IBT BANCORP INC /MI/
Form 10-K
March 12, 2007

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the fiscal year ended December 31, 2006

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

IBT BANCORP, INC.
(Exact name of registrant as specified in its charter)

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

200 East Broadway Street, Mt. Pleasant, Michigan 48858
(Address of principal executive offices) (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|---|---|

Securities registered pursuant to Section 12(g) of the Act:

Common Stock - No Par Value
(Title of Class)

Indicated by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

[ ] Yes [X] No

Indicated by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

[ ] Yes [X] No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

[X] Yes [ ] No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

[X]

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

[ ] Large accelerated filer [X] Accelerated Filer [ ] Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

[ ] Yes [X] No

The aggregate market value of the voting stock held by non-affiliates of the registrant was $241,615,088 as of the last business day of the registrant's most recently completed second fiscal quarter.

The number of shares outstanding of the registrant's Common Stock (no par value) was 6,335,861 as of February 27, 2007.

DOCUMENTS INCORPORATED BY REFERENCE

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

| Documents | Part of Form 10-K Incorporated into |
|---|---|
| IBT Bancorp, Inc. Proxy Statement for its Annual Meeting of Shareholders to be held May 15, 2007 | Part III |

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PART I

ITEM 1. BUSINESS (ALL DOLLARS IN THOUSANDS)

GENERAL

IBT Bancorp, Inc. (the Corporation) is a registered financial services holding company incorporated in September 1988 under Michigan law. The Corporation has six subsidiaries: Isabella Bank and Trust, FSB Bank, (together, "the Banks"), IBT Title and Insurance Agency, Inc. ("IBT Title"), IBT Personnel, LLC, IB&T Employee Leasing, LLC, and Financial Group Information Services. Isabella Bank and Trust has seventeen banking offices located throughout Isabella County, northeastern Montcalm County, Mecosta County and southern Clare County, all of which are located in central Michigan. FSB Bank has six banking offices in Gratiot, Clare, and Saginaw Counties. IBT Title provides title insurance, abstract searches, and closes loans in Isabella, Montcalm, Clare, Mecosta, Roscommon, and Newaygo Counties. IBT Personnel, LLC and IB & T Employee Leasing, LLC, are employee leasing companies. Financial Group Information Services renders computer services to the Corporation and it's subsidiaries. All employees of the Corporation are employed by IBT Personnel and IB & T Employee Leasing and are leased to each individual subsidiary. The principal city in which the Corporation operates is Mount Pleasant, which has a population of approximately 26,000. Markets served include Isabella, Gratiot, Mecosta, southwestern Midland, western Saginaw, northern Montcalm, and southern Clare counties. The area includes significant agricultural production, light manufacturing, retail, gaming and tourism, and two universities with combined enrollment of approximately 30,000 students. The area unemployment rate is approximately 5.7% and average household income is $38.

On October 3, 2006, Farmers State Bank of Breckenridge (Farmers) acquired 100% of the Farwell State Savings Bank (Farwell). As a result of this merger, Farwell merged with and into Farmers, which was then renamed FSB Bank. The acquisition was accounted for as a purchase.

Isabella Bank and Trust sponsors the IBT Foundation (the "Foundation"), which is a nonprofit entity formed for the purpose of distributing charitable donations to recipient organizations generally located in the communities serviced by Isabella Bank and Trust. Isabella Bank and Trust periodically makes charitable contributions in the form of cash transfers to the Foundation. The Foundation is administered by members of the Corporation's Board of Directors. The assets and transactions of the Foundation are not included in the consolidated financial statements of IBT Bancorp, Inc. The assets of the Foundation as of December 31, 2006 were $1,318.

COMPETITION

The Corporation competes with other commercial banks, many of which are subsidiaries of other bank holding companies, savings and loan associations, mortgage brokers, finance companies, credit unions, and retail brokerage firms. The Banks are community banks and focus on providing high-quality, personalized service at a fair price. The Banks offer a broad array of banking services to businesses, institutions, and individuals. Deposit services offered include checking accounts, savings accounts, certificates of deposit, and direct deposits. Lending activity includes loans made pursuant to lines of credit, real estate loans, consumer loans, student loans, and credit card loans. Other financial related products include trust services, title insurance, stocks, investment securities, bonds, mutual fund sales, 24 hour banking service locally and nationally through shared automatic teller machines, and safe deposit box rentals.

LENDING

The Banks limit lending activities to local markets and have not purchased any loans from the secondary market. They do not make loans to fund leveraged buyouts, they have no foreign corporate or government loans, and limited holdings of corporate debt securities. The general lending philosophy is to avoid concentrations to individuals and business segments. The following table sets forth the composition of the Corporation's loan portfolio as of December 31, 2006.



LOANS BY MAJOR LENDING CATEGORY

| (in thousands) | Amount | % |
|---|---|---|
| Residential real estate | | |
| One to four family residential | $276,238 | 46.74% |
| Construction and land development | 24,412 | 4.13% |
| Total | 300,650 | 50.87% |
| Commercial | | |
| Real estate | 142,464 | 24.10% |
| Farmland | 29,223 | 4.94% |
| Agricultural production | 18,079 | 3.06% |
| Commercial operating and other | 70,237 | 11.88% |
| Total | 260,003 | 43.99% |
| Other consumer installment | | |
| Other personal | 29,783 | 5.04% |
| Credit cards | 606 | 0.10% |
| Total | 30,389 | 5.14% |
| TOTAL | $591,042 | 100.00% |

First and second residential real estate mortgages are the single largest category of loans. The Corporation, through its Banks, offers 3 and 5 year fixed rate balloon mortgages with a maximum 30 year amortization, and 15 and 30 year amortized fixed rate loans. Fixed rate loans with an amortization of greater than 15 years are sold upon origination to the Federal Home Loan Mortgage Association ("Freddie Mac"). Fixed rate residential mortgage loans with an amortization of 15 years or less may be held in the Banks' portfolios, 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.

Lending policies generally limit the maximum loan-to-value ratio on residential mortgages to 95% of the lower of 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%. The majority of the loans 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, 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. Escrow accounts for taxes and insurance are required on all loans with loan-to-value ratio in excess of 80%. All mortgage loan requests are reviewed by a mortgage loan committee; loans in excess of $400 require the approval of the subsidiary bank's Internal Loan Committee, Board of Directors, or its loan committee.

Construction and land development loans consist mostly of 1 to 4 family residential properties. These loans 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 either converted to permanent loans at the completion of construction or are paid off from financing provided through another financial institution.

Commercial loans include loans for commercial real estate, farmland and agricultural production, state and political subdivisions, and commercial operating loans. 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 generally limiting the amount of loans to any one borrower to $8,500 on a consolidated basis at its subsidiary banks. Borrowers with credit needs of more than $8,500 are serviced through the use of loan participations with other commercial banks. All commercial real estate loans 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 proprietorships. In addition, the Corporation requires annual financial statements, prepares cash flow analyses, and reviews credit reports.



Consumer loans granted include automobile loans, secured and unsecured personal loans, credit cards, student loans, and overdraft protection. 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.

In summary, because approximately 80% of the Corporation's loan portfolio is secured by real estate, a decline in real estate values driven by deteriorating state economic conditions could have an adverse impact on lending operations.

SUPERVISION AND REGULATION

The Corporation is subject to supervision and regulation by the Securities and Exchange Commission under the Securities Act of 1933 and the Securities Exchange Act of 1934 and by the Federal Reserve Board under the Bank Holding Company Act of 1956 as amended ("BHC Act") and Financial Services Holding Company Act of 2000. A bank holding company and its subsidiaries are able to conduct only the business of commercial banking and activities closely related or incidental to it. (See Regulation below.)

Isabella Bank and Trust and FSB Bank are chartered by the State of Michigan. Isabella Bank and Trust is a member of the Federal Reserve System and FSB Bank is a Federal Deposit Insurance Corporation (FDIC) member, and both of the Banks' deposits are insured by the FDIC to the extent provided by law. The Banks are members of the Federal Home Loan Bank of Indianapolis. The Banks are supervised and regulated by the Michigan Office of Financial and Insurance Services (OFIS), the Federal Reserve Board, and the FDIC. (See Regulation below.)

IBT Title, a non-banking subsidiary of IBT Bancorp, Inc., is a licensed title insurance agency and is subject to regulation by the OFIS, as well as the Federal Real Estate Settlement Procedures Act. IBT Title owns a membership interest in a similar title insurance agency, LTi Title, LLC.



PERSONNEL

As of December 31, 2006, the Corporation and its subsidiaries had 303 full-time leased employees. The Corporation provides group life, health, accident, disability and other insurance programs for employees and a number of other employee benefit programs. The Corporation believes its relationship with its employees to be good.

LEGAL PROCEEDINGS

There are various claims and lawsuits in which the Banks are periodically involved, such as claims to enforce liens, condemnation proceedings on making and servicing of real property loans and other issues incidental to the Banks' business. However, neither the Corporation nor the Banks are involved in any material pending litigation.

AVAILABLE INFORMATION

The Corporation does not maintain a website. Consequently, the Corporation's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Definitive Proxy Statements, Current Reports on Form 8-K and amendments to those reports are not available on a corporate website. The Corporation will provide paper copies of its SEC reports free of charge upon request of a shareholder.

The SEC maintains an internet site (http://www.sec.gov) that contains reports, proxy and information statements and other information regarding the Corporation (CIK #0000842517) and other issuers.

REGULATION

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

THE CORPORATION

The Corporation, as a financial services holding company, is regulated under the BHC Act, and is subject to the supervision of the Board of Governors of the Federal Reserve System ("Federal Reserve Board"). The Corporation is registered as a financial services holding company with the Federal Reserve Board and is required to file with the Federal Reserve Board an annual report and such additional information as the Federal Reserve Board requires. The Federal Reserve Board may also make inspections and examinations of the Corporation and its subsidiaries.

Prior to March 13, 2000, a bank holding company generally was prohibited under the BHC Act from acquiring the beneficial ownership or control of more than 5% of the voting shares or substantially all the assets of any company, including a bank, without the Federal Reserve Board's prior approval. Also, prior to March 13, 2000, a bank holding company generally was limited to engaging in banking and such other activities as determined by the Federal Reserve Board to be closely related to banking.

Under the Gramm-Leach-Bliley Act of 1999 ("GLB Act"), beginning March 13, 2000, an eligible bank holding company was able to elect to become a financial holding company and thereafter affiliate with securities firms and insurance companies and engage in other activities that are financial in nature. The GLB Act defines "financial in nature" to include securities underwriting, dealing and market making; sponsoring mutual funds and investment companies; insurance underwriting and agency; merchant banking activities; activities that the Federal Reserve Board has determined to be closely related to banking; and other activities that the Federal Reserve Board, after consultation with the Secretary of the Treasury, determines by regulation or order to be financial in nature or incidental to a financial activity. No Federal Reserve Board



approval is required for a financial holding company to acquire a company, other than a bank holding company, bank or savings association, engaged in activities that are financial in nature or incidental to activities that are financial in nature, as defined in the GLB Act or as determined by the Federal Reserve Board.

A bank holding company is eligible to become a financial holding company if each of its subsidiary banks and savings associations is well capitalized under the prompt corrective action provisions of the Federal Deposit Insurance Act ("FDI Act"), is well managed and has a rating under the Community Reinvestment Act (CRA) of satisfactory or better. If any bank or savings association subsidiary of a financial holding company ceases to be well capitalized or well managed, the Federal Reserve Board may require the financial holding company to divest the subsidiary. Alternatively, the financial holding company may elect to conform its activities to those permissible for bank holding companies that do not elect to become financial holding companies. If any bank or savings association subsidiary of a financial holding company receives a CRA rating of less than satisfactory, the financial holding company will be prohibited from engaging in new activities or acquiring companies other than bank holding companies, banks or savings associations.

The Corporation became a financial holding company effective March 13, 2000. It continues to maintain its status as a bank holding company for purposes of other Federal Reserve Board regulations.

Under Federal Reserve Board policy, the Corporation is expected to act as a source of financial strength to its subsidiary banks and to commit resources to support its subsidiaries. This support may be required at times when, in the absence of such Federal Reserve Board policy, the Corporation would not otherwise be required to provide it.

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

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

The Sarbanes-Oxley Act of 2002 ("SOX") contains important requirements for public companies in the area of financial disclosure and corporate governance. In accordance with Section 302(a) of SOX, a written certification by the Corporation's principal executive and financial officer is required. This certification attests that the Corporation's quarterly and annual reports filed with the SEC do not contain any untrue statement of a material fact. See the Certifications filed as Exhibits 31 (a) and (b) to this Form 10-K for such certification of the financial statements and other information for this 2006 Form 10-K. The Corporation has also implemented a program designed to comply with Section 404 of SOX, which included the identification of significant processes and accounts, documentation of the design of control effectiveness over process and entity level controls, and testing of the operating effectiveness of key controls. See Item 9A, "Controls and Procedures" for the Corporation's evaluation of its disclosure controls and procedures.

Certain additional information concerning regulatory guidelines for capital adequacy and other regulatory matters is presented herein under the caption "Capital" on page 27 and in the notes to the consolidated financial statements "Note 16 - Commitments and Other Matters" and "Note 17 - Minimum Regulatory Capital Requirements".

SUBSIDIARY BANKS

The Banks are subject to regulation and examination primarily by OFIS and are also subject to regulation and examination by the FDIC and / or the Federal Reserve Board.

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



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

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

The payment of dividends by the Corporation and the Banks is also affected by various regulatory requirements and policies, such as the requirement to maintain adequate capital above regulatory guidelines. Federal laws impose further restrictions on the payment of dividends by insured banks that fail to meet specified capital levels. The FDIC may prevent an insured bank from paying dividends if the bank is in default of payment of any assessment due to the FDIC. In addition, payment of dividends by a bank may be prevented by the applicable federal regulatory authority if such payment is determined, by reason of the financial condition of such bank, to be an unsafe and unsound banking practice. The Federal Reserve Board and the FDIC have issued policy statements providing that bank holding companies and insured banks should generally pay dividends only out of current operating earnings.

The aforementioned regulations and restrictions may limit the Corporation's ability to obtain funds from its subsidiary banks for its cash needs, including payment of dividends and operating expenses.

The activities and operations of the Banks are also subject to other federal and state laws and regulations, including usury and consumer credit laws, the Federal Truth-in-Lending Act, Truth-in-Saving and Regulation Z of the Federal Reserve Board, the Federal Bank Merger Act, and the Bank Secrecy Act.

ITEM 1A. RISK FACTORS

In the normal course of business the Corporation is exposed to various risks. These risks include credit risk, interest rate risk, liquidity risk, operational risk, compliance risk, economic risk, accounting risk, and disruption of infrastructure. These risks, if not managed correctly, could have a significant impact on earnings and capital. Management balances the Corporation's strategic goals, including revenue and profitability objectives, with associated risks through the use of policies, systems and procedures which have been adopted to identify, assess, control, monitor, and manage in each risk area. Senior management continually reviews the adequacy and effectiveness of these policies, systems, and procedures.

CREDIT RISK

Credit risk is defined as the risk impacting earnings or capital due to an obligor's failure to meet the terms of a loan or an investment, or otherwise failing to perform as agreed. Credit risk occurs any time an institution relies on another party, issuer, or borrower's performance.

To manage the credit risk arising from lending activities, the Corporation's most significant source of credit risk, management maintains what it believes are sound underwriting policies and procedures. Management continuously monitors asset quality in order to manage the Company's credit risk to determine the appropriateness of valuation allowances. These valuation allowances take into consideration various factors including, but not limited to, local, regional, and national economic conditions.

INTEREST RATE RISK

Interest rate risk is the timing differences in the maturity or repricing frequency of a financial institution's interest earning assets and its interest bearing liabilities. Management monitors the potential effects of changes in interest rates through rate shock and gap analyses. To help mitigate the effects of interest rate risk, management makes significant efforts to stagger projected cash flows and maturities of interest sensitive assets and liabilities.



LIQUIDITY RISK

Liquidity risk is the risk to earnings or capital arising from the Bank's inability to meet its obligations when they come due without incurring unacceptable losses. Liquidity risk includes the inability to manage unplanned decreases or changes in funding sources, or failure to recognize or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value. The Corporation has significant borrowing capacity through correspondent banks as well as the ability to sell investments to fund potential cash shortages.

OPERATIONAL RISK

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

To help minimize the potential losses due to operational risks, management has established an internal audit department and has retained the services of a certified public accounting firm to perform internal audit work. The focus of these internal audit procedures is to verify the validity and appropriateness of various transactions and processes. The results of these procedures are reported to the Corporation's audit committee.

COMPLIANCE RISK

Compliance risk is the risk of loss from violations of, or nonconformance with laws, rules, regulations, prescribed practices, or ethical standards. This includes new or revised tax, accounting, and other laws, regulations, rules and standards that could significantly impact strategic initiatives, results of operations, and financial condition. The financial services industry is extensively regulated and must meet regulatory standards set by the FASB, SEC and other regulatory bodies. Federal and state laws and regulations are designed primarily to protect the deposit insurance funds and consumers, and not necessarily to benefit the Corporation's shareholders. The nature, extent, and timing of the adoption of significant new laws, changes in existing laws, or repeal of existing laws may have a material impact on the Corporation's business, results of operations, and financial condition, the effect of which is impossible to predict at this time.

The Corporation's compliance department periodically assesses the adequacy and effectiveness of the Corporation's processes for controlling and managing its principal compliance risks.

ECONOMIC CONDITIONS

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

ACCOUNTING RISK

The Corporation's consolidated financial statements conform with generally accepted accounting principles, which require management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. These estimates are based on information available to management at the time the estimates are made. Actual results could differ from those estimates. For further discussion regarding significant accounting estimates, see "Note 1- Summary of Significant Accounting Policies" in the attached Notes to the Consolidated Financial Statements.

DISRUPTION OF INFRASTRUCTURE

The Corporation's operations depend upon its technological and physical infrastructure, including its equipment and facilities. Extended disruption of its vital infrastructure by fire, power loss, natural disaster, telecommunications failure, computer hacking and viruses, or other events outside of the Corporation's control, could affect the financial outcome of the Corporation or the financial services industry as a whole. The Corporation has developed disaster recovery plans, which provide detailed instructions to cover all significant aspects of the Corporation's operations.



ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Corporation's executive offices are located at 200 East Broadway, Mt. Pleasant, Michigan 48858. Isabella Bank and Trust owns 17 branches, while FSB Bank owns five branches and leases one loan production office. IBT Title owns one office, and leases four. The Corporation's facilities current, planned, and best use is for conducting its current activities with the exception of approximately 8% of the main office, and 45% of the Clare office, which is leased to tenants. Management continually monitors and assesses the need for expansion and / or improvement for all facilities. In management's opinion, each facility has sufficient capacity and is in good condition.

ITEM 3. LEGAL PROCEEDINGS

The Corporation and its Banks are not involved in any material pending legal proceedings. The Banks, because of the nature of their business, are at times subject to numerous pending and threatened legal actions that arise out of the normal course of operating their business.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted during the fourth quarter of 2006 to a vote of security holders through the solicitation of proxies or otherwise.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDERS' MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

COMMON STOCK AND DIVIDEND INFORMATION

There is no established market for the Corporation's common stock or public information with respect to its market price. There are occasional sales by shareholders of which management of the Corporation is aware. The prices were reported to management in only some of the transactions and management cannot confirm the prices that were reported during this period. All of the information has been adjusted to reflect the 10% stock dividend paid February 15, 2006.

| Period | Number of Sales | Number of Shares | Sale Price Low | Sale Price High |
|---|---|---|---|---|
| 2006 | | | | |
| First Quarter | 27 | 19,003 | $44.00 | $44.00 |
| Second Quarter | 46 | 30,603 | 44.00 | 44.00 |
| Third Quarter | 45 | 13,524 | 44.00 | 44.00 |
| Fourth Quarter | 46 | 20,326 | 44.00 | 44.00 |
| | 164 | 83,456 | | |
| 2005 | | | | |
| First Quarter | 34 | 19,429 | 38.18 | 38.18 |
| Second Quarter | 53 | 59,717 | 38.18 | 38.18 |
| Third Quarter | 60 | 24,654 | 38.18 | 38.18 |
| Fourth Quarter | 41 | 25,893 | 38.18 | 40.00 |
| | 188 | 129,693 | | |



The following table sets forth the cash dividends paid for the following quarters, adjusted for the 10% stock dividend paid on February 15, 2006.

| | Per Share 2006 | Per Share 2005 |
|---|---|---|
| First Quarter | $0.11 | $0.10 |
| Second Quarter | 0.11 | 0.10 |
| Third Quarter | 0.11 | 0.10 |
| Fourth Quarter | 0.31 | 0.30 |
| Total | $0.64 | $0.60 |

IBT Bancorp's authorized common stock consists of 10,000,000 shares, of which 6,335,861 shares are issued and outstanding as of December 31, 2006. As of that date, there were 2,576 shareholders of record.

In October 2002, the Corporation's Board of Directors authorized the repurchase of up to $2,000 in dollar value of the Corporation's common stock. This authorization does not have an expiration date. Based on repurchases since October 2002, the Corporation is currently able to repurchase up to $1,700 of its common shares under this plan. Shares repurchased revert back to the status of authorized and unissued shares. The following table provides information as of December 31, 2006, with respect to this plan:

| (Dollars in thousands) | Shares Repurchased Number | Shares Repurchased Average Price Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plan or Program | Maximum Shares Tha May Be Purchased Und the Plans or Progra |
|---|---|---|---|---|
| Balance, September 30, 2006 | | | | 38,636 |
| October 1 - 31, 2006 | -- | $-- | -- | -- |
| November 1 - 30, 2006 | -- | -- | -- | -- |
| December 1 - 31, 2006 | -- | -- | -- | -- |
| Balance December 31, 2006 | -- | $-- | -- | 38,636 |

Information concerning Securities Authorized for Issuance Under Equity Compensation Plans appears under "Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters" included elsewhere in this annual report on Form 10-K.

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STOCK PERFORMANCE

The following graph compares the cumulative total shareholder return on Corporation common stock for the last five years with the cumulative total return on (1) the NASDAQ Stock Market Index, which is comprised of all United States common shares traded on the NASDAQ and (2) the NASDAQ Bank Stock Index, which is comprised of bank and bank holding company common shares traded on the NASDAQ over the same period. The graph assumes the value of an investment in the

Corporation and each index was $100 at December 31, 2001 and all dividends are reinvested.

STOCK PERFORMANCE FIVE-YEAR TOATAL RETURN

(PERFORMANCE GRAPH)

The dollar values for total shareholder return plotted in the graph above are shown in the table below:

COMPARISON FO FIVE YEAR CUMULATIVE
AMONG IBT BANCORP, NASDAQ STOCK MARKET,
AND NASDAQ BANK STOCK

| YEAR | IBT BANCORP | NASDAQ | NASDAQ BANKS |
|---|---|---|---|
| 12/31/2001 | 100.0 | 100.0 | 100.0 |
| 12/31/2002 | 117.0 | 68.7 | 98.3 |
| 12/31/2003 | 135.9 | 103.6 | 129.0 |
| 12/31/2004 | 159.4 | 113.7 | 144.8 |
| 12/31/2005 | 169.6 | 116.2 | 148.2 |
| 12/31/2006 | 189.2 | 132.4 | 169.2 |



ITEM 6. SELECTED FINANCIAL DATA

RESULTS OF OPERATIONS

Two key measures of earnings performance commonly used in the banking industry are return on average assets and return on average shareholders' equity. Return on average assets measures the ability of a corporation to profitably and efficiently employ its resources. Return on average equity indicates how effectively the Corporation is able to generate earnings on shareholder invested capital.

SUMMARY OF SELECTED FINANCIAL DATA
(DOLLARS IN THOUSANDS EXCEPT PER SHARE DATA)

| | 2006 | 2005 | 2004 | 2003 | 2 |
|---|---|---|---|---|---|
| INCOME STATEMENT DATA | | | | | |
| Total interest income | $ 44,709 | $ 36,882 | $ 33,821 | $ 35,978 | $ 3 |
| Net interest income | 24,977 | 23,909 | 23,364 | 23,528 | 2 |
| Provision for loan losses | 682 | 777 | 735 | 1,455 | |
| Net income | 7,001 | 6,776 | 6,645 | 7,205 | |
| BALANCE SHEET DATA | | | | | |
| End of year assets | $910,127 | $741,654 | $678,034 | $664,079 | $65 |
| Daily average assets | 800,174 | 700,624 | 675,157 | 659,323 | 62 |
| Daily average deposits | 639,046 | 576,091 | 567,145 | 563,600 | 54 |
| Daily average loans/net | 515,539 | 459,310 | 430,854 | 399,008 | 39 |
| Daily average equity | 91,964 | 74,682 | 70,787 | 65,770 | 5 |

| | | | | | |
|---|---|---|---|---|---|
| PER SHARE DATA (1) | | | | | |
| Earnings per share | | | | | |
| Basic | $ 1.23 | $ 1.25 | $ 1.24 | $ 1.36 | $ |
| Diluted | 1.19 | 1.25 | 1.24 | 1.36 | |
| Cash dividends | 0.64 | 0.60 | 0.57 | 0.55 | |
| Book value (at year end) | 18.27 | 14.78 | 13.48 | 12.94 | |
| FINANCIAL RATIOS | | | | | |
| Shareholders' equity to assets (at year end) | 12.72% | 10.91% | 10.71% | 10.38% | |
| Return on average equity | 7.61 | 9.07 | 9.39 | 10.95 | |
| Cash dividend payout to net income | 53.89 | 48.02 | 46.20 | 39.99 | |
| Return on average assets | 0.87 | 0.97 | 0.98 | 1.09 | |



| | 2006 | | | | 2005 | | |
|---|---|---|---|---|---|---|---|
| | 4th | 3rd | 2nd | 1st | 4th | 3rd | 2nd |
| Quarterly Operating Results: | | | | | | | |
| Total interest income | $12,754 | $11,312 | $10,675 | $9,968 | $9,832 | $9,439 | $8,983 |
| Interest expense | 5,980 | 5,164 | 4,526 | 4,062 | 3,719 | 3,425 | 3,064 |
| Net interest income | 6,774 | 6,148 | 6,149 | 5,906 | 6,113 | 6,014 | 5,919 |
| Provision for loan losses | 54 | 245 | 216 | 167 | 262 | 196 | 109 |
| Noninterest income | 2,354 | 2,405 | 2,336 | 2,001 | 2,192 | 2,328 | 2,099 |
| Noninterest expenses | 6,537 | 5,659 | 5,969 | 6,308 | 5,514 | 5,891 | 5,622 |
| Net income | 1,962 | 2,031 | 1,794 | 1,214 | 1,924 | 1,744 | 1,765 |
| Per Share of Common Stock: (1) | | | | | | | |
| Earnings per share | | | | | | | |
| Net income | $ 0.31 | $ 0.37 | $ 0.33 | $ 0.22 | $ 0.35 | $ 0.32 | $ 0.33 |
| Diluted | 0.30 | 0.36 | 0.32 | 0.21 | 0.35 | 0.32 | 0.33 |
| Cash dividends | 0.31 | 0.11 | 0.11 | 0.11 | 0.30 | 0.10 | 0.10 |
| Book value (at quarter end) | 18.27 | 15.69 | 15.14 | 14.92 | 14.78 | 14.02 | 13.85 |

(1) Retroactively restated for the 10% stock dividend paid on February 15, 2006.



ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

IBT BANCORP FINANCIAL REVIEW
(All dollars in thousands)

The following is management's discussion and analysis of the financial condition and results of operations for IBT Bancorp, Inc. (the Corporation). This discussion and analysis is intended to provide a better understanding of the financial statements and statistical data included elsewhere in the Annual Report. The Corporation's significant acquisition during 2006 was accounted for as a purchase transaction, and as such, the related results of operations are included from the date of acquisition. See "Note 2 - Business and Acquisition" in the accompanying Notes to the Consolidated Financial Statements included elsewhere in the report.

CRITICAL ACCOUNTING POLICY: The Corporation's significant accounting policies are set forth in Note 1 of the Consolidated Financial Statements. Of these significant accounting policies, the Corporation considers its policy regarding the allowance for loan losses to be its most critical accounting policy.

The allowance for loan losses requires management's most subjective and complex judgment. Changes in economic conditions can have a significant impact on the allowance for loan losses and therefore the provision for loan losses and results of operations. The Corporation has developed appropriate policies and procedures for assessing the adequacy of the allowance for loan losses, recognizing that this process requires a number of assumptions and estimates with respect to its loan portfolio. The Corporation's assessments may be impacted in future periods by changes in economic conditions, the impact of regulatory examinations, and the discovery of information with respect to borrowers that is not known to management at the time of the issuance of the consolidated financial statements. For additional discussion concerning the Corporation's allowance for loan losses and related matters, see Provision for Loan Losses and Allocation of the Allowance for Loan Losses.

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DISTRIBUTION OF ASSETS, LIABILITIES, AND SHAREHOLDERS' EQUITY

INTEREST RATE AND INTEREST DIFFERENTIAL

The following schedules present the daily average amount outstanding for each major category of interest earning assets, nonearning assets, interest bearing liabilities, and noninterest bearing liabilities for the last three years. 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% federal income tax rate. Nonaccruing loans, for the purpose of the following computations, are included in the average loan amounts outstanding. Federal Reserve and Federal Home Loan Bank Equity holdings which are restricted are included in Other Assets.

| | 2006 | | | 2005 | | |
|---|---|---|---|---|---|---|
| | Average Balance | Tax Equivalent Interest | Average Yield\ Rate | Average Balance | Tax Equivalent Interest | Averag Yield Rate |
| INTEREST EARNING ASSETS: | | | | | | |
| Loans | $522,726 | $36,575 | 7.00% | $466,001 | $30,682 | 6.58% |
| Taxable investment securities | 123,316 | 4,948 | 4.01% | 106,025 | 3,487 | 3.29% |
| Non-taxable investment securities | 75,712 | 4,423 | 5.84% | 63,271 | 3,818 | 6.03% |
| Federal funds sold | 2,762 | 139 | 5.03% | 3,882 | 116 | 2.99% |
| Other | 5,012 | 250 | 4.99% | 5,060 | 199 | 3.93% |
| Total earning assets | 729,528 | 46,335 | 6.35% | 644,239 | 38,302 | 5.95% |
| NON EARNING ASSETS: | | | | | | |
| Allowance for loan losses | (7,187) | | | (6,691) | | |
| Cash and due from banks | 24,351 | | | 19,955 | | |
| Premises and equipment | 17,690 | | | 17,544 | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Accrued income and other assets | 35,792 | | | 25,577 | | |
| Total assets | $800,174 | | | $700,624 | | |
| INTEREST BEARING LIABILITIES: | | | | | | |
| Interest-bearing demand deposits | $105,476 | 1,664 | 1.58% | $103,684 | 1,001 | 0.97% |
| Savings deposits | 158,327 | 2,675 | 1.69% | 157,238 | 1,571 | 1.00% |
| Time deposits | 301,593 | 12,825 | 4.25% | 245,559 | 8,802 | 3.58% |
| Other borrowed funds | 53,256 | 2,568 | 4.82% | 37,209 | 1,599 | 4.30% |
| Total interest bearing liabilities | 618,652 | 19,732 | 3.19% | 543,690 | 12,973 | 2.39% |
| NONINTEREST BEARING LIABILITIES: | | | | | | |
| Demand deposits | 73,650 | | | 69,610 | | |
| Other | 15,908 | | | 12,642 | | |
| Shareholders' equity | 91,964 | | | 74,682 | | |
| Total liabilities and equity | $800,174 | | | $700,624 | | |
| Net interest income (FTE) | | $26,603 | | | $25,329 | |
| Net yield on interest earning assets (FTE) | | | 3.65% | | | 3.93% |



NET INTEREST INCOME

The Corporation derives the majority of its gross income from interest earned on loans and investments, while its most significant expense is the interest cost incurred for funds used. Net interest income is the amount by which interest income on earning assets exceeds the interest cost of deposits and borrowings. Net interest income is influenced by changes in the balance and mix of assets and liabilities and market interest rates. Management exerts some control over these factors; however, Federal Reserve monetary policy and competition have a significant impact. Interest income includes loan fees of $1,172 in 2006, $1,142 in 2005, and $1,102 in 2004. 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.

VOLUME AND RATE VARIANCE ANALYSIS

The following table details the dollar amount of changes in FTE net interest income for each major category of interest earning assets and interest bearing liabilities and the amount of change attributable to changes in average balances (volume) or average rates. 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.

| | 2006 Compared to 2005 Increase (Decrease) Due to | | | 2005 Compared to 2004 Increase (Decrease) Due | | |
|---|---|---|---|---|---|---|
| | Volume | Rate | Net | Volume | Rate | Net |

| | | | | | | |
|---|---|---|---|---|---|---|
| CHANGES IN INTEREST INCOME: | | | | | | |
| Loans | $3,889 | $2,004 | $5,893 | $1,857 | $1,024 | $2,88 |
| Taxable investment securities | 622 | 839 | 1,461 | (287) | 78 | (20 |
| Nontaxable investment securities | 730 | (125) | 605 | 440 | 172 | 61 |
| Federal funds sold | (40) | 63 | 23 | (5) | 91 | 8 |
| Other | (2) | 53 | 51 | 96 | (75) | 2 |
| Total changes in interest income | 5,199 | 2,834 | 8,033 | 2,101 | 1,290 | 3,39 |
| CHANGES IN INTEREST EXPENSE: | | | | | | |
| Interest bearing demand deposits | 18 | 645 | 663 | (15) | 447 | 43 |
| Savings deposits | 11 | 1,093 | 1,104 | (3) | 702 | 69 |
| Time deposits | 2,215 | 1,808 | 4,023 | 247 | 605 | 85 |
| Other borrowings | 755 | 214 | 969 | 416 | 117 | 53 |
| Total changes in interest expense | 2,999 | 3,760 | 6,759 | 645 | 1,871 | 2,51 |
| Net change in interest margin (FTE) | $2,200 | $ (926) | $1,274 | $1,456 | $ (581) | $ 87 |

As shown in the preceding tables, the Corporation has experienced steady decreases in the net yield on interest earning assets since 2004. The main contributing factors to this decrease are primarily attributed to the following:

- The current yield curve environment.

- The fact that the rates paid on interest bearing liabilities have increased at a faster rate than those earned on interest earning assets.

- The Corporation's increased reliance on higher cost time deposits and other borrowed funds.

The Corporation, as well as all other financial institutions, has been coping with an essentially flat yield curve since the third quarter of 2005. This flat yield curve has encouraged customers to invest their funds in short term deposits and to borrow long term with fixed rate loans. Banks



typically make money through the assumption of credit and interest rate risk. Interest rate risk is related to borrowing funds short term and investing them long term. The current yield curve, however, has provided the Corporation with little opportunity to do this effectively. During much of 2006, the yield curve was inverted, which means that short term rates were actually higher than long term rates. The current yield curve has also been the main reason why the rates paid on interest bearing liabilities have risen faster than those earned on interest earning assets.

Overall net interest income increased $1,274 for the year ended December 31, 2006 when compared to the same period in 2005. A 13.5% increase in interest earning assets and interest bearing liabilities provided $2,200 in additional net interest income in 2006. Net interest income decreased $926 as a result of interest rate changes. During 2006, the rates paid on interest bearing liabilities increased 0.80%, while those earned on interest earning assets increased 0.40%. The decline in interest rate spread is a direct result of a sharp increase in high cost funding sources such as certificates of deposit and other borrowed funds. The increase in the cost of these deposits in relation to other sources is a result of intense deposit competition.

To offset the decreases in interest income from the unfavorable rate environment, the Corporation has taken a measured growth posture. Most of this growth has come in the form of commercial loans. This growth has allowed the Corporation to increase net interest income through volume.

When management looks forward to 2007, it will be a challenging year as far as interest rates are concerned. The driving force behind this continues to be the yield curve. Management does not anticipate the yield curve will normalize in the first six months of 2007. As a result of this condition, the Corporation does not anticipate any significant relief in interest rate pressure any time soon. To help offset the decline in income due to rates, the Corporation will continue to grow its balance sheet, while accepting smaller interest rate margins.

As shown in the above tables, when comparing year ending December 31, 2005 to 2004, fully taxable equivalent (FTE) net interest income increased $875 or 3.58%. An increase of 4.65% in average interest earning assets provided $2,101 of FTE interest income. The majority of this growth was funded by a 2.59% increase in interest bearing liabilities, resulting in $645 of additional interest expense. Overall, changes in volume resulted in $1,456 in additional FTE interest income. The average FTE interest rate earned on assets increased by 0.28%, increasing FTE interest income by $1,290, and the average rate paid on deposits and borrowings increased by 0.42%, increasing interest expense by $1,871. The net change related to interest rates earned and paid was a $581 decrease in FTE net interest income.

PROVISION FOR LOAN LOSSES

The provision for loan losses represents the current period loan cost associated with maintaining an appropriate allowance for loan losses. Periodic fluctuations in the provision for loan losses result from management's assessment of the adequacy of the allowance for loan losses. The provision for loan losses for each period is further dependent upon many factors, including loan growth, net charge-offs, changes in the composition of the loan portfolio, delinquencies, assessment by management, third parties and banking regulators of the quality of the loan portfolio, the value of the underlying collateral on problem loans and the general economic conditions in our market areas.



The following schedule shows the composition of the provision for loan losses and the allowance for loan losses.

| | Year Ended December 31 | | | |
|---|---|---|---|---|
| | 2006 | 2005 | 2004 | 2003 |
| Allowance for loan losses - January 1 | $ 6,899 | $ 6,444 | $ 6,204 | $ 5,593 |
| Allowance of acquired bank | 726 | -- | -- | -- |
| Loans charged off | | | | |
| Commercial and agricultural | 368 | 101 | 561 | 578 |
| Real estate mortgage | 252 | 166 | -- | 117 |
| Consumer | 529 | 376 | 374 | 445 |

| | | | | |
|---|---|---|---|---|
| TOTAL LOANS CHARGED OFF | 1,149 | 643 | 935 | 1,140 |
| Recoveries | | | | |
| Commercial and agricultural | 136 | 105 | 191 | 93 |
| Real estate mortgage | 53 | -- | 62 | 29 |
| Consumer | 258 | 216 | 187 | 174 |
| TOTAL RECOVERIES | 447 | 321 | 440 | 296 |
| Net loans charged off | 702 | 322 | 495 | 844 |
| Provision charged to income | 682 | 777 | 735 | 1,455 |
| ALLOWANCE FOR LOAN LOSSES - DECEMBER 31 | $ 7,605 | 6,899 | 6,444 | 6,204 |
| YTD AVERAGE LOANS | $522,726 | $466,001 | $437,438 | $404,453 |
| NET LOANS CHARGED OFF TO AVERAGE LOANS OUTSTANDING | 0.13% | 0.07% | 0.11% | 0.21% |
| YEAR END LOANS | $591,042 | $483,242 | $452,895 | $421,860 |
| ALLOWANCE FOR LOAN LOSSES AS A % OF LOANS | 1.29% | 1.43% | 1.42% | 1.47% |

Despite increases in the net loans charged off to average loans, nonperforming loans as a percentage of total loans, and continued growth in the loan portfolio, the Corporation decreased its provision charged to income in 2006, which corresponded with a decrease in the allowance for loan losses as a percentage of loans. The primary factor affecting the decline in the allowance as a percentage of loans was the acquisition of The Farwell State Savings Bank and the mix of the loan portfolio that was purchased. Management also believes its conservative credit underwriting standards have allowed the Corporation, to date, to avoid significant credit losses. Management will continue to closely monitor its overall credit quality during 2007.

Based on management's analysis of the allowance for loan losses, the calculated range for the required allowance was $5,626 to $8,428. As such, the allowance for loan losses of $7,605 is considered adequate as of December 31, 2006.

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ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses has been allocated according to the amount deemed to be reasonably necessary to reflect for the probability of losses being incurred within the following categories as of December 31:

| | 2006 | | 2005 | | 2004 | | 2003 | |
|---|---|---|---|---|---|---|---|---|
| | Allowance Amount | % of Each Category to Total Loans | Allowance Amount | % of Each Category to Total Loans | Allowance Amount | % of Each Category to Total Loans | Allowance Amount | C t |
| Commercial and | | | | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| agricultural | $2,687 | 43.3% | $2,771 | 46.9% | $2,634 | 42.3% | $2,140 |
| Real estate mortgage | 1,367 | 50.9% | 1,192 | 46.8% | 1,463 | 50.5% | 1,584 |
| Consumer installment | 2,434 | 5.1% | 2,286 | 5.8% | 1,606 | 6.6% | 1,614 |
| Impaired loans | 594 | 0.7% | 184 | 0.5% | 304 | 0.6% | 622 |
| Unallocated | 523 | 0.0% | 466 | 0.0% | 437 | 0.0% | 244 |
| Total | $7,605 | 100.0% | $6,899 | 100.0% | $6,444 | 100.0% | $6,204 |

NONPERFORMING ASSETS

Loans are generally placed on nonaccrual status when they become 90 days past due, unless they are well secured and in the process of collection. When a loan is placed on nonaccrual status, any interest previously accrued and not collected is generally reversed from income or charged off against the allowance for loan losses. Loans are charged off when management determines that collection has become unlikely. Restructured loans are those where a concession has been granted on either principal or interest paid due to financial difficulties of the borrower. Other real estate owned (OREO) consists of real property acquired through foreclosure on the related collateral underlying defaulted loans.

The following table presents our nonperforming assets for the past five years:

| | Year Ended December 31 | | | | |
|---|---|---|---|---|---|
| | 2006 | 2005 | 2004 | 2003 | 2002 |
| Nonaccrual loans | $3,444 | $1,375 | $1,900 | $4,121 | $2,484 |
| Accruing loans past due 90 days or more | 1,185 | 1,058 | 702 | 1,380 | 1,840 |
| Restructured loans | 697 | 725 | 686 | -- | 479 |
| TOTAL NONPERFORMING LOANS | 5,326 | 3,158 | 3,288 | 5,501 | 4,803 |
| Other real estate owned | 562 | 122 | 40 | 552 | 485 |
| TOTAL NONPERPERFORMING ASSETS | $5,888 | $3,280 | $3,328 | $6,053 | $5,288 |
| NONPERFORMING LOANS AS A % OF TOTAL LOANS | 0.90% | 0.65% | 0.73% | 1.30% | 1.23% |
| NONPERFORMING ASSETS AS A % OF TOTAL ASSETS | 0.65% | 0.44% | 0.49% | 0.91% | 0.81% |

Nonaccrual loans increased $2,069 from 2005. This included one large credit for $1,069 with the remaining increase due to an increase in the number of loans being placed on nonaccrual as of December 31, 2006 compared to December 31, 2005. Management has evaluated such loans and believes the valuation allowance related to impaired loans to be adequate.

As of December 31, 2006, there were no other interest bearing assets which required classification. Management is not aware of any recommendations by regulatory agencies that, if implemented, would have a material impact on the Corporation's liquidity, capital, or operations.

NONINTEREST INCOME

| | Year Ended December 31 | | | | | |
|---|---|---|---|---|---|---|
| | | | Change | | | |
| | 2006 | 2005 | $ | % | 2004 | |
| Service charges and fee income | | | | | | |
| NSF and overdraft fees | $2,950 | $2,586 | $ 364 | 14.1% | $2,310 | $ |
| Trust | 866 | 828 | 38 | 4.6% | 714 | |
| Freddie Mac servicing fee | 635 | 619 | 16 | 2.6% | 631 | |
| ATM and debit card fees | 545 | 452 | 93 | 20.6% | 545 | |
| Service charges on deposit accounts | 315 | 247 | 68 | 27.5% | 254 | |
| All other | 179 | 196 | (17) | -8.7% | 281 | |
| Total service charges and fees | 5,490 | 4,928 | 562 | 11.4% | 4,735 | |
| Gain on sale of mortgage loans | 207 | 270 | (63) | -23.3% | 477 | ( |
| Title insurance revenue | 2,389 | 2,351 | 38 | 1.6% | 1,957 | |
| Other | | | | | | |
| Increase in cash value of corporate owned life insurance policies | 404 | 364 | 40 | 11.0% | 245 | |
| Brokerage and advisory fees | 213 | 187 | 26 | 13.9% | 206 | |
| (Loss) gain on sale of investment securities | (112) | 2 | (114) | -5700.0% | 106 | ( |
| All other | 507 | 374 | 133 | 35.6% | 439 | |
| Total other | 1,012 | 927 | 85 | 9.2% | 996 | |
| TOTAL NONINTEREST INCOME | $9,098 | $8,476 | $ 622 | 7.3% | $8,165 | $ |

Over the past two years, the Corporation has seen substantial increases in service charges and fee income. These increases have mainly been driven by increases in NSF and overdraft fees which are the result of the Banks increasing the per item overdraft fees that they charge their customers. The increases in service charges on deposit accounts have been the result of the Banks continued effort to align their service charges with those of their competitors. Management does not expect service charges and fees to increase substantially in 2007 as they do not anticipate raising the per item fee charge for NSF items, which is the largest component of service charges and fees.

The Corporation, as well as all other financial institutions, has observed a substantial softening of the residential mortgage market since the market's peak in 2003. The decreased loan demand has increased the level of competition for mortgage loans as well as for title insurance services. This decreased demand has been the contributing factor to the decrease in the gain on sale of mortgage loans. This increased competition has also forced some title insurance companies to close. IBT Title and Insurance Agency's financial strength has allowed it to not only keep its doors open, but actually increase its market share. While management does anticipate title insurance revenues to increase in 2007, the Corporation does not expect the gain on sale of mortgage loans to fluctuate significantly from current levels.

The increase in the cash value of corporate owned life insurance policies is a result of the Corporation buying new policies in 2006. During 2006, the Corporation had an average investment of $11,549 in bank-owned life insurance, as compared to $10,335 in 2005. The average net rate earned on the investment was approximately 3.50% in 2006 (versus 3.52% in 2005) and, because of the instruments' tax free accumulation of earnings have a taxable equivalent rate of 5.30% and 5.34% as of December 31, 2006 and 2005, respectively. The rates on these contracts are adjustable annually on their anniversary date. These policies are placed with five different insurance companies with an S & P rating of A- or better. Management does not anticipate any significant additions to corporate owned life insurance policies in 2007.

The large losses on the sale of investment securities available for sale is a result of the Corporation examining its investment portfolio in the second quarter of 2006 and determining that there were securities that could be sold at a loss and reinvested at a high enough rate to offset the loss on the sale with increases in interest income by the end of the year. Management will continue to monitor the investment security portfolio and continue to sell securities if the proceeds can be reinvested in securities at higher rates to earn additional interest income to offset the realized losses in the current year.



The increase in all other income is primarily the result of the following factors. During April 2006, the Corporation sold its consumer credit card portfolio, which resulted in a one time gain of $82. Another major component of the increase was the result of a renegotiated contract with the Corporation's primary check provider which amounted to a $34 recovery for 2006. Management does not anticipate any significant changes in all other income during 2007.

There was a $311 or 3.8% increase in noninterest income during 2005 when compared to 2004. Significant changes during 2005 include a $193 increase in service charges and fees, a $394 increase from the sale of title insurance and related services, a $207 decrease from the gain on sale of mortgage loans, and a $69 decrease in other income.

The decrease in gain on sale of mortgage loans is a result of the Corporation selling $38,624 of mortgages during 2005 versus $55,055 of mortgages during 2004.

During 2005, the Corporation had an average investment of $10,300 in bank-owned life insurance, a $365 increase over 2004. The average net rate earned on the investment was approximately 3.52% in 2005(versus 4.1% in 2004) and, because of the instruments' tax free accumulation of earnings have a taxable equivalent rate of 5.34%. The rates on these contracts are adjustable annually on their anniversary date. These policies are placed with five different insurance companies with an S & P rating of A- or better.



NONINTEREST EXPENSES

| Year Ended December 31 | | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
| | | Change | | | Change | |
| 2006 | 2005 | $ | % | 2004 | $ | % |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Compensation | | | | | | | |
| Leased employee salaries | $10,105 | $ 9,610 | $ 495 | 5.2% | $ 9,371 | $ 239 | 2.6 |
| Leased employee benefits | 3,608 | 3,846 | (238) | -6.2% | 3,233 | 613 | 19.0 |
| All other | 156 | 92 | 64 | 69.6% | 81 | 11 | 13.6 |
| Total compensation | 13,869 | 13,548 | 321 | 2.4% | 12,685 | 863 | 6.8 |
| Occupancy | | | | | | | |
| Depreciation | 412 | 363 | 49 | 13.5% | 332 | 31 | 9.3 |
| Outside services | 334 | 306 | 28 | 9.2% | 268 | 38 | 14.2 |
| Property taxes | 322 | 308 | 14 | 4.5% | 286 | 22 | 7.7 |
| Utilities | 320 | 289 | 31 | 10.7% | 262 | 27 | 10.3 |
| Building rent | 163 | 125 | 38 | 30.4% | 103 | 22 | 21.4 |
| Building repairs | 129 | 114 | 15 | 13.2% | 163 | (49) | -30.1 |
| All other | 50 | 48 | 2 | 4.2% | 90 | (42) | -46.7 |
| Total occupancy | 1,730 | 1,553 | 177 | 11.4% | 1,504 | 49 | 3.3 |
| Furniture and equipment | | | | | | | |
| Depreciation | 1,440 | 1,372 | 68 | 5.0% | 1,220 | 152 | 12.5 |
| Service contracts | 716 | 620 | 96 | 15.5% | 605 | 15 | 2.5 |
| Computer costs | 385 | 353 | 32 | 9.1% | 445 | (92) | -20.7 |
| ATM and debit card fees | 263 | 247 | 16 | 6.5% | 178 | 69 | 38.8 |
| All other | 64 | 65 | (1) | -1.5% | 36 | 29 | 80.6 |
| Total furniture and equipment | 2,868 | 2,657 | 211 | 7.9% | 2,484 | 173 | 7.0 |
| Other | | | | | | | |
| Audit and SOX compliance fees | 1,010 | 606 | 404 | 66.7% | 990 | (384) | -38.8 |
| Marketing | 697 | 624 | 73 | 11.7% | 522 | 102 | 19.5 |
| Directors fees | 584 | 604 | (20) | -3.3% | 613 | (9) | -1.5 |
| Printing and supplies | 377 | 431 | (54) | -12.5% | 433 | (2) | -0.5 |
| Education and travel | 360 | 258 | 102 | 39.5% | 202 | 56 | 27.7 |
| Postage | 304 | 264 | 40 | 15.2% | 275 | (11) | -4.0 |
| Consulting | 208 | 172 | 36 | 20.9% | 259 | (87) | -33.6 |
| All other | 2,466 | 2,167 | 299 | 13.8% | 2,304 | (137) | -5.9 |
| Total other | 6,006 | 5,126 | 880 | 17.2% | 5,598 | (472) | -8.4 |
| TOTAL NONINTEREST EXPENSES | $24,473 | $22,884 | $1,589 | 6.9% | $22,271 | $ 613 | 2.8 |

The Corporation has seen moderate increases in compensation expense over the past three years. The increases in leased employee salaries are a result of regular merit increases as well as increases in staffing levels due to the acquisitions of Milltown Title, LLC, and the Farwell State Savings Bank. During 2006, leased employee benefits decreased from the prior year as a result of a change in the Corporation's medical insurance plan and administrator. The increases in all other compensation expenses are a result of the Corporation developing new incentive plans in 2006. Management does anticipate that total compensation expense will moderately increase throughout 2007.

Occupancy expenses have increased as a result of various factors. Depreciation expense has increased mainly as a result of the new Canadian Lakes Branch being completed in 2006. The opening of this new office also increased building rent expense as Isabella Bank and Trust was operating in a leased building and as they terminated the lease they incurred termination costs. Outside services and utilities expenses have been steadily increasing over the past three years as a result of the Corporation's continued growth as well as increases in the cost of the services provided. Management expects occupancy expenses to moderately increase in 2007 due to the factors noted above.

Furniture and equipment expenses have steadily increased over the past three years as a result of growth, both in the Corporation's size as well as in the Corporation's complexity. To help maintain a competitive advantage in the market, management is continually analyzing new ways to improve customer service as well as to increase operating efficiency. To help maximize these goals, management has made significant investments in various software platforms which have resulted in increases in depreciation expense, service contracts, and computer costs. However, management is confident that these purchases will continue to provide shareholder value for years to come. As the Corporation has adopted a growth strategy, management does anticipate the furniture and equipment expenses will continue to increase.

As shown in the preceding table, 2006 audit and SOX compliance fees have increased substantially compared to 2005. This is a result of a substantial portion of the 2005 year end audit procedures being performed in 2006 and a considerable portion of the 2006 year end audit procedures being performed before December 31, 2006.

Management has taken the following steps to improve cost efficiencies related to SOX compliance fees:

- Hired a new Vice President of Auditing. This action has allowed the Corporation to decrease its reliance on sub contracted audit staff.

- Management has worked to consolidate duplicate processes of the bank subsidiaries and reevaluate identified key controls.

As a result of these changes and other considerations, management anticipates that SOX compliance fees will decrease in 2007.

One of the most important things every business needs to do is to let prospective customers know about the products and services they offer. IBT Bancorp is no exception. To help increase the effectiveness of its marketing expenditures, Isabella Bank and Trust hired a marketing consultant. The fees paid to this consultant were recorded as a marketing expense. This consultant helped the bank develop a marketing strategy as well as numerous successful marketing campaigns. Isabella Bank and Trust anticipates that it will continue to utilize the services of this firm throughout 2007.

The increases in education and travel are the result of the Corporation's increased level of commitment to attracting, developing, and retaining the highest level of personnel. This investment in staff members of all levels has been a significant factor in the Corporation's continued success. One of the largest components of the increase in 2006 was management's decision to develop a leadership program with the Dale Carnegie Leadership Institute. The Corporation believes that this program is integral to its success and as such, will continue offering the program in the future.

Management realizes that as the IBT Bancorp family of companies grows, it must develop a corporate identity. To help develop this corporate identity, the Corporation began a branding campaign in late 2006, which resulted in an increase in consulting expenses. This campaign will continue throughout 2007.

The increase in all other expenses in 2006 is made up of various cost factors, none of which are individually significant.

Noninterest expenses increased $613 during 2005 when compared to 2004. Compensation and benefits increased $863, occupancy and furniture and equipment expenses increased $222, and other expenses including charitable donations decreased $472.

The $863 increase in compensation and benefits included a 2.62% increase in salaries expense and a 18.95% increase in benefits expense. The majority of the increase in benefit expense is related to a $466 increase in medical expenses, which was the result of higher than normal medical claims in 2005, and a $96 increase in pension expenses and other retirement expenses. The Corporation continues to evaluate medical costs and is researching alternatives to minimize the effects of escalating health care costs.

The $222 increase in occupancy and furniture and equipment expenses includes increases in depreciation expense, ATM and debit card fees, and other expenses. These increases were partially offset by decreases in computer costs. Of the $183 increase in depreciation, $152 relates to an increase in furniture and equipment depreciation, as a result of the Corporation investing in new computer software in 2005 and 2004.

The $472 decrease in other expenses is mainly the result of a significant decrease in audit and SOX compliance fees as a result of a substantial portion of the 2005 year end audit procedures being performed in 2006.



FEDERAL INCOME TAXES

Federal income tax expense for 2006 was $1,919 or 21.5% of pre-tax income compared to $1,948 or 22.3% of pre-tax income in 2005 and $1,878 or 22.0% in 2004. A reconcilement of actual federal income tax expense reported and the amount computed at the federal statutory rate of 34% is found in Note 13, "Federal Income Taxes", in the Notes to the accompanying Consolidated Financial Statements.



ANALYSIS OF CHANGES IN FINANCIAL CONDITION

As shown in the following tables, the Corporation enjoyed another year of solid asset growth. This growth was significantly effected by the October, 3 2006 acquisition of the Farwell State Savings Bank (Farwell), but was also the result of the Corporation continuing an aggressive growth strategy.

| | Farwell Acquisition | Consolidated 12/31/2006 w/o Farwell | Consolidated | | |
|---|---|---|---|---|---|
| | | | 12/31/2006 | 12/31/2005 | $ |
| ASSETS | | | | | |
| Cash and cash equivelants | $ 5,281 | $ 26,078 | $ 31,359 | $ 30,825 | $ |
| Securities available for sale | 17,166 | 196,284 | 213,450 | 183,406 | 3 |
| Mortgage loans available for sale | -- | 2,734 | 2,734 | 744 | |
| Loans | 64,130 | 526,912 | 591,042 | 483,242 | 10 |
| Allowance for loan losses | (726) | (6,879) | (7,605) | (6,899) | |

| | | | | | |
|---|---|---|---|---|---|
| Bank premises and equipment | 907 | 19,847 | 20,754 | 16,971 | |
| Other assets | 26,136 | 32,257 | 58,393 | 33,365 | 2 |
| TOTAL ASSETS | $112,894 | $797,233 | $910,127 | $741,654 | $16 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | |
| LIABILITIES | | | | | |
| Deposits | $ 73,338 | $652,502 | $725,840 | $592,478 | $13 |
| Other borrowed funds | -- | 58,303 | 58,303 | 52,165 | |
| Escrow funds payable | -- | 2,416 | 2,416 | 9,823 | ( |
| Accrued interest and other liabilities | 1,114 | 6,705 | 7,819 | 6,286 | |
| TOTAL LIABILITIES | 74,452 | 719,926 | 794,378 | 660,752 | 13 |
| SHAREHOLDERS' EQUITY | 38,442 | 77,307 | 115,749 | 80,902 | 3 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $112,894 | $797,233 | $910,127 | $741,654 | $16 |

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The following table outlines the growth in the Corporation's balance sheet excluding the increase in net assets as a result of the 2006 Farwell acquisition.

| | $ Change | % Change |
|---|---|---|
| ASSETS | | |
| Cash and cash equivelants | $(4,747) | -15.40% |
| Securities available for sale | 12,878 | 7.02% |
| Mortgage loans available for sale | 1,990 | 267.47% |
| Loans | 43,670 | 9.04% |
| Allowance for loan losses | 20 | -0.29% |
| Bank premises and equipment | 2,876 | 16.95% |
| Other assets | (1,108) | -3.32% |
| TOTAL ASSETS | $55,579 | 7.49% |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| LIABILITIES | | |
| Deposits | $60,024 | 10.13% |
| Other borrowed funds | 6,138 | 11.77% |
| Escrow funds payable | (7,407) | -75.40% |
| Accrued interest and other liabilities | 419 | 6.67% |
| TOTAL LIABILITIES | 59,174 | 8.96% |
| SHAREHOLDERS' EQUITY | (3,595) | -4.44% |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $55,579 | 7.49% |

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

INVESTMENT SECURITIES

The primary objective of the Corporation's investing activities is to provide for safety of the principal invested. Secondary considerations include the need for earnings, liquidity, and the Corporation's overall exposure to changes in interest rates. Securities held to maturity in 2004, which were stated at amortized cost, consisted mostly of local municipal bond issues, and U.S. Agencies. All securities are currently classified as available-for-sale and are stated at fair value. The increase in securities in 2006 is consistent with the Corporation's overall growth.

The following is a schedule of the carrying value of investment securities available for sale and held to maturity:

| | December 31 | | |
|---|---|---|---|
| | 2006 | 2005 | 2004 |
| Available for sale | | | |
| U.S. Government and federal agencies | $ 69,020 | $ 52,913 | $ 51,279 |
| States and political subdivisions | 112,754 | 95,435 | 84,632 |
| Corporate | 11,053 | 13,220 | 4,754 |
| Mortgage-backed | 20,623 | 21,838 | 21,365 |
| TOTAL | $213,450 | $183,406 | $162,030 |
| Held to maturity | | | |
| Mortgage-backed | $ -- | $ -- | $ 3 |
| States and political subdivisions | -- | -- | 520 |
| TOTAL | $ -- | $ -- | $ 523 |

Excluding those holdings of the investment portfolio in U.S. Government and federal agencies, there were no investments in securities of any one issuer that exceeded 10% of shareholders' equity. The Corporation has a policy prohibiting investments in securities that it deems are



unsuitable due to their inherent credit or market risks. Prohibited investments include stripped mortgage backed securities, zero coupon bonds, nongovernment agency asset backed securities, and structured notes.

The following is a schedule of maturities of each category of investment securities (at carrying value) and their weighted average yield as of December 31, 2006. Weighted average yields have been computed on a fully taxable-equivalent basis using a tax rate of 34%. Mortgage-backed securities and collateralized mortgage obligations are included in maturity categories based on their stated maturity date. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations.

| | Maturing | | | | | |
|---|---|---|---|---|---|---|
| | Within One Year | | After One Year But Within Five Years | | After Five Years But Within Ten Years | |
| | Amount | Yield | Amount | Yield | Amount | Yield |
| Available for Sale | | | | | | |
| U.S. Government and federal agencies | $28,907 | 3.89% | $ 37,615 | 4.85% | $ 2,498 | 5.65% |
| States and political subdivisions | 26,973 | 3.85% | 51,284 | 3.86% | 32,964 | 3.82% |
| Mortgage-backed | 2,430 | 3.17% | 16,040 | 4.38% | 2,153 | 3.64% |
| Corporate | 6,059 | 4.79% | -- | -- | -- | -- |
| TOTAL | $64,369 | 3.93% | $104,939 | 4.29% | $37,615 | 3.93% |

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LOANS

The largest component of earning assets is loans. The proper management of credit and market risk inherent in the loan portfolio is critical to the financial well-being of the Corporation. To control these risks, the Corporation has adopted strict underwriting standards. The standards include prohibitions against lending outside the Corporation's defined market areas, lending limits to a single borrower, and strict loan to collateral value limits. The Corporation also monitors and limits loan concentrations extended to volatile industries. The Corporation has no foreign loans and there were no concentrations greater than 10% of total loans that are not disclosed as a separate category in the following table.

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

| | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|
| Commercial | $212,701 | $179,541 | $146,152 | $129,392 | $126,591 |
| Agricultural | 47,302 | 49,424 | 49,179 | 52,044 | 54,788 |
| Residential real estate mortgage | 300,650 | 226,251 | 227,421 | 199,455 | 170,452 |
| Installment | 30,389 | 28,026 | 30,143 | 40,969 | 39,029 |
| | $591,042 | $483,242 | $452,895 | $421,860 | $390,860 |

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

| | 2006 | | 2005 | | 2004 | |
|---|---|---|---|---|---|---|
| | $ Change | % Change | $ Change | % Change | $ Change | % Chang |

| | | | | | | |
|---|---|---|---|---|---|---|
| Commercial | $ 33,160 | 18.5% | $33,389 | 22.8% | $ 16,760 | 13.0% |
| Agricultural | (2,122) | -4.3% | 245 | 0.5% | (2,865) | -5.5% |
| Residential real estate mortgage | 74,399 | 32.9% | (1,170) | -0.5% | 27,966 | 14.0% |
| Installment | 2,363 | 8.4% | (2,117) | -7.0% | (10,826) | -26.4% |
| | $107,800 | 22.3% | $30,347 | 6.7% | $ 31,035 | 7.4% |

The following table presents the change in loan categories excluding the loans acquired from Farwell:

| | Consolidated 12/31/06 | Less loans acquired from Farwell | Adjusted Consolidated 12/31/06 | Consolid | |
|---|---|---|---|---|---|
| | | | | 12/31/05 | $ Chan |
| Commercial | $212,701 | $ 1,361 | $211,340 | $179,541 | $31,79 |
| Agricultural | 47,302 | -- | 47,302 | 49,424 | (2,12 |
| Residential real estate mortgage | 300,650 | 59,040 | 241,610 | 226,251 | 15,35 |
| Installment | 30,389 | 3,729 | 26,660 | 28,026 | (1,36 |
| | $591,042 | $64,130 | $526,912 | $483,242 | $43,67 |

The growth in commercial loans is a result of the Corporation's efforts to increase the commercial loan portfolio as a percentage of total loans. A significant portion of this growth has been driven by the Corporation's new business development team. Management expects to see continued growth in the commercial loan portfolio in 2007.

The decrease in agricultural loans is a result of the Corporation's shift towards higher quality agricultural credits. This shift has resulted in a steady decrease in its farm loans over the last five years. However, management anticipates that agricultural loans will moderately grow during 2007 based on projections from the lenders in this area.

While residential mortgage loans represent the largest component of the Corporation's portfolio, after excluding the loans purchased from the acquisition of Farwell, they have not grown as fast as the commercial portfolio. The Corporation's ability to significantly grow the mortgage



portfolio continues to be challenging as a result of the softening housing market. As a result, management does anticipate that residential mortgage loans will continue to shrink as a percentage of total loans.

Excluding the effects of the Farwell acquisition, installment loans have been steadily decreasing over the past few years. This is a result of the increased competition from credit unions and financing offered from other non-financial institutions. Management does expect the current declining trend to continue in the future.

DEPOSITS

The main source of funds for the Corporation is deposits. The deposit portfolio represents various types of non transaction accounts as well as savings accounts and time deposits.

The following table presents the composition of our deposit portfolio as of December 31:

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Noninterest bearing demand deposits | $ 83,902 | $ 73,839 | $ 65,736 |
| Interest bearing demand deposits | 111,406 | 104,251 | 101,362 |
| Savings deposits | 178,001 | 153,397 | 162,516 |
| Certificates of deposit | 320,226 | 250,246 | 234,262 |
| Brokered certificates of deposit | 27,446 | 7,076 | -- |
| Internet certificates of deposit | 4,859 | 3,669 | -- |
| Total | $725,840 | $592,478 | $563,876 |

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

| | 2006 | | 2005 | | 2004 | |
|---|---|---|---|---|---|---|
| Noninterest bearing demand deposits | $ 10,063 | 13.6% | $ 8,103 | 12.3% | $ (2,024) | -3.0% |
| Interest bearing demand deposits | 7,155 | 6.9% | 2,889 | 2.9% | (16,198) | -13.8% |
| Savings deposits | 24,604 | 16.0% | (9,119) | -5.6% | 18,807 | 13.1% |
| Certificates of deposit | 69,980 | 28.0% | 15,984 | 6.8% | (4,416) | -1.9% |
| Brokered certificates of deposit | 20,370 | 287.9% | 7,076 | 100.0% | -- | 100.0% |
| Internet certificates of deposit | 1,190 | 32.4% | 3,669 | 100.0% | -- | 100.0% |
| Total | $133,362 | 22.5% | $28,602 | 5.1% | $ (3,831) | -0.7% |

The following table presents the change in deposit categories excluding the deposits acquired from Farwell:

| | Consolidated 12/31/06 | Less deposits acquired from Farwell | Adjusted Consolidated 12/31/06 | Conso 12/31/05 | $ C |
|---|---|---|---|---|---|
| Noninterest bearing demand deposits | $ 83,902 | $10,472 | $ 73,430 | $ 73,839 | $ |
| Interest bearing demand deposits | 111,406 | 8,660 | 102,746 | 104,251 | (1 |
| Savings deposits | 178,001 | 17,704 | 160,297 | 153,397 | 6 |
| Certificates of deposit | 320,226 | 35,507 | 284,719 | 250,246 | 34 |
| Brokered certificates of deposit | 27,446 | 995 | 26,451 | 7,076 | 19 |
| Internet certificates of deposit | 4,859 | -- | 4,859 | 3,669 | 1 |

| | | | | | |
|---|---|---|---|---|---|
| Total | $725,840 | $73,338 | $652,502 | $592,478 | $60 |

As shown in the preceding tables, the Corporation has enjoyed consistent deposit growth over the past few two years. However, much of this growth has come in the form of time sensitive deposits, including brokered and internet certificates of deposit. This change in mix is a direct

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result of the current interest rate environment. This new mix has resulted in a dramatic increase in the cost of the funds as certificates of deposits typically are the highest cost of all deposit types.

Within the banking industry there is agreement that competition from mutual funds and annuities has had a significant impact on deposit growth. In response, the Corporation's subsidiaries now offer mutual funds and annuities to its customers. The Corporation's trust department also offers a variety of financial products in addition to traditional estate services.

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The following table shows the average balances and corresponding interest rates paid on deposit accounts as of December 31:

| | 2006 | | 2005 | | 2004 | |
|---|---|---|---|---|---|---|
| | Amount | Rate | Amount | Rate | Amount | Rate |
| Noninterest bearing demand deposits | $ 73,650 | | $ 69,610 | | $ 64,531 | |
| Interest bearing demand deposits | 105,476 | 1.58% | 103,684 | 0.97% | 106,471 | 0.53% |
| Savings deposits | 158,327 | 1.69% | 157,238 | 1.00% | 157,819 | 0.55% |
| Time deposits | 301,593 | 4.25% | 245,559 | 3.58% | 238,323 | 3.34% |
| Total | $639,046 | | $576,091 | | $567,144 | |

The time remaining until maturity of time certificates and other time deposits of $100 or more at December 31, 2006 was as follows:

| | |
|---|---|
| Maturity | |
| Within 3 months | $ 54,364 |
| Within 3 to 6 months | 21,197 |
| Within 6 to 12 months | 32,568 |
| Over 12 months | 34,227 |
| TOTAL | $142,356 |

BORROWED FUNDS

As a result of the Corporation's recent loan growth and the increased level of competition for deposits, the Corporation has increased its other borrowings significantly over the past year. Management does also anticipate that the Corporation will continue to increase its borrowings throughout 2007.

ESCROW FUNDS PAYABLE

The Corporation observed a substantial decrease in escrow funds payable during 2006. This decrease can be attributed to Internal Revenue Code Section ("IRC") 1031 exchange account balances being reinvested by customers of IBT Title and Insurance Agency, Inc. ("IBT Title"). These IRC 1031 accounts allow owners of business or investment property to defer realized gains from the sale of business or investment property if the funds are reinvested in another property. As such, these balances can fluctuate significantly between periods as the funds are reinvested. The Corporation does not anticipate escrow funds payable to fluctuate significantly from current levels in 2007.

CAPITAL

The capital of the Corporation consists solely of common stock, capital surplus, retained earnings, and accumulated other comprehensive income / (loss). The Corporation offers dividend reinvestment and employee and director stock purchase plans. Under the provisions of these Plans, the Corporation issued 61,257 shares of common stock generating $2,460 of capital during 2006, and 78,303 shares of common stock generating $2,684 of capital in 2005. The Corporation also offers share based payment awards through its equity compensation plan (See Note 18). Pursuant to this plan, the Corporation generated $470 and $2,704 of capital in 2006 and 2005, respectively. In October 2002 the Board of Directors authorized management to repurchase up to $2,000 in dollar value of the Corporation's common stock. A total of 4,571 shares were repurchased in 2004 at an average price of $42 per share. There were no shares repurchased in 2006 or 2005. Accumulated other comprehensive income decreased $1,981 and consists of a $747 increase in unrealized gain on available-for-sale investment securities reduced by $2,728 related to the adoption of FASB Statement No. 158.

The Federal Reserve Board's current recommended minimum primary capital to assets requirement is 6.0%. The Corporation's primary capital to average assets, which consists of shareholders' equity plus the allowance for loan losses less acquisition intangibles, was 12.49% at year end 2006. There are no commitments for significant capital expenditures.

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The Federal Reserve Board has established a minimum risk based capital standard. Under this standard, a framework has been established that assigns risk weights to each category of on and off-balance-sheet items to arrive at risk adjusted total assets. Regulatory capital is divided by the risk adjusted assets with the resulting ratio compared to the minimum standard to determine whether a corporation has adequate capital. The minimum standard is 8%, of which at least 4% must consist of equity capital net of goodwill. The following table sets forth the percentages required under the Risk Based Capital guidelines and the Corporation's values at December 31, 2006:

Percentage of Capital to Risk Adjusted Assets:

| | IBT Bancorp December 31, 2006 Required | Actual |
|---|---|---|
| Equity Capital | 4.00% | 15.38% |
| Secondary Capital | 4.00% | 1.25% |
| Total Capital | 8.00% | 16.63% |

IBT Bancorp's secondary capital includes only the allowance for loan losses. The percentage for the secondary capital under the required column is the maximum amount allowed from all sources.

The Federal Reserve and FDIC also prescribe minimum capital requirements for the Corporation's subsidiary Banks. At December 31, 2006, the Banks exceeded these minimums. For further information regarding the Banks' capital requirements, refer to Note 17 of the Notes to the accompanying Consolidated Financial Statements, "Minimum Regulatory Capital Requirements".

LIQUIDITY

The primary sources of the Corporation's liquidity are cash and cash equivalents and available-for-sale investment securities. These categories totaled $244,809 or 26.9% of assets as of December 31, 2006 as compared to $214,231 or 28.9% in 2005. Liquidity is important for financial institutions because of their need to meet loan funding commitments, depositor withdrawal requests and various other commitments discussed in the accompanying notes to consolidated financial statements. Liquidity varies significantly daily, based on customer activity.

Operating activities used $1,698 of cash in 2006 as compared to providing $18,452 in 2005. Net cash provided by financing activities equaled $64,846 in 2006 and $49,215 in 2005. The Corporation's investing activities used cash amounting to $62,614 in 2006 and $57,602 in 2005. The accumulated effect of the Corporation's operating, investing, and financing activities provided $534 and $10,065 of cash in 2005 and 2004, respectively.

The primary source of funds for the Banks is deposits. The Banks emphasize interest-bearing time deposits as part of their funding strategy. The Banks also seek noninterest bearing deposits, or checking accounts, which reduce the Banks' cost of funds in an effort to expand the customer base.

In recent periods, the Corporation has experienced some competitive challenges in obtaining additional deposits to fuel growth. As depositors continue to have wider access to the Internet and other real-time interest rate monitoring resources, deposit sourcing and pricing has become more competitive. Deposit growth is achievable, but at a competitive price, with tight net interest margins, especially during these most recent periods of low interest rates. As a result of this increased competition, the Corporation (as discussed above) has begun to rely more and more on brokered and internet deposits as a key funding source.

In addition to these primary sources of liquidity, the Corporation has the ability to borrow in the federal funds market and at both the Federal Reserve Bank and the Federal Home Loan Bank. The Corporation's liquidity is considered adequate by the management of the Corporation.

## INTEREST RATE SENSITIVITY

Interest rate sensitivity management aims at achieving reasonable stability in the net interest margin through periods of changing interest rates. Interest rate sensitivity is determined by the amount of earning assets and interest bearing liabilities repricing within a specific time period, and their relative sensitivity to a change in interest rates. One tool used by management to measure interest rate sensitivity is gap analysis. As shown in the following table, the gap analysis depicts the Corporation's position for specific time periods and the cumulative gap as a percentage of total assets.

Investment securities and other investments are scheduled according to their contractual maturity. Fixed rate loans are included in the appropriate time frame based on their scheduled amortization. Variable rate loans are included in the time frame of their earliest repricing. Of the $591,042 in total loans, $99,099 are variable rate loans. Time deposit liabilities are scheduled based on their contractual maturity except for variable rate time deposits in the amount of $6,200 that are included in the 0 to 3 month time frame.

Savings, NOW accounts, and money market accounts have no contractual maturity date and are believed to be predominantly noninterest rate sensitive by management. These accounts have been classified in the gap table according to their estimated withdrawal rates based upon management's analysis of deposit runoff over the past five years. Management believes this runoff experience is consistent with its expectation for the future. As of December 31, 2006, the Corporation had $94,062 more liabilities than assets maturing within one year. A negative gap position results when more liabilities, within a specified time frame, mature or reprice than assets.

## INTEREST RATE SENSITIVITY

The following table shows the time periods and the amount of assets and liabilities available for interest rate repricing as of December 31, 2006. The interest rate sensitivity information for investment securities is based on the expected prepayments and call dates verses stated maturities. For purposes of this analysis, nonaccrual loans and the allowance for loan losses are excluded.

| | 0 to 3 Months | 4 to 12 Months | 1 to 5 Years | Over 5 Years |
|---|---|---|---|---|
| Interest Sensitive Assets | | | | |
| Investment securities | $ 22,513 | $ 54,248 | $ 97,666 | $ 39,023 |
| Loans | 133,382 | 71,044 | 345,905 | 37,267 |
| TOTAL | $155,895 | $125,292 | $443,571 | $ 76,290 |
| Interest Sensitive Liabilities | | | | |
| Borrowed funds | $ 17,489 | $ 6,000 | $ 22,814 | $ 12,000 |
| Time deposits | 81,085 | 156,353 | 114,562 | 531 |
| Savings | 45,127 | 25,076 | 107,798 | -- |
| Interest bearing demand | 40,300 | 3,819 | 67,287 | -- |
| TOTAL | $184,001 | $191,248 | $312,461 | $ 12,531 |

| | | | | |
|---|---|---|---|---|
| Cumulative gap (deficiency) | $(28,106) | $(94,062) | $ 37,048 | $100,807 |
| Cumulative gap (deficiency) as a % of assets | (3.09)% | (10.34)% | 4.07% | 11.08% |



The following table shows the maturity of commercial and agricultural loans outstanding at December 31, 2006. Also provided are the amounts due after one year, classified according to the sensitivity to changes in interest rates.

| | Due in | | | |
|---|---|---|---|---|
| | 1 Year or Less | 1 to 5 Years | Over 5 Years | Total |
| Commercial and agricultural | $ 63,951 | $177,104 | $18,948 | $260,003 |
| Interest Sensitivity | | | | |
| Loans maturing after one year that have: | | | | |
| Fixed interest rates | | $157,620 | $17,961 | |
| Variable interest rates | | 19,484 | 987 | |
| TOTAL | | $177,104 | $18,948 | |



ITEM 7 A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Corporation's primary market risks are interest rate risk and, to a lesser extent, liquidity risk. The Corporation has no significant foreign exchange risk, holds limited loans outstanding to oil and gas concerns, holds no trading account assets, nor does it utilize interest rate swaps or derivatives, except for interest rate locks, in the management of its interest rate risk. Any changes in foreign exchange rates or commodity prices would have an insignificant impact, if any, on the Corporation's interest income and cash flows. The Corporation does have a significant amount of loans extended to borrowers in agricultural production. The cash flow of such borrowers and ability to service debt is largely dependent on the commodity prices for corn, soybeans, sugar beets, milk, beef, and a variety of dry beans. The Corporation mitigates these risks by using conservative price and production yields when calculating a borrower's available cash flow to service their debt.

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

The Federal Reserve, the Corporation's primary Federal regulator, has adopted a policy requiring the Board of Directors and senior management to effectively manage the various risks that can have a material impact on the safety and soundness of the Corporation. The risks include credit, interest rate, liquidity, operational, and reputational. The Corporation has policies, procedures and internal controls for measuring and managing these risks. Specifically, the IRR policy and procedures include defining acceptable types and terms of investments and funding sources, liquidity requirements, limits on investments in long term assets, limiting the mismatch in repricing opportunity of assets and liabilities, and the frequency of measuring and reporting to the Board of Directors.

The Corporation uses several techniques to manage IRR. The first method is gap analysis. Gap analysis measures the cash flows and/or the earliest repricing of the Corporation's interest bearing assets and liabilities. This analysis is useful for measuring trends in the repricing characteristics of the balance sheet. Significant assumptions are required in this process because of the imbedded repricing options contained in assets and liabilities. A substantial portion of the Corporation's assets are invested in loans and mortgage backed securities. These assets have imbedded options that allow the borrower to repay the balance prior to maturity without penalty. The amount of prepayments is dependent upon many factors, including the interest rate of a given loan in comparison to the current interest rate for residential mortgages, the level of sales of used homes, and the overall availability of credit in the market place. Generally, a decrease in interest rates will result in an increase in the Corporation's cash flows from these assets. Investment securities, other than those that are callable, do not have any significant imbedded options. Savings and checking deposits may generally be withdrawn on request without prior notice. The timing of cash flows from these deposits is estimated based on historical experience. Time deposits have penalties that discourage early withdrawals.

The second technique used in the management of IRR is to combine the projected cash flows and repricing characteristics generated by the gap analysis and the interest rates associated with those cash flows to project future interest income. By changing the amount and timing of the cash flows and the repricing interest rates of those cash flows, the Corporation can project the effect of changing interest rates on its interest income. Based on the projections prepared for the year ended December 31, 2006 the Corporation's net interest income would increase during a period of increasing long term interest rates.



The following tables provide information about the Corporation's assets and liabilities that are sensitive to changes in interest rates as of December 31, 2006 and 2005. The Corporation has no interest rate swaps, futures contracts, or other derivative financial options. The principal amounts of assets and time deposits maturing were calculated based on the contractual maturity dates. Savings and NOW accounts are based on management's estimate of their future cash flows.



December 31, 2006

| (dollars in thousands) | 2007 | 2008 | 2009 | 2010 | 2011 | Thereafte |
|---|---|---|---|---|---|---|
| Rate sensitive assets | | | | | | |
| Other interest bearing assets | $ 2,992 | $ -- | $ -- | $ -- | $ -- | $ -- |
| Average interest rates | 4.63% | -- | -- | -- | -- | -- |
| Fixed interest rate securities | $ 76,761 | $ 48,239 | $21,380 | $15,064 | $12,983 | $39,023 |
| Average interest rates | 3.87% | 4.41% | 4.14% | 4.04% | 3.75% | 3.88% |
| Fixed interest rate loans | $108,771 | $100,331 | $95,442 | $75,359 | $74,773 | $37,267 |
| Average interest rates | 6.45% | 6.41% | 6.47% | 6.55% | 7.17% | 6.25% |
| Variable interest rate loans | $ 66,850 | $ 12,598 | $13,118 | $ 4,301 | $ 1,425 | $ 807 |
| Average interest rates | 5.93% | 8.81% | 8.63% | 8.76% | 8.26% | 9.21% |
| Rate sensitive liabilities | | | | | | |
| Borrowed funds | $ 23,489 | $ 6,058 | $ 8,500 | $ 8,256 | $ -- | $12,000 |
| Average interest rates | 5.01% | 4.78% | 4.88% | 5.10% | -- | 4.85% |
| Savings and NOW accounts | $114,322 | $ 78,084 | $68,816 | $22,601 | $ 5,584 | $ -- |
| Average interest rates | 3.14% | 1.37% | 0.70% | 0.73% | 0.92% | -- |
| Fixed interest rate time deposits | $231,238 | $ 43,789 | $22,518 | $31,822 | $16,433 | $ 531 |
| Average interest rates | 4.63% | 4.21% | 4.17% | 4.47% | 4.79% | 5.27% |
| Variable interest rate time deposits | $ 5,771 | $ 424 | $ 5 | $ -- | $ -- | $ -- |
| Average interest rates | 4.16% | 4.28% | 4.34% | -- | -- | -- |

| | December 31, 2005 | | | | | |
|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | 2010 | Thereafte |
| Rate sensitive assets | | | | | | |
| Other interest bearing assets | $ 3,251 | $ -- | $ -- | $ -- | $ -- | $ -- |
| Average interest rates | 2.49% | -- | -- | -- | -- | -- |
| Fixed interest rate securities | $ 55,646 | $41,790 | $28,358 | $14,484 | $10,289 | $32,839 |
| Average interest rates | 4.02% | 3.39% | 3.53% | 3.91% | 3.83% | 3.52% |
| Fixed interest rate loans | $100,287 | $72,422 | $81,034 | $52,992 | $55,706 | $30,414 |
| Average interest rates | 6.24% | 6.09% | 6.22% | 5.96% | 6.41% | 6.20% |
| Variable interest rate loans | $ 48,475 | $16,265 | $16,143 | $ 5,309 | $ 4,121 | $ 74 |
| Average interest rates | 8.46% | 7.95% | 7.76% | 7.74% | 7.87% | 6.42% |
| Rate sensitive liabilities | | | | | | |
| Borrowed funds | $ 17,266 | $ 5,000 | $ 5,113 | $ 3,500 | $ 8,286 | $13,000 |
| Average interest rates | 4.02% | 3.72% | 4.77% | 3.66% | 5.11% | 4.84% |
| Savings and NOW accounts | $ 58,315 | $84,868 | $83,657 | $23,708 | $ 7,100 | $ -- |
| Average interest rates | 2.97% | 1.05% | 0.88% | 0.74% | 0.93% | -- |
| Fixed interest rate time deposits | $144,640 | $48,977 | $27,856 | $17,451 | $20,316 | $ 381 |
| Average interest rates | 3.71% | 3.99% | 3.82% | 3.76% | 4.23% | 5.29% |
| Variable interest rate time deposits | $ 972 | $ 391 | $ 7 | $ -- | $ -- | $ -- |
| Average interest rates | 3.51% | 3.54% | 3.55% | -- | -- | -- |



FORWARD LOOKING STATEMENTS

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

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following consolidated financial statements of the registrant accompanied by the report of the independent registered public accounting firm are set forth on pages 33 through 66 of this report:

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

The supplementary data regarding quarterly results of operations are set forth under the table headed "Summary of Selected Financial Data" under Item 6 on Page 12 of this report.



## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Board of Directors
IBT Bancorp, Inc.
Mt. Pleasant, Michigan

We have audited the accompanying consolidated balance sheets of IBT BANCORP, INC. as of December 31, 2006 and 2005, and the related consolidated statements of changes in shareholders' equity, income, comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2006. We also have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that IBT BANCORP, INC. maintained effective internal control over financial reporting as of December

31, 2006, based on criteria established in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). IBT BANCORP, INC.'S management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on these consolidated financial statements, an opinion on management's assessment, and an opinion on the effectiveness of the IBT BANCORP, INC.'S internal control over financial reporting, based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A corporation's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. A corporation's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the corporation; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the corporation are being made only in accordance with authorizations of management and directors of the corporation; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the corporation's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's Report on Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of The Farwell State Savings Bank, which is included in the 2006 consolidated financial statements of IBT Bancorp, Inc. and constituted approximately $91.3 million and $14.4 million of total and net assets, respectively, as of December 31, 2006 and approximately $1.3 million and $400,000 of interest income and net income, respectively, for the period October 3, 2006 through December 31, 2006. Management did not assess the effectiveness of internal control over financial reporting at this acquired entity because of the timing of this purchase, which was completed on October 3, 2006. Our audit of internal control over financial reporting of IBT Bancorp, Inc. also did not include an evaluation of the internal control over financial reporting of The Farwell State Savings Bank.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of IBT BANCORP, INC. as of December 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States. Also, in our opinion, management's assessment that IBT BANCORP, INC. maintained effective internal control over financial reporting as of December 31, 2006 is fairly stated, in all material respects, based on criteria established in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Furthermore, in our opinion, IBT BANCORP, INC. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

REHMANN ROBSON P.C.

Saginaw, Michigan
March 02, 2007



CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

| | December 31 | |
|---|---|---|
| | 2006 | 2005 |
| ASSETS | | |
| Cash and demand deposits due from banks | $ 31,359 | $ 30,825 |
| Investment securities available for sale (amortized cost of $214,600 in 2006 and $185,688 in 2005) | 213,450 | 183,406 |
| Mortgage loans available for sale | 2,734 | 744 |
| Net Loans | | |
| Loans | 591,042 | 483,242 |
| Less allowance for loan losses | 7,605 | 6,899 |
| TOTAL NET LOANS | 583,437 | 476,343 |
| Premises and equipment | 20,754 | 19,172 |
| Corporate-owned life insurance policies | 12,763 | 10,533 |
| Accrued interest receivable | 5,765 | 4,786 |
| Acquisition intangibles and goodwill, net | 27,288 | 3,253 |
| Other assets | 12,577 | 12,592 |
| TOTAL ASSETS | $910,127 | $741,654 |

| | | |
|---|---|---|
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Deposits | | |
| Noninterest bearing | $ 83,902 | $ 73,839 |
| NOW accounts | 111,406 | 104,251 |
| Certificates of deposit and other savings | 388,176 | 328,780 |
| Certificates of deposit over $100,000 | 142,356 | 85,608 |
| TOTAL DEPOSITS | 725,840 | 592,478 |
| Other borrowed funds | 58,303 | 52,165 |
| Escrow funds payable | 2,416 | 9,823 |
| Accrued interest and other liabilities | 7,819 | 6,286 |
| TOTAL LIABILITIES | 794,378 | 660,752 |
| Shareholders' Equity | | |
| Common stock -- no par value 10,000,000 shares authorized; outstanding-- 6,335,861 in 2006 (4,974,715 in 2005) | 114,785 | 72,296 |
| Retained earnings | 4,451 | 10,112 |
| Accumulated other comprehensive loss | (3,487) | (1,506) |
| TOTAL SHAREHOLDERS' EQUITY | 115,749 | 80,902 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $910,127 | $741,654 |

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



CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Dollars in thousands)

| | Year Ended December 31 | | |
|---|---|---|---|
| | 2006 | 2005 | 2004 |
| NUMBER OF SHARES OF COMMON STOCK OUTSTANDING | | | |
| Balance at beginning of year | 4,974,715 | 4,896,412 | 4,403,404 |
| Common stock dividends | 497,299 | -- | 440,191 |
| Issuance of common stock | 66,372 | 78,303 | 57,388 |
| Shares issued during bank acquisition | 797,475 | -- | -- |
| Common stock repurchased | -- | -- | (4,571) |
| BALANCE END OF YEAR | 6,335,861 | 4,974,715 | 4,896,412 |
| COMMON STOCK | | | |
| Balance at beginning of year | $ 72,296 | $ 66,908 | $ 47,491 |
| Common stock dividends | 20,887 | -- | 17,608 |
| Transfer | (12,000) | -- | -- |
| Issuance of common stock | 33,132 | 2,684 | 2,001 |
| Share-based payment awards under equity compensation plan | 470 | 2,704 | -- |
| Common stock repurchased | -- | -- | (192) |
| BALANCE END OF YEAR | 114,785 | 72,296 | 66,908 |

| | | | |
|---|---|---|---|
| RETAINED EARNINGS | | | |
| Balance at beginning of year | 10,112 | 6,590 | 20,623 |
| Net income | 7,001 | 6,776 | 6,645 |
| Common stock dividends | (20,887) | -- | (17,608) |
| Transfer | 12,000 | -- | -- |
| Cash dividends ($0.64 per share in 2006, $0.60 per share in 2005, $0.57 per share in 2004) | (3,775) | (3,254) | (3,070) |
| BALANCE END OF YEAR | 4,451 | 10,112 | 6,590 |
| ACCUMULATED OTHER COMPREHENSIVE LOSS | | | |
| Balance at beginning of year | (1,506) | (904) | 822 |
| Adjustment to intially apply FASB Statement No. 158, net of tax | (2,728) | -- | -- |
| Other comprehensive income (loss) | 747 | (602) | (1,726) |
| BALANCE END OF YEAR | (3,487) | (1,506) | (904) |
| TOTAL SHAREHOLDERS' EQUITY END OF YEAR | $ 115,749 | $ 80,902 | $ 72,594 |

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



CONSOLIDATED STATEMENTS OF INCOME
(DOLLARS IN THOUSANDS EXCEPT PER SHARE DATA)

| | YEAR ENDED DECEMBER 31 | | |
|---|---|---|---|
| | 2006 | 2005 | 2004 |
| INTEREST INCOME | | | |
| Loans, including fees | $36,575 | $30,682 | $27,801 |
| Investment securities | | | |
| Taxable | 4,948 | 3,487 | 3,696 |
| Nontaxable | 2,797 | 2,398 | 2,116 |
| Federal funds sold and other | 389 | 315 | 208 |
| TOTAL INTEREST INCOME | 44,709 | 36,882 | 33,821 |
| INTEREST EXPENSE | | | |
| Deposits | 17,164 | 11,374 | 9,391 |
| Borrowings | 2,568 | 1,599 | 1,066 |
| TOTAL INTEREST EXPENSE | 19,732 | 12,973 | 10,457 |
| NET INTEREST INCOME | 24,977 | 23,909 | 23,364 |
| Provision for loan losses | 682 | 777 | 735 |
| NET INTEREST INCOME AFTER | | | |

| | | | |
|---|---|---|---|
| PROVISION FOR LOAN LOSSES | 24,295 | 23,132 | 22,629 |
| NONINTEREST INCOME | | | |
| Service charges and fees | 5,490 | 4,928 | 4,735 |
| Title insurance revenue | 2,389 | 2,351 | 1,957 |
| Gain on sale of mortgage loans | 207 | 270 | 477 |
| Other | 1,012 | 927 | 996 |
| TOTAL NONINTEREST INCOME | 9,098 | 8,476 | 8,165 |
| NONINTEREST EXPENSES | | | |
| Compensation and benefits | 13,869 | 13,548 | 12,685 |
| Occupancy | 1,730 | 1,553 | 1,504 |
| Furniture and equipment | 2,868 | 2,657 | 2,484 |
| Other | 6,006 | 5,126 | 5,598 |
| TOTAL NONINTEREST EXPENSES | 24,473 | 22,884 | 22,271 |
| INCOME BEFORE FEDERAL INCOME TAXES | 8,920 | 8,724 | 8,523 |
| Federal income taxes | 1,919 | 1,948 | 1,878 |
| NET INCOME | $ 7,001 | $ 6,776 | $ 6,645 |
| EARNINGS PER SHARE | | | |
| Basic | $ 1.23 | $ 1.25 | $ 1.24 |
| Diluted | $ 1.19 | $ 1.25 | $ 1.24 |

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



CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)

| | Year Ending December 31 | | |
|---|---|---|---|
| | 2006 | 2005 | 2004 |
| NET INCOME | $ 7,001 | $ 6,776 | $ 6,645 |
| Unrealized gains (losses) on available-for-sale securities: | | | |
| Unrealized holding gains (losses) arising during period | 1,020 | (2,749) | (2,527) |
| Reclassification adjustment for net realized losses (gains) included in net income | 112 | (2) | (106) |
| Net realized unrealized gains (losses) | 1,132 | (2,751) | (2,633) |
| Tax effect | (385) | 935 | 895 |
| Unrealized gains (lossses), net of tax | 747 | (1,816) | (1,738) |
| Reversal of minimum pension liability adjustment | -- | 1,839 | 18 |
| Tax effect | -- | (625) | (6) |
| Minimum pension liability adjustment, net of tax | -- | 1,214 | 12 |

| | | | |
|---|---|---|---|
| Adjustment to initially apply FASB Statement No. 158 | (4,134) | -- | |
| Tax effect | 1,406 | -- | -- |
| FASB Statement No. 158 adjustment, net of tax | (2,728) | -- | -- |
| OTHER COMPREHENSIVE LOSS, NET OF TAX | (1,981) | (602) | (1,726) |
| COMPREHENSIVE INCOME | $ 5,020 | $ 6,174 | $ 4,919 |

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

| | Year Ended Decem | |
|---|---|---|
| | 2006 | 2005 |
| OPERATING ACTIVITIES | | |
| Net income | $ 7,001 | $ 6,776 |
| Reconciliation of net income to cash provided by operations: | | |
| Provision for loan losses | 682 | 777 |
| Depreciation | 1,852 | 1,735 |
| Net amortization of investment securities | 705 | 957 |
| Realized loss (gain) on sale of investment securities | 112 | (2) |
| Amortization and impairment of mortgage servicing rights | 184 | 140 |
| Earnings on corporate owned life insurance policies | (404) | (365) |
| Amortization of acquisition intangibles | 160 | 94 |
| Deferred income taxes | 274 | 263 |
| Share-based payment awards | 470 | -- |
| Changes in operating assets and liabilities which (used) | | |
| provided cash Loans held for sale | (1,990) | 1,595 |
| Accrued interest receivable | (626) | (471) |
| Other assets | (1,333) | (1,443) |
| Escrow funds payable | (7,407) | 8,098 |
| Accrued interest and other liabilities | (1,378) | 298 |
| NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES | (1,698) | 18,452 |
| INVESTING ACTIVITIES | | |
| Activity in available-for-sale securities | | |
| Maturities, calls, and sales | 57,577 | 31,962 |
| Purchases | (70,140) | (57,044) |
| Activity in held to maturity securities | | |
| Maturities, calls, and sales | -- | 523 |
| Net increase in loans | (44,372) | (30,669) |
| Purchases of premises and equipment | (2,467) | (2,374) |
| Acquisition of Farwell State Savings Bank, net of cash acquired | (2,713) | -- |
| (Purchase) benefits received on corporate owned life insurance policies | (499) | -- |
| NET CASH USED IN INVESTING ACTIVITIES | (62,614) | (57,602) |
| FINANCING ACTIVITIES | | |

| | | |
|---|---|---|
| Net (decrease) increase in noninterest bearing deposits | (409) | 8,103 |
| Net increase (decrease) in interest bearing deposits | 60,433 | 20,499 |
| Net increase in other borrowed funds | 6,138 | 21,183 |
| Cash dividends paid on common stock | (3,775) | (3,254) |
| Proceeds from the issuance of common stock | 2,459 | 2,684 |
| Common stock repurchased | -- | -- |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 64,846 | 49,215 |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVELANTS | 534 | 10,065 |
| Cash and cash equivelants at beginning of year | 30,825 | 20,760 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | $ 31,359 | $ 30,825 |
| Supplemental cash flows information: | | |
| Interest paid | $ 19,392 | $ 12,814 |
| Federal income taxes paid | 1,516 | 1,000 |

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



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION AND CONSOLIDATION: The consolidated financial statements include the accounts of IBT Bancorp, Inc. (the "Corporation"), a financial services holding company, and its wholly owned subsidiaries, Isabella Bank and Trust, FSB Bank, IBT Title and Insurance Agency, Inc., Financial Group Information Services, and its majority owned subsidiaries, IBT Personnel, LLC (79%), and IB&T Employee Leasing, LLC (79%). All intercompany balances and accounts have been eliminated in consolidation.

NATURE OF OPERATIONS: IBT Bancorp, Inc. is a financial services holding company offering a wide array of financial products and services in mid-Michigan. Its banking subsidiaries, Isabella Bank and Trust and FSB Bank, offer banking services through 23 locations, 24-hour banking services locally and nationally through shared automatic teller machines, and direct deposits to businesses, institutions, and individuals. Lending services offered include commercial real estate loans and lines of credit, agricultural loans, residential real estate loans, consumer loans, student loans, and credit cards. Deposit services include interest and noninterest bearing checking accounts, savings accounts, money market accounts, and certificates of deposit. Other related financial products include trust services, safe deposit box rentals, and credit life insurance. Active competition, principally from other commercial banks, savings banks and credit unions, exists in all of the Banks' principal markets. The Corporation's results of operations can be significantly affected by changes in interest rates or changes in the local economic environment.

IBT Title and Insurance Agency, Inc. (IBT Title) does business under the names Isabella County Abstract and Title, Mecosta County Abstract and Title, IBT Title Clare, Benchmark Title of Greenville, Milltown Title, LLC, and Lti, LLC. IBT Title provides title insurance and abstract searches, and closes real estate loans.

Financial Group Information Services provides information technology services for IBT Bancorp and subsidiaries.

IBT Personnel and IB&T Employee Leasing provide payroll services, benefit administration, and other human resource services to IBT Bancorp and subsidiaries.

USE OF ESTIMATES: In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheet and reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowance for loan losses and the carrying value of foreclosed real estate, management obtains independent appraisals for significant properties.

SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK: Most of the Corporation's activities conducted are with customers located within the central Michigan area. A significant amount of its outstanding loans are secured by real estate or are made to finance agricultural production. Other than these types of loans, there is no significant concentration to any other industry or customer.

CASH AND CASH EQUIVALENTS: For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks, federal funds sold, and other deposit accounts, all of which have original maturity dates within ninety days.

SECURITIES: Securities are classified as "available for sale" and recorded at fair value, with unrealized gains and losses, net of the effect of deferred income taxes, excluded from earnings and reported in other comprehensive income.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-then-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and



ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

LOANS: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balance adjusted for any charge offs, the 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 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 non-accrual 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 or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured. For impaired loans not classified as nonaccrual, interest income continues to be accrued over the term of the loan based on the principal amount outstanding.

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

The allowance for loan losses 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 allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as either doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that management believes affect its estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Banks will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstance surrounding the loan and the borrower, including the length of the delay, the reason for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction 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 if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Corporation does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.



LOANS HELD FOR SALE: Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value as determined by aggregating outstanding commitments from investors or current investor yield requirements. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

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

TRANSFERS OF FINANCIAL ASSETS: Transfers of financial assets, including held for sale mortgage loans, as described above, and participation loans are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is determined to be surrendered when 1) the assets have been isolated from the Banks, 2) the transferee obtains the right (free of conditions that constrain it from taking advantage of the right) to pledge or exchange the transferred assets and 3) the Banks do not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

SERVICING: Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. Generally, purchased servicing rights are capitalized at the cost to acquire the rights. For sales of mortgage loans, a portion of the cost of originating the loan is allocated to the servicing right based on relative fair value. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. Capitalized servicing rights are reported in other assets and are amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights into tranches based on predominant risk characteristics, such as interest rate, loan type, and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the capitalized amount for the tranche. If the Corporation later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income, a component of noninterest income.

LOANS ACQUIRED THROUGH TRANSFER: American Institute of Certified Public Accountants' Statement of Position (SOP) 03-3 requires that a valuation allowance for loans acquired in a transfer, including in a business combination, reflect only losses incurred after acquisition, and should not be recorded at acquisition. It applies to any loan acquired in a transfer that shows evidence of credit quality deterioration since it was originated. The effect on results of operations and financial position of the Corporation's acquisition of the allowance for loan losses carried over from The Farwell State Savings Bank (Farwell) (see Note 2) was not material in 2006 due to the limited number of troubled loans held by Farwell.

FORECLOSED ASSETS: Assets acquired through, or in lieu, of loan foreclosure are initially recorded at the lower of the Banks' carrying amount or fair value less estimated selling costs at the date of transfer, establishing a new cost basis. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, property held for sale is carried at the lower of the new cost basis or fair value less costs to sell. Impairment losses on property to be held and used are measured at the amount by which the carrying amount of property exceeds its fair value. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. The portion of interest costs relating to development of real estate is capitalized. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less costs to sell.

OFF-BALANCE-SHEET CREDIT RELATED FINANCIAL INSTRUMENTS: In the ordinary course of business, the Corporation has entered into commitments to extend credit, including commitments under credit card arrangements, home equity lines of credit, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded only when funded.

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PREMISES AND EQUIPMENT: Land is carried at cost. Buildings and equipment are carried at cost less accumulated depreciation. Depreciation is computed principally by the straight line method based upon the useful lives of the assets which generally range from 5 to 30 years. Maintenance, repairs and minor alterations are charged to current operations as expenditures occur and major improvements are capitalized.

RESTRICTED INVESTMENTS: Included in other assets are restricted securities of $3,480 in 2006 and $3,080 in 2005. Restricted securities include the stock of the Federal Reserve Bank and the Federal Home Loan Bank and have no contractual maturity.

STOCK COMPENSATION PLANS: In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payment. SFAS No. 123(R) requires that the compensation cost relating to share-based payment transactions be recognized in the financial statements and that this cost be measured based on the fair value of the equity or liability instruments issued. SFAS No. 123(R) covers a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. SFAS 123(R) applies to new awards and awards modified, repurchased, or cancelled after January 1, 2006. Compensation expense is based on the fair value of the awards, which is generally the market price of the stock on the measurement date and is recognized ratably over the service period of the award.

The Corporation adopted SFAS No. 123(R) on December 31, 2005, and elected the modified prospective method. Compensation cost has been measured using the fair value of an award on the grant dates and is recognized over the service period, which is usually the vesting period. Compensation cost related to the non-vested portion of the awards outstanding as of the date was based on the grant date fair value of those awards as calculated under the original provisions of SFAS No. 123; that is, the Corporation was not required to re-measure the grant date fair value estimate of the unvested portion of awards granted prior to the effective date of SFAS No. 123(R).

CORPORATE OWNED LIFE INSURANCE: The Corporation has purchased life insurance policies on key members of management. In the event of death of one of these individuals, the Corporation would receive a specified cash payment equal to the face value of the policy. Such policies are recorded at their cash surrender value, or the amount that can be realized. Increases in cash surrender value in excess of premiums paid are reported as other noninterest income.

ACQUISITION INTANGIBLES AND GOODWILL: Isabella Bank and Trust and FSB Bank previously acquired branch facilities and related deposits in a business combination accounted for as a purchase. During October 2006, FSB Bank acquired The Farwell State Savings Bank (Farwell) resulting in identified core deposit intangibles and goodwill (see Note 2). The acquisition of the branches included amounts related to the valuation of customer deposit relationships (core deposit intangibles). Such core deposit intangibles are included in other assets and are being amortized on the straight line basis over nine years. Core deposit intangibles arising from the acquisition of Farwell are being amortized on a 10 year sum of year's digits amortization schedule. Goodwill is included in other assets and is not amortized but is evaluated for impairment at least annually.

FEDERAL INCOME TAXES: Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax assets or liability is determined based on the tax effects of the temporary differences between the book and tax bases on the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

ADVERTISING COSTS: Advertising costs are expensed as incurred.

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



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

| | December 31 | | |
|---|---|---|---|
| | 2006 | 2005 | 2004 |
| Average number of common shares outstanding* | 5,699,514 | 5,416,961 | 5,344,585 |
| Effect of shares in the Deferred Director fee plan* | 164,800 | -- | -- |
| Average number of common shares outstanding used to calculate diluted earnings per common share | 5,864,314 | 5,416,961 | 5,344,585 |

* As adjusted for the 10% stock dividend paid February 15, 2006

RECLASSIFICATIONS: Certain amounts reported in the 2005 and 2004 consolidated financial statements have been reclassified to conform with the 2006 presentation.

RECENT ACCOUNTING PRONOUNCEMENTS:

On January 1, 2006, the Corporation adopted Statement of Financial Accounting Standards No. 123R (revised 2004), "Share-Based Payment" (SFAS No. 123R) issued by the Financial Accounting Standards Board (FASB). This statement requires that compensation cost relating to share-based payment transactions be recognized in financial statements and that this cost be measured based on the fair value of the equity instruments issued. The adoption of this standard decreased dilutive earnings per share by $.04 in 2006 as a resulted of the inclusion of Plan shares to ultimately be issued in the weighted average number of shares outstanding calculation.

In February 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments," an amendment of SFAS No. 133 and SFAS No. 140. SFAS No. 155 simplifies accounting for certain hybrid instruments under SFAS No. 133 by permitting fair value remeasurement for financial instruments that otherwise would require bifurcation and eliminating SFAS No. 133 Implementation Issue No. D1, "Application of Statement 133 to Beneficial Interests in Securitized Financial Assets," which provides that beneficial interests are not subject to the provisions of SFAS No. 133. SFAS No. 155 also eliminates the previous restriction under SFAS No. 140 on passive derivative instruments that a qualifying special-purpose entity may hold. SFAS No. 155 is effective for all financial instruments acquired, issued, or subject to a remeasurement event occurring after January 1, 2007, and adoption is not expected to have a significant impact on the Corporation's results of operations, financial condition or liquidity.

In March 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 156 (SFAS No. 156), "Accounting for Servicing of Financial Assets". This statement amends Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", with respect to the accounting for separately recognized servicing assets and servicing liabilities. SFAS No. 156 requires companies to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract. The statement permits a company to choose either the amortized cost method or fair value measurement method for each class of separately recognized servicing assets. This statement is effective for the Corporation on January 1, 2007. The Corporation is currently in the process of analyzing the impact, if any, of SFAS No. 156 on the Corporation's consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS

No. 157). SFAS No. 157 establishes a common definition for fair value in generally accepted accounting principles, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements. SFAS No. 157 is effective on January 1, 2008 and is not expected to have a significant impact on the Corporation's consolidated financial position and results of operations.

On December 31, 2006 the Corporation adopted SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (SFAS No. 158). SFAS No. 158 required the Corporation to recognize on a prospective basis the funded status of their defined benefit plan on its consolidated balance sheet and recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost. SFAS No. 158 also required additional disclosures in the notes to the consolidated financial statements. See Note 18 for the discussion on the application of this pronouncement on the consolidated financial statements.



In July 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertain Tax Positions", which seeks to reduce the significant diversity in practice associated with recognition and measurement in the accounting for income taxes. The provisions of this interpretation apply to all tax positions accounted for in accordance with FASB Statement No. 109, "Accounting for Income Taxes". Specifically, the Interpretation requires that a tax position meet a "more likely than not recognition threshold" for the benefit of the uncertain tax position to be recognized in the financial statements. This threshold is to be met assuming that the tax authorities will examine the uncertain tax position. The Interpretation also contains guidance with respect to the measurement of the benefit that is recognized for an uncertain tax position, when that benefit should be derecognized and other matters. The effective date of the Interpretation for the Corporation is January 1, 2007. The Corporation does not anticipate that the implementation of this standard will have a significant impact on the consolidated financial statements as it generally does not have any significant uncertain tax provisions.

NOTE 2 - BUSINESS COMBINATION

On October 3, 2006, Farmers State Bank of Breckenridge (Farmers) acquired 100 percent of the Farwell State Savings Bank (Farwell). As a result of this acquisition, Farwell merged with and into Farmers, which was then renamed FSB Bank. Under the terms of the merger agreement, each share of Farwell common stock was automatically converted into the right to receive 3.0382 shares of IBT common stock and $29.00 in cash. As a result of this acquisition, the Corporation issued 797,475 shares of IBT Bancorp, Inc. common stock valued at $30,448 and paid a total of $7,612 in cash to Farwell shareholders. Included in the purchase price was $382 of transaction costs. The total consideration exchanged including the value of the common stock issued, cash paid to shareholders, plus cash paid for transaction costs resulted in a total purchase cost of $38,442. The acquisition of Farwell has increased the overall market share for IBT Bancorp.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of the acquisition.

| | Fair Value |
|---|---|

| | Farwell October 3, 2006 | Adjustments of Nonintangible Net Assets Acquired | Fair Value of Net Assets Acquired |
|---|---|---|---|
| ASSETS | | | |
| Cash and cash equivelants | $ 5,281 | $ -- | $ 5,281 |
| Securities available for sale | 17,166 | -- | 17,166 |
| Loans, net | 63,874 | (470) | 63,404 |
| Bank premises and equipment | 307 | 600 | 907 |
| Other assets | 2,416 | 15 | 2,431 |
| TOTAL ASSETS ACQUIRED | $89,044 | $ 145 | $89,189 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| LIABILITIES | | | |
| Deposits | $73,731 | $(393) | $73,338 |
| Accrued interest and other liabilities | 1,114 | -- | 1,114 |
| TOTAL LIABILITIES ASSUMED | 74,845 | (393) | 74,452 |
| NET ASSETS ACQUIRED | $14,199 | $ 538 | 14,737 |
| Core deposit intangible | | | 1,442 |
| Goodwill | | | 22,263 |
| TOTAL CONSIDERATION PAID | | | $38,442 |

The fair value adjustments are being amortized over two years using the straight line amortization method. The core deposit intangible is being amortized using a 10 year sum-of-the-years' digits amortization schedule. Goodwill, which is not amortized, will be tested for impairment at least annually. As the acquisition was considered a stock transaction goodwill is not deductible for federal income tax purposes.

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The 2006 consolidated statement of income includes operating results of Farwell since the date of acquisition.

The unaudited pro forma information presented in the following table has been prepared based on IBT Bancorp's historical results combined with Farwell. The information has been combined to present the results of operations as if the acquisition had occurred at the beginning of the periods presented. The pro forma results are not necessarily indicative of the results which would have actually been attained if the acquisition had been consummated in the past or what may be attained in the future:

| | Year Ended December 31, 2006 | Year Ended December 31, 2005 |
|---|---|---|
| Net interest income | $27,499 | $27,371 |

| | | |
|---|---|---|
| Net income | $ 8,023 | $ 8,288 |
| Basic earnings per share | $ 1.28 | $ 1.33 |

NOTE 3 - RESTRICTIONS ON CASH AND AMOUNTS DUE FROM BANKS

Banking regulations require banks to maintain cash reserve balances in currency or as deposits with the Federal Reserve Bank. At December 31, 2006 and 2005, the reserve balances amounted to $979 and $711, respectively.

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NOTE 4 - INVESTMENT SECURITIES

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

| | 2006 | | | |
|---|---|---|---|---|
| Securities Available-for-Sale | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| U.S. Government and federal agencies | $ 7,014 | $ -- | $ 94 | $ 6,920 |
| Government-sponsored enterprises | 62,472 | 54 | 426 | 62,100 |
| States and political subdivisions | 112,966 | 434 | 646 | 112,754 |
| Corporate | 11,089 | 1 | 37 | 11,053 |
| Mortgage-backed | 21,059 | 25 | 461 | 20,623 |
| TOTAL | $214,600 | $514 | $1,664 | $213,450 |

| | 2005 | | | |
|---|---|---|---|---|
| Securities Available-for-Sale | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| U.S. Government and federal agencies | $ 53,953 | $ -- | $1,040 | $ 52,913 |
| States and political subdivisions | 95,976 | 532 | 1,073 | 95,435 |
| Corporate | 13,294 | 3 | 77 | 13,220 |
| Mortgage-backed | 22,465 | 22 | 649 | 21,838 |
| TOTAL | $185,688 | $557 | $2,839 | $183,406 |

The Corporation had pledged investments in the following amounts as of December 31:

| | 2006 | 2005 |
|---|---|---|
| Pledged for public deposits and for other purposes necessary or requried by law | $24,990 | $10,516 |
| Pledged to secure repurchase agreements | 6,500 | 8,832 |
| TOTAL | $31,490 | $19,348 |

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The amortized cost and fair value of available-for-sale securities by contractual maturity at December 31, 2006 are as follows:

| | Available for Sale | |
|---|---|---|
| | Amortized Cost | Fair Value |
| Within 1 year | $ 62,318 | $ 61,939 |
| Over 1 year through 5 years | 89,216 | 88,899 |
| After 5 years through 10 years | 35,490 | 35,462 |
| Over 10 years | 6,517 | 6,527 |
| | 193,541 | 192,827 |
| Mortgage-backed securities | 21,059 | 20,623 |
| | $214,600 | $213,450 |

Because of their variable payments, mortgage backed securities are not reported by a specific maturity group.

A summary of the activity related to the sale of available-for-sale securities during the years ended December 31 is as follows:

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Proceeds from the sale of available-for-sale securities | $15,257 | $4,588 | $45,044 |
| Gross realized gains | $ -- | $ 9 | $ 129 |
| Gross realized losses | (112) | (7) | (23) |
| Net realized (losses) gains | $ (112) | $ 2 | $ 106 |
| Applicable income taxes (benefit) | $ (38) | $ -- | $ 36 |

Management evaluates securities for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

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

| | December 31, 2006 | | | | |
|---|---|---|---|---|---|
| | Less Than Twelve Months | | Over Twelve Months | | |
| Securities Available-for-Sale | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Total Unrealized Losses |
| U.S. Government and federal agency | $ -- | $ -- | $ 94 | $ 6,920 | $ 94 |
| Government-sponsored enterprises | 12 | 15,592 | 414 | 30,482 | 426 |
| States and political subdivisions | 80 | 20,688 | 566 | 40,472 | 646 |
| Corporate | 6 | 4,994 | 31 | 2,472 | 37 |
| Mortgage-backed | 3 | 1,960 | 458 | 16,431 | 461 |
| Total securities available-for-sale | $101 | $43,234 | $1,563 | $96,777 | $1,664 |

| | December 31, 2005 | | | | |
|---|---|---|---|---|---|
| | Less Than Twelve Months | | Over Twelve Months | | |
| Securities Available-for-Sale | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Total Unrealized Losses |
| U.S. Government and federal agency | $157 | $17,155 | $ 883 | $35,171 | $1,040 |
| States and political subdivisions | 397 | 27,687 | 676 | 26,633 | 1,073 |
| Corporate | 1 | 931 | 76 | 3,563 | 77 |
| Mortgage-backed | 106 | 7,053 | 543 | 13,169 | 649 |
| Total securities available-for-sale | $661 | $52,826 | $2,178 | $78,536 | $2,839 |

In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. As the Corporation has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available for sale, no declines are deemed to be other than temporary.



NOTE 5 - LOANS

The Banks grant commercial, agricultural, consumer and residential loans to customers situated primarily in Isabella, Gratiot, Mecosta, Southwestern Midland, Western Saginaw, Northern Montcalm and Southern Clare counties in mid-Michigan. The ability of the borrowers to honor their repayment obligations is often dependent upon the real estate, agricultural, 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.

A summary of the major classifications of loans is as follows:

| | DECEMBER 31 | |
|---|---|---|
| | 2006 | 2005 |
| Mortgage loans on real estate | | |
| Residential 1-4 family | $225,612 | $160,542 |
| Commercial | 142,464 | 111,997 |
| Agricultural | 29,223 | 29,575 |
| Construction | 24,412 | 17,871 |
| Second mortgages | 30,815 | 24,560 |
| Equity lines of credit | 19,811 | 23,278 |
| Total mortgage loans | 472,337 | 367,823 |
| Commercial and agricultural loans | | |
| Commercial | 70,237 | 67,544 |
| Agricultural production | 18,079 | 19,849 |
| Total commercial and agricultural loans | 88,316 | 87,393 |
| Consumer installment loans | | |
| Personal | 29,783 | 26,304 |
| Credit cards | 606 | 1,722 |
| Total consumer installment loans | 30,389 | 28,026 |
| Total loans | 591,042 | 483,242 |
| Less: Allowance for loan losses | 7,605 | 6,899 |
| LOANS, NET | $583,437 | $476,343 |

A summary of changes in the allowance for loan losses follows:

| | Year Ended December 31 | | |
|---|---|---|---|
| | 2006 | 2005 | 2004 |
| Balance at beginning of year | $ 6,899 | $6,444 | $6,204 |
| Allowance of acquired bank | 726 | -- | -- |
| Loans charged off | (1,149) | (643) | (935) |
| Recoveries | 447 | 321 | 440 |
| Provision charged to income | 682 | 777 | 735 |
| Balance at end of year | $ 7,605 | $6,899 | $6,444 |

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

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Impaired loans without a valuation allowance | $ -- | $2,211 | $1,786 |
| Impaired loans with a valuation allowance | 3,928 | 314 | 448 |
| Total impaired loans | $3,928 | $2,525 | $2,234 |
| Valuation allowance related to impaired loans | $ 594 | $ 184 | $ 304 |
| Total nonaccrual loans | $3,444 | $1,375 | $1,900 |
| Accruing loans past due 90 days or more | $1,185 | $1,058 | $ 702 |
| Average investment in impaired loans | $3,043 | $2,531 | $2,949 |

Interest income recognized on impaired loans was not significant during any of the three years ended December 31, 2006. No additional funds are committed to be advanced in connection with impaired loans.

NOTE 6 - SERVICING

Residential mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of mortgages serviced for others was $255,577, $256,358, and $253,282 at December 31, 2006, 2005, and 2004 respectively; such loans are not included in the accompanying consolidated balance sheets. The fair value of servicing rights was determined using a discount rate of 8.7% , prepayment speeds ranging from 8.5% to 25.4%, depending upon the stratification of the specific right and a weighted average default rate of 0.0%. Servicing loans for others generally consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors and taxing authorities, and foreclosure processing.

The following table summarizes the changes in each year of the carrying value of mortgage servicing rights included in other assets as of December 31:

| | 2006 | 2005 | 2004 |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Balance at beginning of year | $ 2,125 | $ 2,046 | $ 1,714 |
| Mortgage servicing rights capitalized | 2,655 | 2,520 | 2,633 |
| Accumulated amortization | (2,589) | (2,429) | (2,279) |
| Impairment valuation allowance | (36) | (12) | (22) |
| BALANCE AT END OF YEAR | $ 2,155 | $ 2,125 | $ 2,046 |
| Impairment increases (reductions) | $ 24 | $ (10) | $ (189) |



NOTE 7 - PREMISES AND EQUIPMENT

A summary of premises and equipment at December 31 follows:

| | 2006 | 2005 |
|---|---|---|
| Land | $ 3,089 | $ 3,027 |
| Buildings and improvements | 15,235 | 12,528 |
| Furniture and equipment | 21,501 | 21,003 |
| Total | 39,825 | 36,558 |
| Less: Accumulated depreciation | 19,071 | 17,386 |
| PREMISES AND EQUIPMENT, NET | $20,754 | $19,172 |

Depreciation expense amounted to $1,852, $1,735 and $1,552 in 2006, 2005, and 2004, respectively.

NOTE 8 - GOODWILL AND OTHER INTANGIBLE ASSETS

The change in the carrying amount of goodwill for the year is as follows:

| | 2006 | 2005 |
|---|---|---|
| Balance January 1 | $ 3,136 | $3,136 |
| Goodwill assigned to Farwell acquisition | 22,263 | -- |
| Other acquisitions | 490 | -- |
| BALANCE AT DECEMBER 31 | $25,889 | $3,136 |

Acquired intangible assets at year end were as follows:

| | 2006 | | |
|---|---|---|---|
| | Gross Amount | Accumulated Amortization | Net Carrying Amount |
| Amortizable intangible assets: | | | |
| Core deposit premium resulting from the Farwell acquisition in 2006 | $1,442 | $ 66 | $1,376 |
| Core deposit premium resulting from previous acquisitions | 2,451 | 2,428 | 23 |
| TOTAL | $3,893 | $2,494 | $1,399 |

| | 2005 | | |
|---|---|---|---|
| | Gross Amount | Accumulated Amortization | Net Carrying Amount |
| CORE DEPOSIT PREMIUM RESULTING FROM BRANCH AND OTHER ACQUISITIONS | $2,451 | $2,334 | $117 |

Amortization expense associated with identified intangible assets was $160, $94, and $93 in 2006, 2005, and 2004, respectively.

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Estimated amortization expense associated with identifiable intangibles for each of the next five years is as follows:

| Year | Amount |
|---|---|
| 2007 | $259 |
| 2008 | 210 |
| 2009 | 184 |
| 2010 | 157 |
| 2011 | 131 |

NOTE 9 - DEPOSITS

Scheduled maturities of time deposits for the years succeeding December 31, 2006 are as follows:

| Year | Amount |
|---|---|

| | |
|---|---|
| 2007 | $237,009 |
| 2008 | 44,213 |
| 2009 | 22,523 |
| 2010 | 31,822 |
| 2011 | 16,433 |
| Thereafter | 531 |

Interest expense on time deposits greater than $100 was $5,195 in 2006, $2,751 in 2005, and $2,140 in 2004.

NOTE 10 - SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase, which are classified as secured borrowings, 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 U.S. government agency securities underlying the agreements have a carrying value and a fair value of $6,500 and $8,832 at December 31, 2006 and 2005, respectively. Such securities remain under the control of the Corporation. The Corporation may be required to pledge additional collateral based on the fair value of the underlying securities.

NOTE 11 - BORROWED FUNDS

Borrowed funds consist of the following obligations at December 31:

| | 2006 | 2005 |
|---|---|---|
| Federal Home Loan Bank advances | $50,756 | $45,286 |
| Federal Funds purchased | 6,765 | 6,500 |
| Securities sold under agreements to repurchase | 724 | 266 |
| Unsecured note payable | 58 | 113 |
| | $58,303 | $52,165 |

The Federal Home Loan Bank borrowings are collateralized by a blanket lien on all qualified 1-to-4 family whole mortgage loans and U.S. government and federal agency securities. Advances are also secured by FHLB stock owned by the Banks.



The maturity and weighted average interest rates of FHLB advances follows at December 31:

| | 2006 | |
|---|---|---|
| | Amount | Rate |
| Fixed rate advances due 2007 | $16,000 | 4.79% |

| | | |
|---|---|---|
| Fixed rate advances due 2008 | 6,000 | 4.79% |
| Fixed rate advances due 2009 | 8,500 | 4.88% |
| Fixed rate advances due 2010 | 5,256 | 5.17% |
| One year putable advance due 2010 | 3,000 | 4.98% |
| Fixed rate advances due 2012 | 2,000 | 4.90% |
| Fixed rate advances due 2015 | 10,000 | 4.84% |
| | $50,756 | 4.87% |

| | 2005 | |
|---|---|---|
| | Amount | Rate |
| Fixed rate advances due 2006 | $ 5,500 | 2.76% |
| Two Year putable advance due 2006 | 5,000 | 5.08% |
| Fixed rate advances due 2007 | 5,000 | 3.72% |
| Fixed rate advances due 2008 | 6,000 | 4.79% |
| Fixed rate advances due 2009 | 3,500 | 3.66% |
| Fixed rate advances due 2010 | 5,286 | 5.18% |
| One Year putable advance due 2010 | 3,000 | 4.98% |
| Fixed rate advances due 2012 | 2,000 | 4.90% |
| Fixed rate advances due 2015 | 10,000 | 4.84% |
| | $45,286 | 4.44% |

The unsecured note payable has an imputed interest rate of 4.16%; such note is due in July, 2007.

NOTE 12 - OTHER NON-INTEREST EXPENSES

A summary of expenses included in Other Non-Interest Expenses for the year ended December 31 is as follows:

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Director fees | $ 477 | $ 503 | $ 496 |
| Marketing and advertising | 697 | 624 | 522 |
| Audit and SOX compliance fees | 1,010 | 606 | 990 |
| Other, not individually significant | 3,822 | 3,393 | 3,590 |
| | $6,006 | $5,126 | $5,598 |

NOTE 13 - FEDERAL INCOME TAXES

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

| 2006 | 2005 | 2004 |
|---|---|---|

| | | | |
|---|---|---|---|
| Currently payable | $1,645 | $1,685 | $1,573 |
| Deferred | 274 | 263 | 305 |
| FEDERAL INCOME TAXES | $1,919 | $1,948 | $1,878 |

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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 taxes is as follows for the year ended December 31:

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Income taxes at 34% statutory rate | $ 3,033 | $ 2,966 | $ 2,898 |
| Effect of nontaxble income | (1,239) | (1,100) | (1,104) |
| Effect of nondeductible expenses | 125 | 82 | 84 |
| PROVISION FOR FEDERAL INCOME TAXES | $ 1,919 | $ 1,948 | $ 1,878 |

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 income tax purposes. Significant components of the Corporation's deferred tax assets and liabilities, included in other assets, as of December 31 are as follows:

| | 2006 | 2005 |
|---|---|---|
| DEFERRED TAX ASSETS | | |
| Allowance for loan losses | $1,728 | $1,550 |
| Deferred directors' fees | 1,359 | 919 |
| Employee benefit plans | 307 | 531 |
| Core deposit premium and acquisition expenses | -- | 23 |
| Net unrealized loss on minimum pension liability | 1,405 | -- |
| Net unrealized loss on available-for-sale securities | 392 | 776 |
| Other | 78 | 51 |
| TOTAL DEFERRED TAX ASSETS | 5,269 | 3,850 |
| DEFERRED TAX LIABILITIES | | |
| Prepaid pension asset | 794 | 730 |
| Premises and equipment | 638 | 663 |
| Accretion on securities | 66 | 35 |
| Core deposit premium and acquisition expenses | 157 | -- |
| Other | 178 | 226 |
| TOTAL DEFERRED TAX LIABILITIES | 1,833 | 1,654 |

| | | |
|---|---|---|
| NET DEFERRED TAX ASSETS | $3,436 | $2,196 |
| | ====== | ====== |

NOTE 14 - OFF-BALANCE-SHEET ACTIVITIES

CREDIT-RELATED FINANCIAL INSTRUMENTS

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

The Corporation is exposed 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 is represented by the contractual notional amount of those instruments. The Corporation uses the same credit policies in deciding to make these commitments as it does for extending loans to customers.

Commitments to extend credit, which totaled $85,077 and $69,591 at December 31, 2006 and 2005, respectively, are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have variable interest rates, fixed expiration dates, or other termination clauses and may require the payment of a fee.



Standby letters of credit are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support private borrowing arrangements, including commercial paper, bond financing, and similar transactions. At December 31, 2006 and 2005 the Corporation had a total of $4,079 and $1,565, respectively, in outstanding standby letters of credit.

Generally, these commitments to extend credit and letters of credit mature within one year. The credit risk involved in these transactions is essentially the same as that involved in extending loans to customers. The Corporation evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon the extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and other income producing commercial properties.

NOTE 15 - 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. The Corporation enters 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 the Corporation 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 the Corporation 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 increases. The notional amount of undesignated interest rate lock commitments was $532 and $234 at December 31, 2006 and 2005, respectively.

FORWARD LOAN SALE COMMITMENTS

To protect against the price risk inherent in derivative loan commitments, the Corporation utilized 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, the Corporation commits to deliver a certain principal amount of mortgage loans to an investor at a specified price on or before a specified date. If the Corporation fails to deliver the amount of mortgages necessary to fulfill the commitment by the specified date, it is 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, the Corporation commits 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).

The Corporation expects that these forward loan sale commitments will experience changes in fair value opposite to change in fair value of derivate loan commitments. The notional amount of undesignated forward loan sale commitments was $3,266 and $744 at December 31, 2006 and 2005, 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 these consolidated financial statements.



NOTE 16 - COMMITMENTS AND OTHER MATTERS

Isabella Bank and Trust sponsors the IBT Foundation (the "Foundation"), which is a nonprofit entity formed for the purpose of distributing charitable donations to recipient organizations generally located in the communities serviced by Isabella Bank and Trust. The Bank periodically makes charitable contributions in the form of cash transfers to the Foundation. The Foundation is administered by members of the Isabella Bank and Trust Board of Directors. The assets and transactions of the Foundation are not included in the consolidated financial statements of IBT Bancorp, Inc. Donations made to the Foundation by Isabella Bank and Trust included in charitable donations reported in noninterest expenses were $0, $0, and $27 in 2006, 2005 and 2004, respectively. The assets of the Foundation as of December 31, 2006 and 2005were $1,318 and $1,551, respectively.

Banking regulations limit the transfer of assets in the form of dividends, loans, or advances from the subsidiary Banks to the Corporation. At December 31, 2006, substantially all of the subsidiary Banks' 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 years retained net income plus retained net income for the preceding two years, less any required transfers to capital surplus. At January 1, 2006, the amount available for dividends without regulatory approval was approximately $781.

The Corporation maintains a self-funded medical plan under which the Corporation is responsible for the first $50 per year of claims made by a covered family. Medical claims are subject to a lifetime maximum of $5,000 per covered individual. Expenses are accrued based on estimates of the aggregate liability for claims incurred and the Corporation's experience. Expenses were $1,316 in 2006, $1,650 in 2005 and $1,184 in 2004.

The Corporation offers dividend reinvestment and employee and director stock purchase plans. The dividend reinvestment plan allows shareholders to purchase previously unissued IBT Bancorp common shares. The stock purchase plan allows employees and directors to purchase IBT Bancorp common stock through payroll deduction. The number of shares reserved for issuance under these plans are 280,000 with 98,552 shares unissued at December 31, 2006. During 2006, 2005 and 2004, 61,258 shares were issued for $2,460, 58,019 shares were issued for $2,180, and 57,388 shares were issued for $2,001, respectively, in cash pursuant to these plans.

The subsidiary banks of the Corporation have obtained approval to borrow up to $79,000 from the Federal Home Loan Bank (FHLB) of Indianapolis. Under the terms of the agreement, the Banks may obtain advances at the stated rate at the time of the borrowings. The Banks have agreed to pledge eligible mortgage loans and U.S. Treasury and governmental agencies as collateral for any such borrowings.

NOTE 17 - MINIMUM REGULATORY CAPITAL REQUIREMENTS

The Corporation (on a consolidated basis) and its subsidiary banks, Isabella Bank and Trust and FSB Bank ("Banks") are subject to various regulatory capital requirements administered by the Federal Reserve Bank and the Federal Deposit Insurance Corporation (The Regulators). Failure to meet minimum capital requirements can initiate mandatory and possibly additional discretionary actions by The Regulators that if undertaken, could have a material effect on the Corporation's and Banks' financial statements. Under The Regulators' capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation and the Banks must meet specific capital guidelines that include quantitative measures of their assets, liabilities, capital, and certain off-balance-sheet items, as calculated under regulatory accounting standards. The Banks' capital amounts and classifications are also subject to qualitative judgments by The Regulators 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 the Corporation and the Banks to maintain minimum amounts and ratios (set forth in the following table) of total and Tier capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2006 and 2005, that the Corporation and the Banks meet all capital adequacy requirements to which they are subject.

As of December 31, 2006, the most recent notifications from The Regulators categorized the Banks 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 management believes has changed the Banks' categories.



The Corporation's and each Bank's actual capital amounts (in thousands) 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, 2006 | | | | | | |
| Total capital to risk weighted assets | | | | | | |
| Isabella Bank & Trust | $51,484 | 12.2% | $33,748 | 8.0% | $42,185 | 10.0% |
| FSB Bank | 30,660 | 20.4 | 12,025 | 8.0 | 15,032 | 10.0 |
| Consolidated | 96,792 | 16.6 | 46,552 | 8.0 | N/A | N/A |
| Tier 1 capital to risk weighted assets | | | | | | |
| Isabella Bank & Trust | 46,917 | 11.1 | 16,874 | 4.0 | 25,311 | 6.0 |
| FSB Bank | 28,767 | 19.1 | 6,013 | 4.0 | 9,019 | 6.0 |
| Consolidated | 89,514 | 15.4 | 23,276 | 4.0 | N/A | N/A |
| Tier 1 capital to average assets | | | | | | |
| Isabella Bank & Trust | 46,917 | 7.5 | 25,146 | 4.0 | 31,432 | 5.0 |
| FSB Bank | 28,767 | 12.3 | 9,337 | 4.0 | 11,672 | 5.0 |
| Consolidated | 89,514 | 11.6 | 30,926 | 4.0 | N/A | N/A |
| DECEMBER 31, 2005 | | | | | | |
| Total capital to risk weighted assets | | | | | | |
| Isabella Bank & Trust | $48,092 | 12.4% | $31,040 | 8.0% | $38,800 | 10.0% |
| FSB Bank | 14,162 | 14.7 | 7,733 | 8.0 | 9,667 | 10.0 |
| Consolidated | 85,184 | 17.1 | 39,761 | 8.0 | N/A | N/A |
| Tier 1 capital to risk weighted assets | | | | | | |
| Isabella Bank & Trust | 43,458 | 11.2 | 15,520 | 4.0 | 23,280 | 6.0 |
| FSB Bank | 12,941 | 13.4 | 3,867 | 4.0 | 5,800 | 6.0 |
| Consolidated | 78,963 | 15.9 | 19,881 | 4.0 | N/A | N/A |
| Tier 1 capital to average assets | | | | | | |
| Isabella Bank & Trust | 43,458 | 7.6 | 23,011 | 4.0 | 28,763 | 5.0 |
| FSB Bank | 12,941 | 9.5 | 5,426 | 4.0 | 6,783 | 5.0 |
| Consolidated | 78,963 | 11.3 | 27,886 | 4.0 | N/A | N/A |



NOTE 18 - BENEFIT PLANS

DEFINED BENEFIT PENSION PLAN

The Corporation has a defined benefit pension plan covering substantially all of its employees. The benefits are based on years of service and the employees' five highest consecutive years of compensation out of the last ten years of service. The funding policy is to contribute annually the maximum amount that can be deducted for federal income tax purposes. Contributions are intended to provide not only for benefits attributed to services to date but also for those expected to be earned in the future.

In December 2006, the Board of Directors voted to curtail the defined benefit plan effective March 1, 2007. The effect of the curtailment, which will be recognized in the first quarter of 2007, is to suspend the current participant's accrued benefits as of March 1, 2007 and to limit participation in the plan to eligible employees as of December 31, 2006. Subsequent to the decision to curtail the defined benefit plan, the Corporation decided to increase the contributions to the Corporation's 401(k) plan effective January 1, 2007 (see below)

Changes in the projected benefit obligation and plan assets during each year, the funded status of the plan and a reconciliation of the amount recognized in the Corporation's consolidated balance sheets are summarized as follows at December 31:

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Change in projected benefit obligation | | | |
| Benefit obligation, January 1 | $ 9,557 | $ 8,783 | $ 8,083 |
| Service cost | 593 | 513 | 410 |
| Interest cost | 607 | 540 | 518 |
| Actuarial loss | 724 | 25 | 144 |
| Benefits paid | (485) | (304) | (372) |
| BENEFIT OBLIGATION, DECEMBER 31 | 10,996 | 9,557 | 8,783 |
| Change in plan assets | | | |
| Fair value of plan assets, January 1 | 7,609 | 6,311 | 5,427 |
| Investment return | 947 | 351 | 348 |
| Corporation contribution | 1,128 | 1,251 | 908 |
| Benefits paid | (485) | (304) | (372) |
| FAIR VALUE OF PLAN ASSETS, DECEMBER 31 | 9,199 | 7,609 | 6,311 |
| FUNDED STATUS AT DECEMBER 31 | $(1,797) | $(1,948) | $(2,472) |

The incremental effect of applying FASB Statement No. 158 on individual line items in the consolidated statement of financial position as of December 31, 2006 are as follows:

| | Before Application of SFAS 158 | Adjustments | After Application of SFAS 158 |
|---|---|---|---|
| (Prepaid) accrued liability for pension benefits | $ (2,337) | $ 4,134 | $ 1,797 |
| Deferred income tax assets | 2,030 | 1,406 | 3,436 |
| Total liabilities | 792,581 | 1,797 | 794,378 |
| Accumulated other comprehensive loss | (759) | (2,728) | (3,487) |
| Total shareholders' equity | 118,477 | (2,728) | 115,749 |

Amounts recognized in accumulated other comprehensive loss consist of:

| | December 31 | | |
|---|---|---|---|
| | 2006 | 2005 | 2004 |
| Additional minimum pension liability | $ -- | $-- | $(1,839) |
| Tax effect | -- | -- | 625 |
| Net of tax amount | -- | -- | (1,214) |
| Adjustment to initially apply FASB Statement No. 158 | (4,134) | -- | -- |
| Tax effect | 1,406 | -- | -- |
| Net of tax amount | (2,728) | -- | -- |
| TOTAL | $(2,728) | $-- | $(1,214) |

The accumulated benefit obligation was $8,072 and $7,079 at December 31, 2006 and 2005, respectively. The $4,134 adjustment consists primarily of unrecognized net losses.

An adjustment to record the additional minimum pension liability as of December 31, 2004 was established by the recording of an intangible pension asset of $76, and a reduction to other comprehensive loss of $1,839 and $18 in 2005 and 2004, respectively.

The components of net periodic benefit cost and other amounts recognized in other comprehensive income (loss) are as follows for the years ended December 31:

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| NET PERIODIC BENEFIT COST | | | |
| Service cost on benefits earned for serviced rendered during the year | $ 637 | $ 558 | $ 518 |
| Interest cost on projected benefit obligation | 607 | 540 | 501 |
| Expected return on plan assets | (555) | (463) | (430) |
| Amortization of unrecognized prior service cost | 18 | 18 | 18 |
| Amortization of unrecognized actuarial net loss | 232 | 201 | 213 |
| NET PERIODIC BENEFIT COST | 939 | 854 | 820 |
| OTHER CHANGES IN PLAN ASSETS AND BENEFIT OBLIGATIONS RECOGNIZED IN OTHER COMPREHENSIVE INCOME (LOSS) | | | |
| Adjustment to record the additional minimum pension liability net of tax | -- | 1,214 | 12 |
| Adjustment to initially apply FASB Statement No. 158 net of tax | (2,728) | -- | -- |

| | | | |
|---|---|---|---|
| TOTAL RECOGNIZED IN OTHER COMPREHENSIVE INCOME (LOSS) | (2,728) | 1,214 | 12 |
| TOTAL RECOGNIZED IN NET PERIODIC BENEFIT COST AND OTHER COMPREHENSIVE INCOME (LOSS) | $(1,789) | $2,068 | $ 832 |

Actuarial assumptions used in determining the projected benefit obligation are as follows for the year ended December 31:

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Weighted average discount rate | 6.00% | 6.25% | 6.25% |
| Rate of increase in future compensation | 4.50% | 4.50% | 4.50% |
| Expected long-term rate of return | 7.50% | 7.50% | 8.00% |

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

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Discount rate | 6.00% | 6.25% | 6.75% |
| Rate of compensation increase | 4.50% | 4.50% | 4.50% |
| Expected long-term return on plan assets | 7.50% | 7.50% | 8.00% |

The discount rate decreased to 6.00% in 2006 from 6.25% in 2005. The expected long term rate of return is based on the Corporation's actual recommended rate. The expected rate of return assumption was selected as an estimate of anticipated future long term rates of return on plan assets as measured on a market value basis. Factors considered in making this selection include:

- Historical longer 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.

The Corporation's pension plan weighted-average asset allocations by asset category are as follows at December 31:

| | 2006 | 2005 |
|---|---|---|

| Asset Category | | |
|---|---|---|
| Equity securities | 0.0% | 64.2% |
| Debt securities | 0.0% | 28.7% |
| Other | 100.0% | 7.1% |
| Total | 100.00% | 100.00% |

Debt securities include certificates of deposit with the Banks in the amounts of $0 (0% of total plan assets) and $1,173 (15% of total plan assets) at December 31, 2006 and 2005, respectively. Also included in other is $4,000 (44% of total plan assets) and $537 (7% of total plan assets) of funds in a money market account with Isabella Bank and Trust as of December 31, 2006 and 2005, respectively. As a result of the Corporation changing investment advisors as of year end, all of the plan's assets were in money market accounts as of December 31, 2006. These funds were substantially re-invested by January 15, 2007.

The Corporation's investment policy for the benefit plan includes asset holdings in publicly traded equities, U.S. Government agency obligations and investment grade corporate and municipal bonds. The policy restricts equity investment to less than 20% of equity investments in any sector and to less than 4% of plans assets in any one company. The Corporation's weighted asset allocations in 2006 and 2005 were as follows:

| | |
|---|---|
| Equity securities | 55% to 65% |
| Debt securities | 25% to 35% |
| Real estate | 0.00% |
| Other | 15.00% |

The asset mix, the sector weighting of equity investments, and debt issues to hold are based on a third party investment advisor retained by the Corporation to manage the plan. The Corporation reviews the performance of the advisor no less than annually.

The Corporation expects to contribute approximately $861 to the pension plan in 2007.



Estimated future benefit payments, which reflect expected future service, as appropriate, are as follows for the next ten years:

| Year | Amount |
|---|---|
| 2007 | $ 327 |
| 2008 | 333 |
| 2009 | 341 |
| 2010 | 370 |
| 2011 | 391 |
| Years 2012 - 2016 (total) | 3,042 |

OTHER EMPLOYEE BENEFIT PLANS

The Corporation maintains a nonqualified supplementary retirement plan for officers to provide supplemental retirement benefits and death benefits to each participant. Insurance policies, designed primarily to fund death benefits, have been purchased on the life of each participant with the Corporation as the sole owner and beneficiary of the policies. Expenses related to this program for 2006, 2005, and 2004 were $97, $85, and $65, respectively, and are being recognized over the participants' expected years of service.

The Corporation maintains a non-leveraged employee stock ownership plan (ESOP) and a profit sharing plan which cover substantially all of its employees. Contributions to the plans are discretionary and are approved by the Board of Directors and recorded as compensation expense. Compensation expense related to the plans for 2006, 2005, and 2004 was $13, $11, and $11, respectively. Total allocated shares outstanding related to the ESOP at December 31, 2006 and 2005 were 161,762 and 159,987, respectively, and were included in the computation of dividends and earnings per share in each of the respective years.

401(K) PLAN

The Corporation has a 401(k) plan in which substantially all employees are eligible to participate. Employees may contribute up to 15% of their compensation subject to certain limits based on federal tax laws. The Corporation began making matching contributions equal to 25% of the first 3% of an employee's compensation contributed to the plan in 2005. Employees are 0% vested through their first three years of employment and are 100% vested after 3 years of service. For the year ended December 31, 2006 and 2005, expenses attributable to the Plan were $47 and $49, respectively.

As a result of the curtailment of the defined benefit plan noted above the Corporation decided to increase the contributions to the Corporation's 401(k) plan effective January 1, 2007. The enhancement includes a 3.0% drop-in 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. As a result of the curtailment, an adjustment in the accounting for the Corporation's defined benefit plan will be reported in accordance with SFAS No. 88 "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits" in the first quarter of 2007. The Corporation does not anticipate a significant impact on the operating results or statement of position in future years.

EQUITY COMPENSATION PLAN

Pursuant to the terms of a Deferred Director fee plan, directors of the Corporation are required to defer at least 25%, and may defer up to 100%, of their earned board fees. Deferred director fees are converted on a quarterly basis into stock units of the Corporation's common stock. The fees are converted to stock units based on the purchase price for a share of common stock under the Corporation's dividend reinvestment plan. Stock units credited to a participant's account are eligible for stock and cash dividends as declared. Upon retirement from the board, a participant is eligible to receive one share of common stock for each one stock unit. Prior to December 31, 2005, the Plan contained a cash payout option, and a liability was recorded in the consolidated financial statements. The Plan as modified does not allow for cash settlement and, therefore, such share-based payment awards qualify for classification as equity. In connection with the amendment, $2,704 was reclassified from other liabilities and recorded as an addition to the common stock account as of December 31, 2005. All authorized but unissued shares of common stock are eligible for issuance under this Plan. As of December 31, 2006 and 2005, 171,014 and 161,571 shares, respectively, were to be issued under this plan, as adjusted for the 10% stock dividend paid on February 15, 2006, pursuant to an existing antidilution provision required by the plan.



NOTE 19 - RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Banks have granted 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:

| | 2006 | 2005 |
|---|---|---|
| Beginning balance | $ 9,679 | $ 9,505 |
| New loans | 12,521 | 7,718 |
| Repayments | (11,451) | (7,544) |
| Ending Balance | $ 10,749 | $ 9,679 |

Total deposits of these principal officers and directors and their affiliates amounted to $10,467 and $6,685 at December 31, 2006 and 2005, respectively. In addition, IBT Bancorp's defined benefit plan and the Employee Stock Ownership Plan (Note 18) held deposits with the banks aggregating $4,000 and $862, and $1,710 and $497 respectively at December 31, 2006 and 2005.

NOTE 20 - FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Corporation's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. SFAS No. 107 excludes certain financial instruments and all non-financial instruments from its disclosure requirements. These include, among other elements, the estimated earning power of core deposit accounts, the trained work force, customer goodwill and similar items. Accordingly, the aggregate of the fair value amounts presented are not necessarily indicative of the underlying fair value of the Corporation.

The following methods and assumptions were used by the Corporation in estimating fair value disclosures for financial instruments.

CASH AND CASH EQUIVALENTS: The carrying amounts of cash and short-term instruments approximate fair values.

INVESTMENT SECURITIES: Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are unavailable, fair values are based on quoted market prices of comparable instruments.

MORTGAGE LOANS HELD FOR SALE: Fair values of mortgage loans held for sale are based on commitments on hand from investors or prevailing market prices.

LOANS RECEIVABLE: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for other loans (e.g., real estate mortgage, agricultural, commercial, and installment) 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 declines, if any, in the credit quality of borrowers since the loans were originated. Fair values for non-performing loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

DEPOSIT LIABILITIES: 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 book balance. Fair values for fixed-rate certificates of deposit are estimated using discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.



MORTGAGE SERVICING RIGHTS: Fair value is determined using prices for similar assets with similar characteristics when applicable, or based upon discounted cash flow analyses.

SHORT-TERM BORROWINGS: The carrying amounts or federal funds purchased, borrowings under repurchase agreements, and other short-term borrowings maturing within ninety days approximate their fair values. Fair values of other short-term borrowings are estimated using discounted cash flow analyses based on the Corporation's current incremental borrowing rates for similar types of borrowings arrangements.

BORROWINGS: The fair values of the Corporation's long-term borrowings are estimated using discounted cash flow analyses based on the Corporation's current incremental borrowing arrangements. The carrying amounts of federal funds purchased and borrowings under repurchase agreements approximate their fair value. The fair values of other borrowings are estimated using discounted cash flow analyses based on the Corporation's current incremental borrowing rates for similar types of borrowing arrangements.

ACCRUED INTEREST: The carrying amounts of accrued interest approximate fair value.

DERIVATIVE FINANCIAL INSTRUMENTS: Fair values for derivative loan commitments and forward loan sale commitments are based on fair values of the underlying mortgage loans and the probability of such commitments being exercised.

OFF-BALANCE-SHEET CREDIT-RELATED INSTRUMENTS: 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 following sets forth the estimated fair value and recorded carrying values of the Corporation's financial instruments as of December 31:

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | Estimated Fair Value | Carrying Value | Estimated Fair Value | Carrying Value |
| ASSETS | | | | |
| Cash and demand deposits due from banks | $ 31,359 | $ 31,359 | $ 30,825 | $ 30,825 |
| Investment securities | 213,450 | 213,450 | 183,406 | 183,406 |
| Mortgage loans available for sale | 2,765 | 2,734 | 757 | 744 |
| Net loans | 585,703 | 583,437 | 479,765 | 476,343 |
| Accrued interest receivable | 5,765 | 5,765 | 4,786 | 4,786 |
| Mortgage servicing rights | 2,155 | 2,155 | 2,125 | 2,125 |
| LIABILITIES | | | | |
| Deposits with no stated maturities | 373,309 | 373,309 | 331,487 | 331,487 |
| Deposits with stated maturities | 352,595 | 352,531 | 260,615 | 260,991 |
| Borrowed funds | 58,390 | 58,303 | 52,216 | 52,165 |
| Accrued interest payable | 1,197 | 1,197 | 857 | 857 |



NOTE 21 - PARENT COMPANY ONLY FINANCIAL INFORMATION (UNAUDITED)

CONDENSED BALANCE SHEETS

| | December 31 | |
|---|---|---|
| | 2006 | 2005 |
| ASSETS | | |
| Cash on deposit at subsidiary Banks | $ 4,075 | $ 8,749 |
| Securities available for sale | 2,534 | 4,789 |
| Investments in subsidiaries | 106,064 | 61,841 |
| Premises and equipment | 3,094 | 3,025 |
| Other assets | 2,995 | 3,576 |
| TOTAL ASSETS | $118,762 | $81,980 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Other liabilities | $ 3,013 | $ 1,078 |
| Shareholders' equity | 115,749 | 80,902 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $118,762 | $81,980 |

CONDENSED STATEMENTS OF INCOME

| | Year Ended December 31 | | |
|---|---|---|---|
| | 2006 | 2005 | 2004 |

| | | | |
|---|---|---|---|
| Income | | | |
| Dividends from subsidiaries | $4,025 | $7,275 | $3,500 |
| Interest income | 305 | 182 | 139 |
| Management fee and other | 1,280 | 1,384 | 643 |
| TOTAL INCOME | 5,610 | 8,841 | 4,282 |
| Expenses | 3,872 | 2,808 | 2,065 |
| Income before income tax benefit and equity in undistributed earnings of subsidiaries | 1,738 | 6,033 | 2,217 |
| Federal income tax benefit | 825 | 478 | 470 |
| | 2,563 | 6,511 | 2,687 |
| Undistributed earnings of subsidiaries | 4,438 | 265 | 3,958 |
| NET INCOME | $7,001 | $6,776 | $6,645 |



CONDENSED STATEMENTS OF CASH FLOWS

| | Year Ended December 31 | | |
|---|---|---|---|
| | 2006 | 2005 | 2004 |
| OPERATING ACTIVITIES | | | |
| Net income | $ 7,001 | $ 6,776 | $ 6,645 |
| Adjustments to reconcile net income to cash provided by operations | | | |
| Undistributed earnings of subsidiaries | (4,438) | (265) | (3,958) |
| Share based payment awards | 470 | -- | -- |
| Depreciation | 591 | 533 | 21 |
| Net amortization of investment securities | 21 | 27 | 12 |
| Realized loss on sale of investment securities | 8 | -- | -- |
| Deferred income taxes (benefit) | 128 | 680 | (13) |
| Changes in operating assets and liabilities which provided (used) cash | | | |
| Interest receivable | 29 | (29) | (4) |
| Other assets | (522) | (746) | (1,031) |
| Accrued interest and other expenses | 138 | (894) | 809 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 3,426 | 6,082 | 2,481 |
| INVESTING ACTIVITIES | | | |
| Activity in available-for-sale securities | | | |
| Maturities, calls, and sales | 6,650 | 344 | 260 |
| Purchases | (4,380) | (1,523) | (1,846) |
| Purchases of equipment and premises | (660) | (3,455) | (7) |
| Advances to (repayment of) investment in subsidiaries | (8,394) | 652 | -- |
| NET CASH USED IN INVESTING ACTIVITIES | (6,784) | (3,982) | (1,593) |
| FINANCING ACTIVITIES | | | |
| Cash dividends paid on common stock | (3,775) | (3,254) | (3,070) |

| | | | |
|---|---|---|---|
| Proceeds from the issuance of common stock | 2,459 | 2,684 | 2,001 |
| Common stock repurchased | -- | -- | (192) |
| NET CASH USED IN FINANCING ACTIVITIES | (1,316) | (570) | (1,261) |
| (DECREASE) INCREASE IN CASH AND CASH EQUIVELANTS | (4,674) | 1,530 | (373) |
| Cash and cash equivelants at beginning of year | 8,749 | 7,219 | 7,592 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | $ 4,075 | $ 8,749 | $ 7,219 |

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NOTE 22 - OPERATING SEGMENTS

The Corporation's reportable segments are based on legal entities that account for at least 10% of operating results. The accounting policies are the same as those discussed in Note 1 to the Consolidated Financial Statements. The Corporation evaluates performance based principally on net income and asset quality of the respective segments. A summary of selected financial information for the Corporation's reportable segments follows:

| | Isabella Bank and Trust | FSB Bank | All Others (Including Parent) | Total |
|---|---|---|---|---|
| 2006 | | | | |
| Total assets | $641,672 | $260,400 | $ 8,055 | $910,127 |
| Interest income | 34,450 | 10,201 | 58 | 44,709 |
| Net interest income | 18,686 | 6,074 | 217 | 24,977 |
| Provision for loan losses | 532 | 150 | -- | 682 |
| Net income (loss) | 6,373 | 1,921 | (1,293) | 7,001 |
| 2005 | | | | |
| Total assets | $583,505 | $136,853 | $21,296 | $741,654 |
| Interest income | 28,867 | 7,939 | 76 | 36,882 |
| Net interest income | 18,436 | 5,289 | 184 | 23,909 |
| Provision for loan losses | 585 | 192 | -- | 777 |
| Net income (loss) | 5,900 | 1,456 | (580) | 6,776 |
| 2004 | | | | |
| Total assets | $542,759 | $125,350 | $ 9,925 | $678,034 |
| Interest income | 26,436 | 7,258 | 127 | 33,821 |
| Net interest income | 18,247 | 4,919 | 198 | 23,364 |
| Provision for loan losses | 550 | 185 | -- | 735 |
| Net income (loss) | 6,073 | 1,345 | (773) | 6,645 |

NOTE 23 - SUBSEQUENT EVENT

In February 2007, IBT Bancorp filed an application with the Federal Reserve to merge FSB Bank into Isabella Bank and Trust. The merger is expected to be approved in March 2007. The consolidation into a single charter will further reduce operating expenses through the elimination of duplications in memberships, licensing, service contracts, compliance, computer platforms, and computer processing. The legal reorganization will have no significant effect on the Corporation's consolidated financial statements.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None

ITEM 9 A. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The Corporation's management carried out an evaluation, under the supervision and with the participation of the Chief Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15(d)-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of December 31, 2006, pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer and Principal Financial Officer concluded that the Corporation's disclosure controls and procedures as of December 31, 2006, are effective in timely alerting them to material information relating to the Corporation (including its consolidated subsidiaries) required to be included in the Corporation's periodic filings under the Exchange Act.

CHANGES IN INTERNAL CONTROL

The Corporation also conducted an evaluation of internal control over financial reporting to determine whether any changes occurred during the quarter ended December 31, 2006, that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting. Based on this evaluation, management has concluded that there have been no such changes during the quarter ended December 31, 2006.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

We are responsible for the preparation and integrity of our published consolidated financial statements. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and, accordingly, include amounts based on judgments and estimates made by our management. We also prepared the other information included in the annual report and are responsible for its accuracy and consistency with the consolidated financial statements.

We are responsible for establishing and maintaining a system of internal control over financial reporting, which is intended to provide reasonable assurance to our management and Board of Directors regarding the reliability of our consolidated financial statements. The system includes but is not limited to:

- A documented organizational structure and division of responsibility;

- Established policies and procedures, including a code of conduct to foster a strong ethical climate which is communicated throughout the company;

- Internal auditors that monitor the operation of the internal control system and report findings and recommendations to management and the Audit Committee;

- Procedures for taking action in response to an internal audit finding or recommendation;

- Regular reviews of our consolidated financial statements by qualified individuals; and

- The careful selection, training and development of our people.

There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention or overriding of controls. Also, the effectiveness of an internal control system may change over time. We have implemented a system of internal control that was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles.

We have assessed our internal control system in relation to criteria for effective internal control over financial reporting described in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

This assessment excluded internal control over financial reporting of The Farwell State Savings Bank as permitted by the Securities



and Exchange Commission for current year acquisitions. The Farwell State Savings Bank was acquired on October 3, 2006, and represented 12.4% of consolidated assets at December 31, 2006 and 5.7% of consolidated net income for 2006.

Based upon these criteria, we believe that, as of December 31, 2006, our system of internal control over financial reporting was effective.

Our independent registered public accounting firm, Rehmann Robson PC, has audited our 2006 consolidated financial statements. Rehmann Robson PC was given unrestricted access to all financial records and related data, including minutes of all meetings of stockholders, the Board of Directors and committees of the Board. Rehmann Robson PC has issued an unqualified audit opinion on our 2006 consolidated financial statements as a result of the audit and also has issued an attestation report on management's assessment of its internal control over financial reporting.

IBT Bancorp, Inc.

By:

//s// Dennis P. Angner
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Dennis P. Angner
Chief Executive Officer
March 12, 2007

//s// Peggy L. Wheeler
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Peggy L. Wheeler
Principal Financial Officer
March 5, 2007

ITEM 9 B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

For information concerning directors and certain executive officers of the Corporation, see "Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Corporation's 2006 Annual Meeting Proxy Statement ("Proxy Statement") which is incorporated herein by reference.

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

The Corporation has adopted a Code of Business Conduct and Ethics that applies to the Corporation's Chief Executive Officer and Principal Financial Officer. The Corporation shall provide to any person without charge upon request, a copy of its Code of Business Conduct and Ethics. Written requests should be sent to: Secretary, IBT Bancorp, Inc., 200 East Broadway, Mount Pleasant, Michigan 48858.

ITEM 11. EXECUTIVE COMPENSATION

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



ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

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

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information as of December 31, 2006, with respect to compensation plans under which common shares of the Corporation are authorized for issuance to directors, officers or employees in exchange for consideration in the form of goods or services.

| Plan Category | Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights (A) | Weighted Average Exercise Price of Outstanding Options, Warrants, and Rights (B) | Number of Rem Available Iss Under Compensa (Excluding Reflected i ( |
|---|---|---|---|

| | | |
|---|---|---|
| Equity compensation plans approved by Shareholders: None | -- | -- |
| Equity compensation plans not approved by shareholders (1): | | |
| 1984 deferred director fee plan* | 146,883 | (1) |
| Deferred director compensation Plan* | 24,131 | (2) |
| TOTAL | 171,014 | |

(1) Pursuant to the terms of the Deferred Director fee plan, which was last amended effective December 31, 2005, directors of the Corporation and its subsidiaries are required to defer at least 25% of their earned board fees. Deferred fees are converted on a quarterly basis into stock units of the Corporation's common stock. The fees are converted to stock units based on the purchase price for a share of common stock under the Corporation's Dividend Reinvestment Plan. Stock units credited to a participant's account are eligible for stock and cash dividends as declared. Upon retirement from the board, a participant is eligible to receive one share of common stock for each one stock unit. The Plan as modified does not allow for cash settlement, and therefore such share-based payment awards qualify for classification as equity. In connection with the amendment, $2,704 was reclassified from other liabilities and recorded as an addition to the common stock account. All authorized but unissued shares of common stock are eligible for issuance under this Plan. As of 2005, 161,571 shares were to be issued under the plan, as adjusted for the 10% stock dividend paid on February 15, 2006 pursuant to an existing antidilution provision required by the plan.

(2) Pursuant to the terms of the Deferred Compensation Plan for Non-Employee Directors, which was effective January 1, 2006, directors of the Corporation and its subsidiaries are required to defer at least 25% of their earned board fees. Deferred fees are quarterly basis into stock units of the Corporation's common stock. The fees are converted to stock units based on the market price of the Corporation's common stock. Stock units credited to a participant's account are eligible for stock and cash dividends as declared. Upon retirement from the board, a participant is eligible to receive one share of common stock for each one stock unit. All authorized but unissued shares of common stock are eligible for issuance under this Plan. As of December 31, 2006, 171,014 shares were to be issued under the plan, as adjusted for the 10% stock dividend paid on February 15, 2006 pursuant to an existing antidilution provision required by the plan.

* As adjusted for the 10% stock dividend paid February 15, 2006.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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



ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

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



PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial Statements:

The following consolidated financial statements of IBT Bancorp are incorporated by reference in Item 8:

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

2. Financial Statement Schedules:

All schedules are omitted because they are neither applicable nor required, or because the required information is included in the consolidated financial statements or related notes.

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

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

| | |
|---|---|
| 3(a) | Amended Articles of Incorporation (1) |
| 3(b) | Amendment to the Articles of Incorporation (2) |
| 3(c) | Amendment to the Articles of Incorporation (4) |
| 3(d) | Amendment to the Articles of Incorporation (4) |
| 3(e) | Amended Bylaws (8) |
| 3(f) | Amendment to Bylaws (10) |
| 10(a) | Isabella Bank & Trust Executive Supplemental Income Agreement (2)* |
| 10(b) | Isabella Bank & Trust Deferred Compensation Plan (3)* |
| 10(c) | IBT Bancorp, Inc. and Related Companies Deferred Compensation Plan for Directors (5)* |
| 10(d) | Isabella Bank and Trust Death Benefit Only Agreement (6)* |
| 10(e) | Deferred Compensation Plan for Non-Employee Directors (9)* |
| 10(f) | IBT Bancorp Retirement Bonus Plan (11)* |
| 14 | Code of Business Conduct and Ethics (7) |
| 21 | Subsidiaries of the Registrant |
| 23 | Consent of Rehmann Robson, P.C. Independent Registered Public Accounting Firm |
| 31(a) | Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002 by the Chief Executive Officer |
| 31(b) | Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002 by the Principal Financial Officer |
| 32 | Section 1350 Certification of Chief Executive Officer and Principal Financial Officer |

(1) Previously filed as an Exhibit to the IBT Bancorp, Inc. Form 10-K, dated

March 12, 1991, and incorporated herein by reference.

(2) Previously filed as an Exhibit to the IBT Bancorp, Inc. Form 10-K, dated March 26, 1994, and incorporated herein by reference.

(3) Previously filed as an Exhibit to IBT Bancorp, Inc. Form 10-K, dated March 26, 1996, and incorporated herein by reference.

(4) Previously filed as an Exhibit to IBT Bancorp, Inc. Form 10-K, dated March 22, 2000, and incorporated herein by reference.

(5) Previously filed as an Exhibit to IBT Bancorp, Inc. Form 10-K, dated March 27, 2001, and incorporated herein by reference.



(6) Previously filed as an Exhibit to IBT Bancorp, Inc. Form 10-K, dated March 25, 2002, and incorporated herein by reference.

(7) Previously filed as an Exhibit to IBT Bancorp, Inc. Form 10-K, dated March 15, 2004 and incorporated herein by reference.

(8) Previously filed as an Exhibit to IBT Bancorp, Inc. Form 10-K, dated March 16, 2005, and incorporated herein by reference.

(9) Previously filed as an Exhibit to IBT Bancorp, Inc. Current Report on Form 8-K, dated December 14, 2005, and incorporated herein by reference.

(10) Previously filed as an Exhibit to IBT Bancorp, Inc. Current Report on Form 8-K, dated November 20, 2006, and incorporated herein by reference.

(11) Previously filed as an Exhibit to IBT Bancorp, Inc. Current Report on Form 8-K, dated December 26, 2006, and incorporated herein by reference.

* Management Contract or Compensatory Plan or Arrangement.



Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

IBT BANCORP, INC.
(Registrant)

by: /s/ Dennis P. Angner Date: March 12, 2007

Dennis P. Angner
President and Chief Executive Officer

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signatures | Capacity | Date |
|---|---|---|
| /s/ Dennis P. Angner<br>Dennis P. Angner | President and Chief Executive Officer and Director | March 12, 2007 |
| /s/ Richard J. Barz<br>Richard J. Barz | Director | March 05, 2007 |
| /s/ Sandra L. Caul<br>Sandra L. Caul | Director | March 07, 2007 |
| /s/ James C. Fabiano<br>James C. Fabiano | Director | March 05, 2007 |
| /s/ David W. Hole<br>David W. Hole | Director | March 07, 2007 |
| /s/ David J. Maness<br>David J. Maness | Director | March 05, 2007 |
| /s/ W. Joseph Manifold<br>W. Joseph Manifold | Director | March 05, 2007 |
| /s/ Timothy M. Miller<br>Timothy Miller | Director | March 07, 2007 |
| /s/ Ronald E. Schumacher<br>Ronald E. Schumacher | Director | March 05, 2007 |

| | | |
|---|---|---|
| /s/ William J. Strickler<br>William J. Strickler | Director | March 06, 2007 |
| /s/ Dale Weburg<br>Dale Weburg | Director | March 12, 2007 |
| /s/ Peggy L. Wheeler<br>Peggy L. Wheeler | Sr. Vice President and Controller (Principal Financial Officer) | March 05, 2007 |



IBT Bancorp
FORM 10-K

Index to Exhibits