BUCKLE INC
Form 8-K
August 21, 2008

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

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

August 21, 2008
Date of Report (date of earliest event reported)

THE BUCKLE, INC.
(Exact name of Registrant as specified in its charter)

Nebraska	**001-12951**	**47-0366193**
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. Employer Identification No.)

2407 West 24th Street, Kearney, Nebraska	**68845-4915**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(308) 236-8491**

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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ITEM 2.02. Results of Operations and Financial Condition

On August 21, 2008, The Buckle, Inc. announced financial results for the fiscal quarter ended August 2, 2008. The full text of the press release is furnished as Exhibit 99.1 to this report.

The information shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 (the "Exchange Act"), as amended, and shall not be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Exchange Act, except as set forth by specific reference in such filing.

ITEM 9.01(d). Exhibits

Exhibit 99.1 Press Release Dated August 21, 2008

SIGNATURES

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

The Buckle, Inc.

Date: August 21, 2008	By:	/s/ KAREN B. RHOADS Name: Karen B. Rhoads Title: Vice President of Finance, Treasurer, and Chief Financial Officer

EXHIBIT INDEX

Exhibit 99.1 Press Release Dated August 21, 2008

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711

Director fees
775

819

885

Education and travel
625

502

588

Postage and freight
397

387

389

Printing and supplies
367

396

424

Loan underwriting fees
361

423

403

Consulting fees
349

315

482

Legal fees
320

359

268

Other losses
250

109

300

Amortization of deposit premium
183

221

260

State taxes
171

140

187

Foreclosed asset and collection
122

211

202

All other
1,628

1,517

1,123

Total other
$
8,630

$
8,350

$
9,051

Note 11 – Federal Income Taxes

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

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

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

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

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

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

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

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

Note 12 – Off-Balance-Sheet Activities

Credit-Related Financial Instruments

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

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

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

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

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

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

Note 13 – On-Balance Sheet Activities

Derivative Loan Commitments

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

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

Forward Loan Sale Commitments

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

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

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

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

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

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Note 14 – Commitments and Other Matters

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

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

Note 15 – Minimum Regulatory Capital Requirements

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

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

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

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

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

Note 16 – Benefit Plans

401(k) Plan

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

For 2012, we made a 3.0% safe harbor contribution for all eligible employees and matching contributions equal to 50% of the first 4.0% of an employee’s compensation contributed to the Plan during the year. Employees were 100% vested in the safe harbor contributions and were 0% vested through their first two years of employment and were 100% vested after 6 years of service for matching contributions.

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

Defined Benefit Pension Plan

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Plan Assets

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

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

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

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

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

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

We do not anticipate any contributions to the plan in 2015.

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

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

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

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

Equity Compensation Plan

Pursuant to the terms of the Directors Plan, our directors are required to invest at least 25% of their board fees in our common stock. These stock investments can be made either through deferred fees or through the purchase of shares through the Dividend Reinvestment Plan. Deferred fees, under the Directors Plan, are converted on a quarterly basis into shares of our common stock based on the fair value of a share of common stock as of the relevant valuation date. Stock credited to a participant's account is eligible for stock and cash dividends as declared. Dividend Reinvestment Plan shares are purchased on a monthly basis pursuant to the Dividend Reinvestment Plan.

Distribution of deferred fees from the Directors Plan occurs when the participant retires from the Board or upon the occurrence of certain other events. The participant is eligible to receive a lump-sum, in-kind, distribution of all of the stock that is then in his or her account, and any unconverted cash will be converted to and rounded up to whole shares of stock and distributed, as well. The Directors Plan does not allow for cash settlement, and therefore, such share-based payment awards qualify for classification as equity. All authorized but unissued shares of common stock are eligible for issuance under the Directors Plan. We may also purchase shares of common stock on the open market to meet our obligations under the Directors Plan.

We maintain the Rabbi Trust to fund the Directors Plan. The Rabbi Trust is an irrevocable grantor trust to which we may contribute assets for the limited purpose of funding a nonqualified deferred compensation plan. Although we may not reach the assets of the Rabbi Trust for any purpose other than meeting our obligations under the Directors Plan, the assets of the Rabbi Trust remain subject to the claims of our creditors and are included in the consolidated financial statements. We may contribute cash or common stock to the Rabbi Trust from time to time for the sole purpose of funding the Directors Plan. The Rabbi Trust will use any cash that we contributed to purchase shares of our common stock on the open market through our brokerage services department.

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

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

Other Employee Benefit Plans

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

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

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

Note 17 – Accumulated Other Comprehensive Income (Loss)

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

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

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

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

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

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

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

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

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Note 18 – Related Party Transactions

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

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

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

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

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

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

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

Note 19 – Fair Value

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

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

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

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

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

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

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

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

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

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

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

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

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

Equity securities without readily determinable fair values: Included in equity securities without readily determinable fair values are FHLB stock and FRB stock as well as our ownership interests in Corporate Settlement Solutions, LLC and Valley Financial Corporation. The investment in Corporate Settlement Solutions, LLC, a title insurance company, was made in the first quarter 2008. We are not the managing entity of Corporate Settlement Solutions, LLC, and therefore, we account for our investment under the equity method of accounting. Valley Financial Corporation is the

parent company of 1st State Bank in Saginaw, Michigan, which is a community bank that opened in 2005. We made investments in Valley Financial Corporation in 2004 and in 2007.

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

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

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

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

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

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

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

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

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

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

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

Commitments to extend credit, standby letters of credit, and undisbursed loans: Our commitments to extend credit, standby letters of credit, and undisbursed funds have no carrying amount and are estimated to have no realizable fair

value. Historically, a majority of the unused commitments to extend credit have not been drawn upon and, generally, we do not receive fees in connection with these commitments other than standby letter of credit fees, which are not significant.

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

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

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

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Note 20 – Parent Company Only Financial Information

Condensed Balance Sheets

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

Condensed Statements of Income

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

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Condensed Statements of Cash Flows

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

Note 21 – Operating Segments

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

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SHAREHOLDERS' INFORMATION

Annual Meeting

The Annual Meeting of Shareholders will be held at 5:00 p.m., Tuesday, May 5, 2015, Comfort Inn Conference Center, 2424 S. Mission Street, Mt. Pleasant, Michigan.

Financial Information and Form 10-K

Copies of the 2014 Annual Report, Isabella Bank Corporation Form 10-K, and other financial information not contained herein are available on the Bank's website (www.isabellabank.com) under the Investors tab, or may be obtained, without charge, by writing to:

Debra Campbell
Secretary
Isabella Bank Corporation
401 N. Main St.
Mt. Pleasant, Michigan 48858

Mission Statement

To create an operating environment that will provide shareholders with sustained growth in their investment while maintaining our independence and subsidiaries' autonomy.

Equal Employment Opportunity

The equal employment opportunity clauses in Section 202 of the Executive Order 11246, as amended; 38 USC 2012, Vietnam Era Veterans Readjustment Act of 1974; Section 503 of the Rehabilitation Act of 1973, as amended; relative to equal employment opportunity and implementing rules and regulations of the Secretary of Labor are adhered to and supported by Isabella Bank Corporation, and its subsidiaries.