IBT BANCORP INC /MI/
Form 10-Q
November 07, 2006

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

FORM 10-Q

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the quarterly period ended September 30, 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, Mt. Pleasant, MI	48858
(Address of principal executive offices)	(Zip code)

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

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

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

[X] Yes [ ] No

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 [ ] Accelerated Filer [X] 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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Common Stock no par value, 6,307,881 as of October 18, 2006

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PART I - FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

IBT BANCORP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(dollars in thousands)	September 30 2006	December 31 2005
ASSETS		
Cash and demand deposits due from banks	$ 25,693	$ 30,825
Securities available for sale (amortized cost of $194,833 in 2006 and $185,688 in 2005)	193,268	183,406
Mortgage loans available for sale	656	744
Loans		
Agricultural	49,640	49,424
Commercial	206,149	179,541
Personal	26,947	28,026
Residential real estate mortgage	240,411	226,251
TOTAL LOANS	523,147	483,242
Less allowance for loan losses	7,129	6,899
NET LOANS	516,018	476,343
Other assets	53,537	50,336
TOTAL ASSETS	$789,172	$741,654
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest bearing	$ 74,031	$ 73,839
NOW accounts	101,511	104,251
Certificates of deposit and other savings	332,738	328,780
Certificates of deposit over $100,000	124,872	85,608
TOTAL DEPOSITS	633,152	592,478
Other borrowed funds	58,515	52,165
Escrow funds payable	5,692	9,823
Accrued interest and other liabilities	5,330	6,286
TOTAL LIABILITIES	702,689	660,752
Shareholders' Equity		
Common stock -- no par value 10,000,000 shares authorized; outstanding -- 5,510,418 in 2006 (4,974,715 in 2005)	83,070	72,296
Retained earnings	4,446	10,112
Accumulated other comprehensive loss	(1,033)	(1,506)
TOTAL SHAREHOLDERS' EQUITY	86,483	80,902
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$789,172	$741,654

See notes to condensed consolidated financial statements.

IBT BANCORP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(UNAUDITED)

(dollars in thousands)	Nine Months Ended September 30 2006	2005
NUMBER OF SHARES OF COMMON STOCK OUTSTANDING		
Balance at beginning of period	4,974,715	4,896,412
10% common stock dividend	497,299	--
Issuance of common stock	38,404	32,820
BALANCE END OF PERIOD	5,510,418	4,929,232
COMMON STOCK		
Balance at beginning of period	$ 72,296	$ 66,908
10% common stock dividend	8,887	--
Issuance of common stock	1,537	1,172
Share-based payment awards under equity compensation plan	350	--
BALANCE END OF PERIOD	83,070	68,080
RETAINED EARNINGS		
Balance at beginning of period	10,112	6,590
Net income	5,039	4,852
10% common stock dividend	(8,887)	--
Cash dividends ($0.33 per share in 2006 and $0.30 in 2005)	(1,818)	(1,622)
BALANCE END OF PERIOD	4,446	9,820
ACCUMULATED OTHER COMPREHENSIVE LOSS		
Balance at beginning of period	(1,506)	(904)
Other comprehensive income (loss)	473	(989)
BALANCE END OF PERIOD	(1,033)	(1,893)
TOTAL SHAREHOLDERS' EQUITY END OF PERIOD	$ 86,483	$ 76,007

See notes to condensed consolidated financial statements.

IBT BANCORP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

(dollars in thousands)	Three Months Ended September 30 2006	2005	Nine Months Ended September 30 2006	2005
INTEREST INCOME				
Loans, including fees	$ 9,269	$7,872	$26,129	$22,495
Investment securities				
Taxable	1,252	864	3,572	2,547
Nontaxable	693	599	2,018	1,774
Federal funds sold and other	98	104	236	234
TOTAL INTEREST INCOME	11,312	9,439	31,955	27,050
INTEREST EXPENSE				
Deposits	4,425	3,001	11,874	8,172
Borrowings	739	424	1,878	1,082
TOTAL INTEREST EXPENSE	5,164	3,425	13,752	9,254
NET INTEREST INCOME	6,148	6,014	18,203	17,796
Provision for loan losses	245	196	628	515
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	5,903	5,818	17,575	17,281
NONINTEREST INCOME				
Trust fees	217	231	648	613
Service charges on deposit accounts	76	67	228	184
Other service charges and fees	1,138	1,041	3,175	2,803
Gain on sale of mortgage loans	53	60	164	196
Title insurance revenue	679	698	1,826	1,793
Other	243	231	702	695
TOTAL NONINTEREST INCOME	2,406	2,328	6,743	6,284
NONINTEREST EXPENSES				
Compensation	3,148	3,451	10,161	10,202
Occupancy	457	415	1,325	1,210
Furniture and equipment	677	666	2,113	1,977
Other	1,377	1,359	4,337	3,981
TOTAL NONINTEREST EXPENSES	5,659	5,891	17,936	17,370
INCOME BEFORE FEDERAL INCOME TAXES	2,650	2,255	6,382	6,195
Federal income taxes	619	511	1,343	1,343
NET INCOME	$ 2,031	$1,744	$ 5,039	$ 4,852
EARNINGS PER SHARE				
Basic	$ 0.37	$ 0.32	$ 0.92	$ 0.90
Diluted	$ 0.36	$ 0.32	$ 0.89	$ 0.90
Cash dividends per share	$ 0.11	$ 0.10	$ 0.33	$ 0.30

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See notes to condensed consolidated financial statements.

IBT BANCORP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

(dollars in thousands)	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
NET INCOME	$2,031	$1,744	$5,039	$ 4,852
Other comprehensive income (loss) before income taxes:				
Unrealized holding gains (losses) on available-for-sale investment securities arising during the period	2,067	(857)	608	(1,498)
Reclassification adjustment for net realized losses (gains) included in net income	6	--	109	(2)
Other comprehensive (loss) income before income taxes	2,073	(857)	717	(1,500)
Income tax (expense) benefit related to other comprehensive income (loss)	(705)	293	(244)	511
OTHER COMPREHENSIVE INCOME (LOSS)	1,368	(564)	473	(989)
COMPREHENSIVE INCOME	$3,399	$1,180	$5,512	$ 3,863

See notes to condensed consolidated financial statements.

IBT BANCORP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(dollars in thousands)	Nine Months Ended September 30	
	2006	2005
OPERATING ACTIVITIES		

Net income	$ 5,039	4,852
Reconciliation of net income to net cash provided by operations:		
Provision for loan losses	628	515
Depreciation	1,375	1,298
Net amortization of investment securities	572	739
Realized loss (gain) on sale of investment securities	109	(2)
Amortization and impairment of mortgage servicing rights	141	110
Increase in cash value of life insurance	(305)	(271)
Amortization of acquisition intangibles	70	70
Equity shares granted	350	--
Changes in operating assets and liabilities which provided (used)cash		
Mortgage loans available for sale	88	502
Interest receivable	(682)	(332)
Other assets	(737)	(710)
Escrow funds payable	(4,131)	3,619
Accrued interest and other liabilities	(956)	1,322
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,561	11,712
INVESTING ACTIVITIES		
Activity in available-for-sale securities		
Maturities, calls, and sales	36,182	28,947
Purchases	(46,008)	(41,951)
Net increase in loans	(40,303)	(26,079)
Purchases of premises and equipment	(2,183)	(1,519)
Purchases of corporate owned life insurance policies	(499)	--
Acquisition of title office	(400)	--
NET CASH USED IN INVESTING ACTIVITIES	(53,211)	(40,602)
FINANCING ACTIVITIES		
Net increase in noninterest bearing deposits	192	4,805
Net increase in interest bearing deposits	40,482	12,087
Net increase in other borrowed funds	6,350	16,800
Cash dividends paid on common stock	(1,818)	(1,622)
Proceeds from issuance of common stock	1,312	1,172
NET CASH PROVIDED BY FINANCING ACTIVITIES	46,518	33,242
(DECREASE) INCREASE IN CASH AND CASH EQUIVELANTS	(5,132)	4,352
Cash and cash equivelants at beginning of period	30,825	20,760
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 25,693	$ 25,112

See notes to condensed consolidated financial statements.

IBT BANCORP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended September 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. For further information, refer to the consolidated financial statements and footnotes thereto included in the Corporation's annual report for the year ended December 31, 2005.

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

NOTE 2 - IMPLEMENTATION OF NEW ACCOUNTING STANDARD

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 $.01 and $.03 for the three month and nine month periods ended September 30, 2006, respectively.

NOTE 3 - COMPUTATION OF EARNINGS PER SHARE

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

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

	Three months ended September 30		Nine months ended September 30	
	2006	2005	2006	2005
Average number of common shares outstanding*	5,503,044	5,414,567	5,491,180	5,405,979
Effect of shares in the Deferred Director fee plan*	166,278	--	163,179	--
Average number of common shares outstanding				

used to calculate diluted earnings per common share	5,669,322	5,414,567	5,654,359	5,405,979

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

NOTE 4 - 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 in the Corporation's annual report for the year ended December 31, 2005. The Corporation evaluates performance based principally on net income and asset quality of the respective segments. Summaries of selected financial information for the Corporation's reportable segments as of and for the three and nine month periods ended September 30 follow:

(dollars in thousands)

Three Months Ended	Isabella Bank and Trust	Farmers State Bank	All Others (Including Parent)	Total
SEPTEMBER 30, 2006				
Total assets	$631,429	$140,405	$ 17,338	$789,17
Interest income	9,055	2,251	6	11,31
Net interest income	4,789	1,297	62	6,14
Provision for loan losses	196	49	--	24
Net income (loss)	1,714	420	(103)	2,03
SEPTEMBER 30, 2005				
Total assets	574,047	132,396	13,637	720,08
Interest income	7,367	2,052	20	9,43
Net interest income	4,623	1,351	40	6,01
Provision for loan losses	146	50	--	19
Net income (loss)	1,479	340	(75)	1,74

Nine Months Ended	Isabella Bank and Trust	Farmers State Bank	All Others (Including Parent)	Total
SEPTEMBER 30, 2006				
Total assets	$631,429	$140,405	$ 17,338	$789,17
Interest income	25,363	6,526	66	31,95
Net interest income	14,065	3,953	185	18,20
Provision for loan losses	483	145	--	62
Net income (loss)	4,624	1,141	(726)	5,03
SEPTEMBER 30, 2005				
Total assets	574,047	132,396	13,637	720,08

Interest income	21,138	5,842	70	27,05
Net interest income	13,726	3,949	121	17,79
Provision for loan losses	375	140	--	51
Net income (loss)	4,206	1,043	(397)	4,85

NOTE 5 - DEFINED BENEFIT PENSION PLAN

The Corporation has a defined benefit pension plan covering substantially all of its employees. 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. The Corporation used a January 1, 2006 measurement date for this pension plan.

The components of net periodic benefit cost related to the Corporation's administered plan for the three and nine-month period ended September 30 were as follows:

	Pension Benefits			
	Three months ended September 30		Nine months ended September 30	
	2006	2005	2006	2005
	(thousands)			
Components of net periodic benefit cost				
Service cost	$ 159	$ 137	$ 478	$ 410
Interest cost	152	135	455	405
Expected return on plan assets	(139)	(116)	(416)	(348)
Amortization of prior service cost	5	5	14	14
Amortization of net actuarial loss	58	50	174	151
Net periodic benefit cost	$ 235	$ 211	$ 705	$ 632

The Corporation contributed $1,128 and $545 to the pension plan during the nine month periods ended September 30, 2006 and 2005, respectively. The Corporation does not expect to make additional contributions to the plan during the remainder of 2006.

NOTE 6 - SUBSEQUENT EVENT

On October 3, 2006, The Farwell State Savings Bank (FSSB) was acquired and merged with and into Farmers State Bank, a wholly-owned subsidiary of the Corporation. Under the terms of the Merger Agreement, for each share of FSSB common stock, the shareholder of FSSB received 3.0382 shares of IBT Bancorp common stock and $29.00 in cash. The Corporation issued an aggregate of 797,475 shares of IBT common stock valued at $30,448 and paid a total of $7,612 in cash to FSSB shareholders, resulting in total consideration of $38,060.

NOTE 7 - RECENT ACCOUNTING PRONOUNCEMENTS

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 to be applied to US GAAP guidance requiring use of fair value, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Corporation is currently assessing the impact of SFAS No. 157 on its consolidated financial position and results of operations.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (SFAS No. 158). SFAS No. 158 requires that employers recognize on a prospective basis the funded status of their defined benefit pension and other postretirement plans on their 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 requires additional disclosures in the notes to financial statements. SFAS No. 158 is effective for years ending after December 15, 2006. While the Corporation is currently assessing the impact of SFAS No. 158 on its consolidated financial statements for 2006, it is expected that adoption will not impact results of operations or cash flows, but will likely result in a decrease to net financial position by an amount that will likely not be material to other comprehensive loss.

In September 2006, the SEC staff issued Staff Accounting Bulletin ("SAB") 108 "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" (SAB 108). SAB 108 requires that public companies utilize a "dual-approach" in assessing the quantitative effects of financial misstatements. This dual approach includes both an income statement focused assessment and a balance sheet focused assessment. The guidance in SAB 108 must be applied to annual financial statements for fiscal years ending after November 15, 2006. The Corporation is currently assessing the impact of adopting SAB 108 but does not expect that it will have a material effect on its consolidated financial position or results of operations.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is management's discussion and analysis of the major factors that influenced IBT Bancorp's financial performance. This analysis should be read in conjunction with the Corporation's 2005 annual report and with the unaudited condensed consolidated financial statements and notes, as set forth on pages 3 through 10 of this report.

CRITICAL ACCOUNTING POLICIES: A summary of the Corporation's significant accounting policies is set forth in Note 1 of the Consolidated Financial Statements included in the Corporation's Annual Report for the year ended December 31, 2005. Of these significant accounting policies, the Corporation considers its policies regarding the allowance for loan losses to be its most critical accounting policies.

The allowance for loan losses requires management's most subjective and complex judgment. Changes in economic conditions can have a significant impact on the allowance for loan losses and therefore the provision for loan losses and results of operations. The Corporation has developed appropriate policies and

procedures for assessing the adequacy of the allowance for loan losses, recognizing that this process requires a number of assumptions and estimates with respect to its loan portfolio. The Corporation's assessments may be impacted in future periods by changes in economic conditions, the impact of regulatory examinations, and the discovery of information with respect to borrowers which is not known to management at the time of the issuance of the consolidated financial statements. For additional discussion concerning the Corporation's allowance for loan losses and related matters, see Provision for Loan Losses and Allowance for Loan Losses in the Corporation's 2005 Annual Report and herein.

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RESULTS OF OPERATIONS

The following table outlines the results of operations for the periods ended September 30, 2006 and 2005. Return on average assets measures the ability of the Corporation to profitably and efficiently employ its resources. Return on average equity indicates how effectively the Corporation is able to generate earnings on shareholder invested capital.

SUMMARY OF SELECTED FINANCIAL DATA

(Dollars in thousands except per share data)

	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
INCOME STATEMENT DATA				
Net interest income	$6,148	$6,014	$18,203	$17,796
Provision for loan losses	245	196	628	515
Net income	2,031	1,744	5,039	4,852
PER SHARE DATA				
Earnings per share				
Basic	$ 0.37	$ 0.32	$ 0.92	$ 0.90
Diluted	0.36	0.32	0.89	0.90
Cash dividends per common share	0.11	0.10	0.33	0.30
RATIOS				
Average primary capital to average assets	11.67%	11.18%	11.69%	11.46%
Net income to average assets	1.03	0.99	0.88	0.93
Net income to average equity	9.51	9.61	8.06	8.80

NET INTEREST INCOME

Net interest income equals interest income less interest expense and is the primary source of income for IBT Bancorp. Interest income includes loan fees of $325 and $881 in the three and nine month periods ended September 30, 2006, respectively, as compared to $305 and $849 during the same periods in 2005. 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.

(Continued on page 15)

TABLE 1 - AVERAGE BALANCES; INTEREST RATE AND NET INTEREST INCOME
Results for the three months ended September 30, 2006 and September 30, 2005.

(Dollars in Thousands)

The following schedules present the daily average amount outstanding for each major category of interest earning assets, nonearning assets, interest bearing liabilities, and noninterest bearing liabilities. This schedule also presents an analysis of interest income and interest expense for the periods indicated. All interest income is reported on a fully taxable equivalent (FTE) basis using a 34% tax rate. Nonaccruing loans, for the purpose of the following computations, are included in the average loan amounts outstanding. Federal Reserve and Federal Home Loan Bank restricted equity holdings are included in Other.

	Three Months Ended				
	September 30, 2006			Septembe	
	Average Balance	Tax Equivalent Interest	Average Yield\ Rate	Average Balance	Equi Int
INTEREST EARNING ASSETS:					
Loans	$520,348	$ 9,269	7.13%	$470,955	$7
Taxable investment securities	119,936	1,252	4.18%	101,950	
Non-taxable investment securities	75,885	1,095	5.77%	65,772	
Federal funds sold	2,367	31	5.24%	5,353	
Other	5,299	67	5.06%	5,792	
Total earning assets	723,835	11,714	6.47%	649,822	9
NON EARNING ASSETS:					
Allowance for loan losses	(7,081)			(6,753)	
Cash and due from banks	21,281			18,016	
Premises and equipment	17,612			15,620	
Accrued income and other assets	29,710			26,095	
Total assets	$785,357			$702,800	
INTEREST BEARING LIABILITIES:					
Interest-bearing demand deposits	$104,870	449	1.71%	$109,307	
Savings deposits	148,988	669	1.80%	152,465	
Time deposits	302,956	3,307	4.37%	248,108	2
Other borrowed funds	58,756	739	5.03%	39,335	
Total interest bearing liabilities	615,570	5,164	3.36%	549,215	3
NONINTEREST BEARING LIABILITIES:					
Demand deposits	69,349			68,932	
Other	15,033			12,066	
Shareholders' equity	85,405			72,587	
Total liabilities and equity	$785,357			$702,800	

Net interest income (FTE)		$ 6,550		$6
Net yield on interest earning assets (FTE)			3.62%	

TABLE 2 - AVERAGE BALANCES; INTEREST RATE AND NET INTEREST INCOME
Results for the nine months ended September 30, 2006 and September 30, 2005.

(Dollars in Thousands)

The following schedules present the daily average amount outstanding for each major category of interest earning assets, nonearning assets, interest bearing liabilities, and noninterest bearing liabilities. This schedule also presents an analysis of interest income and interest expense for the periods indicated. All interest income is reported on a fully taxable equivalent (FTE) basis using a 34% tax rate. Nonaccruing loans, for the purpose of the following computations, are included in the average loan amounts outstanding. Federal Reserve and Federal Home Loan Bank restricted equity holdings are included in Other.

	Nine Months Ended				
	September 30, 2006			Septembe	
	Average Balance	Tax Equivalent Interest	Average Yield\ Rate	Average Balance	Equi Int
INTEREST EARNING ASSETS:					
Loans	$500,168	$26,129	6.97%	$460,064	$2
Taxable investment securities	120,433	3,572	3.95%	102,312	
Non-taxable investment securities	74,053	3,195	5.75%	64,867	
Federal funds sold	1,417	52	4.89%	4,620	
Other	5,135	184	4.78%	4,254	
Total earning assets	701,206	33,132	6.30%	636,117	2
NON EARNING ASSETS:					
Allowance for loan losses	(6,983)			(6,635)	
Cash and due from banks	25,361			20,458	
Premises and equipment	17,405			17,773	
Accrued income and other assets	29,002			25,244	
Total assets	$765,991			$692,957	
INTEREST BEARING LIABILITIES:					
Interest-bearing demand deposits	$104,259	1,191	1.52%	$106,165	
Savings deposits	153,734	1,892	1.64%	158,131	
Time deposits	285,361	8,791	4.11%	241,499	

Other borrowed funds	52,398	1,878	4.78%	34,187	--
Total interest bearing liabilities	595,752	13,752	3.08%	539,982	
NONINTEREST BEARING LIABILITIES:					
Demand deposits	69,559			64,927	
Other	17,329			11,520	
Shareholders' equity	83,351			73,528	
Total liabilities and equity	$765,991			$689,957	
Net interest income (FTE)		$19,380			$1
Net yield on interest earning assets (FTE)			3.69%		

TABLE 3 - VOLUME AND RATE VARIANCE ANALYSIS
(Dollars in Thousands)

The following table sets forth the effect of volume and rate changes on interest income and expense for the periods indicated. For the purpose of this table, changes in interest due to volume and rate were determined as follows:

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

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

The change in interest due to both volume and rate has been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each.

	Three Months Ended September 30, 2006 compared to September 30, 2005 Increase (Decrease) Due to			Nine Months Ended September 30, 2006 compared to September 30, 2005 Increase (Decrease) Due to		
	Volume	Rate	Net	Volume	Rate	Net
CHANGES IN INTEREST INCOME:						
Loans	$ 859	$ 538	$1,397	$2,036	$1,598	$3,63
Taxable investment securities	168	220	388	493	532	1,02
Nontaxable investment securities	146	(4)	142	397	(28)	36
Federal funds sold	(33)	18	(15)	(93)	46	(4
Other	(5)	14	9	30	19	4
Total changes in interest income	1,135	786	1,921	2,863	2,167	5,03
Interest bearing demand deposits	(12)	172	160	(13)	496	48
Savings deposits	(10)	243	233	(31)	836	80

Time deposits	555	476	1,031	1,259	1,155	2,41
Other borrowings	235	80	315	638	158	79
Total changes in interest expense	768	971	1,739	1,853	2,645	4,49
Net change in interest margin (FTE)	$ 367	$(185)	$ 182	$1,010	$ (478)	$ 53

NET INTEREST INCOME, CONTINUED

As shown in Table 1, net interest income, on a fully taxable equivalent (FTE) basis, was $6,550 for the three months ended September 30, 2006 compared to $6,368 for the same period in 2005, an increase of $182 or 2.86%. This increase was primarily the result of a $74,013 or 11.39% increase in earning assets, which was funded by a $66,355 or 12.08% increase in interest bearing liabilities. As shown in Table 3, these changes in volume provided the Corporation with an additional $367 of FTE net interest income. The $367 increase was offset by a decrease of 0.30% in the FTE net yield on interest earning assets, which resulted in a $185 decrease in FTE net interest income. This 0.30% decrease in FTE rate was a result of the average rate earned on interest earning assets rising slower than those paid on interest bearing liabilities.

As shown in Table 2, net interest income, on a fully taxable equivalent (FTE) basis, was $19,380 for the nine months ended September 30, 2006 compared to $18,848 for the same period in 2005, an increase of $532 or 2.82%. This increase was primarily the result of a $65,089 or 10.23% increase in earning assets, which was funded by a $55,770 or 10.33% increase in interest bearing liabilities. As shown in Table 3, these changes in volume provided the Corporation with an additional $1,010 of FTE net interest income. The $1,010 increase was offset by a 0.26% decrease in the FTE net yield on interest earning assets, which resulted in a $478 decrease in FTE net interest income. This 0.26% decrease in FTE rate was a result of the average rate earned on interest earning assets rising slower than those paid on interest bearing liabilities.

Management expects the high level of competition for funding to continue for the remainder of the year, which will result in further tightening of the Corporation's interest rate margins. However, the Corporation does anticipate that projected increases in interest earning assets will continue to be strong enough to overshadow the tightening interest rate margins and result in continued increases in net interest margin.

ALLOWANCE FOR LOAN LOSSES

The viability of any financial institution is ultimately determined by its management of credit risk. Net loans outstanding represent 66.3% of the Corporation's total assets and is the Corporation's single largest concentration of risk. The allowance for loan losses is management's estimation of potential future losses inherent in the existing loan portfolio. Factors used to evaluate the loan portfolio, and thus to determine the current charge to expense, include recent loan loss history, financial condition of borrowers, amount of nonperforming and impaired loans, overall economic conditions, and other factors. The following table summarizes the Corporation's charge off and recovery activity for the nine month periods ended September 30, 2006 and 2005.

The table also compares the Corporation's allowance for loan loss as a percent of loans and loans classified as nonperforming as a percent of outstanding loans to its peer group. The Corporation's peer group includes 416 holding companies with assets between $500 million and $1.0 billion.

Since September 2005, the Corporation has experienced an increase in the percent of loans classified as nonperforming. This is mainly being caused by the increase in nonaccrual loans. However, based on management's analysis of the allowance for loan losses, the current allowance stills falls within the acceptable range and therefore the allowance for loan losses is adequate as of September 30, 2006.

	Nine Months Ended September 30	
	2006	2005
Allowance for loan losses - January 1	$6,899	$6,444
Loans charged off		
Commercial and agricultural	181	15
Real estate mortgage	166	135
Personal	362	256
TOTAL LOANS CHARGED OFF	709	406
Recoveries		
Commercial and agricultural	98	100
Real estate mortgage	15	--
Personal	198	148
TOTAL RECOVERIES	311	248
Net loans charged off	398	158
Provision charged to income	628	515
ALLOWANCE FOR LOAN LOSSES - SEPTEMBER 30	$7,129	$6,801
ALLOWANCE FOR LOAN LOSSES AS A % OF LOANS	1.36%	1.42%
PEER GROUP (AS OF JUNE 30, 2006 AND 2005)	1.19%	1.22%

NONPERFORMING LOANS

	September 30	
	2006	2005
Total amount of loans outstanding at September 30	$523,147	$478,816
Nonaccrual loans	2,272	1,208
Accruing loans past due 90 days or more	1,308	1,771
Restructured loans	705	542
TOTAL	$ 4,285	$ 3,521

LOANS CLASSIFIED AS NONPERFORMING AS A % OF OUTSTANDING LOANS	0.82%	0.74%
PEER GROUP (AS OF JUNE 30, 2006 AND 2005)	0.49%	0.51%

To management's knowledge, there are no other loans which cause management to have serious doubts as to the ability of a borrower to comply with their loan repayment terms.

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NONINTEREST INCOME

Noninterest income consists of trust fees, deposit service charges, fees for other financial services, gains on the sale of mortgage loans, title insurance revenue, and other. Significant account balances are highlighted in the following table:

	Three Months Ended				Nine Mon	
	September 30		Change		September 30	
	2006	2005	$	%	2006	2005
Trust fees	$ 217	$ 231	$(14)	-6.1%	$ 648	$ 613
Service charges on deposit accounts	76	67	9	13.4%	228	184
Other service charges and fees						
NSF and overdraft fees	798	711	87	12.2%	2,175	1,874
ATM and debit card fees	144	124	20	16.1%	400	332
Freddie Mac servicing fee	158	157	1	0.6%	475	464
All other	38	49	(11)	-22.4%	125	133
Total other service charges and fees	1,138	1,041	97	9.3%	3,175	2,803
Gain on sale of mortgage loans	53	60	(7)	-11.7%	164	196
Title insurance revenue	679	698	(19)	-2.7%	1,826	1,793
Other						
Increase in cash value of corporate owned life insurance policies	102	92	10	10.9%	305	273
Brokerage and advisory fees	51	47	4	8.5%	156	142
All other	90	92	(2)	-2.2%	241	280
Total other	243	231	12	5.2%	702	695
TOTAL NONINTEREST INCOME	$2,406	$2,328	$ 78	3.4%	$6,743	$6,284

Since the first quarter of 2005, the Corporation has made substantial efforts to increase noninterest income. To help achieve this goal, management analyzed various fees related to deposit accounts, including service charges, NSF and overdraft fees, and ATM and debit card fees. Based on this analysis, the Corporation made any necessary adjustments to ensure that its fee structure fell

within a range of its competitors, while at the same time making sure that the fees remained fair to deposit customers. Management does not expect significant changes to its deposit fee structure for the remainder of 2006.

The competitive landscape in the Michigan title insurance industry has had both positive and negative impacts on title insurance revenues. The Corporation has seen increased title insurance activity resulting from other title insurance companies closing offices around the state as a result of the struggling Michigan economy and the decrease in volume of mortgage activity. These closures have provided the Corporation with an opportunity to take advantage of the decreased level of competition for business. However, these same factors make continued increases in revenues challenging. Management does anticipate that title insurance revenues will approximate current levels for the rest of the year.

The increase in the cash value from corporate owned life insurance policies relates to policies that had a carrying value of $11,337 as of September 30, 2006, and were included in other assets. These policies earned an average rate of 3.59% and 3.49% during the nine month periods ended September 30, 2006 and 2005, respectively. Due to their preferential tax treatment, these policies have a taxable equivalent rate of 5.43% and 5.28% as of September 30, 2006 and 2005, respectively. These policies are placed with five different insurance companies with an S & P rating of A- or better. The increase in income related to the change of the cash surrender value of the policies can be attributed to both the increases in rates and the purchase of additional policies in January 2006.

All other noninterest income includes losses on the sale of securities of $6 and $109 which occurred in the three and nine month periods ended September 30, 2006, respectively, as compared to $2 and $0 in the same periods in 2005. Management has determined that the additional interest income which will be earned from the reinvestment of the proceeds of these sales will exceed the losses recognized by approximately $25 by year end 2006.

NONINTEREST EXPENSES

Noninterest expenses include compensation, occupancy, furniture and equipment, and other expenses. Significant account balances are outlined in the following table:

	Three Months Ended				Nine	
	September 30		Change		September 3	
	2006	2005	$	%	2006	20
Compensation						
Leased employee salaries	$2,501	$2,427	$ 74	3.0%	$ 7,426	$ 7,
Leased employee benefits	612	1,002	(390)	-38.9%	2,621	2,
All other	35	22	13	59.1%	114	
Total compensation	3,148	3,451	(303)	-8.8%	10,161	10,
Occupancy						
Depreciation	103	92	11	12.0%	302	
Property taxes	87	87	--	0.0%	254	

Outside services	77	82	(5)	-6.1%	242	
Utilities	78	70	8	11.4%	242	
Building rent	64	35	29	82.9%	142	
All other	48	49	(1)	-2.0%	143	
Total occupancy	457	415	42	10.1%	1,325	1,
Furniture and equipment						
Depreciation	351	346	5	1.4%	1,072	1,
Service contracts	178	155	23	14.8%	541	
Computer costs	73	89	(16)	-18.0%	269	
ATM and debit card fees	60	61	(1)	-1.6%	188	
All other	15	15	--	0.0%	43	
Total furniture and equipment	677	666	11	1.7%	2,113	1,
Other						
SOX compliance fees	47	42	5	11.9%	499	
Marketing	174	158	16	10.1%	479	
Audit fees	50	66	(16)	-24.2%	173	
All other	1,106	1,093	13	1.2%	3,186	3,
Other	1,377	1,359	18	1.3%	4,337	3,
TOTAL NONINTEREST EXPENSES	$5,659	$5,891	$(232)	-3.9%	$17,936	$17,

Management is continuously analyzing noninterest expenses to determine where expenditures can be decreased or held to modest increases. Management has been fairly successful in stabilizing noninterest expenses as compared to the percentage increase in total assets.

Leased employee salaries expense has increased due to normal merit increases, and also due to the Corporation's growth in both size as well as complexity. Management does not anticipate any significant changes in leased employee salaries for the remainder of 2006.

Leased employee benefits have decreased substantially during the three and nine month periods ended September 30, 2006, when compared to the same periods in 2005. This decrease is primarily attributed to the Corporation changing medical insurance administrators. One of the benefits of the change was that the Corporation's premium payments would be capped based on the current year's projected claims. This cap allowed the Corporation to reduce its medical reserve liability by $304 in the three month period ended September 30, 2006. Leased employee benefit expenses are expected to approximate $313 a month for the rest of 2006.

Upon completion of a new branch location for the Canadian Lakes branch of Isabella Bank & Trust (IB&T), IB&T terminated a building lease for space that had previously housed the Canadian Lakes employees. Pursuant to the terms of the lease, IB&T paid $37 in one time penalties, which was included in building rent. The Corporation anticipates that the building rent for the remainder of 2006 to approximate the amounts paid in the first six months of the year.

Service contracts continue to increase significantly from year to year. These increases are a result of the Corporation reinvesting in its technological infrastructure as well as increases in fees charged by vendors. This constant reinvestment helps the Corporation maintain a competitive edge in an ever changing marketplace. Management does expect service contracts to remain at current levels for the remainder of 2006 as a significant amount of annual service contracts were renewed in June and July.

The Corporation continues to experience elevated costs associated with complying with the Sarbanes-Oxley Act of 2002 (SOX). The costs associated with compliance extend beyond the continued increases in SOX compliance fees and into other areas including compensation expense. Management is continually analyzing ways to minimize the adverse financial statement impact of SOX compliance through the streamlining of the Corporation's loan and deposit operations. The Corporation has also made staff changes in the internal audit department which are expected to decrease auditing and SOX compliance fees.

All other expenses includes consulting fees, director's fees, legal fees, postage fees, printing and supplies, title insurance expenses, as well as other miscellaneous expenses that are not individually significant. These increases are a result of overall increases in the cost of doing business.

ANALYSIS OF CHANGES IN FINANCIAL CONDITION

	September 30 2006	December 31 2005	$ Change	% Chan (unannual
ASSETS				
Cash and demand deposits due from banks	$ 25,693	$ 30,825	$(5,132)	-16.6
Securities available for sale	193,268	183,406	9,862	5.3
Mortgage loans available for sale	656	744	(88)	-11.8
Loans	523,147	483,242	39,905	8.2
Allowance for loan losses	(7,129)	(6,899)	(230)	3.3
Other assets	53,537	50,336	3,201	6.3
TOTAL ASSETS	$789,172	$741,654	$47,518	6.4
LIABILITIES AND SHAREHOLDERS' EQUITY				
LIABILITIES				
Deposits	$633,152	$592,478	$40,674	6.8
Other borrowed funds	58,515	52,165	6,350	12.1
Escrow funds payable	5,692	9,823	(4,131)	-42.0
Accrued interest and other liabilities	5,330	6,286	(956)	-15.2
TOTAL LIABILITIES	702,689	660,752	41,937	6.3
SHAREHOLDERS' EQUITY	86,483	80,902	5,581	6.9
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$789,172	$741,654	$47,518	6.4

Since December 2005, the Corporation has experienced strong loan growth. In the first nine months of 2006, commercial loans have increased $26,608 and residential real estate mortgages have increased $14,160. The increase in commercial loans was driven by the establishment of a new business development team at Isabella Bank and Trust. The increase in residential mortgage loans can be attributed to various loan specials that were offered during 2006. Management does anticipate that loan demand, particularly commercial loan demand, will remain strong for the remainder of 2006.

The Corporation, as part of its goal to increase 2006 average assets by 8.0% over 2005, also increased securities during the nine month period ended September 30, 2006. To achieve this growth, however, the Corporation experienced smaller interest margins than in the past. Management anticipates that the security portfolio will approximate current levels for the remainder of 2006.

The Corporation, through its Banks, has established a policy that all amortized fixed rate mortgage loans with maturities greater than 15 years will be sold. During the nine month period ended September 30, 2006, the Corporation sold $22,247 of mortgages as compared to $26,973 in mortgages for the same period in 2005. Management does not expect the sale of mortgages to fluctuate significantly from current levels based on current market trends and the current and projected interest rate environment.

The Corporation enjoyed a solid increase in deposits during the first nine months of 2006. A significant portion of the deposit growth came in the form of brokered and internet certificate of deposits. However, the increases in deposits were not enough to fund the increases in loans and securities. To help overcome this funding shortfall, the Corporation utilized wholesale borrowing sources such as the Federal Home Loan Bank. Management is constantly monitoring deposit account balances in an effort to maintain and increase the current customer base, as deposit account rates are typically lower than those demanded from internet and brokered deposits and wholesale borrowing sources. Management is also performing market analyses to help ensure that the Corporation's products remain attractive to consumers.

The Corporation observed a substantial decrease in escrow funds payable during the first nine months of 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 anticipate that these 1031 exchange accounts will continue to decrease through 2006 as the funds are reinvested by IBT Title's customers.

LIQUIDITY

Liquidity management is designed to have adequate resources available to meet depositor and borrower discretionary demands for funds. Liquidity is also required to fund expanding operations, investment opportunities, and payment of cash dividends. The primary sources of the Corporation's liquidity are cash, cash equivalents, and available-for-sale investment securities.

As of September 30, 2006, cash and cash equivalents as a percentage of total assets equaled 3.26%, versus 4.16% as of December 31, 2005. During the first nine months of 2006, operating activities provided $1,561 of cash and financing activities provided $46,518, while investing activities used $53,211. The accumulated effect of the Corporation's operating, investing and financing activities was a $5,132 decrease in cash and cash equivalents during the first nine months of 2006.

In addition to cash and cash equivalents, investment securities available for sale are another source of liquidity. Securities available for sale were $193,268 as of September 30, 2006 and $183,406 as of December 31, 2005. 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 management.

CAPITAL

The capital of the Corporation consists solely of common stock, surplus, retained earnings, and accumulated other comprehensive loss. The overall capital has increased $5,581 since December 31, 2005 primarily due to corporate earnings. Accumulated other comprehensive loss decreased $473 due to unrealized gains in available-for-sale securities during 2006.

There are no significant regulatory constraints placed on the Corporation's capital. The Federal Reserve Board's current recommended minimum tier 1 and tier 2 capital to average assets requirement is 6.0%. The Corporation's tier 1 and tier 2 capital to adjusted average assets, which consists of shareholders' equity plus the allowance for loan losses less unamortized acquisition intangibles, was 11.85% as of September 30, 2006.

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 bank 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 ratios as of September 30, 2006:

PERCENTAGE OF CAPITAL TO RISK ADJUSTED ASSETS

	IBT Bancorp September 30, 2006	
	Required	Actual
Equity Capital	4.00%	15.90%
Secondary Capital*	4.00%	1.25%
Total Capital	8.00%	17.15%

* IBT Bancorp's secondary capital consists solely of the allowance for loan losses. The percentage for the secondary capital under the required column is the maximum allowed from all sources.

FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET ARRANGEMENTS

The Corporation is party to financial instruments with off-balance-sheet risk. These instruments are entered into in the normal course of business to meet the financing needs of its customers. These financial instruments, which include

commitments to extend credit and standby letters of credit, involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated balance sheets. The contract or notional amounts of these instruments reflect the extent of involvement the Corporation has in a particular class of financial instruments.

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

Commitments to extend credit, which totaled $86,660 at September 30, 2006, 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. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Standby letters of credit are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support private borrowing arrangements, including commercial paper, bond financing, and similar transactions. At September 30, 2006, the Corporation had a total of $1,733 in outstanding standby letters of credit.

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

Isabella Bank and Trust (IB&T), a subsidiary of the Corporation, sponsors the IBT Foundation (the "Foundation"), which is a nonprofit entity formed for the purpose of distributing charitable donations to recipient organizations generally located in the communities serviced by Isabella Bank and Trust. IB&T 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 September 30, 2006 were $1,358.

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 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Corporation's primary market risks are interest rate risk and, to a lesser extent, liquidity risk. The Corporation has very limited foreign exchange risk and holds no trading account assets, nor does it utilize interest rate swaps or derivatives in the management of its interest rate risk. The Corporation does have a significant amount of loans extended to borrowers involved in agricultural production. Cash flow and ability to service debt of such customers is largely dependent on growing conditions and the commodity prices for corn, soybeans, sugar beets, milk, beef and a variety of dry beans. The Corporation mitigates these risks by using conservative price and production yields when calculating a borrower's available cash flow to service their debt.

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

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

The Corporation uses several techniques to manage interest rate risk. The first method is gap analysis. Gap analysis measures the cash flows and/or the earliest repricing of the Corporation's interest bearing assets and liabilities. This analysis is useful for measuring trends in the repricing characteristics of the balance sheet. Significant assumptions are required in this process because of the imbedded repricing options contained in assets and liabilities. A substantial portion of the Corporation's assets are invested in loans and investment securities. These assets have imbedded options that allow the borrower to repay the balance prior to maturity without penalty. The amount of prepayments is dependent upon many factors, including the interest rate of a given loan in comparison to the current interest rates, for residential mortgages the level of sales of used homes, and the overall availability of

credit in the market place. Generally, a decrease in interest rates will result in an increase in the Corporation's cash flows from these assets. Investment securities, other than those that are callable, do not have any significant imbedded options. Saving and checking deposits may generally be withdrawn on request without prior notice. The timing of cash flow from these deposits is estimated based on historical experience. Time deposits have penalties which discourage early withdrawals. Cash flows may vary based on current offering rates, competition, customer need for deposits, and overall economic activity.

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

The following table provides information about the Corporation's assets and liabilities that are sensitive to changes in interest rates as of September 30, 2006. The Corporation has no interest rate swaps, futures contracts, or other derivative financial options, except for derivative loan commitments, which are not significant. The principal amounts of assets and time deposits maturing were calculated based on the contractual maturity dates. Savings and NOW accounts are based on management's estimate of their future cash flows.

Quantitative Disclosures of Market Risk

	September 30, 2006					
(dollars in thousands)	2007	2008	2009	2010	2011	Thereafte
Rate sensitive assets						
Other interest bearing assets	$ 3,409	$ --	$ --	$ --	$ --	$ --
Average interest rates	1.31%	--	--	--	--	--
Fixed interest rate securities	$ 55,374	$44,316	$22,064	$14,303	$22,271	$34,940
Average interest rates	3.92%	3.71%	3.84%	4.33%	4.52%	4.58
Fixed interest rate loans	$127,399	$80,772	$78,644	$58,334	$63,692	$32,735
Average interest rates	6.39%	6.38%	6.39%	6.47%	7.70%	5.94
Variable interest rate loans	$ 46,872	$14,398	$13,355	$ 4,438	$ 1,603	$ 905
Average interest rates	9.51%	8.85%	8.91%	9.54%	8.86%	7.63
Rate sensitive liabilities						
Borrowed funds	$ 20,671	$ 3,000	$12,558	$ 4,000	$ 5,286	$13,000
Average interest rates	5.73%	3.70%	4.89%	4.11%	5.69%	4.84
Savings and NOW accounts	$ 98,954	$65,802	$60,842	$19,491	$ 5,310	$ --
Average interest rates	3.37%	1.19%	0.69%	0.65%	0.78%	--
Fixed interest rate time deposits	$199,830	$45,448	$20,224	$28,767	$11,548	$ 1,492
Average interest rates	4.53%	4.27%	4.04%	4.49%	4.57%	5.18
Variable interest rate time deposits	$ 761	$ 652	$ --	$ --	$ --	$ --
Average interest rates	4.23%	4.28%	--	--	--	--

Quantitative Disclosures of Market Risk

(dollars in thousands)	September 30, 2005					
	2006	2007	2008	2009	2010	Thereafte
Rate sensitive assets						
Other interest bearing assets	$ 4,606	$ --	$ --	$ --	$ --	$ --
Average interest rates	1.88%	--	--	--	--	--
Fixed interest rate securities	$ 38,344	$45,593	$32,571	$15,619	$ 9,057	$33,167
Average interest rates	3.81%	3.28%	3.34%	3.55%	3.82%	3.42
Fixed interest rate loans	$ 97,038	$74,027	$81,593	$50,603	$55,355	$29,472
Average interest rates	6.23%	6.02%	6.19%	5.87%	6.31%	5.97
Variable interest rate loans	$ 47,607	$15,323	$18,991	$ 5,794	$ 4,069	$ 781
Average interest rates	8.08%	7.71%	7.24%	7.43%	8.55%	8.46
Rate sensitive liabilities						
Borrowed funds	$ 16,857	$ 4,000	$ 3,113	$ 2,500	$ 4,000	$17,312
Average interest rates	3.94%	3.59%	3.71%	3.46%	4.11%	5.11
Savings and NOW accounts	$ 77,049	$77,400	$76,571	$20,810	$ 5,439	$ --
Average interest rates	2.16%	0.95%	0.80%	0.51%	0.59%	0.00
Fixed interest rate time deposits	$127,447	$56,069	$29,413	$15,262	$22,589	$ 818
Average interest rates	3.47%	4.13%	3.79%	3.49%	4.23%	4.67
Variable interest rate time deposits	$ 975	$ 377	$ 8	$ --	$ --	$ --
Average interest rates	3.05%	3.05%	3.05%	--	--	--

ITEM 4 - CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

The Corporation's management carried out an evaluation, under the supervision and with the participation of the Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15(d)-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of September 30, 2006, pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that the Corporation's disclosure controls and procedures as of September 30, 2006, were effective to ensure that information required to be disclosed by the Corporation in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

During the most recent fiscal quarter, no change occurred in the Corporation's internal control over financial reporting that materially affected, or is likely to materially affect, the Corporation's internal control over financial reporting. The Corporation is currently evaluating what changes, if any, might be necessary in internal control arising as a result of the October 3, 2006 acquisition of the Farwell State Savings Bank.

PART II - OTHER INFORMATION

ITEM 1A - RISK FACTORS

There have been no material changes to the risk factors disclosed in Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2005.

ITEM 2 - UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(A) NONE

(B) NONE

(C) REPURCHASES OF COMMON STOCK

In October 2002, the Corporation's Board of Directors authorized the repurchase of up to $2 million 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 $1.7 million of its common stock or 38,636 shares under the repurchase authorization. The following table provides information as of September 30, 2006, with respect to this plan:

	Shares Repurchased		Total Number of Shares Purchased as Part of Publicly Announced Plan or Program	Maximum Shares That May Be Purchased Under the Plans or Programs
(Dollars in thousands)	Number	Average Price Per Share		
Balance, June 30, 2006				38,636
July 1 - 31, 2006	--	$--	--	--
August 1 - 31, 2006	--	--	--	--
September 1 - 30, 2006	--	--	--	--
Balance September 30, 2006	--	$--	--	38,636

ITEM 6 - EXHIBITS

(a) Exhibits

The following exhibits 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 (7)

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)*	Amendment to the IBT Bancorp, Inc. and Related Companies Deferred Compensation Plan for Directors (8)
10(f)*	The IBT Bancorp, Inc. and Related Companies Deferred Compensation Plan for Non-Employee Directors (9)
10(g)*	First amendment to the IBT Bancorp, Inc. and Related Companies Deferred Compensation Plan for Non-Employee Directors (10)
31(a)	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Principal Executive Officer
31(b)	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Principal Financial Officer
32	Section 1350 Certification of Principal Executive Officer and Principal Financial Officer

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 the IBT Bancorp, Inc. Form 10-K, dated March 26, 1996, and incorporated herein by reference.

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

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

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

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

8) Previously filed as an Exhibit to the IBT Bancorp, Inc. Form 8-K dated March 10, 2006, and incorporated herein by reference.

9) Previously filed as an Exhibit to the IBT Bancorp, Inc. Form 8-K dated December 19, 2005, and incorporated herein by reference.

10) Previously filed as an Exhibit to the IBT Bancorp, Inc. Form 8-K dated March 28, 2006, and incorporated herein by reference.

* Management contract or compensatory plan or arrangement.

SIGNATURES

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

IBT Bancorp, Inc.

Date: October 30, 2006

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

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

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