IBT BANCORP INC /MI/
Form 10-Q
November 06, 2007

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

FORM 10-Q

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

For the quarterly period ended September 30, 2007

or

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

For the transition period from _________ to _________

Commission File Number: 0-18415

IBT Bancorp, Inc.
(Exact name of registrant as specified in its charter)

Michigan (State or other jurisdiction of incorporation or organization)	38-2830092 (I.R.S. Employer identification No.)
200 East Broadway, Mt. Pleasant, MI (Address of principal executive offices)	48858 (Zip code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. [X] Yes [ ] No

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

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

Indicate by check mark whether the registrant is a shell company (as defined in

Rule 12b-2 of the Exchange Act). [ ] Yes [X] No

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Common Stock no par value, 6,337,685 as of October 15, 2007

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Item 1 -- Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(Dollars in thousands)

	September 30 2007	December 31 2006
ASSETS		
Cash and demand deposits due from banks	$ 23,527	$ 31,359
Trading securities	30,062	--
Securities available for sale (amortized cost of $182,909 in 2007 and $214,600 in 2006)	182,983	213,450
Mortgage loans available for sale	1,382	2,734
Loans		
Agricultural	48,967	47,302
Commercial	232,861	212,701
Installment	30,582	30,389
Residential real estate mortgage	297,776	300,650
TOTAL LOANS	610,186	591,042
Less allowance for loan losses	7,614	7,605
NET LOANS	602,572	583,437
Accrued interest receivable	6,619	5,765
Premises and equipment	21,446	20,754
Corporate-owned life insurance policies	13,084	12,763
Acquisition intangibles and goodwill, net	27,075	27,288
Equity securities without readily determinable fair values	6,325	3,480
Other assets	8,646	9,097
TOTAL ASSETS	$923,721	$910,127
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest bearing	$ 78,470	$ 83,902
NOW accounts	106,255	111,406
Certificates of deposit and other savings	409,581	388,176
Certificates of deposit over $100,000	132,463	142,356
TOTAL DEPOSITS	726,769	725,840
Other borrowed funds ($7,479 carried at fair value in 2007)	67,077	58,303
Escrow funds payable	3,648	2,416
Accrued interest and other liabilities	5,045	7,819
TOTAL LIABILITIES	802,539	794,378
Shareholders' Equity		
Common stock -- no par value 10,000,000 shares authorized; outstanding-- 6,337,685 in 2007 (6,335,861 in 2006)	115,075	114,785
Retained earnings	6,787	4,451
Accumulated other comprehensive loss	(680)	(3,487)
TOTAL SHAREHOLDERS' EQUITY	121,182	115,749
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$923,721	$910,127

See notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(UNAUDITED)
(Dollars in thousands except per share data)

	Nine Months Ended September 30	
	2007	2006
NUMBER OF SHARES OF COMMON STOCK OUTSTANDING		
Balance at beginning of year	6,335,861	4,974,715
Common stock dividends	--	497,299
Issuance of common stock	43,252	38,404
Common stock repurchased	(41,428)	--
BALANCE END OF PERIOD	6,337,685	5,510,418
COMMON STOCK		
Balance at beginning of year	$ 114,785	$ 72,296
Common stock dividends (10%)	--	20,887
Transfer	--	(12,000)
Issuance of common stock	1,470	1,537
Share-based payment awards under equity compensation plan	621	350
Common stock repurchased	(1,801)	--
BALANCE END OF PERIOD	115,075	83,070
RETAINED EARNINGS		
Balance at beginning of year	4,451	10,112
Net income	5,662	5,039
Common stock dividends (10%)	--	(20,887)
Transfer	--	12,000
Adjustment to initially apply FASB Statement No. 159, net of tax (Note 5)	(1,050)	--
Cash dividends ($0.36 per share in 2007 and $0.33 per share in 2006)	(2,276)	(1,818)
BALANCE END OF PERIOD	6,787	4,446
ACCUMULATED OTHER COMPREHENSIVE LOSS		
Balance at beginning of year	(3,487)	(1,506)
Adjustment to initially apply fair value provisions of FASB Statement No. 159, net of tax (Note 5)	897	--
Other comprehensive income	1,910	473
BALANCE END OF PERIOD	(680)	(1,033)
TOTAL SHAREHOLDERS' EQUITY END OF PERIOD	$ 121,182	$ 86,483

See notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(DOLLARS IN THOUSANDS EXCEPT PER SHARE DATA)

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
INTEREST INCOME				
Loans, including fees	$11,227	$ 9,269	$32,625	$26,129
Investment securities				
Taxable	967	1,252	2,609	3,572
Nontaxable	954	693	2,659	2,018
Trading account securities	389	--	1,809	--
Federal funds sold and other	257	98	523	236
TOTAL INTEREST INCOME	13,794	11,312	40,225	31,955
INTEREST EXPENSE				
Deposits	5,783	4,425	17,030	11,874
Borrowings	907	739	2,463	1,878
TOTAL INTEREST EXPENSE	6,690	5,164	19,493	13,752
NET INTEREST INCOME	7,104	6,148	20,732	18,203
Provision for loan losses	268	245	618	628
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	6,836	5,903	20,114	17,575
NONINTEREST INCOME				
Service charges and fees	1,223	1,214	3,572	3,403
Title insurance	611	679	1,738	1,826
Trust fees	262	217	708	648
Gain on sale of mortgage loans	50	53	149	164
Net gain on trading activities	246	--	272	--
Other	327	243	918	702
TOTAL NONINTEREST INCOME	2,719	2,406	7,357	6,743
NONINTEREST EXPENSES				
Compensation and benefits	3,933	3,148	11,750	10,161
Occupancy	440	457	1,329	1,325
Furniture and equipment	841	677	2,504	2,113
Other	1,781	1,377	5,049	4,337
TOTAL NONINTEREST EXPENSES	6,995	5,659	20,632	17,936
INCOME BEFORE FEDERAL INCOME TAXES	2,560	2,650	6,839	6,382
Federal income taxes	464	619	1,177	1,343
NET INCOME	$ 2,096	$ 2,031	$ 5,662	$ 5,039
EARNINGS PER SHARE				
Basic	$ 0.33	$ 0.37	$ 0.89	$ 0.92
Diluted	$ 0.32	$ 0.36	$ 0.87	$ 0.89
CASH DIVIDENDS PER BASIC SHARE	$ 0.12	$ 0.11	$ 0.36	$ 0.33

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
(Dollars in thousands)

	Three Months Ended September 30		Nine month Septemb
	2007	2006	2007
NET INCOME	$2,096	$2,031	$ 5,662
Unrealized income (losses) on available-for-sale securities:			
Unrealized holding income (losses) arising during period	1,860	2,067	(165)
Reclassification adjustment for net realized losses included in net income	--	6	30
Net unrealized income (losses)	1,860	2,073	(135)
Tax effect	(632)	(705)	46
Unrealized income (losses), net of tax	1,228	1,368	(89)
Reduction in unrecognized actuarial loss of defined benefit pension plan	--	--	3,029
Tax effect	--	--	(1,030)
Reduction in unrecognized actuarial loss of defined benefit pension plan	--	--	1,999
Adjustment to initially apply FASB Statement No. 159	--	--	1,359
Tax effect	--	--	(462)
FASB Statement No. 159 adjustment, net of tax	--	--	897
OTHER COMPREHENSIVE INCOME, NET OF TAX	1,228	1,368	2,807
COMPREHENSIVE INCOME	$3,324	$3,399	$ 8,469

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(Dollars in thousands)

Nine months end September 30	
2007	200

OPERATING ACTIVITIES		
Net income	$ 5,662	$ 5,
Reconciliation of net income to cash provided by operations:		
Provision for loan losses	618	
Depreciation	1,471	1,
Net amortization of investment securities	136	
Realized loss on sale of investment securities	30	
Amortization and impairment of mortgage servicing rights	156	
Earnings on corporate owned life insurance policies	(321)	(
Amortization of acquisition intangibles	213	
Deferred income tax benefit	23	
Share-based payment awards	621	
Net changes in operating assets and liabilities which provided (used) cash:		
Trading securities (including unrealized appreciation of $263 in 2007)	47,777	
Loans held for sale	1,352	
Accrued interest receivable	(854)	(
Other assets	(3,722)	(
Escrow funds payable	1,232	(4,
Accrued interest and other liabilities	420	(
NET CASH PROVIDED BY OPERATING ACTIVITIES	54,814	1,
INVESTING ACTIVITIES		
Activity in available-for-sale securities		
Maturities, calls, and sales	39,596	36,
Purchases	(87,269)	(46,
Net increase in loans	(19,753)	(40,
Purchases of premises and equipment	(2,163)	(2,
Purchase of corporate owned life insurance policies	--	(
Acquisition of title office	--	(
NET CASH USED IN INVESTING ACTIVITIES	(69,589)	(53,
FINANCING ACTIVITIES		
Net (decrease) increase in noninterest bearing deposits	(5,432)	
Net increase in interest bearing deposits	6,361	40,
Net increase in other borrowed funds	8,621	6,
Cash dividends paid on common stock	(2,276)	(1,
Proceeds from the issuance of common stock	1,470	1,
Common stock repurchased	(1,801)	
NET CASH PROVIDED BY FINANCING ACTIVITIES	6,943	46,
DECREASE IN CASH AND CASH EQUIVALENTS	(7,832)	(5,
Cash and cash equivalents at beginning of year	31,359	30,
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 23,527	$ 25,

See notes to condensed consolidated financial statements.

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

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals with the exception of the fair value reporting election described in Note 5) considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. For further information, refer to the consolidated financial statements and footnotes thereto included in the Corporation's annual report for the year ended December 31, 2006.

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

Effective October 3, 2006, Isabella Bank and Trust, a subsidiary of the Corporation, acquired Farwell State Savings Bank. The consolidated financial statements include the results of operations of Farwell State Savings Bank only since that time. Refer to Management's Discussion and Analysis for further consideration of the impact of this transaction on the consolidated financial statements.

NOTE 2 - COMPUTATION OF EARNINGS PER SHARE

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

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

	Three Months Ended September 30		Nine Months Ende September 30	
	2007	2006	2007	200
Average number of common shares outstanding for basic calculation*	6,338,026	5,503,044	6,337,241	5,491,
Potential effect of shares in the Deferred Director fee plan*	180,296	166,278	178,996	163,
Average number of common shares outstanding used to calculate diluted earnings per common share	6,518,322	5,669,322	6,516,237	5,654,

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

NOTE 3 - OPERATING SEGMENTS

The Corporation's reportable segments are based on legal entities that account for at least 10% of net operating results. In April 2007, the individual bank charters of Isabella Bank and Trust and FSB Bank were consolidated into one bank charter as a part of the Corporation's strategy to increase efficiencies. Retail banking operations now present over 90% of the Corporation's total operating results. As such, no segment reporting is presented.

The accounting policies are the same as those discussed in Note 1 to the Consolidated Financial Statements included in the Corporation's annual report for the year ended December 31, 2006 with the exception of those new pronouncements adopted during 2007 (see Notes 5 and 7).

NOTE 4 - DEFINED BENEFIT PENSION PLAN

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

In December 2006, the Board of Directors voted to curtail the defined benefit plan effective March 1, 2007. The effect of the curtailment is to freeze the current participant's accrued benefits as of March 1, 2007 and to limit participation in the plan only to eligible employees as of December 31, 2006. Subsequent to the decision to curtail the defined benefit plan, the Corporation elected to increase its level of contributions to the Corporation's defined contribution 401(k) plan effective January 1, 2007.

The aggregate effect from the plan curtailment was a loss of $37 for the nine months ended September 30, 2007, and was determined as follows:

	Before Curtailment	Effect of Curtailment	After Curtailment
Accumulated benefit obligation	$ (8,197)	$ --	$(8,197)
Effect of future salary increases	(2,956)	(2,956)	--
Projected benefit obligation	(11,153)	(2,956)	(8,197)
Plan assets at fair value	9,244	--	9,244
Funded status	(1,909)	(2,956)	1,047
Items not yet recognized in earnings:			
Unrecognized prior service cost	37	37	--
Unrecognized net loss	4,061	2,956	1,105
Prepaid pension cost (net amount recognized)	$ 2,189	$ 37	$ 2,152

On December 31, 2006 the Corporation adopted Statement of Financial Accounting Standards (SFAS) No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (SFAS No. 158). SFAS No. 158 required the Corporation to recognize on a prospective basis the funded status of the defined benefit pension plan on the Corporation's consolidated balance sheet and recognize as a component of accumulated other comprehensive loss, net of tax, the sum of unamortized actuarial gains or losses and prior service costs at the close of each reporting period. During each reporting period, recognized actuarial losses included in net periodic pension expense reduce other comprehensive income or loss, net of tax.

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

	Pension Benefits			
	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
NET PERIODIC BENEFIT COST				
Service cost on benefits earned for services rendered during the period	$ 27	$ 159	$ 82	$ 478
Interest cost on projected benefit obligation	126	152	379	455
Expected return on plan assets	(158)	(139)	(476)	(416)
Amortization of unrecognized prior service cost	--	5	2	14
Amortization of unrecognized actuarial net loss	10	58	32	174
NET PERIODIC BENEFIT COST	5	235	19	705
Loss on plan curtailment	--	--	37	--
TOTAL PERIODIC BENEFIT COST	$ 5	$ 235	$ 56	$ 705

The Corporation contributed $350 and $1,128 to the pension plan during the nine month periods ended September 30, 2007 and 2006, respectively.

NOTE 5 -- 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, a company may elect to measure many financial instruments and certain other assets and liabilities at fair value. 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 an entity 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 is 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. For further discussion on the financial statement impact of adopting this standard, see Management's Discussion and Analysis in Item 2 of this report and the information presented.

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 the second quarter of 2007, the Corporation sold $34,290 of trading securities, purchased $3,677, and repositioned its funding position from a net Fed Funds purchased position of $6,675 to a Fed Funds sold position of $6,240 at June 30, 2007. During the third quarter of 2007, the Corporation sold $7,298 of trading securities. During the remainder of 2007, the Corporation plans to reduce its 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 adoption of SFAS No. 159 to provide a hedge against significant movement in interest rates. These advances had an outstanding principal balance of $7,256 as of September 30, 2007. During the third quarter there were no changes in borrowings measured at fair value.

	Balance Sheet 1/1/2007 Prior to Adoption of FVO	Net Gain / (Loss) Upon Adoption of FVO	Balan 1/1/2 Adopti
Investment securities	$79,198	$(1,359)	$7
FHLB borrowings included in other borrowed funds	(7,256)	(232)	(
Pretax cumulative loss effect of adoption of the fair value option		(1,591)	
Increase in deferred tax asset		541	
Cumulative loss effect of 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 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.

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.

For further discussion on the financial statement impact of adopting these standards, see Management's Discussion and Analysis in Item 2 of this report.

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Description	Fair Value Measurements 9/30/2007	Fair Value Measurements at September 30, 2007 Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
RECURRING ITEMS			
Trading securities	$ 30,062	$ --	$ 30,062
Investment securities available for sale	182,983	3,981	179,002
Mortgage loans available for sale	1,382	--	1,382
Other borrowed funds	7,479	--	7,479
NONRECURRING ITEMS			
Mortgage servicing rights	2,192	--	2,192
Other real estate owned	755	--	755

Changes in Fair Value for the 3-month   Changes in Fair Value fo

Description	Period Ended September 30, 2007 for Items Measured at Fair Value Pursuant to Election of the Fair Value Option			Period Ended September Items Measured at Fair V to Election of the Fair	
	Trading Gains and (Losses)	Other Gains and (Losses)	Total Changes in Fair Values Included in Current Period Earnings	Trading Gains and (Losses)	Other Gains and (Losses)
RECURRING ITEMS					
Trading securities	$320	$ --	$320	$263	$ --
Other borrowed funds	(74)	--	(74)	9	--
NONRECURRING ITEMS					
Mortgage servicing rights	--	--	--	--	--
Other real estate owned	--	(38)	(38)	--	(64)

During the three month period ended March 31, 2007, in accordance with the provisions of SFAS No. 156, mortgage servicing rights with a carrying amount of $2,187 were written down to their fair value of $2,186, resulting in an impairment charge of $1, while during the three month period ended June 30, 2007, mortgage servicing rights with a carrying amount of $2,190 were written up to their fair value of $2,191, resulting in a decrease in the impairment of $1. There were no adjustments to the fair value of mortgage servicing rights during the three month period ended September 30, 2007. Such adjustments were included in earnings for the nine month period ended September 30, 2007.

During the three month period ended March 31, 2007, in accordance with the provisions of SFAS No. 144, other real estate owned with a carrying amount of $643 was written down to its fair value of $617, resulting in an impairment charge of $26, while during the three month period ended September 30, 2007, other real estate owned with a carrying amount of $793 was written down to its fair value of $755, resulting in an impairment charge of $38. There were no adjustments to the fair value of other real estate owned during the three month period ended June 30, 2007. Such adjustments were included in earnings for the nine month period ended September 30, 2007.

NOTE 6 -- INCOME TAXES

The Corporation adopted the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109" ("FIN 48"), on January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement 109, "Accounting for Income Taxes", and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Based on our evaluation, we have concluded that there are no significant uncertain tax positions requiring recognition in our financial statements. Our evaluation was performed for the tax years ended December 31, 2003, 2004, 2005 and 2006, the tax years which remain subject to examination by major tax jurisdictions as of September 30, 2007.

From time to time, we may be assessed interest or penalties by major tax jurisdictions, although any such assessments historically have been minimal and immaterial to our financial results. In the event we have received an assessment for interest and/or penalties, it has been classified in the financial statements as other noninterest expenses.

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 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 did not impact the Corporation's consolidated financial statements.

NOTE 7 -- RECENT ACCOUNTING PRONOUNCEMENTS

In June 2006, the Emerging Issues Task Force ("EITF") reached a tentative conclusion reflected in the draft abstract for 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." The Task Force's tentative conclusion 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 is 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 July of 2006, the Emerging Issues Task Force ("EITF") of FASB issued a draft abstract for EITF Issue No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements." 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 $13,084 at September 30, 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 is currently evaluating the effect the implementation of EITF Issue No. 06-4 will have on the consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157 "Fair Value Measurements" (SFAS No. 157). SFAS No. 157 establishes a common definition for fair value 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 case SFAS No. 157 would need to be adopted concurrently. The results of the adoption of this standard are disclosed in Note 5.

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 is presented in Note 5.

NOTE 8 -- COMMON STOCK REPURCHASES

On March 22, 2007, the Board of Directors adopted a repurchase plan which provides for the repurchase of up to 150,000 shares of the Corporation's common stock. Any shares repurchased under this plan revert to the status of authorized but unissued shares. During the nine months ended September 30, 2007, a total of

41,428 shares were repurchased for cash of $1,801, including 18,694 shares pursuant to this plan during the third quarter.

NOTE 9 - POTENTIAL BUSINESS ACQUISITION

On August 21, 2007, IBT Bancorp, Inc. signed a definitive agreement to acquire Greenville Community Financial Corporation (GCFC), which was subsequently amended on September 24, 02007. Pursuant to the terms of the acquisition, GCFC shareholders shall receive 0.6659 of a share of IBT common stock and $14.70 of cash for each of their shares of GCFC common stock, resulting in a total consideration of approximately $34,000. The transaction, which has been approved by both IBT's and GCFC's Boards of Directors, is expected to be completed in the fourth quarter of 2007, pending regulatory approval, the approval of GCFC shareholders, and other customary closing conditions.

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

The following is management's discussion and analysis of the major factors that influenced IBT Bancorp's financial performance. This analysis should be read in conjunction with the Corporation's 2006 annual report and with the unaudited condensed consolidated financial statements and notes, as set forth on pages 3 through 14 of this report.

CRITICAL ACCOUNTING POLICIES: A summary of the Corporation's significant accounting policies is set forth in Note 1 of the Consolidated Financial Statements included in the Corporation's Annual Report for the year ended December 31, 2006. Of these significant accounting policies, the Corporation considers its policies regarding the allowance for loan losses to be its most critical accounting policy.

The allowance for loan losses requires management's most subjective and complex judgment. Changes in economic conditions can have a significant impact on the allowance for loan losses and, therefore, the provision for loan losses and results of operations. The Corporation has developed appropriate policies and procedures for assessing the adequacy of the allowance for loan losses, recognizing that this process requires a number of assumptions and estimates with respect to its loan portfolio. The Corporation's assessments may be impacted in future periods by changes in economic conditions, the impact of regulatory examinations, and the discovery of information with respect to borrowers which is not known to management at the time of the issuance of the consolidated financial statements. For additional discussion concerning the Corporation's allowance for loan losses and related matters, see Provision for Loan Losses and Allowance for Loan Losses in the Corporation's 2006 Annual Report and herein.

RESULTS OF OPERATIONS

The following table outlines the results of operations for the periods ended September 30, 2007 and 2006. Return on average assets measures the ability of the Corporation to profitably and efficiently employ its resources. Return on average equity indicates how effectively the Corporation is able to generate earnings on shareholder invested capital.

SUMMARY OF SELECTED FINANCIAL DATA

	Three Months Ended Seotember 30		Nine Months Ended Seotember 30	
	2007	2006	2007	2006
INCOME STATEMENT DATA				
Net interest income	$7,104	$6,148	$20,732	$18,203
Provision for loan losses	268	245	618	628
Net income	2,096	2,031	5,662	5,039
PER SHARE DATA				
Earnings per share:				
Basic	$0.33	$0.37	$0.89	$0.92
Diluted	0.32	0.36	0.87	0.89
Cash dividends per common share	0.12	0.11	0.36	0.33
RATIOS				
Average primary capital to average assets	13.71%	11.67%	13.52%	11.69%
Net income to average assets	0.91	1.03	0.82	0.88
Net income to average equity	6.98	9.51	6.39	8.06

NET INTEREST INCOME

Net interest income equals interest income less interest expense and is the primary source of income for IBT Bancorp. Interest income includes loan fees of $381 and $957, for the three and nine month periods ended September 30, 2007, respectively, as compared to $325 and $881 during the same periods in 2006. For analytical purposes, net interest income is adjusted to a "taxable equivalent" basis by adding the income tax savings from interest on tax-exempt loans and securities, thus making year-to-year comparisons more meaningful.

(Continued on page 18)

AVERAGE BALANCES, INTEREST RATE, AND NET INTEREST INCOME

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

Results for the three and nine month periods ended September 30, 2007 and September 30, 2006 are as follows:

	Three Months Ended				
	September 30, 2007			September 30	
	Average	Tax Equivalent	Average Yield\	Average	Tax Equiva

	Balance	Interest	Rate	Balance	Inter
INTEREST EARNING ASSETS:					
Loans	$608,033	$11,227	7.39%	$520,348	$ 9,2
Taxable investment securities	71,461	967	5.41%	119,936	1,2
Nontaxable investment securities	100,295	1,491	5.95%	75,885	1,0
Trading account securities	35,694	445	4.99%	--	
Federal funds sold	10,453	172	6.58%	2,367	
Other	7,892	85	4.31%	5,299	
Total earning assets	833,828	14,387	6.90%	723,835	11,7
NON EARNING ASSETS:					
Allowance for loan losses	(7,627)			(7,081)	
Cash and due from banks	21,299			21,281	
Premises and equipment	21,468			17,612	
Accrued income and other assets	55,186			29,710	
Total assets	$924,154			$785,357	
INTEREST BEARING LIABILITIES:					
Interest-bearing demand deposits	$105,670	411	1.56%	$104,870	4
Savings deposits	194,843	1,200	2.46%	148,988	6
Time deposits	348,807	4,172	4.78%	302,956	3,3
Other borrowed funds	66,668	907	5.44%	58,756	7
Total interest bearing liabilities	715,988	6,690	3.74%	615,570	5,1
NONINTEREST BEARING LIABILITIES:					
Demand deposits	78,984			69,349	
Other	9,058			15,033	
Shareholders' equity	120,124			85,405	
Total liabilities and equity	$924,154			$785,357	
Net interest income (FTE)		$ 7,697			$ 6,5
Net yield on interest earning assets (FTE)			3.69%		

	Nine Months Ended				
	September 30, 2007			September 30	
	Average Balance	Tax Equivalent Interest	Average Yield\ Rate	Average Balance	Tax Equiva Inter
INTEREST EARNING ASSETS:					
Loans	$602,077	$ 32,625	7.22%	$500,168	$26,
Taxable investment securities	64,278	2,609	5.41%	120,433	3,

Nontaxable investment securities	93,827	4,167	5.92%	74,053	3,
Trading account securities	59,053	1,956	4.42%	--	
Federal funds sold	6,957	311	5.96%	1,417	
Other	6,413	212	4.41%	5,135	
Total earning assets	832,605	41,880	6.71%	701,206	33,
NON EARNING ASSETS:					
Allowance for loan losses	(7,646)			(6,983)	
Cash and due from banks	20,405			25,361	
Premises and equipment	21,263			17,405	
Accrued income and other assets	56,506			29,002	
Total assets	$923,133			$765,991	
INTEREST BEARING LIABILITIES:					
Interest-bearing demand deposits	$111,693	1,520	1.81%	$104,259	1,
Savings deposits	186,740	3,141	2.24%	153,734	1,
Time deposits	350,997	12,369	4.70%	285,361	8,
Other borrowed funds	65,688	2,463	5.00%	52,398	1,
Total interest bearing liabilities	715,118	19,493	3.63%	595,752	13,
NONINTEREST BEARING LIABILITIES:					
Demand deposits	79,563			69,559	
Other	10,252			17,329	
Shareholders' equity	118,200			83,351	
Total liabilities and equity	$923,133			$765,991	
Net interest income (FTE)		$ 22,387			$19,
Net yield on interest earning assets (FTE)			3.59%		

VOLUME AND RATE VARIANCE ANALYSIS

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

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

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

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

	Three Months Ended	Nine Months Ended

	September 30, 2007 compared to September 30, 2006 Increase (Decrease) Due to			September 30, 2007 compared to September 30, 2006 Increase (Decrease) Due to		
	Volume	Rate	Net	Volume	Rate	Net
CHANGES IN INTEREST INCOME:						
Loans	$1,609	$349	$1,958	$ 5,492	$1,004	$6,496
Taxable investment securities	(593)	308	(285)	(2,008)	1,045	(963)
Nontaxable investment securities	362	34	396	876	96	972
Trading account securities	445	--	445	1,956	--	1,956
Federal funds sold	131	10	141	245	14	259
Other	29	(11)	18	43	(15)	28
Total changes in interest income	1,983	690	2,673	6,604	2,144	8,748
CHANGES IN INTEREST EXPENSE:						
Interest bearing demand deposits	3	(41)	(38)	89	240	329
Savings deposits	241	290	531	461	788	1,249
Time deposits	530	335	865	2,201	1,377	3,578
Other borrowings	105	63	168	495	90	585
Total changes in interest expense	879	647	1,526	3,246	2,495	5,741
Net change in interest margin (FTE)	$1,104	$ 43	$1,147	$ 3,358	$ (351)	$3,007

NET INTEREST INCOME, CONTINUED

During much of 2006 and throughout most of 2007, the yield curve was inverted, which means that short term rates were higher than long term rates. This yield curve has encouraged customers to invest their funds in short term deposits and to borrow long term with fixed rate loans. Banks typically make money through the assumption of credit and interest rate risk. Interest rate risk is related to borrowing funds short term and investing them long term. Inverted and flat yield curves have provided the Corporation with little opportunity to do this effectively for much of 2007. However, the yield curve began to correct itself during the third quarter of 2007, primarily as a result of a .50% decrease in the federal funds target rate, as this decrease lowered short term interest rates.

To help combat these tight margins, the Corporation employed a measured growth strategy to increase its net interest margin through increased volume. This growth strategy has resulted in a substantial increase in commercial loans. This commercial loan growth coupled with the acquisition of the Farwell State Savings Bank has allowed the Corporation to increase net interest income through volume.

The total volume and rate variances resulted in net increases in net FTE interest margin of $1,147 and $3,007, when the three and nine month periods ended September 30, 2007 are compared to the same periods in 2006.

During the quarter ended September 30, 2007, long term rates have increased, resulting in a shift in the yield curve, which is now essentially flat. Management anticipates that the yield curve will continue to normalize throughout the remainder of 2007; however, this correction is expected to be slow. The Corporation did see some relief in the current three month period when compared to the same period in 2006, with an increase in the net yield on interest earning assets of .07%. While this increase is not significant it is the first increase experienced in over two years. When management looks forward to the remainder of 2007, the net interest position will continue to be challenging with respect to interest rates. The driving force behind this challenge continues to be competition and the yield curve. To help offset this, the Corporation will continue to grow its balance sheet, while accepting smaller interest rate margins.

IBT Bancorp, Inc. (IBT) elected early adoption of Statement of Financial Accounting Standards ("SFAS") No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, and SFAS No. 157, Fair Value Measurements. SFAS No. 159, which was issued in February 2007 (see Note 5 pg 10), generally permits the measurement of selected eligible financial instruments at fair value at specified election dates. Subsequent to the issuance of SFAS No. 159 the IBT Audit Committee, Board of Directors, management, and investment advisors reviewed the Corporation's assets and liabilities to determine which fluctuate in value based on changes in market interest rates to determine the potential impact of the new standard. As a result of these considerations, IBT elected early adoption of the new accounting standard effective January 1, 2007. The purpose of the early adoption of this standard was to provide IBT an opportunity to accelerate the restructuring of its balance sheet to better manage interest rate risk now and in the future.

The impact of the Corporation's balance sheet restructuring plan implemented during the second quarter of 2007 was a 0.24% increase in FTE net interest margin when the quarter ended September 30, 2007 is compared to the quarter ended March 31, 2007. The restructuring strategies pursued are discussed in the analysis of changes in financial condition beginning on page 26.

ALLOWANCE FOR LOAN LOSSES

The viability of any financial institution is ultimately determined by its management of credit risk. Total loans outstanding represent 66.1% of the Corporation's total assets and is the Corporation's single largest concentration of risk. The allowance for loan losses is management's estimation of potential future losses inherent in the existing loan portfolio. Factors used to evaluate the loan portfolio, and thus to determine the current charge to expense, include recent loan loss history, financial condition of borrowers, amount of nonperforming and impaired loans, overall economic conditions, and other factors. The following table summarizes the Corporation's charge off and recovery activity for the nine month periods ended September 30, 2007 and 2006.

	Nine Months Ended September 30	
	2007	2006
Allowance for loan losses - January 1	$ 7,605	$ 6,899
Loans charged off		
Commercial and agricultural	414	181
Real estate mortgage	199	166
Consumer	446	362
TOTAL LOANS CHARGED OFF	1,059	709

Recoveries		
Commercial and agricultural	228	98
Real estate mortgage	10	15
Consumer	212	198
TOTAL RECOVERIES	450	311
Net loans charged off	609	398
Provision charged to income	618	628
ALLOWANCE FOR LOAN LOSSES - SEPTEMBER 30	$ 7,614	7,129
YEAR TO DATE AVERAGE LOANS	$599,629	$500,168
NET LOANS CHARGED OFF TO AVERAGE LOANS OUTSTANDING	0.10%	0.08%
TOTAL AMOUNT OF LOANS OUTSTANDING AT SEPTEMBER 30	$610,186	$523,147
ALLOWANCE FOR LOAN LOSSES AS A % OF LOANS	1.25%	1.36%

The allowance for loan losses as a percentage of loans has decreased from 1.36% as of September 30, 2006 to 1.25% in 2007. The provision for loan losses was decreased by $10 in 2007, while net charged off loans have increased by $211. The principal reasons for the decrease in both the allowance as a percentage of loans and the 2007 provision for loan losses relates to loans that were charged off in 2007 that had specific reserve allocations in 2006.

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The nationwide increase in residential mortgage loans past due and in foreclosures has received considerable attention by both the press and regulators. Based on information provided by The Mortgage Bankers Association, the increases in both past dues and foreclosures are related to fixed and adjustable rate sub-prime mortgages. Additionally, a substantial portion of sub-prime adjustable rate mortgages are scheduled to reset at higher rates in the next 9 months. As a result of the rate resetting on these mortgages, it is expected that troubled sub-prime loans nationally will increase substantially through the end of 2008. The increase in troubled residential mortgage loans, higher fixed and variable interest rates, and a tightening of underwriting standards will most likely result in a further increased inventory of unsold homes from its current level of over 10 months. The inventory of unsold homes has not reached these levels since the 1991 recession. The combination of all of these factors will most likely further reduce average home values and thus homeowner's equity on a national level.

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

While IBT does not originate variable rate mortgages, nor does it hold sub-prime mortgage loans, the difficulties experienced in the sub-prime market has the potential to adversely impact the entire market, and thus the overall credit quality of the IBT residential mortgage portfolio.

NONPERFORMING ASSETS

	September 30			
	2007			
	Consolidated	Farwell	Adjusted w/o Farwell	2006 Consolidated
Nonaccrual loans	$4,703	$ 778	$3,925	$2,272
Accruing loans past due 90 days or more	1,229	646	583	1,308
Restructured loans	686	--	686	705
TOTAL NONPERFORMING LOANS	6,618	1,424	5,194	4,285
Other real estate owned	755	171	584	410
TOTAL NONPERPERFORMING ASSETS	$7,373	$1,595	$5,778	$4,695
NONPERFORMING LOANS AS A % OF TOTAL LOANS	1.08%	2.28%	0.95%	0.82%
NONPERFORMING ASSETS AS A % OF TOTAL ASSETS	0.80%	1.89%	0.69%	0.59%

Since September 2006, the Corporation has experienced an increase in the percent of loans classified as nonperforming. While the Corporation has seen increases in its nonperforming loans, net loans charged off as a percentage of loans have remained relatively stable. Management does anticipate the level of net charge offs to moderately increase when compared to the prior period for the remainder of 2007. This is due to the depressed economy and the decline in the market value of housing.

The majority of the increase in non-accrual loans is related to two credits. These credits are both well collateralized and management believes the principal will be recovered in full. Based on management's analysis of the allowance for loan losses, the current allowance falls within the acceptable range and, therefore, the allowance for loan losses is considered adequate as of September 30, 2007.

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

NONINTEREST INCOME AND EXPENSES

The following discussions of noninterest income and noninterest expenses have been adjusted for the acquisition of the Farwell State Savings Bank in October 2006 to make the line items more comparable with the prior period numbers.

NONINTEREST INCOME

Noninterest income consists of trust fees, deposit service charges, fees for other financial services, gains on the sale of mortgage loans, title insurance revenue, and other. Significant account balances are highlighted in the accompanying tables with additional descriptions of significant fluctuations of both quarter to date and year to date variances following:

	Three Months Ended September 30			
	2007			
	Consolidated	Farwell	Adjusted w/o Farwell	2006 Consolidated
Service charges and fee income				
NSF and overdraft fees	$ 753	$58	$ 695	$ 798
Freddie Mac servicing fee	150	--	150	158
ATM and debit card fees	195	3	192	144
Service charges on deposit accounts	85	12	73	76
All other	40	11	29	38
Total service charges and fees	1,223	84	1,139	1,214
Title insurance revenue	611	--	611	679
Trust fees	262	--	262	217
Gain on sale of mortgage loans	50	--	50	53
Net gain on trading securities	246	--	246	--
Other				
Increase in cash value of corporate owned life insurance policies	109	--	109	102
Brokerage and advisory fees	73	--	73	51
Loss on sale of investment securities	--	--	--	(6)
All other	145	10	135	96
Total other	327	10	317	243
TOTAL NONINTEREST INCOME	$2,719	$94	$2,625	$2,406

	Nine Months Ended September 30			
	2007			
	Consolidated	Farwell	Adjusted w/o Farwell	2006 Consolidated
Service charges and fee income				
NSF and overdraft fees	$2,162	$ 131	$2,031	$2,175
Freddie Mac servicing fee	464	--	464	475
ATM and debit card fees	535	3	532	400
Service charges on deposit accounts	251	40	211	228
All other	160	39	121	125
Total service charges and fees	3,572	213	3,359	3,403
Title insurance revenue	1,738	--	1,738	1,826
Trust fees	708	--	708	648

Gain on sale of mortgage loans	149	--	149	164
Net gain on trading activities	272	--	272	--
Other				
Increase in cash value of corporate owned life insurance policies	319	--	319	305
Brokerage and advisory fees	198	--	198	156
Loss on sale of investment securities	(30)	--	(30)	(109)
All other	431	10	421	350
Total other	918	10	908	702
TOTAL NONINTEREST INCOME	$7,357	$ 223	$7,134	$6,743

As a result of the persistent compression on interest margins, management continuously analyzes various fees related to deposit accounts, including service charges, NSF and overdraft fees, and ATM and debit card fees. Based on these analyses, the Corporation makes any necessary adjustments to ensure that its fee structure is within the range of its competitors, while at the same time making sure that the fees remain fair to deposit customers. Management does not expect significant changes to its deposit fee structure in 2007.

The decrease in NSF and overdraft fee income is due to a decline in overdraft occurrences from our customers. Based on year-to-date information this number is expected to remain at the current level for the reminder of 2007.

The increases in trust fee income are related to increased marketing efforts by the trust department. The Corporation anticipates that demand for trust services will remain strong for the remainder of 2007.

The decline in the gain on sale of mortgage loans and title insurance revenue is a result of the continued slow demand in residential mortgages. Management anticipates the demand for residential mortgages to remain unchanged for the remainder of 2007.

The gains recognized on trading activities during the third quarter of 2007 are a result of decreases in interest rates, as there is an inverse relationship between the value of the trading portfolio and changes in interest rates. Management does expect trading gains to stabilize throughout the remainder of 2007.

The first nine months of 2007 have been some of the most productive months in the Corporation's history for brokerage and advisory services. These results are due to the increased confidence of consumers in the stock market as well as an increase in customer base and a conscious effort by management to expand the Bank's presence in the local market. The Corporation anticipates this trend to continue throughout the rest of the year.

Losses on sales of available for sale investment securities were incurred by the Corporation in the first quarter. This was a result of the Corporation selling investments nearing maturity at low interest rates and reinvesting the proceeds in higher yielding longer term securities as part of asset and liability management. Management expects that the additional interest income earned upon the reinvestment of the proceeds will exceed the losses recognized by the fourth quarter of 2007.

The increases in all other noninterest income are mainly related to the fact that the Bank is now collecting monthly commissions related to its sold credit card portfolio.

NONINTEREST EXPENSES

Noninterest expenses include compensation, occupancy, furniture and equipment, and other expenses. Significant account balances are highlighted in the accompanying tables with additional descriptions of significant fluctuations of both quarter to date and year to date variances following:

	Three Months Ended				
	September 30				
	2007				Ad
	Consolidated	Farwell	Adjusted w/o Farwell	2006 Consolidated	$
Compensation					
Leased employee salaries	$2,869	$194	$2,675	$2,501	$ 174
Leased employee benefits	1,023	79	944	612	332
All other	41	5	36	35	1
Total compensation	3,933	278	3,655	3,148	507
Occupancy					
Depreciation	111	6	105	103	2
Outside services	67	--	67	77	(10
Property taxes	93	4	89	87	2
Utilities	81	7	74	78	(4
Building rent	18	--	18	64	(46
Building repairs	58	3	55	34	21
All other	12	--	12	14	(2
Total occupancy	440	20	420	457	(37
Furniture and equipment					
Depreciation	383	9	374	351	23
Computer costs	330	52	278	258	20
ATM and debit card	112	4	108	60	48
All other	16	7	9	8	1
Total furniture and equipment	841	72	769	677	92
Other					
Audit and SOX compliance fees	50	4	46	97	(51
Marketing	171	4	167	174	(7
Directors fees	203	17	186	156	30
Printing and supplies	108	4	104	82	22
Education and travel	78	3	75	98	(23
Postage and freight	110	6	104	111	(7
All other	1,061	209	852	659	193

Total other	1,781	247	1,534	1,377	157
TOTAL NONINTEREST EXPENSES	$6,995	$617	$6,378	$5,659	$ 719

	Nine Months Ended September 30				
	2007				Ad
			Adjusted	2006	
	Consolidated	Farwell	w/o Farwell	Consolidated	$
Compensation					
Leased employee salaries	$ 8,466	$ 554	$ 7,912	$ 7,426	$ 48
Leased employee benefits	3,163	244	2,919	2,621	29
All other	121	14	107	114	(
Total compensation	11,750	812	10,938	10,161	77
Occupancy					
Depreciation	335	18	317	302	1
Outside services	244	--	244	242	
Property taxes	276	13	263	254	
Utilities	261	16	245	242	
Building rent	53	--	53	142	(8
Building repairs	126	19	107	102	
All other	34	--	34	41	(
Total occupancy	1,329	66	1,263	1,325	(6
Furniture and equipment					
Depreciation	1,136	23	1,113	1,072	4
Computer costs	994	127	867	831	3
ATM and debit card	322	15	307	188	11
All other	52	24	28	22	
Total furniture and equipment	2,504	189	2,315	2,113	20
Other					
Audit and SOX compliance fees	345	13	332	672	(34
Marketing	527	12	515	479	3
Directors fees	596	65	531	454	7
Printing and supplies	307	12	295	284	1
Education and travel	317	7	310	230	8
Postage and freight	336	32	304	322	(1
All other	2,621	474	2,147	1,896	25
Total other	5,049	615	4,434	4,337	9
TOTAL NONINTEREST EXPENSES	$20,632	$1,682	$18,950	$17,936	$1,01

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Leased employee salaries expense continues to increase as a result of annual merit increases and the continued growth of the Corporation. The change in leased employee benefits is primarily attributed to the Corporation changing medical insurance administrators in the third quarter of 2006, which resulted in the Corporation reducing its medical reserve liability by $304 during this period. Exclusive of the effects of this one time expense reversal, leased employee benefits have increased slightly since last year. Management believes that leased employee benefits will approximate current levels for the remainder of 2007.

Upon completion of a new Canadian Lakes branch location in 2006, the building lease for the facility that had previously housed the Canadian Lakes office was terminated. This lease termination resulted in a one time penalty of $37, which was included in rent expense in 2006. The completion of the project also resulted in an increase in building depreciation expense beginning in June 2006. The Corporation anticipates building rent and building depreciation to approximate current levels for the remainder of 2007.

The increases in computer costs are a result of the Corporation's continuous investment in its technological infrastructure as well as increases in fees charged by vendors. This constant reinvestment helps the Corporation maintain a competitive edge in an ever changing marketplace. Management expects that computer expenses will remain at the current levels for the remainder of 2007.

Management has been diligently working to decrease audit and (Sarbanes Oxley) SOX compliance fees. In 2007, this became a reality. These fees decreased as a result of the following factors:

- Many similar processes between subsidiaries have been centralized.

- Testing previously outsourced is now being performed internally as a result of an expanded internal audit department.

- A substantial portion of the 2006 year end audit work was performed prior to year end, where in prior years; most of it had been completed after year end.

Management does anticipate that audit and SOX compliance fees will increase in the fourth quarter of 2007 as a majority of the SOX work for 2007 will be completed during this time. However, we do expect the costs to be lower than 2006.

The Corporation places a strong emphasis on continuing education. These educational programs help provide team members with a competitive edge in the market place. In the third and fourth quarters of 2006 and during the first six months of 2007, the Corporation offered structured leadership training to its employees. This program is designed to help develop and optimize the communication skills of its participants. There were no classes during the third quarter of 2007. Management feels that this investment in its employees today will pay dividends for years to come.

The increases in director fees are a result of additional meetings related to ongoing strategic planning.

All other expenses include consulting fees, legal fees, title insurance expenses, as well as other miscellaneous expenses. The main reasons for the increases in this line item were related to legal expenses incurred for the potential acquisition of Greenville Community Financial Corporation and service related expenses incurred to convert the Farwell Division to Isabella Bank and Trust's core banking platform in August of 2007. The other expenses are not individually significant.

ANALYSIS OF CHANGES IN FINANCIAL CONDITION

	September 30 2007	December 31 2006	$ Change	% Chang (unannuali
ASSETS				
Cash and cash equivelants	$ 23,527	$ 31,359	$ (7,832)	-25.0%
Trading securities	30,062	--	30,062	N/A
Securities available for sale	182,983	213,450	(30,467)	-14.3%
Mortgage loans available for sale	1,382	2,734	(1,352)	-49.5%
Loans	610,186	591,042	19,144	3.2%
Allowance for loan losses	(7,614)	(7,605)	(9)	0.1%
Bank premises and equipment	21,446	20,754	692	3.3%
Other assets	61,749	58,393	3,356	5.7%
TOTAL ASSETS	$923,721	$910,127	$ 13,594	1.5%
LIABILITIES AND SHAREHOLDERS' EQUITY				
LIABILITIES				
Deposits	$726,769	$725,840	$ 929	0.1%
Other borrowed funds	67,077	58,303	8,774	15.0%
Escrow funds payable	3,648	2,416	1,232	51.0%
Accrued interest and other liabilities	5,045	7,819	(2,774)	-35.5%
TOTAL LIABILITIES	802,539	794,378	8,161	1.0%
SHAREHOLDERS' EQUITY	121,182	115,749	5,433	4.7%
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$923,721	$910,127	$ 13,594	1.5%

As previously mentioned, the Corporation commenced a balance sheet reorganization strategy in 2007 which resulted in a transfer of available-for-sale securities to trading securities. The Corporation's overall intent was to sell a portion of the trading securities to enhance the ongoing restructuring of assets and liabilities as part of our interest rate risk management objectives.

Since January 1, 2007, the Corporation has reduced its trading securities by $47,777 as a result of sales, calls, and maturities. Management has used these proceeds to help fund its loan growth as well as to invest in available-for-sale securities. Deposits have remained essentially unchanged since December 31, 2006.

In addition to the balance sheet restructuring resulting from the sales of trading securities, as investments securities are sold, called, or matured, IBT implemented a strategy to purchase high quality tax exempt municipal bonds funded by fixed rate Federal Home Loan Bank advances.

The decline of mortgage loans available for sale is a result of the continued softening of demand for residential mortgage loans. The residential real estate mortgage loan market is expected to be consistent throughout the remainder of 2007 resulting in low levels of loan activity and a decreased volume of loans sold to the secondary market.

The Corporation experienced a substantial increase in escrow funds payable during the first nine months of 2007. These balances are attributed to Internal Revenue Code Section ("IRC") 1031 exchange account balances of customers of IBT Title and Insurance Agency, Inc. ("IBT Title"). These IRC 1031 accounts allow owners of business or investment property to defer realized gains from the sale of business or investment property if the funds are reinvested in another property. As such, these balances can fluctuate significantly between periods as the funds are deposited and reinvested.

The main factor contributing to the decrease in accrued interest and other liabilities was the curtailment of a portion of our defined benefit pension plan during the first quarter of 2007.

The following table outlines the changes in the loan portfolio:

	September 30 2007	December 31 2006	$ Change	% Change (unannualized)
Commercial	$232,861	$212,701	$ 20,160	9.5%
Agricultural	48,967	47,302	1,665	3.5%
Residential real estate mortgage	297,776	300,650	(2,874)	-1.0%
Installment	30,582	30,389	193	0.6%
TOTAL GROSS LOANS	$610,186	$591,042	$ 19,144	3.2%

As shown in the above table, management has been successful in increasing the commercial loan portfolio and this trend is expected to continue. The Corporation has also seen an increase in agricultural loans during the first nine months of 2007. Agricultural loans are not expected to vary significantly from current levels for the remainder of 2007.

The decline in residential real estate mortgage loans is a result of the continued soft mortgage market in Michigan. However, the Corporation does anticipate that residential real estate mortgages may increase moderately in the last quarter of 2007. The installment loan portfolio has been steadily decreasing over the past few years as a result of increased competition as well as a result of the sale of the consumer credit card portfolio in the second quarter of 2006. Management anticipates the installment loan portfolio to remain stable throughout the remainder of 2007.

The following table outlines the changes in the deposit portfolio:

	September 30 2007	December 31 2006	$ Change	% Change (unannualized)
Noninterest bearing demand deposits	$ 78,470	$ 83,902	$ (5,432)	-6.5%
Interest bearing demand deposits	106,255	111,406	(5,151)	-4.6%
Savings deposits	195,665	178,001	17,664	9.9%
Certificates of deposit	309,414	320,226	(10,812)	-3.4%
Brokered certificates of deposit	30,420	27,446	2,974	10.8%
Internet certificates of deposit	6,545	4,859	1,686	34.7%
TOTAL	$726,769	$725,840	$ 929	0.1%

As shown in the preceding table, the Corporation has been unable to fund the loan growth with core deposits and instead the growth has been primarily funded with FHLB Borrowings and the proceeds from the sales of trading securities.

The increase in savings deposits is primarily in money market accounts. Currently the rates on these accounts are attractive to our customers as the Corporation strives to price these products competitively.

CAPITAL

The capital of the Corporation consists solely of common stock, capital surplus, retained earnings, and accumulated other comprehensive loss. The Corporation offers dividend reinvestment and employee and director stock purchase plans. Under the provisions of these Plans, the Corporation issued 43,252 shares of common stock generating $1,470 of capital during the first nine months of 2007, as compared to 38,404 shares of common stock generating $1,537 of capital as of the same period in 2006. The Corporation also offers share-based payment awards through its equity compensation plan. Pursuant to this plan, the Corporation generated $621 and $350 of capital in 2007 and 2006, respectively.

In October 2002, the Board of Directors authorized management to repurchase up to $2,000 in dollar value of the Corporation's common stock. In March 2007, the Board of Directors adopted a new plan which allowed for the repurchase of up to 150,000 shares. During 2007, the Corporation has repurchased 41,428 shares of common stock at an average price of $43.47 under the new and old plans. There were no shares repurchased in 2006.

Accumulated other comprehensive loss decreased $2,807, net of tax, and consists of a $89 increase in unrealized loss on available-for-sale investment securities, $1,999 of comprehensive income as a result of the curtailment of the Corporation's defined benefit pension plan, and a $897 cumulative adjustment related to the adoption of SFAS Statement No. 159.

There are no significant regulatory constraints placed on the Corporation's capital. The Federal Reserve Board's current recommended minimum primary capital to assets requirement is 6.0%. The Corporation's primary capital to adjusted average assets, which consists of shareholders' equity plus the allowance for loan losses less acquisition intangibles, was 11.6% as of September 30, 2007. There are no commitments for significant capital expenditures, other than the potential acquisition of Greenville Community Financial Corporation (Note 9).

The Federal Reserve Board has established a minimum risk based capital standard. Under this standard, a framework has been established that assigns risk weights to each category of on and off-balance-sheet items to arrive at risk adjusted total assets. Regulatory capital is divided by the risk adjusted assets with the resulting ratio compared to the minimum standard to determine whether a corporation has adequate capital. The minimum standard is 8%, of which at least 4% must consist of equity capital net of goodwill. The following table sets forth the percentages required under the Risk Based Capital guidelines and the Corporation's values at September 30, 2007:

PERCENTAGE OF CAPITAL TO RISK ADJUSTED ASSETS

	IBT Bancorp September 30, 2007	
	Required	Actual
Equity Capital	4.00%	16.2%
Secondary Capital	4.00%	1.3%
Total Capital	8.00%	17.5%

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

The Federal Reserve and FDIC also prescribe minimum capital requirements for the Corporation's subsidiary Bank. At September 30, 2007, the Bank exceeded these minimum capital requirements.

LIQUIDITY

The primary sources of the Corporation's liquidity are cash and cash equivalents, trading securities, and available-for-sale securities. These categories totaled $236,572 or 25.6% of assets as of September 30, 2007 as compared to $244,809 or 26.9% as of December 31, 2006. Liquidity is important for financial institutions because of their need to meet loan funding commitments, depositor withdrawal requests and various other commitments including expansion of operations, investment opportunities, and payment of cash dividends. Liquidity varies significantly daily, based on customer activity.

Operating activities provided $54,814 of cash in the first nine months of 2007, which includes $47,777 of cash provided from the sales, calls, and maturities of trading securities, as compared to $1,561 during the same period in 2006. Net cash provided by financing activities equaled $6,943 and $46,518 in the nine month periods ended September 30, 2007 and 2006, respectively. The Corporation's investing activities used cash amounting to $69,589 in the first nine months of 2007 and $53,211 in the same period in 2006. The accumulated effect of the Corporation's operating, investing, and financing activities used $7,832 and $5,132 in the nine months ended September 30, 2007 and 2006, respectively.

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

In recent periods, the Corporation has experienced some competitive challenges in obtaining additional deposits to fuel growth. As depositors continue to have wider access to the Internet and other real-time interest rate monitoring resources, deposit sourcing and pricing has become more competitive. Deposit growth is achievable, but at a competitive price, with tight net interest margins, especially during these most recent periods of low interest rates.

In addition to these primary sources of liquidity, the Corporation has the ability to borrow in the federal funds market and at both the Federal Reserve Bank and the Federal Home Loan Bank, some obligations of which have been reported at fair value to mitigate the Corporation's interest rate risk. The Corporation's liquidity is considered adequate by the management of the Corporation. The

potential acquisition of Greenville Community Financial Corporation (Note 9) is not anticipated to materially affect the Corporation's liquidity.

FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET ARRANGEMENTS

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

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

Commitments to extend credit, which totaled $84,039 at September 30, 2007, are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have variable interest rates, fixed expiration dates, or other termination clauses and may require the payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Standby letters of credit are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support private borrowing arrangements, including commercial paper, bond financing, and similar transactions. At September 30, 2007, the Corporation had a total of $4,220 in outstanding standby letters of credit.

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

Isabella Bank and Trust (IB&T), a subsidiary of the Corporation, sponsors the IBT Foundation (the "Foundation"), which is a nonprofit entity formed for the purpose of distributing charitable donations to recipient organizations generally located in the communities serviced by Isabella Bank and Trust. IB&T periodically makes charitable contributions in the form of cash transfers to the Foundation. The Foundation is administered by members of the Corporation's Board of Directors. The assets and transactions of the Foundation are not included in the consolidated financial statements of IBT Bancorp, Inc. The assets of the Foundation as of September 30, 2007 were $1,175.

FORWARD LOOKING STATEMENTS

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

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Corporation's primary market risks are interest rate risk and, to a lesser extent, liquidity risk. The Corporation has very limited foreign exchange risk and does not utilize interest rate swaps or derivatives in the management of its interest rate risk. The Corporation does have a significant amount of loans extended to borrowers involved in agricultural production. Cash flow and ability to service debt of such customers is largely dependent on growing conditions and the commodity prices for corn, soybeans, sugar beets, milk, beef and a variety of dry beans. The Corporation mitigates these risks by using conservative price and production yields when calculating a borrower's available cash flow to service their debt.

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

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

The Corporation uses two main techniques to manage interest rate risk. The first method is gap analysis. Gap analysis measures the cash flows and/or the earliest repricing of the Corporation's interest bearing assets and liabilities. This analysis is useful for measuring trends in the repricing characteristics of the balance sheet. Significant assumptions are required in this process because of the imbedded repricing options contained in assets and liabilities. A substantial portion of the Corporation's assets are invested in loans and investment securities. These assets have imbedded options that allow the borrower to repay the balance prior to maturity without penalty. The amount of prepayments is dependent upon many factors, including the interest rate of a given loan in comparison to the current interest rates; for residential mortgages the level of sales of used homes; and the overall availability of credit in the market place. Generally, a decrease in interest rates will result in an increase in the Corporation's cash flows from these assets. Investment securities, other than those that are callable, do not have any significant imbedded options. Saving and checking deposits may generally be withdrawn on request without prior notice. The timing of cash flow from these deposits is estimated based on historical experience. Time deposits have penalties which discourage early withdrawals. Cash flows may vary based on current offering rates, competition, customer need for deposits, and overall economic activity. As noted above, the Corporation has reclassified a portion of its investment portfolio and its borrowings into trading accounts. Management feels that these practices help it mitigate the volatility of the current interest rate environment.

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

The following table provides information about the Corporation's assets and liabilities that are sensitive to changes in interest rates as of September 30, 2007. The Corporation has no interest rate swaps, futures contracts, or other derivative financial options, except for derivative loan commitments, which are not significant. The principal amounts of assets and time deposits maturing were calculated based on the contractual maturity dates. Savings and NOW accounts are based on management's estimate of their future cash flows.

September 30, 2007	Fai

(dollars in thousands)	2008	2009	2010	2011	2012	Thereafter	Total
Rate sensitive assets							
Other interest bearing assets	$ 1,959	$ --	$ --	$ --	$ --	$ --	$ 1,959
Average interest rates	4.78%	--	--	--	--	--	4.78
Trading securities	$ 12,696	$ 2,433	$ 3,468	$ 2,576	$ 3,143	$ 5,746	$ 30,062
Average interest rates	4.91%	5.75%	4.82%	4.81%	3.77%	3.67%	4.60
Fixed interest rate securities	$ 73,223	$ 10,144	$ 7,991	$10,124	$ 8,180	$73,321	$182,983
Average interest rates	5.17%	4.78%	4.88%	4.30%	5.36%	3.84%	4.56
Fixed interest rate loans	$118,354	$102,097	$98,443	$81,327	$65,302	$57,601	$523,124
Average interest rates	6.70%	6.57%	6.84%	7.06%	7.31%	6.49%	6.81
Variable interest rate loans	$ 41,870	$ 14,848	$16,974	$ 4,051	$ 5,602	$ 3,717	$ 87,062
Average interest rates	8.58%	8.35%	8.35%	7.98%	7.76%	7.65%	8.38
Rate sensitive liabilities							
Borrowed funds	$ 13,577	$ 11,500	$17,000	$ 3,000	$12,000	$10,000	$ 67,077
Average interest rates	5.12%	4.59%	4.81%	4.98%	4.49%	4.84%	4.79
Savings and NOW accounts	$147,194	$ 66,724	$63,080	$20,658	$ 4,264	$ --	$301,920
Average interest rates	3.48%	1.17%	0.75%	0.67%	--	--	2.16
Fixed interest rate time deposits	$216,904	$ 39,740	$42,882	$21,044	$23,531	$ 244	$344,345
Average interest rates	4.69%	4.44%	4.59%	4.70%	4.85%	5.03%	4.66
Variable interest rate time deposits	$ 1,389	$ 645	$ --	$ --	$ --	$ --	$ 2,034
Average interest rates	4.29%	4.49%	--	--	--	--	4.35

	September 30, 2006							Fair
	2007	2008	2009	2010	2011	Thereafter	Total	
Rate sensitive assets								
Other interest bearing assets	$ 3,409	$ --	$ --	$ --	$ --	$ --	$ 3,409	
Average interest rates	1.31%	--	--	--	--	--	1.31%	
Fixed interest rate securities	$ 55,374	$44,316	$22,064	$14,303	$22,271	$34,940	$193,268	
Average interest rates	3.92%	3.71%	3.84%	4.33%	4.52%	4.58%	4.08%	
Fixed interest rate loans	$127,399	$80,772	$78,644	$58,334	$63,692	$32,735	$441,576	
Average interest rates	6.39%	6.38%	6.39%	6.47%	7.70%	5.94%	6.55%	
Variable interest rate loans	$ 46,872	$14,398	$13,355	$ 4,438	$ 1,603	$ 905	$ 81,571	
Average interest rates	9.51%	8.85%	8.91%	9.54%	8.86%	7.63%	9.26%	
Rate sensitive liabilities								
Borrowed funds	$ 20,671	$ 3,000	$12,558	$ 4,000	$ 5,286	$13,000	$ 58,515	
Average interest rates	5.73%	3.70%	4.89%	4.11%	5.69%	4.84%	5.13%	
Savings and NOW accounts	$ 98,954	$65,802	$60,842	$19,491	$ 5,310	$ --	$250,399	
Average interest rates	3.37%	1.19%	0.69%	0.65%	0.78%	--	1.88%	
Fixed interest rate time deposits	$199,830	$45,448	$20,224	$28,767	$11,548	$ 1,492	$307,309	
Average interest rates	4.53%	4.27%	4.04%	4.49%	4.57%	5.18%	4.46%	
Variable interest rate time deposits	$ 761	$ 652	$ --	$ --	$ --	$ --	$ 1,413	
Average interest rates	4.23%	4.28%	--	--	--	--	4.25%	

ITEM 4 -- CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

The Corporation's management carried out an evaluation, under the supervision and with the participation of the Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15(d)-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of September 30, 2007, pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that the Corporation's disclosure controls and procedures as of September 30, 2007, were effective to ensure that information required to be disclosed by the Corporation in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

During the most recent fiscal quarter, the Corporation has consolidated the data processing of The Farwell State Savings Bank (FSSB) into IBT Bancorp (IBT). Additionally, FSSB has adopted IBT's policies and internal control structure. The effectiveness of the control is currently being tested. Other than the aforementioned procedures, no changes have occurred in the Corporation's key controls over financial reporting that materially affected, or is likely to materially affect, the Corporation's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1A -- RISK FACTORS

There have been no material changes to the risk factors disclosed in Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2006.

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

(A) NONE

(B) NONE

(C) REPURCHASES OF COMMON STOCK

On March 22, 2007, the Board of Directors adopted a repurchase plan which allowed for the repurchase of up to 150,000 shares of the Corporation's common stock. This authorization does not have an expiration date. The following table provides information for the three month period ended September 30, 2007, with respect to this plan:

(Dollars in thousands)	Shares Repurchased Number	Shares Repurchased Average Price Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program	Maximum Number of Shares That May Yet B Purchased Under the Plans or Programs
Balance, June 30 2007				140,266
July 1 - 31, 2007	15,094	$44.00	15,094	125,172
August 1 - 31, 2007	4,000	44.00	4,000	121,172
September 1 - 30, 2007	--	--	--	121,172
Balance, September 30 2007	19,094	$44.00	19,094	121,172

ITEM 6 - EXHIBITS

(a) Exhibits

31(a) Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Principal Executive Officer

31(b) Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Principal Financial Officer

32 Section 1350 Certification of Principal Executive Officer and Principal Financial Officer

SIGNATURES

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

IBT Bancorp, Inc.

Date: October 29, 2007

/s/ Dennis P. Angner

Dennis P. Angner
Chief Executive Officer

/s/ Peggy L. Wheeler

Peggy L. Wheeler
Principal Financial Officer