferred securities and preferred stocks. Due to the limited trading activity of these securities, the fair values were estimated utilizing a hybrid of market value and discounted cash flow analysis as of September 30, 2011 and a discounted cash flow analysis as of December 31, 2010. These analyses considered creditworthiness of the counterparty, the timing of expected future cash flows, the current volume of

trading activity, illiquidity of securities, and recent trade prices. The discount rates used were determined by using the interest rates of similarly rated financial institutions debt based on the weighted average of a range of terms for corporate bond interest rates, which were obtained from published sources. All securities have continual call dates. The Corporation calculated the present value assuming a 3 year nonamortizing balloon using discount rates between 4.79% and 6.89% as of September 30, 2011.

Mortgage loans available-for-sale: Mortgage loans available-for-sale are carried at the lower of cost or fair value. The fair value of mortgage loans available-for-sale are based on what price secondary markets are currently offering for portfolios with similar characteristics. As such, the Corporation classifies loans subjected to nonrecurring fair value adjustments as Level 2.

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

The Corporation does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and a specific allowance for loan losses may be established. Loans for which it is probable that payment of interest and principal will be significantly different than the contractual terms of the original loan agreement are considered impaired. Once a loan is identified as impaired, management measures the estimated impairment. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value, or discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans.

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

Impaired loans where an allowance is established based on the net realizable value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraisal value, the Corporation records the loan as nonrecurring Level 2. When a current appraised value is not available or management determines the fair value collateral is further impaired below the appraised value, the Corporation records the impaired loans as nonrecurring Level 3.

Accrued interest: The carrying amounts of accrued interest approximate fair value.

Goodwill and other intangible assets: Acquisition intangibles and goodwill are subject to impairment testing. A projected cash flow valuation method is used in the completion of impairment testing. This valuation method requires a significant degree of management judgment. In the event the projected undiscounted net operating cash flows are less than the carrying value, the asset is recorded at fair value as determined by the valuation model. If the testing resulted in impairment, the Corporation would classify goodwill and other acquisition intangibles subjected to nonrecurring fair value adjustments as Level 3. For the nine month periods ended September 30, 2011 and 2010, there were no impairments recorded on goodwill and other acquisition intangibles.

Equity securities without readily determinable fair values: The Corporation has investments in equity securities without readily determinable fair values as well as investments in joint ventures. The assets are individually reviewed for impairment on an annual basis, or more frequently if an indication of impairment exists, by comparing the carrying value to the estimated fair value. The lack of an independent source to validate fair value estimates, including the impact of future capital calls and transfer restrictions, is an inherent limitation in the valuation process. The Corporation classifies nonmarketable equity securities and its investments in joint ventures subjected to nonrecurring fair value adjustments as Level 3. For the nine month periods ended September 30, 2011 and 2010, there were no impairments recorded on equity securities without readily determinable fair values.

Table of Contents

Foreclosed assets: Upon transfer from the loan portfolio, foreclosed assets are adjusted to and subsequently carried at the lower of carrying value or fair value less costs to sell. Net realizable value is based upon independent market prices, appraised values of the collateral, or management s estimation of the value of the collateral and as such, the Corporation classifies foreclosed assets as a nonrecurring Level 2. When management determines that the net realizable value of the collateral is further impaired below the appraised value but there is no observable market price, the Corporation records the foreclosed asset as nonrecurring Level 3.

Originated mortgage servicing rights: Originated mortgage servicing rights are subject to impairment testing. A valuation model, which utilizes a discounted cash flow analysis using interest rates and prepayment speed assumptions currently quoted for comparable instruments and a discount rate determined by management, is used for impairment testing. If the valuation model reflects a value less than the carrying value, originated mortgage servicing rights are adjusted to fair value through a valuation allowance as determined by the model. As such, the Corporation classifies loan servicing rights subject to nonrecurring fair value adjustments as Level 2.

Deposits: Demand, savings, and money market deposits are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for variable rate certificates of deposit approximate their recorded carrying value. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

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

The Corporation has elected to measure a portion of borrowed funds at fair value. These borrowings are recorded at fair value on a recurring basis, with the fair value measurement estimated using discounted cash flow analysis based on the Corporation s current incremental borrowing rates for similar types of borrowing arrangements. Changes in the fair value of these borrowings are included in noninterest income. As such, the Corporation classifies other borrowed funds as Level 2.

Commitments to extend credit, standby letters of credit and undisbursed loans: Fair values for off balance sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into consideration the remaining terms of the agreements and the counterparties credit standings. The Corporation does not charge fees for lending commitments; thus it is not practicable to estimate the fair value of these instruments.

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

The table below represents the activity in available-for-sale investment securities measured with Level 3 inputs on a recurring basis for the three and nine month periods ended September 30:

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Level 3 inputs at beginning of period	$ 10,404	$ 9,517	$ 9,801	$ 10,027
Net unrealized losses	(675)	(247)	(72)	(757)
Level 3 inputs - September 30	$ 9,729	$ 9,270	$ 9,729	$ 9,270

Table of Contents

The changes in fair value of assets and liabilities recorded at fair value through earnings on a recurring basis and changes in assets and liabilities recorded at fair value on a nonrecurring basis, for which an impairment, or reduction of an impairment, was recognized in the three and nine month periods ended September 30, 2011 and 2010, are summarized as follows:

	Three Months Ended September 30					
	2011			2010		
Description	Trading Gains and (Losses)	Other Gains and (Losses)	Total	Trading Gains and (Losses)	Other Gains and (Losses)	Total
Recurring Items						
Trading securities	$ (24)	$	$ (24)	$ 2	$	$ 2
Borrowed funds		42	42		43	43
Nonrecurring Items						
Foreclosed assets		(10)	(10)			
Originated mortgage servicing rights		(296)	(296)		(83)	(83)
Total	**$ (24)**	**$ (264)**	**$ (288)**	**$ 2**	**$ (40)**	**$ (38)**

	Nine Months Ended September 30					
	2011			2010		
Description	Trading Gains and (Losses)	Other Gains and (Losses)	Total	Trading Gains and (Losses)	Other Gains and (Losses)	Total
Recurring items						
Trading securities	$ (51)	$	$ (51)	$ (36)	$	$ (36)
Borrowed funds		159	159		96	96
Nonrecurring items						
Foreclosed assets		(45)	(45)		(90)	(90)
Originated mortgage servicing rights		(314)	(314)		(232)	(232)
Total	**$ (51)**	**$ (200)**	**$ (251)**	**$ (36)**	**$ (226)**	**$ (262)**

The activity in borrowings which the Corporation has elected to carry at fair value was as follows for the three and nine month periods ended September 30:

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Borrowings carried at fair value - beginning of period	$ 5,306	$ 12,751	$ 10,423	$ 17,804
Paydowns and maturities			(5,000)	(5,000)
Net change in fair value	(42)	(43)	(159)	(96)
Borrowings carried at fair value - September 30	**$ 5,264**	**$ 12,708**	**$ 5,264**	**$ 12,708**
Unpaid principal balance - September 30	**$ 5,000**	**$ 12,154**	**$ 5,000**	**$ 12,154**

NOTE 13 OPERATING SEGMENTS

The Corporation s reportable segments are based on legal entities that account for at least 10% of net operating results. Retail banking operations as of September 30, 2011 and 2010 and each of the three and nine month periods then ended, represented 90% or more of the Corporation s total assets and operating results. As such, no additional segment reporting is presented.

Table of Contents

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

ISABELLA BANK CORPORATION FINANCIAL REVIEW

(All dollars in thousands)

The following is management s discussion and analysis of the financial condition and results of operations for Isabella Bank Corporation. This discussion and analysis is intended to provide a better understanding of the unaudited interim condensed consolidated financial statements and statistical data included elsewhere in this Form 10-Q. This analysis should be read in conjunction with the Corporation s 2010 annual report and with the unaudited interim condensed consolidated financial statements and notes, beginning on page 3 of this report.

Executive Summary

Isabella Bank Corporation, as well as all other financial institutions in Michigan and across the entire country, continues to experience the negative impacts on its operations from the persistent weak economy. The current economic environment has led to historically high levels of loans charged off and foreclosed asset and collection expenses.

In spite of the economic downturn that has occurred over the past few years, the Corporation continues to be profitable, with net income of $7,499 for the nine month period ended September 30, 2011. The Corporation s nonperforming loans have decreased slightly to 0.81% of total loans as of September 30, 2011 compared to 0.83% as of December 31, 2010. The ratio of nonperforming loans to total loans for all banks in the Corporation s peer group was 3.43% as of June 30, 2011 (September 30, 2011 peer group ratios are not yet available). The Corporation s interest margins also continue to be strong, as the net yield on interest earning assets (on a fully tax equivalent basis) was 3.90% for the nine month period ended September 30, 2011.

Recent Legislation

The Health Care and Education Act of 2010 and the Patient Protection and Affordable Care Act could have a significant impact on the Corporation s operating results in future periods. Aside from the potential increases in the Corporation s health care costs, the implementation of the new rules and requirements is likely to require a substantial commitment from the Corporation s management.

In 2010, the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act). The Dodd-Frank Act makes sweeping changes in the regulation of financial institutions aimed at strengthening the sound operation of the financial services sector. Many of the provisions in the Dodd-Frank Act will not become effective until future years. The Dodd-Frank Act includes the following provisions, among other things:

- Directs the Federal Reserve to issue rules which are expected to limit debit-card interchange fees for financial institutions with assets in excess of $10,000,000;

- Creates a new Consumer Financial Protection Bureau that will have rulemaking and enforcement authority for a wide range of consumer protection laws affecting financial institutions;

- Increases leverage and risk-based capital requirements, FDIC premiums and examination fees;

- Provides for new disclosure, say-on-pay, and other rules relating to executive compensation and corporate governance for public companies, including public financial institutions;

- Permanently increases the federal deposit insurance coverage limit to $250;

Provides for mortgage reform addressing a customer s ability to repay, restricts variable-rate lending, and makes more loans subject to disclosure requirements and other restrictions; and

Creates a financial stability oversight council that will recommend to the Federal Reserve increasingly strict rules for capital, leverage, liquidity, risk management and other requirements as companies grow in size and complexity.

Uncertainty remains as to the ultimate impact of the Dodd-Frank Act on the financial services industry as a whole and on the Corporation. In particular, many provisions of the Dodd-Frank Act are subject to rulemaking, which make it difficult to predict the impact of the Dodd-Frank Act on the Corporation, its customers and the financial services industry as a whole. While the overall effects of the Dodd-Frank Act remains unclear, management anticipates that it will be substantial. In the third quarter of 2011, the Corporation began to experience increased compensation costs as a result of staff additions necessary to comply with the new regulations.

Table of Contents

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, 2010. 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 and assessment of other-than-temporary impairment 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 appropriateness 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 the detailed discussion to follow under the heading Allowance for Loan Losses .

United States generally accepted accounting principles require that the Corporation determine the fair value 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 measures in the determination of the fair value, including the use of discounted cash flow analysis, market appraisals, and projected future revenue streams. For certain items that 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 that are carried at fair value. Changes in the fair value of available-for-sale investment securities are included as a component of 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 in the consolidated statements of income. The change in value of trading investment securities is included in current earnings. Management evaluates available-for-sale securities for indications of losses that are considered other-than-temporary, if any, on a regular basis. 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 Corporation invested $11,000 in auction rate money market preferred investment security instruments, which are classified as available-for-sale securities and reflected at estimated fair value. Due to credit market uncertainty, the trading for these securities has been limited. As a result of the limited trading of these securities, $7,800 converted to preferred stock with debt like characteristics in 2009.

Due to the limited trading activity of these securities, the fair values were estimated utilizing a hybrid of market value and discounted cash flow analysis as of September 30, 2011 and a discounted cash flow analysis as of December 31, 2010. These analyses considered creditworthiness of the counterparty, the timing of expected future cash flows, the current volume of trading activity, and recent trade prices. The discount rates used were determined by using the interest rates of similarly rated financial institutions debt based on the weighted average of a range of terms for corporate bond interest rates, which were obtained from published sources. All securities have continual call dates. The Corporation calculated the present value assuming a 3 year nonamortizing balloon using discount rates between 4.79% and 6.89% as of September 30, 2011.

As of September 30, 2011, the Corporation held an auction rate money market preferred security and preferred stocks which continued to be in an unrealized loss position as a result of the securities interest rates, as they are currently lower than the offering rates of securities with similar characteristics. Despite the limited trading of these securities, management has determined that any declines in the fair value of these securities are the result of changes in interest rates and not risks related to the underlying credit quality of the security. Additionally, none of these securities are deemed to be below investment grade, and management does not intend to sell the securities in an unrealized loss position, and it is more likely than not that the Corporation will not have to sell the securities before recovery of their cost basis. As a result, the Corporation has not recognized an other-than-temporary impairment related to these declines in fair value.

Table of Contents

RESULTS OF OPERATIONS

Selected Financial Data

The following table outlines the results of operations for the three and nine month periods ended September 30, 2011 and 2010.

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
INCOME STATEMENT DATA				
Net interest income	$ 10,462	$ 10,010	$ 31,215	$ 29,690
Provision for loan losses	963	968	2,383	3,231
Net income	2,511	2,553	7,499	6,727
PER SHARE DATA				
Earnings per share				
Basic	$ 0.33	$ 0.34	$ 0.99	$ 0.89
Diluted	0.32	0.33	0.97	0.87
Cash dividends per common share	0.19	0.18	0.57	0.54
Book value (at end of period)	20.53	19.59	20.53	19.59
RATIOS				
Average primary capital to average assets	12.12%	12.60%	12.36%	13.07%
Net income to average assets (annualized)	0.77	0.85	0.79	0.77
Net income to average equity (annualized)	6.86	7.32	6.84	6.35
Net income to average tangible equity (annualized)	9.97	10.79	10.17	9.54

Net Interest Income

Net interest income equals interest income less interest expense and is the primary source of income for the Corporation. Interest income includes loan fees of $534 and $1,755 for the three and nine month periods ended September 30, 2011, respectively, as compared to $524 and $1,426 during the same periods in 2010. 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.

Table of Contents

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. Non accruing 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.

The following table displays the results for the three month periods ended September 30:

	2011			2010		
	Average Balance	Tax Equivalent Interest	Average Yield\ Rate	Average Balance	Tax Equivalent Interest	Average Yield\ Rate
INTEREST EARNING ASSETS						
Loans	$ 746,856	$ 11,365	6.09%	$ 726,107	$ 11,769	6.48%
Taxable investment securities	243,123	1,800	2.96%	162,262	1,288	3.18%
Nontaxable investment securities	135,433	1,882	5.56%	119,470	1,683	5.63%
Trading account securities	4,905	68	5.55%	6,602	91	5.51%
Other	38,412	121	1.26%	57,251	119	0.83%
Total earning assets	1,168,729	15,236	5.21%	1,071,692	14,950	5.58%
NONEARNING ASSETS						
Allowance for loan losses	(12,496)			(13,256)		
Cash and demand deposits due from banks	20,459			19,699		
Premises and equipment	24,361			24,793		
Accrued income and other assets	98,126			95,175		
Total assets	$ 1,299,179			$ 1,198,103		
INTEREST BEARING LIABILITIES						
Interest bearing demand deposits	$ 155,385	49	0.13%	$ 140,203	40	0.11%
Savings deposits	192,457	117	0.24%	167,350	97	0.23%
Time deposits	469,791	2,559	2.18%	433,763	2,751	2.54%
Borrowed funds	202,451	1,345	2.66%	195,532	1,408	2.88%
Total interest bearing liabilities	1,020,084	4,070	1.60%	936,848	4,296	1.83%
NONINTEREST BEARING LIABILITIES						
Demand deposits	114,875			105,295		
Other	17,706			16,542		
Shareholders equity	146,514			139,418		
Total liabilities and shareholders equity	$ 1,299,179			$ 1,198,103		
Net interest income (FTE)		$ 11,166			$ 10,654	
Net yield on interest earning assets (FTE)			3.82%			3.98%

Table of Contents

The following table displays the results for the nine month periods ended September 30:

	2011 Average Balance	2011 Tax Equivalent Interest	2011 Average Yield / Rate	2010 Average Balance	2010 Tax Equivalent Interest	2010 Average Yield / Rate
INTEREST EARNING ASSETS						
Loans	$ 741,308	$ 34,190	6.15%	$ 725,394	$ 34,937	6.42%
Taxable investment securities	226,104	5,149	3.04%	152,642	3,913	3.42%
Nontaxable investment securities	134,948	5,830	5.76%	118,779	5,211	5.85%
Trading account securities	5,174	217	5.59%	8,779	352	5.35%
Other	38,407	388	1.35%	43,012	333	1.03%
Total earning assets	1,145,941	45,774	5.33%	1,048,606	44,746	5.69%
NONEARNING ASSETS						
Allowance for loan losses	(12,544)			(13,323)		
Cash and demand deposits due from banks	20,111			17,228		
Premises and equipment	24,335			24,564		
Accrued income and other assets	95,005			91,636		
Total assets	$ 1,272,848			$ 1,168,711		
INTEREST BEARING LIABILITIES						
Savings deposits	$ 152,436	142	0.12%	$ 135,848	110	0.11%
Time deposits	192,820	363	0.25%	167,429	282	0.22%
Borrowed funds	463,950	7,781	2.24%	424,301	8,253	2.59%
	193,021	3,938	2.72%	187,685	4,342	3.08%
Total interest bearing liabilities	1,002,227	12,224	1.63%	915,263	12,987	1.89%
NONINTEREST BEARING LIABILITIES						
Demand deposits	111,084			100,496		
Other	13,266			11,751		
Shareholders equity	146,271			141,201		
Total liabilities and shareholders equity	$ 1,272,848			$ 1,168,711		
Net interest income (FTE)		$ 33,550			$ 31,759	
Net yield on interest earning assets (FTE)			3.90%			4.04%

39

Table of Contents

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, 2011 Compared to September 30, 2010 Increase (Decrease) Due to			Nine Months Ended September 30, 2011 Compared to September 30, 2010 Increase (Decrease) Due to		
	Volume	Rate	Net	Volume	Rate	Net
CHANGES IN INTEREST INCOME						
Loans	$ 330	$ (734)	$ (404)	$ 755	$ (1,502)	$ (747)
Taxable investment securities	604	(92)	512	1,713	(477)	1,236
Nontaxable investment securities	222	(23)	199	700	(81)	619
Trading account securities	(24)	1	(23)	(151)	16	(135)
Other	(47)	49	2	(38)	93	55
Total changes in interest income	1,085	(799)	286	2,979	(1,951)	1,028
CHANGES IN INTEREST EXPENSE						
Interest bearing demand deposits	5	4	9	14	18	32
Savings deposits	15	5	20	46	35	81
Time deposits	217	(409)	(192)	728	(1,200)	(472)
Borrowed funds	49	(112)	(63)	121	(525)	(404)
Total changes in interest expense	286	(512)	(226)	909	(1,672)	(763)
Net change in interest margin (FTE)	$ 799	$ (287)	$ 512	$ 2,070	$ (279)	$ 1,791

Despite the declines in interest rates over the last year (for both interest earning assets and interest bearing liabilities), the Corporation has been able to maintain adequate interest margins.

The Corporation anticipates that net interest margin yield will decline slightly during the remainder of 2011 due to the following factors:

Based on the current economic conditions, management does not anticipate any changes in the target Fed Funds rate in the foreseeable future. As such, the Corporation does not anticipate significant, if any, changes in market rates. However, there is the potential for declines in rates earned on interest earning assets. Most of the potential declines would arise out of the Corporation s investment portfolio, as securities that are either called or mature during the remainder of 2011 will likely be reinvested at significantly lower rates.

Average loans to assets was 58.2% in the first nine months of 2011 as compared to 62.1% in 2010. The decline represents a shift of assets from higher yielding loans into lower yielding investments, which negatively impacts net interest margin yield.

The interest rates on many types of loans including home equity lines of credit and investment securities with acceptable credit and interest rate risks are currently priced at or below the Corporation s quarter to date net yield on interest earning assets of 3.82%. In order to earn additional net interest income, the Corporation is continuing to extend loans and purchase investments that will increase net income but decrease net interest margin yield.

While the Corporation s liability sensitive balance sheet has allowed it to benefit from decreases in interest rates, it also makes the Corporation sensitive to increases in deposit and borrowing rates. As part of the Corporation s goal to minimize the potential negative impacts of possible increases in future interest rates, management is actively working to lengthen the terms of its interest bearing liabilities. This lengthening has increased the Corporation s cost of funding, reducing net interest income in the short term.

Allowance for Loan Losses

The viability of any financial institution is ultimately determined by its management of credit risk. Loans outstanding represent the Corporation s single largest concentration of risk. The allowance for loan losses is management s estimation of probable 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:

	2011	2010	Variance
Allowance for loan losses - January 1	$ 12,373	$ 12,979	$ (606)
Loans charged off			
Commercial and agricultural	1,085	1,779	(694)
Real estate mortgage	1,735	1,884	(149)
Consumer	382	431	(49)
Total loans charged off	**3,202**	**4,094**	**(892)**
Recoveries			
Commercial and agricultural	422	323	99
Real estate mortgage	142	364	(222)
Consumer	255	216	39
Total recoveries	**819**	**903**	**(84)**
Provision for loan losses	2,383	3,231	(848)
Allowance for loan losses - September 30	**$ 12,373**	**$ 13,019**	**$ (646)**
Net loans charged off	$ 2,383	$ 3,191	$ (808)
Year to date average loans outstanding	741,308	725,394	15,914
Net loans charged off to average loans outstanding	**0.32%**	**0.44%**	**-0.12%**
Total amount of loans outstanding	**$ 750,163**	**$ 726,069**	**$ 24,094**
Allowance for loan losses as a % of loans	**1.65%**	**1.79%**	**-0.14%**

The Corporation originates and sells fixed rate residential real estate mortgages to the Federal Home Loan Mortgage Corporation (Freddie Mac). The Corporation has not originated loans for either trading or its own portfolio that would be classified as subprime, nor has it originated adjustable rate mortgages or financed loans for more than 80% of market value unless insured by private third party insurance.

As shown in the preceding table, when comparing the first nine months of 2011 to the same period in 2010, net loans charged off decreased by $808. This improvement allowed the Corporation to reduce its provision for loan losses for the nine month period ended September 30, 2011 as compared to 2010. While there have been marked improvements in the level of net loans charged off, which has contributed to the Corporation s ability to reduce its provision for loan losses, the overall local, regional and national economies have yet to show consistent improvement.

The Corporation allocates the allowance throughout its loan portfolio based on management s assessment of the underlying risks associated with each loan segment. Management s assessments include allocations based on specific impairment allocations, historical loss histories, internally assigned credit ratings, and past due and nonaccrual balances. A portion of the allowance for loan

41

Table of Contents

losses is not allocated to any one loan segment, but is instead a reflection of other qualitative risks within the Corporation s loan portfolio.

For further discussion on the allocation of the allowance for loan losses, see Note 6 - Loans and Allowance for Loan Losses to the Corporation s interim condensed consolidated financial statements.

Loans Past Due and Loans in Nonaccrual Status

Increases in past due and nonaccrual loans can have a significant impact on the allowance for loan losses. To determine the potential impact, and corresponding estimated losses, management analyzes its historical loss trends on loans past due 30-89 days, 90 days or more, and nonaccrual loans.

The following tables summarize the Corporation s past due and nonaccrual loans as of:

	September 30, 2011			
	Accruing Loans Past Due			Total Past Due
	30-89 Days	90 Days or More	Nonaccrual	and Nonaccrual
Commercial and agricultural	$ 3,986	$ 268	$ 3,605	$ 7,859
Residential mortgage	3,276	492	1,688	5,456
Consumer installment	179	1		180
	$ 7,441	$ 761	$ 5,293	$ 13,495

	December 31, 2010			
	Accruing Loans Past Due			Total Past Due
	30-89 Days	90 Days or More	Nonaccrual	and Nonaccrual
Commercial and agricultural	$ 5,291	$ 175	$ 4,140	$ 9,606
Residential mortgage	6,339	310	1,470	8,119
Consumer installment	308	1		309
	$ 11,938	$ 486	$ 5,610	$ 18,034

Table of Contents

Troubled Debt Restructurings

The following table summarizes the Corporation s troubled debt restructurings component of its impaired loans as of:

	September 30 2011			December 31 2010			
	Accruing Interest	Nonaccrual	Total	Accruing Interest	Nonaccrual	Total	Total Change
Current	$ 19,304	$ 411	$ 19,715	$ 4,798	$ 499	$ 5,297	$ 14,418
Past due 30-89 days	243	23	266	277	26	303	(37)
Past due 90 days or more	50	106	156		163	163	(7)
Total troubled debt restructurings	**$ 19,597**	**$ 540**	**$ 20,137**	**$ 5,075**	**$ 688**	**$ 5,763**	**$ 14,374**

The Corporation has taken aggressive actions to avoid foreclosures on borrowers who are willing to work with the Corporation in modifying their loans, thus making them more affordable. These loan modifications have allowed borrowers to develop a payment structure that will allow them to continue making payments in lieu of foreclosure. Troubled debt restructurings that have been placed in nonaccrual status may be placed back on accrual status after six months of continued performance.

As a result of adopting the amendments in ASU No. 2011-02, the Corporation reassessed all loan restructurings that occurred on or after January 1, 2011 for identification as troubled debt restructurings (TDR s). The Corporation identified as TDR s certain loans for which the allowance for loan losses had previously been measured under a general allowance for loan losses methodology. Upon identifying those loans as TDR s, the Corporation identified them as impaired. The amendments in ASU No. 2011-02 require prospective application of the impairment measurement guidance for those loans newly identified as impaired. The Corporation s recorded investment in loans for which the allowance for credit losses was previously measured under a general allowance for credit losses methodology and are now impaired was $9,081, with a specific valuation allowance of $1,601 as of September 30, 2011.

Loan modifications are considered to be TDR s when the modification results in terms outside of normal lending practices to a borrower who is experiencing financial difficulties.

Typical concessions granted include, but are not limited to:

1. Agreeing to interest rates below prevailing market rates for debt with similar risk characteristics.

2. Extending the amortization period beyond typical lending guidelines for debt with similar risk characteristics.

3. Forbearance of principal.

4. Forbearance of accrued interest.

To determine if a borrower is experiencing financial difficulties, the Corporation considers if:

1. The borrower is currently in default on any of their debt.

2. It is likely that the borrower would default on any of their debt if the concession was not granted.

3. The borrower s cash flow was sufficient to service all of their debt if the concession was not granted.

4. The borrower has declared, or is in the process of declaring, bankruptcy.

5. The borrower is unlikely to continue as a going concern (if the entity is a business).

Table of Contents

The following tables summarize concessions granted by the Corporation to borrowers in financial difficulties in the three and nine month periods ended September 30, 2011:

	Loans Restructured in the Three Months Ended September 30, 2011					
	Below Market Interest Rate		Extension of Amortization Period		Below Market Interest Rate and Extension of Amortization Period	
	Number of Loans	Pre-Modification Recorded Investment	Number of Loans	Pre-Modification Recorded Investment	Number of Loans	Pre-Modification Recorded Investment
Commercial						
Commercial real estate	1	$ 408		$		$
Commercial other	21	4,069				
Total commercial	22	4,477				
Agricultural other	3	143				
Residential mortgage						
Senior liens	1	85	1	7	1	73
Consumer secured	3	34				
Total	**29&**					