IBT BANCORP INC /MI/
Form DEF 14A
April 21, 2008

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant þ
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Check the appropriate box:

o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

IBT BANCORP, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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IBT BANCORP, INC.
200 East Broadway
Mount Pleasant, Michigan 48858

NOTICE OF THE ANNUAL MEETING OF SHAREHOLDERS
To Be Held May 13, 2008

Notice is hereby given that the Annual Meeting of Shareholders of IBT Bancorp, Inc. will be held on Tuesday, May 13, 2008 at 5:00 p.m. Eastern Standard Time, at the Comfort Inn, 2424 S. Mission Street, Mount Pleasant, Michigan. The meeting is for the purpose of considering and acting upon the following:

1. The election of three directors.

2. Approval of an amendment to the Articles of Incorporation to increase the number of authorized shares of Common Stock from 10,000,000 to 15,000,000.

3. Approval of an amendment to the Articles of Incorporation to change the name of the Corporation from IBT Bancorp, Inc. to Isabella Bank Corporation.

4. Such other business as may properly come before the meeting, or any adjournment or adjournments thereof.

The Board of Directors has fixed April 1, 2008 as the record date for determination of shareholders entitled to notice of, and to vote at, the meeting or any adjournments thereof.

Your vote is important. Even if you plan to attend the meeting, please date and sign the enclosed proxy form, indicate your choice with respect to the matters to be voted upon, and return it promptly in the enclosed envelope. Note that if stock is held in more than one name, all parties should sign the proxy form.

By order of the Board of Directors

Debra Campbell, Secretary

Dated: April 25, 2008

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IBT BANCORP, INC.
200 East Broadway
Mount Pleasant, Michigan 48858

PROXY STATEMENT

General Information

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of IBT Bancorp, Inc. (the Corporation) a Michigan financial holding company, to be voted at the Annual Meeting of Shareholders of the Corporation to be held on Tuesday, May 13, 2008 at 5:00 p.m. at the Comfort Inn, 2424 S. Mission Street, Mount Pleasant, Michigan, or at any adjournment or adjournments thereof, for the purposes set forth in the accompanying Notice of Annual Meeting of Shareholders and in this Proxy Statement.

This Proxy Statement has been mailed on April 25, 2008 to all holders of record of common stock as of the record date. If a shareholder s shares are held in the name of a broker, bank or other nominee, then that party should give the shareholder instructions for voting the shareholder s shares.

Voting at the Meeting

The Board of Directors of the Corporation has fixed the close of business on April 1, 2008 as the record date for the determination of shareholders entitled to notice of, and to vote at, the Annual Meeting of Shareholders and any adjournment thereof. The Corporation has only one class of common stock and no preferred stock. As of April 1, 2008, there were 7,522,718 shares of common stock of the Corporation outstanding. Each outstanding share entitles the holder thereof to one vote on each separate matter presented for vote at the meeting. Shareholders may vote on matters that are properly presented at the meeting by either attending the meeting and casting a vote or by signing and returning the enclosed proxy. If the enclosed proxy is executed and returned, it may be revoked at any time before it is exercised at the meeting. All shareholders are encouraged to date and sign the enclosed proxy, indicate their choice with respect to the matters to be voted upon, and return it to the Corporation.

The Corporation will hold the Annual Meeting of Shareholders if holders of a majority of the Corporation s shares of common stock entitled to vote are represented in person or by proxy at the meeting. If a shareholder signs and returns the proxy, those shares will be counted to determine whether the Corporation has a quorum, even if the shareholder abstains or fails to vote on any of the proposals listed on the proxy.

If a shareholder s shares are held in the name of a nominee, and the shareholder does not tell the nominee how to vote the shares (referred to as broker non-votes), then the nominee can vote them as they see fit only on matters that are determined to be routine and not on any other proposal. Broker non-votes will be counted as present to determine if a quorum exists but will not be counted as present and entitled to vote on any nonroutine proposals.

In the election of directors, director nominees receiving a plurality of votes cast at the meeting will be elected directors of the Corporation. Shares not voted, including broker non-votes, have no effect on the election of directors. In connection with the approval of the two proposals to amend the Corporation s Articles of Incorporation, the affirmative vote of two-thirds of the outstanding shares of common stock is required to approve each amendment. In determining whether a proposal has received the requisite number of affirmative votes, abstentions and broker non-votes will have the same effect as a vote against the amendment.

Proposal # 1:
Election of Directors

The Board of Directors is divided into three classes, with the directors in each class being elected for a term of three years. At the Annual Meeting of Shareholders, three directors will be elected for terms ending with the annual meeting of shareholders in 2011.

Except as otherwise specified in the proxy, proxies will be voted for election of the three nominees named below. If a nominee becomes unable or unwilling to serve, proxies will be voted for such other person, if any, as shall

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be designated by the Board of Directors. However, the Corporation s management now knows of no reason to anticipate that this will occur. The three nominees for election as directors who receive the greatest number of votes cast will be elected directors. Each of the nominees has agreed to serve as a director if elected.

Nominees for election and current directors are listed below. Also shown for each nominee and each current director is his or her principal occupation for the last five or more years, age and length of service as a director of the Corporation.

David W. Hole and Ronald E. Schumacher retired as members of the Corporation s Board of Directors on December 31, 2007. Effective January 1, 2008, Mr. Theodore W.(Ted) Kortes was appointed to the Board as part of the Greenville Financial Corporation Merger agreement which occurred effective January 1, 2008. Mr. Kortes will serve on the Board until the earlier of his attainment of age 70 or the date of the 2010 annual shareholders meeting of the Corporation.

The Board of Directors recommends that shareholders vote FOR the election of each of the three director nominees nominated by the Board of Directors.

Director Nominees for Terms Ending in 2011

Richard J. Barz (age 59) has been a director of the Corporation since 2002. He has been a director of Isabella Bank since 2000. Mr. Barz also serves on the Board of Financial Group Information Services and is a member of the Finance and Planning Committee. Mr. Barz has been President and CEO of Isabella Bank since December 30, 2001. Prior to his appointment as President and CEO he served as Executive Vice President of Isabella Bank. Mr. Barz was Chairman of the Central Michigan Community Hospital in 2007 and was the recipient of the 2007 Mount Pleasant Area Chamber of Commerce Citizen of the year award.

Sandra L. Caul (age 64) has been a director of the Corporation since 2005. She currently serves as director of Isabella Bank, and serves on the Audit Committee, and the Compensation and Human Resource Committee. Ms. Caul is Vice Chair of Central Michigan Community Hospital Board of Directors and is Chair of the Central Michigan American Red Cross. Ms. Caul retired in January 2005 as a state representative of the Michigan State House of Representatives. Ms. Caul is a registered nurse.

W. Michael McGuire (age 58) was appointed director of the Corporation on March 22, 2007, and serves on the Audit Committee, Finance and Planning Committee, and the Compensation and Human Resource Committee. He is a director of the Farwell division of Isabella Bank. Mr. McGuire is currently an attorney and Director of the Office of the Corporate Secretary and Assistant Secretary of The Dow Chemical Company, a manufacturer of chemicals, plastics and agricultural products.

Current Directors with Terms Ending in 2010

James C. Fabiano (age 64) has been a director of Isabella Bank since 1979 and of the Corporation since 1988, of which he is currently serving as Chairperson and is an ex-officio member of all committees. He also serves as an ex-officio member of the entire Corporation s subsidiary Boards of Directors. Mr. Fabiano is Chairman of Fabiano Brothers, Inc., a wholesale distributor of beer, wine and certain specialty beverages. Mr. Fabiano is a past recipient of the Mount Pleasant Area Chamber of Commerce Citizen of the year award, he was also the past chairman of Central Michigan University board of trustees.

Dale D. Weburg (age 64) has served on the Board of the Corporation since 2000 and is a member of the Financial Group Information Services Board of Directors. He also serves on the Nominating and Corporate Governance

Committee, Audit Committee, and the Compensation and Human Resource Committee. He has been a director of the Farmers division of Isabella Bank since 1987, of which he is currently serving as Chairperson. Mr. Weburg is President of Weburg Farms, a cash crop farm operation. Mr. Weburg also serves as a board of trustee for Gratiot Health System.

Theodore W. Kortes (age 67) was appointed director of the Corporation on January 1, 2008, and serves on the Finance and Planning Committee and the Compensation and Human Resource Committee. He is a director and

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Chairman of the Greenville division of Isabella Bank. Mr. Kortes was President and CEO of Greenville Community Bank and Greenville Community Financial Corporation since its founding in 1998, until his retirement in 2007.

Current Directors with Terms Ending in 2009

Dennis P. Angner (age 52) has been a director of the Corporation since 2000. He also serves as an ex-officio member of all of the Corporation s subsidiary Boards of Directors, the Nominating and Corporate Governance Committee, and the Finance and Planning Committee. Mr. Angner has been President and CEO of the Corporation since December 30, 2001. Prior to his appointment as President and CEO, he served as Executive Vice President of the Corporation. Mr. Angner is the Chair of the Michigan Bankers Association and has served on the Central Michigan American Red Cross board for over 20 years.

David J. Maness (age 54) has been a director of the Corporation since 2004, and serves on the Audit Committee, the Compensation and Human Resource Committee, and is currently chairperson on the Finance and Planning Committee. He also serves on the Board of Directors of Isabella Bank and is chairperson of Financial Group Information Services. He is President of Maness Petroleum, a geological and geophysical consulting service. Mr. Maness served as a school board member of the Mount Pleasant School board.

W. Joseph Manifold (age 56) has been a director of the Corporation since 2003, and serves on the Nominating and Corporate Governance Committee, the Compensation and Human Resource Committee, and serves as chairperson of the Audit Committee. Mr. Manifold is a Certified Public Accountant and President of Federal Broach & Machine Company, a manufacturing company. In the past he was a senior auditor with Ernst & Young Certified Public Accounting firm working principally on external bank audits, and was CFO of the Delfield Corporation. Prior to joining IBT Bancorp Mr. Manifold also served on the Isabella Community Credit Union Board and was Chair of the Mount Pleasant School Board.

William J. Strickler (age 67) has been a director of the Corporation since 2002, and serves on the Nominating and Corporate Governance Committee, the Finance and Planning Committee, and the Compensation and Human Resource Committee. He has been a director of Isabella Bank since 1995 and is currently serving as Chairperson. Mr. Strickler is President of Michiwest Energy, an oil and gas producer. Prior to joining the Corporation and Bank Board he served as a director of the National City Community Bank Board.

Each of the directors has been engaged in their stated professions for more than five years. The principal occupation of Dennis P. Angner is with the Corporation, and he has been employed by Isabella Bank and/or the Corporation since 1984. Other executive officers of the Corporation include: Richard J. Barz, President of Isabella Bank, an employee of Isabella Bank and/or the Corporation since 1972; Timothy M. Miller (age 56), President of the Farmers division of Isabella Bank, an employee of Farmers State Bank and/or the Corporation since 1985; Peggy L. Wheeler (age 48), Senior Vice President and Controller of the Corporation, employed by Isabella Bank and/or the Corporation since 1977; Steven D. Pung (age 58), Senior Vice President of Isabella Bank, employed by Isabella Bank and/or the Corporation since 1978. All officers of the Corporation serve at the pleasure of the Board of Directors.

Proposal # 2: Amendment of The Articles of Incorporation to Increase the Number of Authorized Shares of Common Stock From 10,000,000 to 15,000,000

Introduction

The Corporation s Articles of Incorporation provide that the authorized number of shares of common stock is 10,000,000 (Common Stock). As of April 1, 2008 there were 7,522,718 shares of Common Stock outstanding and

5,782 shares reserved for issuance under the Isabella Bank and Trust Employee Stock Ownership Plan (ESOP) and 33,068 shares reserved for issuance under the IBT Bancorp, Inc. Stockholder Dividend Reinvestment and Employee Stock Purchase Plan (Dividend Reinvestment Plan). There were 198,939 authorized but unissued shares under the Directors Nonqualified Deferred Compensation Director plan (Directors Plan).

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The Board of Directors on February 28, 2008, unanimously approved an amendment to the Corporation s Articles of Incorporation to increase the number of authorized shares of Common Stock from 10,000,000 shares to 15,000,000 shares and unanimously recommends to the shareholders that they approve such amendment. The additional shares of Common Stock for which authorization is sought would be a part of the existing class of shares of Common Stock and, if and when issued, would have the same rights and privileges as the shares of Common Stock presently outstanding.

Purposes and Effects of Proposed Amendment

The Board of Directors considers it advisable to increase the authorized number of shares of Common Stock to 15,000,000. The additional authorized common shares will be available for any purpose for which shares of common stock may be issued under the Michigan Business Corporation Act. For example, this could include, among other things, possible issuance from time to time pursuant to the ESOP or other employee benefit plans, the Directors Nonqualified Deferred Compensation Plan, the Employee and director Stock Purchase program, the Dividend Reinvestment Plan, acquisitions, private placements, public offerings for cash and stock splits or stock dividends. The Corporation currently has no plans, arrangements, understandings or commitments for the issuance of the additional Common Stock. It is considered advisable, however, to have the authorization to issue such shares in order to enable the Corporation, as the need may arise, to move promptly to take advantage of market conditions and the availability of other opportunities without the delay and expense involved in calling a shareholders meeting for such purpose. The cost, prior notice requirements and delay involved in obtaining shareholder approval at the time that corporate action may become necessary, could eliminate the opportunity to effect the action or reduce the expected benefits.

There are no preemptive rights with respect to the authorization or issuance of the additional authorized Common Stock and those shares may be issued without further action by shareholders. Any issuance of Common Stock must be for proper business purposes and for proper consideration from the recipient. Issuance of additional Common Stock could, under some circumstances, dilute the voting rights, equity and earnings per share of existing common shareholders. Nevertheless, the Corporation anticipates that it would receive value for any additional Common Stock issued, thereby reducing or eliminating the economic effect of such dilution to shareholders.

Although the decision of the Board of Directors to propose an increase in the number of shares of Common Stock authorized for issuance did not result from any effort, known to the Corporation, by any person to accumulate Common Stock or to affect a change in control of the Corporation, one effect of an increase in authorized Common Stock may be to make more difficult certain types of attempts to obtain control of the Corporation not approved by the Board of Directors. However, the Board of Directors does not intend or view the proposed increase in authorized Common Stock as an anti-takeover measure and is not proposing the increase in response to any attempt or plan to obtain control of the Corporation.

Vote Required

The affirmative vote of two-thirds of the outstanding shares of Common Stock is required to approve the amendment. If the amendment is approved by the shareholders, the amendment will become effective upon the filing of a certificate of amendment with the Michigan Department of Labor and Economic Growth, which filing is expected to occur promptly after the Annual Meeting.

Your Board of Directors Recommends a Vote For the Proposal to Amend the Corporation s Articles of Incorporation to Increase the Number of Authorized Shares of Common Stock

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Proposal #3: Amendment of
The Articles of Incorporation to Change the Corporation s
Name From IBT Bancorp, Inc. to Isabella Bank Corporation

Introduction

The Board of Directors on February 28, 2008 unanimously approved an amendment to the Corporation s Articles of Incorporation to change the Corporation s name from IBT Bancorp, Inc. to Isabella Bank Corporation and unanimously recommends to the shareholders that they approve such amendment.

Purposes and Effects of Proposed Amendment

The Board of Directors has determined that it is in the best interests of the Corporation to change its name to Isabella Bank Corporation. Over the past two years an ad-hoc committee of IBT Bancorp reviewed the branding of its subsidiary banks. The committee consisted of representation from each subsidiary and the Corporation. The committee assignment was to determine if its banking subsidiary should continue to operate with independent brands with unifying signage, lettering, and logo or as a branded house. The committee utilized the service of a professional marketing firm, conducted market surveys and reviewed other financial institutions branding models. After extensive discussion the committee unanimously recommended that IBT Bancorp and its subsidiaries operate under a single brand: Isabella Bank for the banking division and Isabella Bank Corporation for the Corporation, with both adopting a new logo. The Board of Directors of both IBT Bancorp and Isabella Bank and Trust voted to approve the committee s recommendation at its November 2007 meeting.

The Board of Directors believes its rebranding will enhance our position in the market, provide enhanced customer access to our 24 hour banking locations, simplify the marketing of our products and services, and eliminate confusion with similarly named public companies.

The change of the Corporation s name will not affect, in any way, the validity or transferability of currently outstanding stock certificates, nor will the Corporation s shareholders be required to surrender or exchange any stock certificates that they currently hold as a result of the name change. If the Corporation s name change is approved at the Annual Meeting, the Corporation expects to thereafter change its trading symbol on the OTC Pink Sheets Electronic Quotation Service. The Corporation s new OTC Pink Sheets Electronic Quotation Service trading symbol will be determined at the time the name change becomes effective.

Vote Required

The affirmative vote of two thirds of the outstanding shares of Common Stock is required to approve the amendment. If the amendment is approved by the shareholders, the amendment will become effective upon the filing of a certificate of amendment with the Michigan Department of Labor and Economic Growth, which filing is expected to occur promptly after the Annual Meeting.

Your Board of Directors Recommends a Vote For the Proposal to Amend the Corporation s Articles of Incorporation to Change the Corporation s Name from IBT Bancorp, Inc. to Isabella Bank Corporation

Corporate Governance

Director Independence

The Corporation has adopted the director independence standards as defined in NASDAQ Marketplace Rule 4200(a)(15). The Board has determined that James C. Fabiano, Dale D. Weburg, David J. Maness, W. Joseph Manifold, William J. Strickler, Sandra L. Caul, W. Michael McGuire, and Ted W. Kortes are independent directors. David W. Hole and Ronald E. Schumacher, who both retired as members of the Corporation s Board of Directors on December 31, 2007 were also determined to be independent directors. Dennis P. Angner is not independent as he is

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employed as President and Chief Executive Officer of the Corporation. Richard J. Barz is not independent as he is employed as President and Chief Executive Officer of Isabella Bank.

Committees of the Board of Directors and Meeting Attendance

The Board of Directors of the Corporation met 14 times during 2007. All incumbent directors attended 75% or more of the meetings held in 2007. The Board of Directors has an Audit Committee, a Nominating and Corporate Governance Committee, a Compensation and Human Resource Committee, and a Finance and Planning Committee.

Audit Committee

The Audit Committee is composed of independent directors who meet the requirements for independence as defined in NASDAQ Marketplace Rule 4200(a) (15). Information regarding the functions performed by the Committee, its membership, and the number of meetings held during the year, is set forth in the Report of the Audit Committee included elsewhere in this annual proxy statement. The Audit Committee is governed by a written charter approved by the Board of Directors and is included as Appendix A to this proxy statement. In accordance with the provisions of the Sarbanes-Oxley Act of 2002, Director Manifold meets the requirements of Audit Committee Financial Expert and has been so designated by the Board of Directors. The committee also consists of directors Caul, Fabiano, Maness, McGuire and Weburg.

Nominating and Corporate Governance Committee

The Corporation has a standing Nominating and Corporate Governance Committee consisting of independent directors who meet the requirements for independence as defined in NASDAQ Marketplace Rule 4200(a) (15). The Committee consists of directors Manifold, Strickler and Weburg. The Nominating and Corporate Governance Committee held three meetings in 2007, and all directors attended 75% or more of the meetings in 2007. (The Board of Directors has approved a Nominating and Corporate Governance Committee Charter and it is included as Appendix B in this proxy statement.) The Nominating and Corporate Governance Committee is responsible for evaluating and recommending individuals for nomination to the Board of Directors for approval. In making its selections and recommendations, the Nominating and Corporate Governance Committee considers a variety of factors, which generally include the candidate s personal and professional integrity, independence, business judgment, and communication skills.

The Nominating and Corporate Governance Committee will consider as potential nominees, persons recommended by shareholders. Recommendations should be submitted in writing to the Secretary of the Corporation, 200 East Broadway, Mount Pleasant, Michigan 48858 and include the shareholder s name, address and number of shares of the Corporation owned by the shareholder. The recommendation should also include the name, age, address and qualifications of the recommended candidate for nomination. Recommendations for the 2009 Annual Meeting of Shareholders should be delivered no later than December 27, 2008. The Nominating and Corporate Governance Committee does not evaluate potential nominees for director differently based on whether they are recommended to the Nominating and Corporate Governance Committee by a shareholder.

Compensation and Human Resource Committee

The Compensation and Human Resource Committee of the Corporation is responsible for reviewing and recommending to the Corporation s Board of Directors the compensation of the President and executive officers of the Corporation, benefit plans and the overall percentage increase in salaries. The committee consists of all independent directors, Fabiano, Caul, Kortes, McGuire, Maness, Manifold, Strickler, and Weburg. This committee is governed by a written charter approved by the Board of Directors that was attached as Appendix A to the Corporation s proxy statement for the 2007 Annual Shareholder s Meeting.

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Finance and Planning Committee

The Finance and Planning Committee evaluates new business opportunities and business acquisitions, assists management in establishing financial goals, reviews all strategic plans of subsidiaries to assure consistency with overall corporate goals, and reviews interest rate risks, credit risks and insurance coverage. The committee consists of directors Maness, Barz, Kortes, McGuire, and Strickler.

Communications with the Board

Shareholders may communicate with the Corporation s Board of Directors by sending written communications to the Corporation s Secretary, IBT Bancorp, Inc., 200 East Broadway, Mount Pleasant, Michigan 48858. Communications will be forwarded to the Board of Directors or the appropriate committee, as soon as practicable.

Code of Ethics

The Corporation has adopted a Code of Business Conduct and Ethics that is applicable to the Corporation s principal executive officer, the principal financial officer and controller. The Corporation s Code of Business Conduct and Ethics may be obtained free of charge by sending a request to Debra Campbell, Secretary, IBT Bancorp, Inc., 200 East Broadway, Mount Pleasant, Michigan 48858.

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Report of the Audit Committee

The Audit Committee oversees the Corporation s financial reporting process on behalf of the Board of Directors. The Committee consists of directors Fabiano, Caul, Maness, Manifold, McGuire, and Weburg.

The Audit Committee is responsible for pre-approving all auditing services and permitted non-audit services over $5,000 for the Corporation by its independent auditors or any other auditing or accounting firm, except as noted below. The Audit Committee has established general guidelines for the permissible scope and nature of any permitted non-audit services in connection with its annual review of the audit plan and reviews the guidelines with the Board of Directors.

Management has the primary responsibility for the consolidated financial statements and the reporting process including the systems of internal controls. In fulfilling its oversight responsibilities, the Committee reviewed the audited consolidated financial statements in the Annual Report with management including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in the consolidated financial statements. The Committee also reviewed with management and the independent auditors, management s assertion on the design and effectiveness of the Corporation s internal control over financial reporting as of December 31, 2007.

The Committee reviewed with the independent auditors, who are responsible for expressing an opinion on the conformity of those audited consolidated financial statements with accounting principles generally accepted in the United States of America, their judgments as to the quality, not just the acceptability, of the Corporation s accounting principles and such other matters as are required to be discussed with the Committee by the standards of the Public Company Accounting Oversight Board (United States), including those described in SAS 61, as may be modified or supplemented. In addition, the Committee has received the written disclosures and the letter from the independent accountants required by Independence Standards Board Standard No. 1 as may be modified or supplemented, and has discussed with the independent accountant the independent accountant s independence.

The Committee discussed with the Corporation s internal and independent auditors the overall scope and plans for their respective audits. The Committee meets with the internal and independent auditors, with and without management present, to discuss the results of their examinations, their evaluations of the Corporation s internal controls and the overall quality of the Corporation s financial reporting process. The Committee held six meetings during 2007, and all directors attended 75% or more of the meetings held in 2007.

In reliance on the reviews and discussions referred to above, the Committee recommended to the Board of Directors (and the Board has approved) that the audited consolidated financial statements be included in the Annual Report on Form 10-K for the year ended December 31, 2007 for filing with the Securities and Exchange Commission. The Committee has appointed Rehmann Robson as the independent auditors for the 2008 audit.

Respectfully submitted,

W. Joseph Manifold, Audit Committee Chairperson
James C. Fabiano
David J. Maness
Sandra L. Caul
W. Michael McGuire
Dale D. Weburg

Compensation Discussion and Analysis

The Compensation and Human Resource Committee (the Committee) is responsible for the compensation and benefits for the President and executive officers of the Corporation. The Committee evaluates and approves the executive officer and senior management compensation plans, policies and programs of the Corporation and its affiliates. The Committee also evaluates and establishes the compensation of the President and Chief Executive Officer of the Corporation. The President and Chief Executive Officer, Dennis P. Angner conducts annual performance reviews for all Named Executive Officers, excluding himself. Mr. Angner recommends an appropriate salary increase to the Committee based on the performance review and years of service along with competitive market data.

Compensation Objectives

The Committee considers asset growth and earnings per share to be the primary ratios in measuring financial performance. The Corporation s philosophy is to maximize long-term return to shareholders consistent with safe and sound banking practices while maintaining our commitment to superior customer and community service. We believe that the performance of our executive officers in managing our business should be the basis for determining overall compensation. Consideration is also given to overall economic conditions and current competitive forces in the market place. The objectives of the Committee are to effectively balance salaries with potential compensation to an officer s individual management responsibilities and to realize their potential for future contribution to the Corporation. We strive to attract and retain high performing executive officers who will lead the Corporation while attaining the Corporation s earnings and performance goals.

What the Compensation Programs are Designed to Reward

The compensation programs are designed to reward dedicated and conscientious employment with the Corporation, loyalty in terms of continued employment, attainment of job related goals and overall profitability of the Corporation. In measuring an executive officer s contributions to the Corporation, the Committee considers numerous factors including, among other things, the Corporation s growth in terms of asset size, and increase in earnings per share. In rewarding loyalty and long-term service, the Corporation provides attractive retirement benefits.

Elements of Compensation

The Corporation s executive compensation program has consisted primarily of base salary and benefits, annual cash bonus incentives, stock awards, and participation in the Corporation s retirement plans.

Why Each of the Elements of Compensation is Chosen

Base Salary and Benefits are set to provide competitive levels of compensation to attract and retain officers with strong motivated leadership. Each officer s performance, current compensation and responsibilities within the Corporation are considered by the Committee when establishing base salaries. The Corporation also believes it is best to pay sufficient base salary because it believes an over-reliance on equity incentive compensation could potentially skew incentives toward short-term maximization of shareholder value as opposed to building long-term shareholder value. Base salary encourages management to operate the Corporation in a safe and sound manner even when incentive goals may prove unattainable.

Annual Cash Bonus Incentives are used to reward executive officers for the Corporation s overall financial performance. This element of the Corporation s compensation programs is included in the overall compensation in order to reward employees above and beyond their base salaries when the Corporation s performance and profitability exceed established annual targets. The inclusion of incentive compensation encourages management to be more creative, diligent and exhaustive in managing the Corporation to achieve specified financial goals.

Stock Awards are also provided as stock awards are the element of compensation that is most effective in aligning the financial interests of management with those of shareholders and because stock awards are a traditional and well-proven element of compensation among community banks and bank holding companies. These stock

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awards take the form of director fees that eligible executive officers elect to defer under the Directors Nonqualified Deferred Compensation Plan (Directors Plan). These deferred fees are converted on a quarterly basis into stock units of the Corporations common stock. The directors of the Corporation and its subsidiaries are required to defer at least 25% of their earned board fees into the Director s Plan.

Retirement Plans. The Corporation s retirement plans are designed to assist executives in providing themselves with a financially secure retirement. Our retirement plans include: a frozen defined benefit pension plan, a 401(k) plan, and a non-leveraged employee stock ownership plan (ESOP), and a retirement bonus plan.

How the Corporation Chose Amounts for Each Element

The Committee s approach to determining the annual base salary of executive officers is to offer competitive salaries in comparison with other comparable financial institutions. The Committee utilizes regional compensation surveys which provide salary ranges for financial institutions and periodically collects information from other bank holding companies within its peer group for comparison. Specific factors used to decide where an executive officer salary should be within the established range include the historical financial performance, financial performance outlook, years of service, and job performance.

The annual cash bonus incentive is based on goals set on individual performance and recognition of individual performance. A subjective analysis is conducted by the Chief Executive Officer. The Chief Executive Officer makes a recommendation to the Committee for the appropriate amount for each individual executive officer. The Committee reviews, modifies and approves the recommendations of the Chief Executive Officer. The Committee reviews the performance of the Chief Executive Officer. The Committee uses the following factors as quantitative measures of corporate performance in determining annual cash bonus amounts to be paid.

- peer group financial performance compensation;
- 1 and 5 year shareholder returns;
- earnings per share and earnings per share growth;
- budgeted as compared to actual annual operating performance;
- community and industry involvement;
- results of audit and regulatory exams; and
- other strategic goals as established by the board of directors

While no particular weight is given to any specific factor, the Committee gives at least equal weight to the subjective analyses as described above.

Stock awards take the form of deferred director fees which are converted on a quarterly basis into stock units of the Corporation s common stock under the Directors Plan. The deferred fees are converted on a quarterly basis into 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 under the Directors Plan are eligible for stock and cash dividends as declared.

Retirement plans. The Corporation has a frozen defined benefit pension plan covering substantially all of its employees. The benefits were based on years of service and the employee s 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 was recognized in the first quarter of 2007, the current participant s accrued benefits were frozen as of March 1, 2007. The participation in the plan was limited to eligible employees as of December 31, 2006.

The Corporation has a 401(k) plan in which substantially all employees are eligible to participate. Employees may contribute up to 100% of their compensation subject to certain limits based on federal tax laws. 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 an automatic 3.0% contribution for all eligible employees and matching contributions equal to 50% of the first 4.0% of an employee s compensation contributed to the Plan during the year. Employees are 0% vested through their first three years of employment and are 100% vested after 6 years of service.

The Corporation maintains a non-leveraged employee stock ownership plan (ESOP) which covers substantially all of its employees. Contributions to the plan is discretionary and approved by the Board of Directors.

The Corporation maintains a plan for officers to provide 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.

The retirement bonus plan is a nonqualified plan of deferred compensation benefits for eligible employees effective January 1, 2007. An initial amount has been credited for each eligible employee as of January 1, 2007. Subsequent amounts shall be credited on each allocation date thereafter as defined in the plan. The amount of the initial allocation and the annual allocation shall be determined pursuant the payment schedule adopted by the sole and exclusive discretion of the Board of Directors, as set forth in the plan.

How Elements Fit into Overall Compensation Objectives

The elements of the Corporation s compensation are structured to reward past and current performance, continued service and motivate its leaders to excel in the future. The Corporation s salary compensation has generally been used to retain and attract motivated leadership. The Corporation intends to continually ensure its salaries are sufficient to attract and retain exceptional officers. The Corporation s cash bonus incentive rewards current performance based upon personal and corporate, goals and targets. The Corporation makes stock awards to motivate its officers to enhance value for its shareholders by aligning the interests of management with those of its shareholders.

As part of its goal of attracting and retaining quality team members, the Corporation has developed employee benefit plans that make it stand out from the rest of the competition. Management feels that the combination of all of the plans listed above makes the Corporation s total compensation packages attractive.

Compensation and Human Resource Committee Report

The following Report of the Compensation and Human Resource Committee does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Corporation filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, expect to the extent the Corporation specifically incorporates this Report by reference therein.

The Compensation and Human Resource Committee, which includes the independent directors of the board, has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of SEC Regulation S-K with management, and based on such review and discussion, the Compensation and Human Resource Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement and Annual Report on Form 10-K.

Submitted by the Compensation and Human Resource Committee of IBT Bancorp s Board of Directors:

James C. Fabiano, Chairperson
Sandra L. Caul

Ted W. Kortes
David J. Maness
W. Joseph Manifold
W. Michael McGuire
William J. Strickler
Dale D. Weburg

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Executive Officers

Executive Officers of the Corporation are compensated in accordance with their employment with the applicable entity. The following table shows information on compensation earned from the Corporation or its subsidiaries during the year ended December 31, 2007, by the President and Chief Executive Officer, the Principal Financial Officer, and the corporation s three most highly compensated executive officers.

Summary Compensation Table

Name and Principal Position	Year	Salary ($)(1)	Bonus ($)(1)	Stock Awards ($)	Change in Pension Value and Non-Qualified Deferred Compensation Earnings ($)(2)	All Other Compensation ($)(3)	Total ($)
Dennis P. Angner	2007	$ 288,101	$ 8,225	$ 26,280	$ (7,000)	$ 18,715	$ 334,321
President and CEO of IBT Bancorp, Inc.	2006	255,237	10,000	16,228	70,646	8,233	360,344
Peggy L. Wheeler	2007	100,000	3,000		(3,000)	2,023	102,023
Principal Financial Officer, Sr. Vice President and Controller of IBT Bancorp, Inc.	2006	88,500			14,339	685	103,524
Richard J. Barz	2007	274,706	7,875	18,125		23,226	323,932
Executive Vice President of IBT Bancorp, Inc. and President & CEO of Isabella Bank	2006	237,175	14,400	15,100	134,235	10,948	411,858
Timothy M. Miller	2007	155,171		7,880	(1,000)	14,167	176,218
Vice President of IBT Bancorp, Inc. and President of the Farmers State Bank division of Isabella Bank	2006	149,117	3,567	7,223	17,030	5,778	182,715
Steven D. Pung(4) Sr. Vice President of Isabella Bank	2007	108,100	3,625	1,800		14,194	127,719

(1) Includes compensation voluntarily deferred under the Corporation s 401(k). Directors fees paid in cash are also included, for calendar years 2007 and 2006 respectively as follows: Dennis P. Angner $23,870 and $20,237; Richard J. Barz $20,475 and $12,175; and Timothy M. Miller $20,940 and $18,117.

(2) For 2006 approximately 75% of the change in the present value of the defined benefit is related to prior service, a decrease in the assumed discount rate, and a change in the actuarial mortality table. Amounts were determined using assumptions consistent with those used in the Corporation s financial statements. The Board of Directors approved a curtailment of this plan in December 2006 effective March 1, 2007. Assumptions were consistent to those that were presented in the consolidated financial statements.

(3) For all noted executives all other Compensation includes 401(k) matching contributions. For Richard J. Barz and Steven D. Pung this also includes club dues and auto allowance. For Dennis P. Angner and Timothy M. Miller, this also includes auto allowance.

(4) Not a named executive officer prior to 2007.

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2007 Pension Benefits

The following table indicates the present value of accumulated benefits as of December 31, 2007 for each named executive in the summary compensation table.

Name	Plan name	Number of Years of Credited Service as of 01/01/08 (#)	Present Value of Accumulated Benefit ($)	Payments During Last Fiscal Year
Dennis P. Angner	IBT Bancorp Pension Plan	23	$ 242,000	$
	IBT Bancorp Retirement Bonus Plan	23	132,979	
Peggy L. Wheeler	IBT Bancorp Pension Plan	30	66,000	
	IBT Bancorp Retirement Bonus Plan	30	35,981	
Richard J. Barz	IBT Bancorp Pension Plan	35	531,000	
	IBT Bancorp Retirement Bonus Plan	35	168,591	
Timothy M. Miller	IBT Bancorp Pension Plan	8	53,000	
Steven D. Pung	IBT Bancorp Pension Plan	28	265,000	
	IBT Bancorp Retirement Bonus Plan	28	87,197	

Defined benefit pension plan. The Corporation sponsors a frozen defined benefit pension plan. In December 2006, the Board of Directors voted to curtail the defined benefit plan effective March 1, 2007. The effect of the curtailment, which was recognized in the first quarter of 2007, froze the current participant s accrued benefits as of March 1, 2007 and limited participation in the plan to eligible employees as of December 31, 2006.

Annual contributions are made to the plan as required by accepted actuarial principles, applicable federal tax law, and expenses of operating and maintaining the plan. The amount of contributions on behalf of any one participant cannot be separately or individually computed.

Pension plan benefits are based on years of service and the employees five highest consecutive years of compensation out of the last ten years of service, effective through December 31, 2006.

A participant may earn a benefit for up to 35 years of accredited service. Earned benefits are 100 percent vested after five years of service. Benefit payments normally start when a participant reaches age 65. A participant with more than five years of service may elect to take early retirement benefits anytime after reaching age 55. Benefits payable under early retirement are reduced actuarially for each month prior to age 65 in which benefits begin.

Richard J. Barz, Timothy M. Miller, and Steven D. Pung are eligible for early retirement under the IBT Bancorp Pension Plan. Under the provisions of the Plan, participants are eligible for early retirement after reaching the age of 55 with at least 5 years of service. The early retirement benefit amount is the accrued benefit payable at normal retirement date reduced by 5/9% for each of the first 60 months and 5/18% for each of the next 60 months that the benefit commencement date precedes the normal retirement date.

Retirement bonus plan. The retirement bonus plan is a nonqualified plan of deferred compensation benefits for eligible employees effective January 1, 2007. This plan is intended to provide eligible employees with additional retirement benefits. To be eligible the employee needed to be employed by the Corporation on January 1, 2007, and be a participant in the Corporation s frozen Executive Supplemental Income Agreement. They also must be an officer of the Corporation with at least 10 years of service as of December 31, 2006. The Corporation has sole and exclusive discretion to add new participants to the plan by authorizing such participation pursuant to action of the Corporation s Board of Directors.

An initial amount has been credited for each eligible employee as of January 1, 2007. Subsequent amounts shall be credited on each allocation date thereafter as defined in the plan. The amount of the initial allocation and the annual allocation shall be determined pursuant the payment schedule adopted by the sole and exclusive discretion of the Board of Directors, as set forth in the plan.

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Richard J. Barz, Timothy M. Miller, and Steven D. Pung are eligible for early retirement under the IBT Bancorp Retirement Bonus Plan. Under the provisions of the Plan, participants are eligible for early retirement upon attaining 55 years of age. There is no difference between the calculation of benefits payable upon early retirement and normal retirement.

2007 Nonqualified Deferred Compensation

Name	Executive Contributions in Last FY ($)	Aggregate Earnings in Last FY ($)	Aggregate Balance at Last FYE ($)
Dennis P. Angner	$ 26,280	$ 728	$ 43,236
Peggy L. Wheeler			
Richard J. Barz	18,125	604	33,829
Timothy M. Miller	7,880	295	15,398
Steven D. Pung	1,800	94	4,819

The directors of the Corporation and its subsidiaries are required to defer at least 25% of their earned board fees into the Directors Plan. These amounts are reflected in the 2007 nonqualified deferred compensation table above. These deferred fees are converted on a quarterly basis into stock units of the Corporation s common stock under the Directors Plan. The deferred 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.

Distribution from the Directors Plan occurs when the participant terminates service with the Corporation and/or attains age 65. Distributions must take the form of shares of Corporation common stock equal to the number of stock units credited to the participant s account. Any Corporation common stock issued under the Directors Plan will be considered restricted stock under the Securities Act of 1933, as amended.

Potential Payments Upon Termination or Change in Control

The estimated pay outs payable to each named executive officer upon severance from employment, retirement, termination upon death or disability or termination following a change in control of the Corporation are described below. For all termination scenarios, the figures assume such termination took place as of December 31, 2007.

Any Severance of Employment

Regardless of the manner in which a named executive officer s employment terminates, he or she is entitled to receive amounts earned during his or her term of employment. Such amounts include:

Amounts accrued and vested through the Defined benefit pension plan.

Amounts accrued and vested through the Retirement Bonus plan.

Amounts deferred in the Directors Plan.

Unused vacation pay.

Retirement

In the event of the retirement of an executive officer the officer would receive the items identified above. As of December 31, 2007, the named executive officers listed had no unused vacation days.

Death or Disability

In the event of death or disability of an executive officer, in addition to the benefits listed above, the executive officer will also receive payments under the Corporation s life insurance plan or benefits under the Corporation s disability plan as appropriate.

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In addition to potential payments upon termination available to all employees, the estates for the executive officers listed below would receive the following payments upon death:

Name	Bank Owned Life Insurance Policies
Dennis P. Angner	$ 792,000
Peggy L. Wheeler	300,000
Richard J. Barz	762,000
Timothy M. Miller	402,000
Steven D. Pung	324,000

Change in Control

The Corporation currently does not have a change in control agreement with any of the executive officers, provided however pursuant to the Retirement Bonus Plan each participant would become 100% vested in their benefit under the plan if, following a change in control, they voluntarily terminate employment or are terminated without just cause.

Director Compensation

The following table summarizes the Compensation of each non-employee director who served on the Board of Directors during 2007.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Change in Pension Value and Non-Qualified Deferred Compensation Earnings ($)	Total ($)
Sandra Caul	$	$ 38,075	$ 7,011	$ 45,086
James Fabiano		49,925	20,308	70,233
David Maness		42,700	2,812	45,512
W. Joseph Manifold		27,425	1,904	29,329
W. Michael McGuire		23,125	1,027	24,152
William Strickler		36,000	8,650	44,650
Dale Weburg		35,145	4,322	39,467

The Corporation paid a $4,000 retainer and $950 per board meeting to its directors during 2007 and $225 per committee meeting attended.

The Corporation sponsors a nonqualified deferred compensation plan for directors (the Directors Plan). Under the Directors Plan, deferred directors fees are converted on a quarterly basis into stock units of the Corporation s common stock. The fees are converted based on the purchase price for a share of the Corporation s common stock under the Corporation s Dividend Reinvestment Plan. Pursuant to the terms of the Directors Plan, directors of the Corporation and its subsidiaries are required to defer at least 25% of their earned board fees. The amount deferred under the terms of the Directors Plan in 2007 was $468,748, resulting in 18,085 stock units being credited to participants accounts. As of December 31, 2007, there were 198,939 stock units credited to participants accounts, as adjusted for the 10% stock dividend paid on February 29, 2008. Stock units credited to a participant s account are eligible for cash and stock dividends as payable. All amounts deferred are unsecured claims against the Corporation s general assets. The plan does not allow for cash settlement. The net cost of this benefit to the Corporation was $120,789 in 2007.

Distribution from the Directors Plan occurs when the participant terminates service with the Corporation and/or attains age 65. Distributions must take the form of shares of Corporation common stock equal to the number of stock units credited to the participant s account. Any Corporation common stock issued under the Directors Plan will be considered restricted stock under the Securities Act of 1933, as amended.

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Compensation and Human Resource Committee Interlocks and Insider Participation

The Compensation and Human Resource Committee of the Corporation is responsible for reviewing and recommending to the Corporation s Board of Directors the compensation of the President and executive officers of the Corporation, benefit plans and the overall percentage increase in salaries. The committee consists of directors Fabiano, Caul, Kortes, McGuire, Maness, Manifold, Strickler, and Weburg.

Certain Relationships and Related Transactions with Management

Certain directors and officers of the Corporation and members of their families were loan customers of Isabella Bank, or have been directors or officers of corporations, or partners of partnerships which have had transactions with the subsidiary Bank. In management s opinion, all such transactions are made in the ordinary course of business and are substantially on the same terms, including collateral and interest rates, as those prevailing at the same time for comparable transactions with customers not related to the Bank. These transactions do not involve more than normal risk of collectability or present other unfavorable features. Total loans to these customers were approximately $10,461,000 as of December 31, 2007. The Corporation addresses transactions with related parties in its *Code of Business Conduct and Ethics* policy**.** Conflicts of interest are prohibited as a matter of Corporation policy, except under guidelines approved by the Board of Directors or committees of the Board.

Security Ownership of Certain Beneficial Owners and Management

As of April 1, 2008 the Corporation does not have any person who is known to the Corporation to be the beneficial owner of more than 5% of the common stock of the Corporation.

The following table sets forth certain information as of April 1, 2008 as to the common stock of the Corporation owned beneficially by each director and director nominee, by each named executive officer, and by all directors, director nominees and executive officers of the Corporation as a group.

	Amount and Nature of Beneficial Ownership			
Name of Owner	**Sole Voting and Investment Powers**	**Shared Voting and Investment Powers**	**Total Beneficial Ownership**	**Percentage of Common Stock Outstanding**
Dennis P. Angner*	16,485		16,485	0.22%
Richard J Barz*	18,732		18,732	0.25%
Sandra L. Caul		10,000	10,000	0.13%
James C. Fabiano	251,997	5,916	257,913	3.43%
Theodore W. Kortes		16,626	16,626	0.22%
W. Joseph Manifold	530		530	0.01%
W. Michael McGuire	6,032		6,032	0.08%
David J. Maness	419	929	1,348	0.02%
William J. Strickler	73,283	12,722	86,005	1.14%
Dale D. Weburg	25,842	30,267	56,109	0.75%
Timothy M. Miller	52	3,441	3,493	0.05%
Steven D. Pung	8,763	6,705	15,468	0.21%
Peggy L. Wheeler	3,937	2,330	6,267	0.08%

All Directors, nominees and Executive Officers as a Group (13 persons)	406,072	88,936	495,008	6.59%

* Trustees of the ESOP who vote ESOP stock.

Independent Registered Public Accounting Firm

The Audit Committee has appointed Rehmann Robson as the independent auditors of the Corporation for the year ending December 31, 2008.

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A representative of Rehmann Robson is expected to be present at the Annual Meeting of Shareholders to respond to appropriate questions from shareholders and to make any comments they believe appropriate.

Fees for Professional Services Provided by Rehmann Robson P.C.

The following table shows the aggregate fees billed by Rehmann Robson for the audit and other services provided to the Corporation for 2007 and 2006.

	2007	2006
Audit Fee	$ 371,860	$ 464,172
Audit Related Fees	31,365	18,785
Tax Fees	28,750	31,085
Other Professional Services Fees	16,450	33,292
Total	$ 448,425	$ 547,334

The audit fees were for performing the audit of the Corporation s consolidated annual financial statements, audit of internal controls over financial reporting, review of interim quarterly financial statements included in the Corporation s Forms 10-Q, and services that are normally provided by Rehmann Robson in connection with statutory and regulatory filings or engagements.

The audit related fees for 2007 were for regulatory filings related to the acquisition of Greenville Financial Corporation and for discussions related to the adoption and interpretation of new Accounting pronouncements.

The audit related fees for 2006 were for regulatory filings related to the acquisition of Farwell State Savings Bank and for discussion of technical accounting issues.

The tax fees were for the preparation of the Corporation and its subsidiaries state and federal tax returns and for consultation with the Corporation on various tax matters.

Other professional service fees for 2006 were for Federal Home Loan Bank required procedures and out of pocket costs.

The Audit Committee has considered whether the services provided by Rehmann Robson other than the audit fees, are compatible with maintaining Rehmann Robson independence and believes that the other services provided are compatible.

Pre-approval Policies and Procedures

All audit and non-audit services to be performed by Rehmann Robson must be approved in advance by the Audit Committee. As permitted by the SEC s rules, the Audit Committee has authorized its Chairperson to pre-approve audit, audit-related, tax and non-audit services, provided that such approved service is reported to the full Audit Committee at its next meeting.

As early as practicable in each calendar year, the independent auditor provides to the Audit Committee a schedule of the audit and other services that the independent auditor expects to provide or may provide during the next twelve months. The schedule will be specific as to the nature of the proposed services, the proposed fees, and other details that the Audit Committee may request. The Audit Committee will by resolution authorize or decline the proposed services. Upon approval, this schedule will serve as the budget for fees by specific activity or service for the next twelve months.

A schedule of additional services proposed to be provided by the independent auditor, or proposed revisions to services already approved, along with associated proposed fees, may be presented to the Audit Committee for their consideration and approval at any time. The schedule will be specific as to the nature of the proposed service, the proposed fee, and other details that the Audit Committee may request. The Audit Committee will by resolution authorize or decline authorization for each proposed new service.

Applicable SEC rules and regulations permit waiver of the pre-approval requirements for services other than audit, review or attest services if certain conditions are met. Out of the services characterized above as Audit-

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Related, Tax and Professional Services, none were billed pursuant to these provisions in 2007 and 2006 without pre-approval.

Shareholder Proposals

Any proposals which shareholders of the Corporation intend to present at the next annual meeting of the Corporation must be received before December 27, 2008 to be considered for inclusion in the Corporation s proxy statement and proxy for that meeting. Proposals should be made in accordance with Securities and Exchange Commission Rule 14a-8.

Directors Attendance at the Annual Meeting of Shareholders

The Corporation s directors are encouraged to attend the annual meeting of shareholders. At the 2007 annual meeting, all directors were in attendance, with the exception of Mr. McGuire.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Corporation s directors and certain officers and persons who own more than ten percent of the Corporation s common stock, to file with the SEC initial reports of ownership and reports of changes in ownership of the Corporation s common stock. These officers, directors, and greater than ten percent shareholders are required by SEC regulation to furnish the Corporation with copies of these reports.

To the Corporation s knowledge, based solely on review of the copies of such reports furnished to the Corporation, during the year ended December 31, 2007 all Section 16(a) filing requirements were satisfied, with respect to the applicable officers, directors, and greater than 10 percent beneficial owners.

Other Matters

The cost of soliciting proxies will be borne by the Corporation. In addition to solicitation by mail, officers and other employees of the Corporation may solicit proxies by telephone or in person, without compensation other than their regular compensation.

As to Other Business Which May Come Before the Meeting

Management of the Corporation does not intend to bring any other business before the meeting for action. However, if any other business should be presented for action, it is the intention of the persons named in the enclosed form of proxy to vote in accordance with their judgment on such business.

By order of the Board of Directors

Debra Campbell, Secretary

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IBT Bancorp, Inc.

Financial Information Index

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SUMMARY OF SELECTED FINANCIAL DATA

	2007	2006	2005	2004	2003
	(Dollars in thousands except per share data)				
INCOME STATEMENT DATA					
Total interest income	$ 53,972	$ 44,709	$ 36,882	$ 33,821	$ 35,978
Net interest income	28,013	24,977	23,909	23,364	23,528
Provision for loan losses	1,211	682	777	735	1,455
Net income	7,930	7,001	6,776	6,645	7,205
BALANCE SHEET DATA					
End of year assets	$ 957,282	$ 910,127	$ 741,654	$ 678,034	$ 664,079
Daily average assets	925,631	800,174	700,624	675,157	659,323
Daily average deposits	727,762	639,046	576,091	567,145	563,600
Daily average loans/net	596,739	515,539	459,310	430,854	399,008
Daily average equity	119,246	91,964	74,682	70,787	65,770
PER SHARE DATA(1)					
Earnings per share					
Basic	$ 1.14	$ 1.12	$ 1.14	$ 1.13	$ 1.24
Diluted	1.11	1.08	1.14	1.13	1.24
Cash dividends	0.62	0.58	0.55	0.52	0.50
Book value (at year end)	17.58	16.61	13.44	12.25	11.76
FINANCIAL RATIOS					
Shareholders equity to assets (at year end)	12.86%	12.72%	10.91%	10.71%	10.38%
Return on average equity	6.65	7.61	9.07	9.39	10.95
Return on average tangible equity	8.54%	8.31%	9.12%	10.01%	11.99%
Cash dividend payout to net income	54.27	53.89	48.02	46.20	39.99
Return on average assets	0.86	0.87	0.97	0.98	1.09

	2007				2006			
	4th	3rd	2nd	1st	4th	3rd	2nd	1st
Quarterly Operating Results:								
Total interest income	$ 13,747	$ 13,794	$ 13,539	$ 12,892	$ 12,754	$ 11,312	$ 10,675	$ 9,968
Interest expense	6,466	6,690	6,554	6,249	5,980	5,164	4,526	4,062
Net interest income	7,281	7,104	6,985	6,643	6,774	6,148	6,149	5,906
Provision for loan losses	593	268	224	126	54	245	216	167
Noninterest income	2,605	2,719	2,227	2,411	2,355	2,406	2,336	2,001
Noninterest expenses	6,597	6,995	6,833	6,804	6,537	5,659	5,969	6,308
Net income	2,268	2,096	1,756	1,810	1,962	2,031	1,794	1,214
Per Share of Common Stock:(1)								

Earnings per share								
Net income	$ 0.33	$ 0.30	$ 0.25	$ 0.26	$ 0.28	$ 0.34	$ 0.30	$ 0.20
Diluted	0.32	0.29	0.25	0.25	0.27	0.33	0.29	0.19
Cash dividends	0.29	0.11	0.11	0.11	0.28	0.10	0.10	0.10
Book value (at quarter end)	17.58	17.38	17.04	16.77	16.61	14.26	13.76	13.56

(1) Retroactively restated for the 10% stock dividend paid February 29, 2008.

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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, 2007 and 2006, 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, 2007. We also have audited ***IBT Bancorp, Inc s*** internal control over financial reporting as of December 31, 2007, 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 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, assessing the risk that a material misstatement exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. 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 described in Notes 3 and 18 to the consolidated financial statements, effective January 1, 2007 the Corporation elected the early adoption of Statements of Financial Accounting Standards (SFAS) No. s 159, *The Fair Value Option for Financial Assets and Financial Liabilities,* and 157, *Fair Value Measurements,* and effective December 31, 2006 changed its method of accounting for defined benefit pension and other postretirement plans in accordance with

SFAS No. 158, *Employer s Accounting for Defined Benefit Pension and Other Postretirement Plans.*

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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, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion ***IBT Bancorp, Inc.*** maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, 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
February 29, 2008

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CONSOLIDATED BALANCE SHEETS

	December 31 2007	December 31 2006
	(Dollars in thousands)	
ASSETS		
Cash and demand deposits due from banks	$ 25,583	$ 31,359
Trading securities	25,064	
Investment securities available for sale (amortized cost of $212,285 in 2007 and $214,600 in 2006)	213,127	213,450
Mortgage loans available for sale	2,214	2,734
Net loans		
Loans	612,687	591,042
Less allowance for loan losses	7,301	7,605
Total net loans	**605,386**	**583,437**
Premises and equipment	22,516	20,754
Corporate-owned life insurance policies	13,195	12,763
Accrued interest receivable	5,948	5,765
Acquisition intangibles and goodwill, net	27,010	27,288
Equity securities without readily determinable fair values	7,353	3,480
Other assets	9,886	9,097
Total assets	**$ 957,282**	**$ 910,127**
LIABILITIES AND SHAREHOLDERS EQUITY		
Deposits		
Noninterest bearing	$ 84,846	$ 83,902
NOW accounts	105,526	111,406
Certificates of deposit and other savings	410,782	388,176
Certificates of deposit over $100,000	132,319	142,356
Total deposits	**733,473**	**725,840**
Other borrowed funds ($7,523 at fair value in 2007)	92,887	58,303
Escrow funds payable	1,912	2,416
Accrued interest and other liabilities	5,930	7,819
Total liabilities	**834,202**	**794,378**
Shareholders Equity		
Common stock no par value 10,000,000 shares authorized; outstanding 6,364,120 in 2007 (6,335,861 in 2006)	116,319	114,785
Retained earnings	7,027	4,451
Accumulated other comprehensive loss	(266)	(3,487)

Total shareholders equity	**123,080**	**115,749**
Total liabilities and shareholders equity	**$ 957,282**	**$ 910,127**

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

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

	Year Ended December 31		
	2007	2006	2005
	(Dollars in thousands)		
Number of shares of common stock outstanding			
Balance at beginning of year	6,335,861	4,974,715	4,896,412
Common stock dividends		497,299	
Issuance of common stock	71,479	66,372	78,303
Shares issued in exchange for bank acquisition		797,475	
Common stock repurchased	(43,220)		
Balance end of year	**6,364,120**	**6,335,861**	**4,974,715**
Common stock			
Balance at beginning of year	$ 114,785	$ 72,296	$ 66,908
Common stock dividends		20,887	
Transfer		(12,000)	
Issuance of common stock	2,657	33,132	2,684
Share-based payment awards under equity compensation plan	758	470	2,704
Common stock repurchased	(1,881)		
Balance end of year	**116,319**	**114,785**	**72,296**
Retained earnings			
Balance at beginning of year	4,451	10,112	6,590
Cumulative adjustment to initially apply the fair value option of FASB Statement No. 159, net of tax	(1,050)		
Net income	7,930	7,001	6,776
Common stock dividends		(20,887)	
Transfer		12,000	
Cash dividends ($0.62 per share in 2007, $0.58 per share in 2006, $0.55 per share in 2005)	(4,304)	(3,775)	(3,254)
Balance end of year	**7,027**	**4,451**	**10,112**
Accumulated other comprehensive loss			
Balance at beginning of year	(3,487)	(1,506)	(904)
Cumulative adjustment to initially apply the fair value option of FASB Statement No. 159, net of tax	897		
Cumulative adjustment to initially apply FASB Statement No. 158, net of tax		(2,728)	
Other comprehensive income (loss)	2,324	747	(602)
Balance end of year	**(266)**	**(3,487)**	**(1,506)**
Total shareholders equity end of year	**$ 123,080**	**$ 115,749**	**$ 80,902**

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

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31		
	2007	**2006**	**2005**
	(Dollars in thousands except per share data)		
Interest income			
Loans, including fees	$ 43,808	$ 36,575	$ 30,682
Investment securities			
Taxable	3,751	4,948	3,487
Nontaxable	3,657	2,797	2,398
Trading account securities	2,097		
Federal funds sold and other	659	389	315
Total interest income	**53,972**	**44,709**	**36,882**
Interest expense			
Deposits	22,605	17,164	11,374
Borrowings	3,354	2,568	1,599
Total interest expense	**25,959**	**19,732**	**12,973**
Net interest income	**28,013**	**24,977**	**23,909**
Provision for loan losses	1,211	682	777
Net interest income after provision for loan losses	**26,802**	**24,295**	**23,132**
Noninterest income			
Service charges and fees	5,894	5,490	4,928
Title insurance revenue	2,192	2,389	2,351
Gain on sale of mortgage loans	209	207	270
Net gain on trading securities	460		
Other	1,207	1,012	927
Total noninterest income	**9,962**	**9,098**	**8,476**
Noninterest expenses			
Compensation and benefits	15,618	13,869	13,548
Occupancy	1,766	1,730	1,553
Furniture and equipment	3,297	2,868	2,657
Other	6,548	6,006	5,126
Total noninterest expenses	**27,229**	**24,473**	**22,884**
Income before federal income taxes	**9,535**	**8,920**	**8,724**
Federal income taxes	1,605	1,919	1,948
Net income	**$ 7,930**	**$ 7,001**	**$ 6,776**

Earnings per share

Basic	**$**	**1.14**	**$**	**1.12**	**$**	**1.14**
Diluted	**$**	**1.11**	**$**	**1.08**	**$**	**1.14**

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ending December 31		
	2007	2006	2005
	(Dollars in thousands)		
Net income	**$ 7,930**	**$ 7,001**	**$ 6,776**
Unrealized holding gains (losses) on available-for-sale securities:			
Unrealized gains (losses) arising during period	614	1,020	(2,749)
Reclassification adjustment for net realized losses (gains) included in net income	19	112	(2)
Net unrealized gains (losses)	633	1,132	(2,751)
Tax effect	(216)	(385)	935
Unrealized gains (losses), net of tax	417	747	(1,816)
Reduction of unrecognized pension cost, primarily as a result of plan curtailment	2,890		
Tax effect	(983)		
Net gain on defined benefit pension plan	1,907		
Reduction in unrecognized actuarial loss of defined benefit pension plan			1,839
Tax effect			(625)
Reduction in unrecognized actuarial loss of defined benefit pension plan			1,214
Other comprehensive income (loss), net of tax	**2,324**	**747**	**(602)**
Comprehensive income	**$ 10,254**	**$ 7,748**	**$ 6,174**

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

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Year Ended December 31		
	2007	2006	2005
	(Dollars in thousands)		
Operating activities			
Net income	$ 7,930	$ 7,001	$ 6,776
Reconciliation of net income to cash provided by (used in) operations:			
Provision for loan losses	1,211	682	777
Provision for foreclosed asset losses	109		
Depreciation	1,960	1,852	1,735
Net amortization of investment securities	216	705	957
Realized loss (gain) on sale of investment securities	19	112	(2)
Unrealized gains on trading securities	(460)		
Unrealized losses on borrowings measured at their fair market value	66		
Amortization and impairment of mortgage servicing rights	201	184	140
Earnings on corporate owned life insurance policies	(432)	(404)	(365)
Amortization of acquisition intangibles	278	160	94
Deferred income taxes	301	274	263
Share-based payment awards	758	470	2,704
Net changes in operating assets and liabilities which provided (used) cash:			
Trading securities	53,235		
Loans held for sale	520	(1,990)	1,595
Accrued interest receivable	(183)	(626)	(471)
Other assets	(4,667)	(1,424)	(1,787)
Escrow funds payable	(504)	(7,407)	8,098
Accrued interest and other liabilities	(171)	(1,378)	(2,406)
Net cash provided by (used in) operating activities	**60,387**	**(1,789)**	**18,108**
Investing activities			
Activity in available-for-sale securities			
Maturities, calls, and sales	54,997	57,577	31,962
Purchases	(132,115)	(70,140)	(57,044)
Activity in held to maturity securities			
Maturities, calls, and sales			523
Loan principal originations, net	(24,455)	(44,805)	(31,597)
Proceeds from sales of foreclosed assets	662	524	1,272
Purchases of premises and equipment	(3,722)	(2,467)	(2,374)
Acquisition of Farwell State Savings Bank, net of cash acquired		(2,713)	
Purchase of corporate owned life insurance policies		(499)	
Net cash used in investing activities	**(104,633)**	**(62,523)**	**(57,258)**
Financing activities			
Net increase (decrease) in noninterest bearing deposits	944	(409)	8,103
Net increase in interest bearing deposits	6,689	60,433	20,499

Net increase in other borrowed funds	34,365	6,138	21,183
Cash dividends paid on common stock	(4,304)	(3,775)	(3,254)
Proceeds from the issuance of common stock	2,657	2,459	2,684
Common stock repurchased	(1,881)		
Net cash provided by financing activities	**38,470**	**64,846**	**49,215**
(Decrease) increase in cash and cash equivalents	**(5,776)**	**534**	**10,065**
Cash and cash equivalents at beginning of year	31,359	30,825	20,760
Cash and cash equivalents at end of year	**$ 25,583**	**$ 31,359**	**$ 30,825**
Supplemental cash flows information:			
Interest paid	$ 25,872	$ 19,392	$ 12,814
Federal income taxes paid	1,776	1,516	1,000
Transfer of loans to foreclosed assets	1,295	433	928

See notes to consolidated financial statements.

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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, 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 subsidiary, Isabella Bank and Trust, offers banking services through 24 locations, 24-hour banking services locally and nationally through shared automatic teller machines, 24-hour online banking, 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 Bank s principal markets. The Corporation s results of operations can be significantly affected by changes in interest rates or changes in the local economic environment.

In April 2007, the Corporation consolidated the charters of FSB Bank and Isabella Bank and Trust. The consolidation into a single charter helped to further reduce operating expenses through the elimination of duplications in memberships, licensing, service contracts, compliance, computer platforms, and computer processing. The legal reorganization had no significant effect on the Corporation s consolidated financial statements (See Note 23 Operating Segments).

On January 1, 2008, the Corporation acquired 100 percent of Greenville Community Financial Corporation (GCFC). As a result of this acquisition, Greenville Community Bank, a wholly-owned subsidiary of GCFC, merged with and into the Bank. As of December 31, 2007 GCFC had assets of $107,986 (See Note 24 Subsequent Events).

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, and Pere Marquette Abstract and Title Agency, LLC. IBT Title provides title insurance and abstract searches, and closes real estate loans.

Financial Group Information Services provides information technology services to IBT Bancorp and its 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, the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, valuation of goodwill and intangible assets, determinations of assumptions in accounting

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

for the defined benefit pension plans, and other post-retirement liabilities. 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. Generally, federal funds sold are for a one day period. The Corporation maintains deposit accounts in various financial institutions which generally exceed federally insured limits or are not insured.

Trading Securities:

Effective January 1, 2007, in conjunction with the early adoption of the fair value option of SFAS No. 159 (Note 3), the Corporation engages in trading activities for its own account. Securities that are held principally for resale in the near term are recorded in the trading assets account at fair value with unrealized changes in fair value recorded in earnings. Interest and dividends are included in net interest income.

Available-For-Sale Investment Securities:

Securities classified as available-for-sale are 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 determining whether other-then-temporary impairment losses impairments exist, 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

cost-recovery method, until qualifying for return to accrual status. 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 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 Bank 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.

Loans Held for Sale:

Mortgage loans originated and intended for sale in the secondary market are carried at 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 Bank. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 Bank, 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 Bank does 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. The Corporation has no purchased servicing 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.

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. 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 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 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 Bank s 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 relating to holding these assets are expensed as incurred. 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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.

Equity Securities Without Readily Determinable Fair Values:

Included in equity securities without readily determinable fair values are restricted securities of $6,253 in 2007 and $3,480 in 2006. Restricted securities include stock of the Federal Reserve Bank and the Federal Home Loan Bank, which are carried at cost 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 costs relating to share-based payment transactions are 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.

To date, no compensation expense has been required to be recognized in the Corporation s financial statements to accrue for the mortality and related costs of maintaining the life insurance policies in effect during the covered officers postretirement periods.

Emerging Issues Task Force (EITF) Issue No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements,* ratified by the FASB in September, 2006, requires that policyholders recognize a liability for any postretirement benefits provided through the Corporation s program. As of December 31, 2007, the nature and amount of benefits promised by the Corporation to the covered employees is estimated to be $1,561, net of tax. An accrued liability will begin to be

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

recorded by the Corporation effective January 1, 2008 to recognize the initial and ongoing costs of maintaining these policies.

Acquisition Intangibles and Goodwill:

Isabella Bank and Trust previously acquired branch facilities and related deposits in a business combination accounted for as a purchase. During October 2006, Isabella Bank acquired 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, or on an interim basis if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below the carrying value.

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 (see Note 12).

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 (see Note 18).

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

	December 31		
	2007	**2006**	**2005**
Average number of common shares outstanding*	6,973,508	6,269,465	5,958,657
Effect of shares in the Deferred Director fee plan*	197,055	181,280	
Average number of common shares outstanding used to calculate diluted earnings per common share	7,170,563	6,450,745	5,958,657

* As adjusted for the 10% stock dividend paid February 29, 2008 (Note 24)

Reclassifications:

Certain amounts reported in the 2006 and 2005 consolidated financial statements have been reclassified to conform to the 2007 presentation.

Recent Accounting Pronouncements:

In June 2006, the Financial Accounting Standards Board (FASB) issued Financial Accounting Standards Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*. FIN 48 clarifies the accounting for

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attributable for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. On January 1, 2007, the Corporation adopted FIN 48. The adoption of this standard had no significant impact on the Corporation s consolidated financial statements.

In September 2006, Emerging Issues Task Force (EITF) Issue No. 06-5, *Accounting for Purchases of Life Insurance-Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4,* ratified by the FASB, states that a policyholder should consider certain additional amounts included in the contractual terms of the policy in determining the amount that could be realized under the insurance contract. This issue was effective for fiscal years beginning after December 15, 2006. The provisions of EITF 06-5 did not have an impact on the Corporation s consolidated financial statements.

In February 2006, the FASB issued SFAS No. 155 *Accounting for Certain Hybrid Instruments,* which allows financial instruments that have embedded derivatives to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) if the holder elects to account for the whole instrument on a fair value basis. The issuance of Statement No. 155 provides the following: 1.) Clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement No. 133; 2.) Establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation; 3.) Clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives; and 4.) Amends Statement No. 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of the first fiscal year beginning after September 15, 2006. The Corporation adopted SFAS No. 155 on January 1, 2007 and it did not have a material impact on the Corporation s consolidated financial statements.

In March 2006 the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets,* which affects the accounting for servicing rights, which includes mortgage servicing rights and those associated with other types of financial assets transferred in securitizations such as auto loans, student loans, credit cards, commercial real estate and equipment financing. Specifically, Statement No. 156 requires that all separately recognized servicing rights be initially measured at fair value, if practicable. For subsequent accounting for servicing assets and liabilities, entities would choose either to amortize and recognize over a period of estimated net servicing income or net servicing loss (currently required under Statement No. 140) or remeasure at fair value at each subsequent reporting date. The choice to measure at fair value would make it easier to account for hedges of servicing rights, which currently are difficult to apply under Statement No. 133. Statement No. 156 is effective for all servicing assets or liabilities acquired or assumed after the beginning of the first fiscal year beginning after September 15, 2006. In addition, an entity may elect to apply fair value measurement to existing servicing rights upon adoption. The Corporation adopted SFAS No. 156 on January 1, 2007 and it did not have a material impact on the Corporation s consolidated financial statements.

In September of 2006, EITF Issue No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangement,* was ratified by the FASB. The EITF reached a consensus that for an endorsement split-dollar life insurance arrangement within the scope of this Issue, an employer should recognize a liability for future benefits. IBT Bancorp has purchased corporation-owned life insurance on certain of its employees. The cash surrender value of these policies is carried as an asset on the consolidated balance sheets. The carrying value was $13,195 at December 31, 2007. These life insurance policies are generally subject to endorsement split-dollar life insurance arrangements. These arrangements were designed to provide a pre-and postretirement benefit for senior officers of the Corporation. The Corporation is required to apply EITF Issue No. 06-4 beginning January 1, 2008, and while it is currently evaluating the effect the implementation of EITF Issue No. 06-4 will have on the consolidated financial statements, management expects to recognize an initial liability of approximately $1,561, net of tax, with periodic policy maintenance costs not material in any one year.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 establishes a common definition for fair value to be applied to 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 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 unless SFAS No. 159 is adopted, in which SFAS No. 157 would need to be adopted concurrently. The results of the adoption of this standard are disclosed in Note 3.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities,* which provides entities with an option to report selected financial assets and liabilities at fair value, with the objective to reduce both the complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS No. 159 permits fair value to be used for both the initial and subsequent measurements on a contract-by-contract election, with changes in fair value to be recognized in earnings as those changes occur. SFAS No. 159 also revises provisions of SFAS No. 115 that apply to available-for-sale and trading securities. This statement is effective for fiscal years beginning after November 15, 2007, with an option to early adopt effective January 1, 2007. After review of the standard, the Corporation has early adopted the standard. The impact of the adoption of this statement is presented in Note 3.

In September 2006, the Securities and Exchange Commission (SEC) released Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108), which is effective for fiscal years ending on or after November 15, 2006. SAB 108 provides guidance on how the effects of prior-year uncorrected financial statement misstatements should be considered in quantifying a current year misstatement. SAB 108 requires public companies to quantify misstatements using both an income statement (rollover) and balance sheet (iron curtain) approach and evaluate whether either approach results in a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. If prior year errors that had been previously considered immaterial now are considered material based on either approach, no restatement is required so long as management properly applied its previous approach and all relevant facts and circumstances were considered. Adjustments considered immaterial in prior years under the method previously used, but now considered material under the dual approach required by SAB 108, are to be recorded upon initial adoption of SAB 108. The adoption of this standard did not have a material effect on the Corporation s consolidated financial statements.

In December 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141R (SFAS No 141R) *Accounting for Business Combinations*. The objective of SFAS 141-R is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. To accomplish that, this Statement establishes principles and requirements for how the acquirer recognizes and measures the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest acquired, in its financial statements. The acquirer must also recognize and measure the goodwill acquired in the business combination or a gain from a bargain purchase, and determine what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141-R is effective January 1, 2009 and is expected to have a significant impact on the Corporation s accounting for business combinations closing on or after January 1, 2009.

In December, 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated financial statements*. The objective of SFAS No. 160 is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary. SFAS No. 160 is effective January 1, 2009 and is not expected to have a significant impact on the Corporation s consolidated financial position and results of operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On February 14, 2008, the Financial Accounting Standards Board issued Staff Position FAS 157 1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements that address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13*. This FSP amends FASB Statement No. 157, *Fair Value Measurements,* to exclude FASB Statement No. 13, *Accounting for Leases,* and other accounting pronouncements that address fair value measurements for purposes of lease classification or measurement under Statement No. 13. However, this scope exception does not apply to assets acquired and liabilities assumed in a business combination that are required to be measured at fair value under FASB Statement No. 141, *Business Combinations,* or No. 141 (revised 2007), *Business Combinations,* regardless of whether those assets and liabilities are related to leases. This FSP shall be effective upon the initial adoption of Statement No. 157. An enterprise that applied Statement No. 157 in a manner consistent with the provisions of this FSB would continue to apply the provisions of this FSP from the date of the initial adoption of Statement No. 157. However, an enterprise that did not apply Statement No. 157 in a manner consistent with the provisions of this FSP shall retrospectively apply the provisions in this FSP to the date of the initial adoption of Statement No. 157. FAS 157-1 did not have a significant impact on the Corporation s consolidated financial statements.

On February 20, 2008, the Financial Accounting Standards Board issued Staff Position FAS 140 3, *Accounting for Transfers of Financial Assets and Repurchase Financing Transactions*. The objective of this FSP is to provide guidance on accounting for a transfer of a financial asset and a repurchase financing. This FSP presumes that an initial transfer of a financial asset and a repurchase financing are considered part of the same arrangement (linked transaction) under Statement No. 140. However, if certain criteria are met, the initial transfer and repurchase financing shall not be evaluated as a linked transaction and shall be evaluated separately under Statement No. 140. This FSP shall be effective for financial statements issued for fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. Earlier application is not permitted. FAS 140-3 is not expected to have a significant impact on the Corporation s consolidated financial statements.

Note 2 Business Combination

On October 3, 2006, the Bank acquired 100 percent of Farwell State Savings Bank (Farwell). As a result of this acquisition, Farwell merged with and into the 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 in furtherance of the Bank s strategic plan to pursue certain acquisitions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Farwell October 3, 2006	Fair Value Adjustments of Nonintangible Net Assets Acquired	Fair Value of Net Assets Acquired
ASSETS			
Cash and cash equivalents	$ 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, is tested for impairment at least annually. As the acquisition was considered a stock transaction, goodwill is not deductible for federal income tax purposes.

The 2007 and 2006 consolidated statements of income include 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 and have not been adjusted for the 10% stock dividend paid February 29, 2008:

	Year Ended December 31	
	2006	**2005**
Net interest income	$ 27,499	$ 27,371
Net income	$ 8,023	$ 8,288
Basic earnings per share	$ 1.28	$ 1.33

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3 Financial Instruments Recorded at Fair Value

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159). SFAS No. 159 expands the use of fair value accounting but does not affect existing standards which require assets or liabilities to be carried at fair value. Under SFAS No. 159, the Corporation may elect to measure many financial instruments and certain other assets and liabilities at fair value (fair value option FVO). The fair value measurement option is not allowable for deposit or withdrawable on demand liabilities. If the use of fair value is elected, any upfront costs and fees related to the item must be recognized in earnings and cannot be deferred, e.g., debt issue costs. The fair value election is irrevocable and is generally made on an instrument-by-instrument basis, even if the Corporation has similar instruments that it elects not to measure based on fair value. At the adoption date, unrealized gains and losses on existing items for which fair value has been elected are reported as a cumulative adjustment to beginning retained earnings as of January 1, 2007. Subsequent to the adoption of SFAS No. 159, changes in fair value are recognized in earnings. Although SFAS No. 159 is effective for fiscal years beginning after November 15, 2007 and would have been required to be adopted by IBT Bancorp in the first quarter of fiscal 2008, IBT Bancorp elected to early adopt SFAS No. 159 effective January 1, 2007, the impact of which is detailed in the table below.

As shown in the following table, the Corporation elected to transfer $77,839 of its $213,450 available-for-sale securities investment portfolio to trading status to facilitate more active trading of these securities. In determining which available-for-sale securities to transfer, the Corporation considered interest rates, duration, marketability, and balance sheet management strategies. The securities transferred included obligations of US Government Agencies, variable rate Federal National Mortgage Association and Federal Home Loan Mortgage Corporation mortgage backed securities, taxable municipal bonds, and a limited number of tax exempt bonds. During 2007, the Corporation sold $47,334 of trading securities and purchased $7,654 of trading securities. During the year ended December 31, 2007, the Corporation had $14,914 of calls and maturities in its trading portfolio. The Corporation s goal is to maintain an overall trading securities position to approximately 2.0% to 3.0% of total assets. Management believes this level to be the optimum amount needed to provide liquidity and interest margin protection.

The Corporation also elected to report $7,256 of long-term, relatively high interest rate, Federal Home Loan Bank advances at their fair value upon the early adoption of SFAS No. 159 to provide a hedge against significant movement in interest rates. These advances had an outstanding principal balance of $7,225 as of December 31, 2007. During 2007, there were no changes in borrowings measured at fair value. During the year, the Corporation recognized losses of $66 as a result of changes in the fair market value of these borrowings.

	Balance Sheet 1/1/2007 Prior to Early Adoption of FVO	Net Gain/ (Loss) Upon Early Adoption of FVO	Balance Sheet 1/1/2007 After Early Adoption of FVO
Investment securities	$ 79,198	$ (1,359)	$ 77,839
FHLB borrowings included in other borrowed funds	(7,256)	(232)	(7,488)
		(1,591)	

Pretax cumulative loss effect of early adoption of the fair value option		
Increase in deferred tax asset		541
Cumulative loss effect of early adoption of the fair value option (charged as a reduction to retained earnings as of January 1, 2007)	$	(1,050)

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 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 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

develop those assumptions. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. As the Corporation has elected early adoption of SFAS No. 159, it has also early adopted SFAS No. 157, as required by SFAS No. 159.

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

The adoption of SFAS No. 159 resulted in a cumulative effect adjustment, net of tax, in the amount of $1,050 as a reduction to retained earnings. Of this amount, $897 was essentially a reclassification within shareholders equity of net unrealized losses on investments from accumulated other comprehensive loss directly to retained earnings. The new standard resulted in the recognition of a net pretax gain of $460 on trading activities which were offset by $66 of losses related to changes in the fair value of borrowings measured at their fair value for the year ended December 31, 2007 in the Consolidated Statements of Income.

Level 1 instruments are those assets for which the identical item is traded on an active exchange, such as publicly-traded instruments. The majority of the fair value amounts included in current period earnings resulted from Level 2 fair value methodologies; that is, the Corporation values the assets and liabilities based on observable market data for similar instruments. The Corporation has no instruments that meet the definition of Level 3, which are unobservable inputs.

		Fair Value Measurements at December 31, 2007 Using		Changes in Fair Value for the Year Ended December 31, 2007 for Items Measured at Fair Value Pursuant to Election of the Fair Value Option		
Description	**Fair Value Measurements 12/31/2007**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Trading Gains and (Losses)**	**Other Gains and (Losses)**	**Total Changes in Fair Values Included in Current Period Earnings**
Recurring Items						
Trading securities	$ 25,064	$	$ 25,064	$ 460	$	$ 460

Investment securities available for sale	213,127	3,984	209,143			
Mortgage loans available for sale	2,214		2,214			
Other borrowed funds	7,523		7,523		(66)	(66)
Nonrecurring Items						
Mortgage servicing rights	2,198		2,198		(5)	(5)
Other real estate owned	1,376		1,376		(109)	(109)

During 2007, in accordance with the provisions of SFAS No. 156, mortgage servicing rights with a carrying amount of $2,203 were written down to their fair value of $2,198, resulting in an impairment charge of $5. This adjustment was included in earnings for 2007.

During 2007, in accordance with the provisions of SFAS No. 144, other real estate owned with a carrying amount of $1,485 was written down to its fair value of $1,376, resulting in an impairment charge of $109. This adjustment was included in earnings for 2007.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4 Trading Securities

Trading securities, at fair value, consist of the following investments at December 31, 2007:

Trading Securities	
Government-sponsored enterprises	$ 4,024
States and political subdivisions	10,324
Corporate	1,004
Mortgage-backed	9,712
Total trading securities	**$ 25,064**

During 2007, the Corporation sold $47,334 of trading securities. The net gain on trading securities, which includes mark-to-market adjustments, totaled $460 in 2007, of which $246 relates to securities that were held in the Corporation s trading portfolio as of December 31, 2007. There were no trading securities held by the Corporation in 2006 or 2005.

Note 5 Investment Securities

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

	2007			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Securities Available-for-Sale				
U.S. Government and federal agencies	$ 3,983	$ 75	$	$ 4,058
Government-sponsored enterprises	49,631	556	6	50,181
States and political subdivisions	130,772	611	427	130,956
Corporate	24,300			24,300
Mortgage-backed	3,599	33		3,632
Total	**$ 212,285**	**$ 1,275**	**$ 433**	**$ 213,127**

	2006			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**

Securities Available-for-Sale				
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**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	2007	2006
Pledged for public deposits and for other purposes necessary or required by law	$ 26,289	$ 24,990
Pledged to secure repurchase agreements	16,072	6,500
Total	**$ 42,361**	**$ 31,490**

The amortized cost and fair value of available-for-sale securities by contractual maturity at December 31, 2007 are as follows:

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

	Available for Sale	
	Amortized Cost	Fair Value
Within 1 year	$ 19,885	$ 19,910
Over 1 year through 5 years	45,996	46,534
After 5 years through 10 years	72,477	72,871
Over 10 years	70,328	70,180
	208,686	209,495
Mortgage-backed securities	3,599	3,632
	$ 212,285	**$ 213,127**

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:

	2007	2006	2005
Proceeds from sales of securities	$ 5,396	$ 15,257	$ 4,588
Gross realized gains	$ 12	$	$ 9
Gross realized losses	(31)	(112)	(7)
Net realized (losses) gains	$ (19)	$ (112)	$ 2

Applicable income tax benefit	$	6	$	38	$

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, 2007				
	Less Than Twelve Months		**Over Twelve Months**		
	Gross Unrealized Losses	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Total Unrealized Losses**
Securities Available-for-Sale					
Government-sponsored enterprises	$ 6	$ 994	$	$	$ 6
States and political subdivisions	276	32,309	151	17,065	427
Total securities available-for-sale	**$ 282**	**$ 33,303**	**$ 151**	**$ 17,065**	**$ 433**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	December 31, 2006				
	Less Than Twelve Months		Over Twelve Months		
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Total Unrealized Losses
Securities Available-for-Sale					
Government-sponsored enterprises	$	$	$ 94	$ 6,920	$ 94
U.S. Government and federal agency	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**

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, or more frequently when economic for market concerns warrant such evaluation. Consideration is given to (1) 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 retains its investments in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

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, no declines are deemed to be other-than-temporary.

The unrealized losses are largely due to increases in market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as bonds approach their maturity date or repricing date, or if market yields for such securities decline. Accordingly, as of December 31, 2007 and 2006, management believes the impairments detailed above are not other-than-temporary and, as such, no impairment loss has been realized in the Corporation s consolidated income statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 6 Loans

The Bank grants 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 2007	December 31 2006
Mortgage loans on real estate		
Residential 1-4 family	$ 227,304	$ 225,612
Commercial	158,982	142,464
Agricultural	19,951	29,223
Construction	15,060	24,412
Second mortgages	36,393	30,815
Equity lines of credit	19,180	19,811
Total mortgage loans	476,870	472,337
Commercial and agricultural loans		
Commercial	79,324	70,237
Agricultural production	27,456	18,079
Total commercial and agricultural loans	106,780	88,316
Consumer installment loans	29,037	30,389
Total loans	612,687	591,042
Less: Allowance for loan losses	7,301	7,605
Loans, net	**$ 605,386**	**$ 583,437**

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

	Year Ended December 31 2007	2006	2005
Balance at beginning of year	$ 7,605	$ 6,899	$ 6,444
Allowance of acquired bank		726	
Loans charged off	(2,146)	(1,149)	(643)
Recoveries	631	447	321

Provision charged to income	1,211	682	777
Balance at end of year	**$ 7,301**	**$ 7,605**	**$ 6,899**

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

	2007	**2006**
Impaired loans with a valuation allowance (equal to total impaired loans)	$ 3,779	$ 3,928
Total impaired loans accruing interest	$ 1,292	$ 1,059
Valuation allowance related to impaired loans	$ 703	$ 594
Total nonaccrual loans	$ 4,156	$ 3,444
Accruing loans past due 90 days or more	$ 1,727	$ 1,185
Average investment in impaired loans	$ 3,768	$ 3,043
Total restructured loans	$ 685	$ 697

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Interest income recognized on impaired loans was not significant during any of the three years ended December 31, 2007. No additional funds are committed to be advanced in connection with impaired loans.

Note 7 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 $255,839, $255,577, and $256,358 at December 31, 2007, 2006, and 2005 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 9.2%, prepayment speeds ranging from 6.0% to 24.3%, 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:

	2007	2006	2005
Balance at beginning of year	$ 2,155	$ 2,125	$ 2,046
Mortgage servicing rights capitalized	2,869	2,655	2,520
Accumulated amortization	(2,785)	(2,589)	(2,429)
Impairment valuation allowance	(41)	(36)	(12)
Balance at end of year	**$ 2,198**	**$ 2,155**	**$ 2,125**
Impairment increases (reductions)	$ 5	$ 24	$ (10)

Note 8 Premises and Equipment

A summary of premises and equipment at December 31 follows:

	2007	2006
Land	$ 3,997	$ 3,089
Buildings and improvements	16,067	15,235
Furniture and equipment	23,226	21,501
Total	43,290	39,825
Less: Accumulated depreciation	20,774	19,071
Premises and equipment, net	**$ 22,516**	**$ 20,754**

Depreciation expense amounted to $1,960, $1,852 and $1,735 in 2007, 2006, and 2005, respectively.

Note 9 Goodwill and other Intangible Assets

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

	2007	**2006**
Balance January 1	$ 25,889	$ 3,136
Goodwill assigned to Farwell acquisition		22,263
Other acquisitions		490
Balance at December 31	**$ 25,889**	**$ 25,889**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Acquired intangible assets at year end were as follows:

	2007		
	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
Amortizable intangible assets:			
Core deposit premium resulting from the Farwell acquisition in 2006	$ 1,442	$ 321	$ 1,121
Core deposit premium resulting from previous acquisitions	2,451	2,451	
Total	**$ 3,893**	**$ 2,772**	**$ 1,121**

	2006		
	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
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**

Amortization expense associated with identified intangible assets was $278, $160, and $94 in 2007, 2006, and 2005, respectively.

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

Year	**Amount**
2008	$ 229
2009	203
2010	177
2011	151
2012	125
Thereafter	236
	$ 1,121

NOTE 10 DEPOSITS

Scheduled maturities of time deposits for the years succeeding December 31, 2007 are as follows:

Year	**Amount**
2008	$ 227,465
2009	34,062
2010	42,835
2011	23,067
2012	18,853
Thereafter	137
	$ 346,419

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Interest expense on time deposits greater than $100 was $6,649 in 2007, $5,195 in 2006, and $2,751 in 2005.

Note 11 Borrowed Funds

Borrowed funds consist of the following obligations at December 31:

	2007	2006
Federal Home Loan Bank advances	$ 66,023	$ 50,756
Federal Funds purchased	15,883	6,765
Securities sold under agreements to repurchase without stated maturity dates	981	724
Securities sold under agreements to repurchase with stated maturity dates	10,000	
Unsecured note payable		58
	$ 92,887	**$ 58,303**

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 Bank.

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

	2007		2006	
	Amount	Rate	Amount	Rate
Fixed rate advances due 2007	$		$ 16,000	4.79%
Fixed rate advances due 2008	6,131	4.79%	6,000	4.79%
Fixed rate advances due 2009	11,500	4.95%	8,500	4.88%
Fixed rate advances due 2010	18,392	5.08%	5,256	5.17%
One year putable advance due 2010	3,000	4.98%	3,000	4.98%
One year putable advances due 2012	15,000	4.10%		
Fixed rate advances due 2012	2,000	4.90%	2,000	4.90%
Fixed rate advances due 2015	10,000	4.84%	10,000	4.84%
	$ 66,023	**4.76%**	**$ 50,756**	**4.87%**

Securities sold under agreements to repurchase are classified as secured borrowings. Securities sold under agreements to repurchase without stated maturity dates generally mature within one to four days from the transaction date. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The U.S. government agency securities underlying the agreements have a carrying value and a fair value of $16,072 and $6,500 at December 31, 2007 and 2006, 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.

The maturity and weighted average interest rates of securities sold under agreements to repurchase with stated maturity dates are as follows at December 31, 2007:

	Amount	Rate
Repurchase agreements due 2010	$ 5,000	4.00%
Repurchase agreements due 2013	5,000	4.51%
	$ 10,000	**4.26%**

The Corporation had no securities sold under agreements to repurchase with stated maturity dates in 2006.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 12 Other Non-Interest Expenses

A summary of expenses included in Other Noninterest Expenses are as follows for the year ended December 31:

	2007	2006	2005
Director fees	$ 796	$ 584	$ 604