IBT BANCORP INC /MI/
Form 10-K
March 14, 2008

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 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	38-2830092
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer identification No.)

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

Registrant's telephone number, including area code (989) 772-9471
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered

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

Common Stock - No Par Value
(Title of Class)

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

[ ] Yes [X] No

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

[ ] Yes [X] No

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

[X] Yes [ ] No

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

[X]

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

[ ] Large accelerated filer [X] Accelerated Filer

[ ] Non-accelerated filer [ ] Smaller reporting company
(Do not check if a smaller reporting company)

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

[ ] Yes [X] No

The aggregate market value of the voting stock held by non-affiliates of the registrant was $278,888,000 as of the last business day of the registrant's most recently completed second fiscal quarter.

The number of shares outstanding of the registrant's Common Stock (no par value) was 7,566,413 as of March 5, 2008.

DOCUMENTS INCORPORATED BY REFERENCE

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

Documents	Part of Form 10-K Incorporated into
IBT Bancorp, Inc. Proxy Statement for its Annual Meeting of Shareholders to be held May 13, 2008	Part III

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PART I

ITEM 1. BUSINESS (ALL DOLLARS IN THOUSANDS)

GENERAL

IBT Bancorp, Inc. (the "Corporation") is a registered financial services holding company incorporated in September 1988 under Michigan law. The Corporation has five subsidiaries: Isabella Bank and Trust (the "Bank"), IBT Title and Insurance Agency, Inc. ("IBT Title"), IBT Personnel, LLC, IB&T Employee Leasing, LLC, and Financial Group Information Services. In April 2007, the Corporation consolidated the charters of FSB Bank and Isabella Bank and Trust into one charter as Isabella Bank and Trust. Isabella Bank and Trust has twenty four banking offices located throughout Clare, Gratiot, Isabella, Mecosta, Montcalm, and Saginaw Counties, all of which are located in central Michigan. IBT Title provides title insurance, abstract searches, and closes loans in Isabella, Montcalm, Clare, Mecosta, Roscommon, and Newaygo Counties. IBT Personnel, LLC and IB & T Employee Leasing, LLC, are employee leasing companies. Financial Group Information Services renders computer services to the Corporation and its subsidiaries. All employees of the Corporation are employed by IBT Personnel and IB&T Employee Leasing and are leased to each individual subsidiary. The principal city in which the Corporation operates is Mount Pleasant, which has a population of approximately 26,000. Markets served include Isabella, Gratiot, Mecosta, southwestern Midland, western Saginaw, northern Montcalm, and southern Clare counties. The area includes significant agricultural production, light manufacturing, retail, gaming and tourism, and two universities with combined enrollment of approximately 30,000 students. The area unemployment rate is approximately 5.7% and average household income is $38.

On 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-owed subsidiary of GCFC, merged with and into the Bank. As of December 31, 2007 GCFC had assets of $107,986. For further discussion, see "Note 24 - Subsequent Events" of Notes to Consolidated Financial Statements.

The Bank 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 the Bank. The Bank periodically makes charitable contributions in the form of cash transfers to the Foundation. The Foundation is administered by members of the Corporation's Board of Directors. The assets and transactions of the Foundation are not included in the consolidated financial statements of IBT Bancorp, Inc. The assets of the Foundation as of December 31, 2007 were $1,069.

COMPETITION

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

LENDING

The Bank limits lending activities to local markets and has not purchased any loans from the secondary market. The Bank does not make loans to fund leveraged buyouts, has no foreign corporate or government loans, and has limited holdings of corporate debt securities. The general lending philosophy is to avoid

concentrations to individuals and business segments. The following table sets forth the composition of the Corporation's loan portfolio as of December 31, 2007.

LOANS BY MAJOR LENDING CATEGORY
(in thousands)

	Amount	%
Residential real estate		
1 to 4 family residential	$282,877	46.17%
Construction and land development	15,060	2.46%
Total	297,937	48.63%
Commercial		
Real estate	158,982	25.95%
Farmland	19,951	3.26%
Agricultural production	27,456	4.48%
Commercial operating and other	79,324	12.95%
Total	285,713	46.63%
Other consumer installment	29,037	4.74%
TOTAL	$612,687	100.00%

There has been no significant changes in loan concentrations or underwriting standards in 2007.

First and second residential real estate mortgages are the single largest category of loans. The Corporation, through its Bank, offers 3 and 5 year fixed rate balloon mortgages with a maximum 30 year amortization, and 15 and 30 year amortized fixed rate loans. Fixed rate loans with an amortization of greater than 15 years are generally sold upon origination to the Federal Home Loan Mortgage Association. Fixed rate residential mortgage loans with an amortization of 15 years or less may be held in the Bank's portfolio, held for future sale, or sold upon origination. Factors used in determining when to sell these mortgages include management's judgment about the direction of interest rates, the Corporation's need for fixed rate assets in the management of its interest rate sensitivity, and overall loan demand.

Lending policies generally limit the maximum loan-to-value ratio on residential mortgages to 95% of the lower of the appraised value of the property or the purchase price, with the condition that private mortgage insurance is required on loans with loan-to-value ratios in excess of 80%. Substantially all loans upon origination have a loan-to-value ratio of less than 80%. Underwriting criteria for residential real estate loans include: evaluation of the borrower's ability to make monthly payments, the value of the property securing the loan, the payment of principal, interest, taxes, and hazard insurance does not exceed 28% of a borrower's gross income, all debt servicing does not exceed 36% of income, acceptable credit reports, verification of employment, income, and financial information. Appraisals are performed by independent appraisers. Escrow accounts for taxes and insurance are required on all loans with

loan-to-value ratio in excess of 80%. All mortgage loan requests are reviewed by a mortgage loan committee; loans in excess of $400 require the approval of the Bank's Internal Loan Committee, Board of Directors, or its loan committee.

Construction and land development loans consist primarily of 1 to 4 family residential properties. These loans primarily have a 6 to 9 month maturity and are made using the same underwriting criteria as residential mortgages. Loan proceeds are disbursed in increments as construction progresses and inspections warrant. Construction loans are either converted to permanent loans at the completion of construction or are paid off from financing provided through another financial institution.

Commercial loans include loans for commercial real estate, farmland and agricultural production, state and political subdivisions, and commercial operating loans. Repayment of commercial loans is often dependent upon the successful operation and management of a business; thus, these loans generally involve greater risk than other types of lending. The Corporation minimizes its risk by generally limiting the amount of loans to any one borrower to $12,557. Borrowers with credit needs of more than $12,557 are serviced through the use of loan participations with other commercial banks. All commercial real estate loans require loan-to-value limits of less than 80%. Depending upon the type of loan, past credit history, and current operating results, the Corporation may require the borrower to pledge accounts receivable, inventory, and fixed assets. Personal guarantees are generally required from the owners of closely held corporations, partnerships, and proprietorships. In addition, the Corporation requires annual financial statements, prepares cash flow analyses, and reviews credit reports.

Consumer loans granted include automobile loans, secured and unsecured personal loans, credit cards, student loans, and overdraft protection. Loans are amortized generally for a period of up to 6 years. The underwriting emphasis is on a borrower's ability to pay rather than collateral value. No consumer loans are sold to the secondary market.

In summary, because approximately 78% of the Corporation's loan portfolio is secured by real estate, a significant decline in real estate values driven by deteriorating state economic conditions could have an adverse impact on financial results from operations of the Corporation.

SUPERVISION AND REGULATION

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

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

IBT Title, a non-banking subsidiary of IBT Bancorp, Inc., is a licensed title

insurance agency and is subject to regulation by the OFIS, as well as the Federal Real Estate Settlement Procedures Act. IBT Title owns a membership interest in two similar title insurance agencies, LTi Title, LLC and Pere Marquette Abstract and Title Agency, LLC.

PERSONNEL

As of December 31, 2007, the Corporation and its subsidiaries had 310 full-time leased employees. The Corporation provides group life, health, accident, disability and other insurance programs for employees and a number of other employee benefit programs. The Corporation believes its relationship with its employees to be good.

LEGAL PROCEEDINGS

There are various claims and lawsuits in which the Corporation and its subsidiaries are periodically involved, such as claims to enforce liens, condemnation proceedings on making and servicing of real property loans and other issues incidental to the Corporation's business. However, the Corporation and its subsidiaries are not involved in any material pending litigation.

AVAILABLE INFORMATION

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

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

REGULATION

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

THE CORPORATION

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

Federal Reserve Board requires. The Federal Reserve Board may also make inspections and examinations of the Corporation and its subsidiaries.

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

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

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

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

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

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

such shareholder to pay such assessment and the costs of sale of such stock.

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

The Sarbanes-Oxley Act of 2002 ("SOX") contains important requirements for public companies in the area of financial disclosure and corporate governance. In accordance with Section 302(a) of SOX, a written certification by the Corporation's principal executive and financial officer is required. This certification attests that the Corporation's quarterly and annual reports filed with the SEC do not contain any untrue statement of a material fact. See the Certifications filed as Exhibits 31 (a) and (b) to this Form 10-K for such certification of the financial statements and other information for this 2007 Form 10-K. The Corporation has also implemented a program designed to comply with Section 404 of SOX, which included the identification of significant processes and accounts, documentation of the design of control effectiveness over process and entity level controls, and testing of the operating effectiveness of key controls. See Item 9A, "Controls and Procedures" for the Corporation's evaluation of its disclosure controls and procedures.

Certain additional information concerning regulatory guidelines for capital adequacy and other regulatory matters is presented herein under the caption "Capital" on page 28 and in the notes to the consolidated financial statements "Note 16 - Commitments and Other Matters" and "Note 17 - Minimum Regulatory Capital Requirements".

SUBSIDIARY BANK

Effective April 16, 2007, Isabella Bank and Trust and FSB Bank, wholly owned subsidiaries of the Corporation, were consolidated into one charter as Isabella Bank and Trust.

The Bank is subject to regulation and examination primarily by OFIS and is also subject to regulation and examination by the Federal Reserve Board.

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

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

The Bank is also subject to legal limitations on the frequency and amount of dividends that can be paid to the Corporation. For example, a Michigan state

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

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

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

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

ITEM 1A. RISK FACTORS

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

CREDIT RISK

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

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

The Corporation maintains an allowance for possible loan losses, which is a reserve established through a provision for possible loan losses charged to expense, that represents management's best estimate of probable losses that may be incurred within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The level of the allowance reflects management's continuing evaluation of industry concentrations; specific credit risks; loan loss experience; current loan portfolio quality; present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. The determination of the appropriate level of the allowance for possible loan losses inherently involves a high degree of subjectivity and requires the Corporation to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of the Corporation's control, may require an increase in the allowance for possible loan losses. In addition, bank regulatory agencies periodically review the Corporation's allowance for loan losses and may require an increase in the provision for possible loan losses or the recognition of further loan charge-offs, based on judgments different than those of management. Any increases in the allowance for possible loan losses will result in a decrease in net income and, possibly, capital, and may have a material adverse effect on the Corporation's financial condition and results of operations.

INTEREST RATE RISK

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

LIQUIDITY RISK

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

OPERATIONAL RISK

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

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

COMPLIANCE RISK

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

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

ECONOMIC CONDITIONS

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

possible effects of downturns in the local, regional, and national economies.

The Corporation's success depends primarily on the general economic conditions of the State of Michigan and the specific local markets in which the Corporation operates. Unlike larger national or other regional banks that are more geographically diversified, the Corporation provides banking and financial services to customers primarily in the Clare, Gratiot, Isabella, Mecosta, Montcalm, and Saginaw Counties in Michigan. The local economic conditions in these areas have a significant impact on the demand for the Corporation's products and services as well as the ability of the Corporation's customers to repay loans, the value of the collateral securing loans and the stability of the Corporation's deposit funding sources. A significant decline in general economic conditions, caused by inflation, recession, acts of terrorism, outbreak of hostilities or other international or domestic occurrences, unemployment, changes in securities markets or other factors could impact these local economic conditions and, in turn, have a material adverse effect on the Corporation's financial condition and results of operations.

ACCOUNTING RISK

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

DISRUPTION OF INFRASTRUCTURE

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Corporation's executive offices are located at 200 East Broadway, Mt. Pleasant, Michigan 48858. Isabella Bank and Trust owns 24 branches and an operations center. IBT Title owns one office, and leases six. The Corporation's facilities current, planned, and best use is for conducting its current activities with the exception of approximately 8% of the main office, and 25% of the Lake Isabella office, which is leased to tenants. Management continually monitors and assesses the need for expansion and / or improvement for all facilities. In management's opinion, each facility has sufficient capacity and is in good condition.

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ITEM 3. LEGAL PROCEEDINGS

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

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

No matters were submitted during the fourth quarter of 2007 to a vote of security holders through the solicitation of proxies or otherwise.

PART II

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

COMMON STOCK AND DIVIDEND INFORMATION

There is no established market for the Corporation's common stock or public information with respect to its market price. There are occasional sales by shareholders of which management of the Corporation is aware. The prices were

reported to management in only some of the transactions and management cannot confirm the prices that were reported during this period. All of the information has been adjusted to reflect the 10% stock dividend, paid February 29, 2008.

Period	Number of Sales	Number of Shares	Sale Price Low	Sale Price High
2007				
First Quarter	52	43,366	$40.00	$40.00
Second Quarter	70	34,189	40.00	40.00
Third Quarter	53	37,491	40.00	40.00
Fourth Quarter	60	19,114	40.00	40.00
	235	134,160		
2006				
First Quarter	27	20,903	40.00	40.00
Second Quarter	46	33,663	40.00	40.00
Third Quarter	45	14,876	40.00	40.00
Fourth Quarter	46	22,359	40.00	40.00
	164	91,801		

The following table sets forth the cash dividends paid for the following quarters, adjusted for the 10% stock dividend paid on February 29, 2008.

	Per Share 2007	Per Share 2006
First Quarter	$0.11	$0.10
Second Quarter	0.11	0.10
Third Quarter	0.11	0.10
Fourth Quarter	0.29	0.28
Total	$0.62	$0.58

IBT Bancorp's authorized common stock consists of 10,000,000 shares, of which 6,364,120 shares are issued and outstanding as of December 31, 2007. As of that date, there were 2,715 shareholders of record.

On March 22, 2007, the Board of Directors amended its repurchase plan to allow 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 as of December 31, 2007, with respect to this plan, and has

not been adjusted for the 10% stock dividend paid February 29, 2008:

	Shares Repurchased		Total Number of Shares Purchased as Part of Publicly Announced Plan or Program	Maximum Number of Shares That May Yet Purchased Under th Plans or Programs
	Number	Average Price Per Share		
Balance, September 30, 2007				121,172
October 1 - 31, 2007	1,792	$44.00	1,792	119,380
November 1 - 30, 2007	--	--	--	119,380
December 1 - 31, 2007	--	--	--	119,380
Balance, December 31, 2007	1,792	$44.00	1,792	119,380

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

STOCK PERFORMANCE

The following graph compares the cumulative total shareholder return on Corporation common stock for the last five years with the cumulative total return on (1) the NASDAQ Stock Market Index, which is comprised of all United States common shares traded on the NASDAQ and (2) the NASDAQ Bank Stock Index, which is comprised of bank and bank holding company common shares traded on the NASDAQ over the same period. The graph assumes the value of an investment in the Corporation and each index was $100 at December 31, 2002 and all dividends are reinvested.

STOCK PERFORMANCE FIVE-YEAR TOTAL RETURN

(PERFORMANCE GRAPH)

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

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

YEAR	IBT BANCORP	NASDAQ	NASDAQ BANKS
12/31/2002	100.0	100.0	100.0
12/31/2003	116.2	150.5	133.0
12/31/2004	136.3	164.6	151.2
12/31/2005	145.0	168.1	148.3
12/31/2006	161.8	185.5	168.7

12/31/2007	164.3	205.3	135.2

ITEM 6. SELECTED FINANCIAL DATA

RESULTS OF OPERATIONS

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

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

	2007	2006	2005	2004	2
INCOME STATEMENT DATA					
Total interest income	$ 53,972	$ 44,709	$ 36,882	$ 33,821	$ 3
Net interest income	28,013	24,977	23,909	23,364	2
Provision for loan losses	1,211	682	777	735	
Net income	7,930	7,001	6,776	6,645	
BALANCE SHEET DATA					
End of year assets	$957,282	$910,127	$741,654	$678,034	$66
Daily average assets	925,631	800,174	700,624	675,157	65
Daily average deposits	727,762	639,046	576,091	567,145	56
Daily average loans/net	596,739	515,539	459,310	430,854	39
Daily average equity	119,246	91,964	74,682	70,787	6
PER SHARE DATA (1)					
Earnings per share					
Basic	$ 1.14	$ 1.12	$ 1.14	$ 1.13	$
Diluted	1.11	1.08	1.14	1.13	
Cash dividends	0.62	0.58	0.55	0.52	
Book value (at year end)	17.58	16.61	13.44	12.25	
FINANCIAL RATIOS					
Shareholders' equity to assets (at year end)	12.86%	12.72%	10.91%	10.71%	
Return on average equity	6.65	7.61	9.07	9.39	
Return on average tangible equity	8.54%	8.31%	9.12%	10.01%	
Cash dividend payout to net income	54.27	53.89	48.02	46.20	
Return on average assets	0.86	0.87	0.97	0.98	

	2007				2006		
	4th	3rd	2nd	1st	4th	3rd	2n
Quarterly Operating Results:							
Total interest income	$13,747	$13,794	$13,539	$12,892	$12,754	$11,312	$10,
Interest expense	6,466	6,690	6,554	6,249	5,980	5,164	4,

Net interest income	7,281	7,104	6,985	6,643	6,774	6,148	6,
Provision for loan losses	593	268	224	126	54	245	
Noninterest income	2,605	2,719	2,227	2,411	2,355	2,406	2,
Noninterest expenses	6,597	6,995	6,833	6,804	6,537	5,659	5,
Net income	2,268	2,096	1,756	1,810	1,962	2,031	1,
Per Share of Common Stock: (1)							
Earnings per share							
Net income	$ 0.33	$ 0.30	$ 0.25	$ 0.26	$ 0.28	$ 0.34	$ 0
Diluted	0.32	0.29	0.25	0.25	0.27	0.33	0
Cash dividends	0.29	0.11	0.11	0.11	0.28	0.10	0
Book value (at quarter end)	17.58	17.38	17.04	16.77	16.61	14.26	13

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

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

IBT BANCORP FINANCIAL REVIEW
(All dollars in thousands)

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

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

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

Generally accepted accounting principles require the Corporation to determine the fair value of all of the assets and liabilities of an acquired entity, and record their fair value on the date of acquisition. The Corporation employs a

variety of means in determination of the fair value, including the use of discounted cash flow analysis, market comparisons, and projected future revenue streams. For certain items that management believes it has the appropriate expertise to determine the fair value, management may choose to use its own calculations of the value. In other cases, where the value is not easily determined, the Corporation consults with outside parties to determine the fair value of the asset or liability. Once valuations have been adjusted, the net difference between the price paid for the acquired company and the value of its balance sheet is recorded as goodwill. This goodwill is not amortized, but is tested for impairment on at least an annual basis.

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DISTRIBUTION OF ASSETS, LIABILITIES, AND SHAREHOLDERS' EQUITY

INTEREST RATE AND INTEREST DIFFERENTIAL

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

	2007			2006	
	Average Balance	Tax Equivalent Interest	Average Yield / Rate	Average Balance	Tax Equivalen Interest
INTEREST EARNING ASSETS:					
Loans	$604,342	$43,808	7.25%	$522,726	$36,575
Taxable investment securities	68,398	3,751	5.48%	123,316	4,948
Nontaxable investment securities	96,789	5,726	5.92%	75,712	4,423
Trading account securities	50,904	2,298	4.51%	--	--
Federal funds sold	6,758	342	5.06%	2,762	139
Other	7,143	317	4.44%	5,012	250
Total earning assets	834,334	56,242	6.74%	729,528	46,335
NON EARNING ASSETS:					
Allowance for loan losses	(7,603)			(7,187)	
Cash and due from banks	20,588			24,351	
Premises and equipment	21,507			17,690	
Accrued income and other assets	56,805			35,792	
Total assets	$925,631			$800,174	
INTEREST BEARING LIABILITIES:					
Interest bearing demand deposits	$109,370	$ 1,880	1.72%	$105,476	$ 1,664
Savings deposits	188,323	4,232	2.25%	158,327	2,675
Time deposits	349,941	16,493	4.71%	301,593	12,825
Other borrowed funds	68,586	3,354	4.89%	53,256	2,568

Total interest bearing liabilities	716,220	25,959	3.62%	618,652	19,732
NONINTEREST BEARING LIABILITIES:					
Demand deposits	80,128			73,650	
Other	10,037			15,908	
Shareholders' equity	119,246			91,964	
Total liabilities and equity	$925,631			$800,174	
Net interest income (FTE)		$30,283			$26,603
Net yield on interest earning assets (FTE)			3.63%		

	2005		
	Average Balance	Tax Equivalent Interest	Average Yield / Rate
INTEREST EARNING ASSETS:			
Loans	$466,001	$30,682	6.58%
Taxable investment securities	106,025	3,487	3.29%
Nontaxable investment securities	63,271	3,818	6.03%
Trading account securities	--	--	--
Federal funds sold	3,882	116	2.99%
Other	5,060	199	3.93%
Total earning assets	644,239	38,302	5.95%
NON EARNING ASSETS:			
Allowance for loan losses	(6,691)		
Cash and due from banks	19,955		
Premises and equipment	17,544		
Accrued income and other assets	25,577		
Total assets	$700,624		
INTEREST BEARING LIABILITIES:			
Interest bearing demand deposits	$103,684	$ 1,001	0.97%
Savings deposits	157,238	1,571	1.00%
Time deposits	245,559	8,802	3.58%
Other borrowed funds	37,209	1,599	4.30%
Total interest bearing liabilities	543,690	12,973	2.39%
NONINTEREST BEARING LIABILITIES:			
Demand deposits	69,610		
Other	12,642		
Shareholders' equity	74,682		
Total liabilities and equity	$700,624		
Net interest income (FTE)		$25,329	
Net yield on interest earning assets (FTE)			3.93%

NET INTEREST INCOME

The Corporation derives the majority of its gross income from interest earned on loans and investments, while its most significant expense is the interest cost incurred for funds used. Net interest income is the amount by which interest income on earning assets exceeds the interest cost of deposits and borrowings. Net interest income is influenced by changes in the balance and mix of assets and liabilities and market interest rates. Management exerts some control over these factors; however, Federal Reserve monetary policy and competition have a significant impact. Interest income includes loan fees of $1,330 in 2007, $1,172 in 2006, and $1,142 in 2005. For analytical purposes, net interest income is adjusted to a "taxable equivalent" basis by adding the income tax savings from interest on tax-exempt loans and securities, thus making year-to-year comparisons more meaningful.

VOLUME AND RATE VARIANCE ANALYSIS

The following table details the dollar amount of changes in FTE net interest income for each major category of interest earning assets and interest bearing liabilities and the amount of change attributable to changes in average balances (volume) or average rates. The change in interest due to both volume and rate has been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each.

	2007 Compared to 2006 Increase (Decrease) Due to			2006 Compared to Increase (Decrease)	
	Volume	Rate	Net	Volume	Rate
CHANGES IN INTEREST INCOME:					
Loans	$ 5,878	$1,355	$ 7,233	$3,889	$2,004
Taxable investment securities	(2,647)	1,450	(1,197)	622	839
Nontaxable investment securities	1,246	57	1,303	730	(125)
Trading account securities	2,298	--	2,298	--	--
Federal funds sold	202	1	203	(40)	63
Other	97	(30)	67	(2)	53
Total changes in interest income	7,074	2,833	9,907	5,199	2,834
CHANGES IN INTEREST EXPENSE:					
Interest bearing demand deposits	63	153	216	18	645
Savings deposits	568	989	1,557	11	1,093
Time deposits	2,189	1,479	3,668	2,215	1,808
Other Borrowings	749	37	786	755	214
Total changes in interest expense	3,569	2,658	6,227	2,999	3,760
Net Change in interest margin(FTE)	$ 3,505	$ 175	$ 3,680	$2,200	$ (926)

The Corporation has experienced a decline in the net yield on interest earning assets since 2005. The main contributing factors are:

- An inverted or essentially flat yield curve for much of the period.

- Rates paid on interest bearing liabilities have increased at a faster rate than those earned on interest earning assets.

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

The Corporation, as well as all other financial institutions, has been coping with an essentially flat or inverted yield curve since the third quarter of 2005. A flat yield curve results when short term interest rates are essentially the same as long term rates (over two years), and an inverted yield curve is where short term rates are higher than long term rates. In either case, the yield curve 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. This yield curve, however, has provided the

Corporation with little opportunity to do this effectively. Over the past two years, the yield curve has also been the main reason why the rates paid on interest bearing liabilities have been rising faster than those earned on interest earning assets.

Overall FTE net interest income increased $3,680 for the year ended December 31, 2007 when compared to the same period in 2006. The net increase from the change in volume of interest earning assets and interest bearing liabilities was $3,505 in 2007. Net interest income increased $175 as a result of interest rate changes. During 2007, the rates paid on interest bearing liabilities increased 0.43%, while those earned on interest earning assets increased 0.39%. The decline in interest rate spread is a direct result of the continued use of high cost funding sources such as certificates of deposit and other borrowed funds. The increase in the cost of these deposits in relation to other sources is a result of continued competition for retail deposits.

To offset the decreases in interest spreads from the unfavorable rate environment, the Corporation has taken a measured growth posture. Most of this growth has come in the form of commercial loans and investments. This growth has allowed the Corporation to increase net interest income through volume. During the third and fourth quarters of 2007, the Corporation earned an additional $1,254 in FTE interest income when compared to the first and second quarters of 2007.

The Corporation 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, 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 Corporation's 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 2007 increased FTE net interest margin by 0.31% when the quarter ended December 31, 2007 is compared to the quarter ended March 31, 2007. Management does anticipate that interest margins will increase during 2008 when compared to 2007.

Since July 2007, the Federal Reserve Bank ("The Fed") lowered its target Fed Funds rate by 2.00%, which included a 1.25% decrease in January 2008. The Fed's actions are a result of turbulence in the financial markets resulting from the collapse of the sub-prime residential market and investments, derivatives, and other financial products using these mortgages as collateral. The Fed's actions are an attempt to avoid or lessen the likelihood of a severe economic downturn.

As of December 31, 2007, the Corporation's balance sheet was well positioned to protect interest margins in a decreasing rate environment. The overall impact on financial performance could be negative if economic conditions in its principal market deteriorate significantly as a result of a material economic downturn.

As shown in the above tables, when comparing year ending December 31, 2006 to 2005, fully taxable equivalent (FTE) net interest income increased $1,274 or 5.03%. An increase of 13.24% in average interest earning assets provided $5,199 of FTE interest income. The majority of this growth was funded by a 13.79% increase in interest bearing liabilities, resulting in $2,999 of additional interest expense. Overall, changes in volume resulted in $2,200 in additional FTE interest income. The average FTE interest rate earned on assets increased by 0.40%, increasing FTE interest income by $2,834, and the average rate paid on deposits and borrowings increased by 0.80%, increasing interest expense by $3,760.

PROVISION FOR LOAN LOSSES

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

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

	Year Ended December 31			
	2007	2006	2005	2004
Allowance for loan losses - January 1	$ 7,605	$ 6,899	$ 6,444	$ 6,204
Allowance of acquired bank	--	726	--	--
Loans charged off				
Commercial and agricultural	905	368	101	561
Real estate mortgage	659	252	166	--
Consumer	582	529	376	374

TOTAL LOANS CHARGED OFF	2,146	1,149	643	935
Recoveries				
Commercial and agricultural	297	136	105	191
Real estate mortgage	49	53	--	62
Consumer	285	258	216	187
TOTAL RECOVERIES	631	447	321	440
Net loans charged off	1,515	702	322	495
Provision charged to income	1,211	682	777	735
ALLOWANCE FOR LOAN LOSSES - DECEMBER 31	$ 7,301	$ 7,605	$ 6,899	$ 6,444
YTD AVERAGE LOANS	$604,342	$522,726	$466,001	$437,438
NET LOANS CHARGED OFF TO AVERAGE LOANS OUTSTANDING	0.25%	0.13%	0.07%	0.11%
YEAR END LOANS	$612,687	$591,042	$483,242	$452,895
ALLOWANCE FOR LOAN LOSSES AS A % OF LOANS	1.19%	1.29%	1.43%	1.42%

The nationwide increase in residential mortgage loans past due and in foreclosures has received considerable attention by both the press and regulatory agencies. 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 6 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 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 rate 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 the Corporation does not originate variable rate mortgages (other than home equity lines of credit), 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 real estate mortgage portfolio.

With increases in the net loans charged off to average loans, nonperforming loans as a percentage of total loans, and continued growth in the loan portfolio, the Corporation increased its provision charged to income in 2007. Overall, the allowance for loan losses as a percentage of loans declined in 2007. The primary factors affecting the decline in the allowance as a percentage of loans in 2006 was the acquisition of Farwell State Savings Bank in the fourth quarter of 2006 and the mix of the loan portfolio that was purchased combined with strong loan growth in 2006. Management also believes its conservative credit underwriting standards have allowed the Corporation, to date, to avoid

significant credit losses. Management will continue to closely monitor its overall credit quality during 2008.

Based on management's analysis of the allowance for loan losses, the calculated range for the required allowance was $3,684 to $10,215. As such, the allowance for loan losses of $7,301 is considered adequate as of December 31, 2007.

ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES

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

	2007		2006		2005		
	Allowance Amount	% of Each Category to Total Loans	Allowance Amount	% of Each Category to Total Loans	Allowance Amount	% of Each Category to Total Loans	Allowance Amount
Commercial and agricultural	$2,458	46.0%	$2,687	43.3%	$2,771	46.9%	$2,634
Real estate mortgage	1,341	48.6%	1,367	50.9%	1,192	46.8%	1,463
Consumer installment	2,195	4.8%	2,434	5.1%	2,286	5.8%	1,606
Impaired loans	703	0.6%	594	0.7%	184	0.5%	304
Unallocated	604	0.0%	523	0.0%	466	0.0%	437
Total	$7,301	100.0%	$7,605	100.0%	$6,899	100.0%	$6,444

Management has evaluated impaired loans and believes the valuation allowance related to these loans to be adequate.

NONPERFORMING ASSETS

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

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

	Year Ended December 31				
	2007	2006	2005	2004	2003

Nonaccrual loans	$4,156	$3,444	$1,375	$1,900	$4,121
Accruing loans past due 90 days or more	1,727	1,185	1,058	702	1,380
Restructured loans	685	697	725	686	--
TOTAL NONPERFORMING LOANS	6,568	5,326	3,158	3,288	5,501
Other real estate owned	1,376	562	122	40	552
TOTAL NONPERFORMING ASSETS	$7,944	$5,888	$3,280	$3,328	$6,053
NONPERFORMING LOANS AS A % OF TOTAL LOANS	1.07%	0.90%	0.65%	0.73%	1.30%
NONPERFORMING ASSETS AS A % OF TOTAL ASSETS	0.83%	0.65%	0.44%	0.49%	0.91%

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 not anticipate the level of net chargeoffs to change significantly during 2008. Management has evaluated the properties held as other real estate owned and has adjusted the carrying value of each property to the lower of the cost or fair value less costs to sell, as necessary.

As of December 31, 2007, there were no other interest bearing assets which required classification. Management is not aware of any recommendations by regulatory agencies that, if implemented, would have a material impact on the Corporation's liquidity, capital, or operations.

NONINTEREST INCOME

The following table shows the changes in noninterest income between the years ended December 31, 2007, 2006, and 2005 respectively.

	Year Ended December 31					
			Change			
	2007	2006	$	%	2005	$
Service charges and fee income						
NSF and overdraft fees	$2,961	$2,950	$ 11	0.4%	$2,586	$ 36
Trust fees	1,035	866	169	19.5%	828	3
Freddie Mac servicing fee	635	635	--	0.0%	619	1
ATM and debit card fees	737	545	192	35.2%	452	9
Service charges on deposit accounts	328	315	13	4.1%	247	6
All other	198	179	19	10.6%	196	(1
Total service charges and fees	5,894	5,490	404	7.4%	4,928	56
Title insurance revenue	2,192	2,389	(197)	-8.2%	2,351	3
Gain on sale of mortgage loans	209	207	2	1.0%	270	(6
Net gain on trading securities	460	--	460	N/A	--	-

Other						
Increase in cash value of corporate owned life insurance policies	432	404	28	6.9%	364	4
Brokerage and advisory fees	276	213	63	29.6%	187	2
(Loss) gain on sale of investment securities	(19)	(112)	93	-83.0%	2	(11
Net decrease in the fair market value of borrowings measured at their fair value	(66)	--	(66)	N/A	--	-
All other	584	507	77	15.2%	374	13
Total other	1,207	1,012	195	19.3%	927	8
TOTAL NONINTEREST INCOME	$9,962	$9,098	$ 864	9.5%	$8,476	$ 62

As shown in the above table, noninterest income increased 9.5% when the year ended December 31, 2007 is compared to 2006 and 7.3% when 2006 is compared to 2005. However, to make the information more comparable, the following table outlines the changes in non interest income excluding the effects of the acquisition of Farwell State Savings Bank in October 2006.

NONINTEREST INCOME (EXCLUDING THE EFFECTS OF THE ACQUISITION OF THE FARWELL STATE SAVINGS BANK IN 2006)

	Year Ended December 31					
			Change			
	2007	2006	$	%	2005	$
Service charges and fee income						
NSF and overdraft fees	$2,761	$2,914	$(153)	-5.3%	$2,586	$ 32
Trust fees	1,035	866	169	19.5%	828	3
Freddie Mac servicing fee	635	635	--	0.0%	619	1
ATM and debit card fees	730	545	185	33.9%	452	9
Service charges on deposit accounts	276	302	(26)	-8.6%	247	5
All other	158	215	(57)	-26.5%	196	1
Total service charges and fees	5,595	5,477	118	2.2%	4,928	54
Title insurance revenue	2,192	2,389	(197)	-8.2%	2,351	3
Gain on sale of mortgage loans	207	207	--	0.0%	270	(6
Net gain on trading securities	460	--	460	N/A	--	-
Other						
Increase in cash value of corporate owned life insurance policies	428	404	24	5.9%	364	4
Brokerage and advisory fees	276	213	63	29.6%	187	2
(Loss) gain on sale of investment securities	(19)	(112)	93	-83.0%	2	(11
Net decrease in the fair market value of borrowings measured at their fair value	(66)	--	(66)	N/A	--	-
All other	562	495	67	13.5%	374	12
Total other	1,181	1,000	181	18.1%	927	7
TOTAL NONINTEREST INCOME	$9,635	$9,073	$ 562	6.2%	$8,476	$ 59

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There were no significant changes to service charges during 2007. Total service charges and fees increased by $118 in 2007, compared to an increase of $549 in 2006. Trust fee income did increase as a result of increased marketing efforts by the trust department. During 2006, the Corporation observed substantial increases in service charges and fee income. The 2006 increases were driven by increases in NSF and overdraft fees which were the result of the Bank increasing the per item overdraft fees that they charge their customers, to align the Bank's fees with its competitors. However, during 2007, the Corporation observed a decrease in NSF and overdraft fees income when compared to 2006. This decrease was a result of decreased customer overdraft items. Management does not expect service charges and fees to increase substantially in 2008 as management does not anticipate raising the NSF per item fee, which is the largest component of service charges and fees.

In 2007, title insurance revenues decreased by 8.2% as compared to an increase of 1.6% in 2006. The small growth in 2006 and the decline in 2007 is a result of the continued slow demand in residential mortgage activity. Management anticipates that the mortgage market will continue to be soft throughout much of 2008, and as such does not anticipate significant increases during the upcoming year.

The gains recognized on trading securities as well as the decrease in the fair value of borrowings measured at their fair value during 2007 are the result of the Corporation electing to early adopt SFAS No. 159 (see Note 3 of the consolidated financial statements). As a result of decreases in interest rates, the Corporation recognized gains from trading securities, as there is an inverse relationship between the value of the trading portfolio and changes in interest rates. These gains were offset by losses associated with the changes in fair value of borrowings as there is a direct relationship between the value of these borrowings and changes in interest rates. Management does expect the gains and losses associated with assets carried at fair value to stabilize throughout 2008.

The years ended December 31, 2007 and 2006 have been some of most productive years 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 during 2008.

The losses from the sale of investment securities were 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.

The increases in all other noninterest income between 2006 and 2005 are mainly related to the fact that in 2006, the Bank started collecting monthly commissions related to its sold credit card portfolio.

NONINTEREST EXPENSES

The following table shows the changes in noninterest expenses between the years ended December 31, 2007, 2006, and 2005 respectively.

	Year Ended December 31						
			Change			Change	
	2007	2006	$	%	2005	$	%
Compensation							
Leased employee salaries	$11,362	$10,105	$1,257	12.4%	$ 9,610	$ 495	5
Leased employee benefits	4,096	3,608	488	13.5%	3,846	(238)	-6
All other	160	156	4	2.6%	92	64	69
Total compensation	15,618	13,869	1,749	12.6%	13,548	321	2
Occupancy							
Depreciation	448	412	36	8.7%	363	49	13
Outside services	332	334	(2)	-0.6%	306	28	9
Property taxes	384	322	62	19.3%	308	14	4
Utilities	344	320	24	7.5%	289	31	10
Building rent	72	163	(91)	-55.8%	125	38	30
Building repairs	147	129	18	14.0%	114	15	13
All other	39	50	(11)	-22.0%	48	2	4
Total occupancy	1,766	1,730	36	2.1%	1,553	177	11
Furniture and equipment							
Depreciation	1,512	1,440	72	5.0%	1,372	68	5
Computer / Service Contracts	1,254	1,101	153	13.9%	973	128	13
ATM and debit card fees	433	263	170	64.6%	247	16	6
All other	98	64	34	53.1%	65	(1)	-1
Total furniture and equipment	3,297	2,868	429	15.0%	2,657	211	7
Other							
Audit and SOX compliance fees	583	1,010	(427)	-42.3%	606	404	66
Marketing	642	697	(55)	-7.9%	624	73	11
Directors fees	796	584	212	36.3%	604	(20)	-3
Printing and supplies	462	377	85	22.5%	431	(54)	-12
Education and travel	412	360	52	14.4%	258	102	39
Postage and freight	459	445	14	3.1%	400	45	11
Legal	296	229	67	29.3%	198	31	15
Amortization of deposit premium	278	160	118	73.8%	94	66	70
Consulting	176	208	(32)	-15.4%	172	36	20
All other	2,444	1,936	508	26.2%	1,739	197	11
Total other	6,548	6,006	542	9.0%	5,126	880	17
TOTAL NONINTEREST EXPENSES	$27,229	$24,473	$2,756	11.3%	$22,884	$1,589	6

As shown in the above table, noninterest expenses increased 11.3% when the year ended December 31, 2007 is compared to 2006 and 6.9% when 2006 is compared to 2005. However, to make the information more comparable, the following table outlines the changes in noninterest expenses excluding the effects of the acquisition of Farwell State Savings Bank in October 2006.

NONINTEREST EXPENSES (EXCLUDING THE EFFECTS OF THE ACQUISITION OF THE FARWELL STATE SAVINGS BANK IN 2006)

	Year Ended December 31						
			Change			Change	
	2007	2006	$	%	2005	$	%
Compensation							
Leased employee salaries	$10,613	$ 9,935	$ 678	6.8%	$ 9,610	$ 325	3
Leased employee benefits	3,781	3,563	218	6.1%	3,846	(283)	-7
All other	128	156	(28)	-17.9%	92	64	69
Total compensation	14,522	13,654	868	6.4%	13,548	106	0
Occupancy							
Depreciation	433	412	21	5.1%	363	49	13
Outside services	328	334	(6)	-1.8%	306	28	9
Property taxes	368	322	46	14.3%	308	14	4
Utilities	323	316	7	2.2%	289	27	9
Building rent	72	163	(91)	-55.8%	125	38	30
Building repairs	126	117	9	7.7%	114	3	2
All other	39	50	(11)	-22.0%	48	2	4
Total occupancy	1,689	1,714	(25)	-1.5%	1,553	161	10
Furniture and equipment							
Depreciation	1,479	1,440	39	2.7%	1,372	68	5
Computer / Service Contracts	1,081	1,081	--	0.0%	973	108	11
ATM and debit card fees	417	258	159	61.6%	247	11	4
All other	72	51	21	41.2%	65	(14)	-21
Total furniture and equipment	3,049	2,830	219	7.7%	2,657	173	6
Other							
Audit and SOX compliance fees	570	1,006	(436)	-43.3%	606	400	66
Marketing	624	694	(70)	-10.1%	624	70	11
Directors fees	720	577	143	24.8%	604	(27)	-4
Printing and supplies	446	371	75	20.2%	431	(60)	-13
Education and travel	402	359	43	12.0%	258	101	39
Postage and freight	420	434	(14)	-3.2%	400	34	8
Legal	282	221	61	27.6%	198	23	11
Amortization of deposit premium	278	160	118	73.8%	94	66	70
Consulting	174	208	(34)	-16.3%	172	36	20
All other	2,114	1,892	222	11.7%	1,739	153	8
Total other	6,030	5,922	108	1.8%	5,126	796	15
TOTAL NONINTEREST EXPENSES	$25,290	$24,120	$1,170	4.9%	$22,884	$1,236	5

Leased employee salaries continue to increase as a result of annual merit increases and the continued growth of the Corporation. In 2006, the Corporation changed its health insurance administrators, and as a result recognized a significant decrease in health insurance related costs when compared to prior years. The 2007 increases were the result of increases in both the cost to

provide health care to its employees as well as due to increases in the size of the Corporation.

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.

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.

The reasons for the high level of audit and SOX compliance fees in 2006 was the fact that a significant portion of the 2005 year end audit procedures were performed in 2006 coupled with the fact that a large portion of the 2006 year end audit procedures were performed prior to December 31, 2006.

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

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. Management feels that this investment in its employees today will pay dividends for years to come.

The increase in the amortization of deposit premium is related to the October 2006 acquisition of Farwell.

Consulting fees increased in 2006 as a result of the Corporation hiring an outside marketing consultant.

All other expenses include title insurance expenses as well as other miscellaneous expenses. The main reasons for the increases in this line item were related to expenses of approximately $130 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.

FEDERAL INCOME TAXES

Federal income tax expense for 2007 was $1,605 or 16.8% of pre-tax income compared to $1,919 or 21.5% of pre-tax income in 2006 and $1,948 or 22.3% in 2005. The decrease in the 2007 effective rate is a result of a substantial increase in the Corporation's municipal bond portfolio and the tax free income earned on these investments. A reconcilement of actual federal income tax expense reported and the amount computed at the federal statutory rate of 34% is found in Note 13, "Federal Income Taxes", in the Notes to the accompanying Consolidated Financial Statements.

ANALYSIS OF CHANGES IN FINANCIAL CONDITION

As shown in the following tables, the Corporation experienced another year of solid asset growth. This growth has been the result of the Corporation's continued growth strategies.

	December 31		
	2007	2006	$ Change
ASSETS			
Cash and cash equivalents	$ 25,583	$ 31,359	$(5,776)
Trading account securities	25,064	--	25,064
Securities available for sale	213,127	213,450	(323)
Mortgage loans available for sale	2,214	2,734	(520)
Loans	612,687	591,042	21,645
Allowance for loan losses	(7,301)	(7,605)	304
Bank premises and equipment	22,516	20,754	1,762
Equity securities without readily determinable fair values	7,353	3,480	3,873
Other assets	56,039	54,913	1,126
TOTAL ASSETS	$957,282	$910,127	$47,155
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Deposits	$733,473	$725,840	$ 7,633
Other borrowed funds	92,887	58,303	34,584
Escrow funds payable	1,912	2,416	(504)
Accrued interest and other liabilities	5,930	7,819	(1,889)
TOTAL LIABILITIES	834,202	794,378	39,824
SHAREHOLDERS' EQUITY	123,080	115,749	7,331
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$957,282	$910,127	$47,155

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

TRADING ACCOUNT SECURITIES

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 maintain a trading portfolio to enhance the ongoing restructuring of assets and liabilities as part of our interest rate risk management objectives (See Note 3 of the Consolidated Financial Statements).

Since January 1, 2007, the Corporation has reduced its trading securities by $52,775 primarily as a result of sales, calls, and maturities. Management has used these proceeds to help fund loan growth. 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.

INVESTMENT SECURITIES

The primary objective of the Corporation's investing activities is to provide for safety of the principal invested. Secondary considerations include the need for earnings, liquidity, and the Corporation's overall exposure to changes in interest rates. Securities are currently classified as available-for-sale or trading and are stated at fair value.

The following is a schedule of the carrying value of investment securities available for sale:

	December 31 2007	2006	2005
Available for sale			
U.S. Government and federal agencies	$ 54,239	$ 69,020	$ 52,913
States and political subdivisions	130,956	112,754	95,435
Corporate	24,300	11,053	13,220
Mortgage-backed	3,632	20,623	21,838
TOTAL	$213,127	$213,450	$183,406

The following is a schedule of the carrying value of trading securities:

	December 31 2007
Trading Securities	
U.S. Government and federal agencies	$ 4,024
States and political subdivisions	10,324
Corporate	1,004
Mortgage-backed	9,712
TOTAL	$25,064

Excluding those holdings of the investment portfolio in U.S. Government and federal agencies, there were no investments in securities of any one issuer that exceeded 10% of shareholders' equity. The Corporation has a policy prohibiting investments in securities that it deems are unsuitable due to their inherent credit or market risks. Prohibited investments include stripped mortgage backed securities, zero coupon bonds, nongovernment agency asset backed securities, and structured notes.

The following is a schedule of maturities of available for sale investment securities (at carrying value) and their weighted average yield as of December 31, 2007. Weighted average yields have been computed on a fully taxable-equivalent basis using a tax rate of 34%. Mortgage-backed securities and collateralized mortgage obligations are included in maturity categories based on their stated maturity date. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations. Trading securities have been excluded as they are not expected to be held to maturity.

	Maturing					
	Within One Year		After One Year But Within Five Years		After Five Years But Within Ten Years	
	Amount	Yield	Amount	Yield	Amount	Yield
Available for Sale						
U.S. Government and federal agencies	$ 3,509	5.04	$20,385	5.48	$30,345	5.53
States and political subdivisions	4,401	5.74	26,149	5.86	42,526	5.52
Mortgage-backed	--	--	384	5.20	3,248	37.5
Corporate	12,000	6.10	--	--	--	--
TOTAL	$19,910	5.83	$46,918	5.69	$76,119	5.52

LOANS

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

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

	2007	2006	2005	2004	2003
Commercial	$238,306	$212,701	$179,541	$146,152	$129,392
Agricultural	47,407	47,302	49,424	49,179	52,044
Residential real estate mortgage	297,937	300,650	226,251	227,421	199,455
Installment	29,037	30,389	28,026	30,143	40,969
	$612,687	$591,042	$483,242	$452,895	$421,860

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

	2007		2006		2005	
	$ Change	% Change	$ Change	% Change	$ Change	% Chang
Commercial	$25,605	12.0%	$ 33,160	18.5%	$33,389	22.8%
Agricultural	105	0.2%	(2,122)	-4.3%	245	0.5%
Residential real estate mortgage	(2,713)	-0.9%	74,399	32.9%	(1,170)	-0.5%
Installment	(1,352)	-4.4%	2,363	8.4%	(2,117)	-7.0%
	$21,645	3.7%	$107,800	22.3%	$30,347	6.7%

The following table presents the change in loan categories between December 31, 2006 and December 31, 2005, excluding the loans acquired from Farwell:

	Consolidated 12/31/06	Less loans acquired from Farwell	Adjusted Consolidated 12/31/06	Consolid	
				12/31/05	$ Chan
Commercial	$212,701	$ 1,361	$211,340	$179,541	$31,7
Agricultural	47,302	--	47,302	49,424	(2,1
Residential real estate mortgage	300,650	59,040	241,610	226,251	15,3
Installment	30,389	3,729	26,660	28,026	(1,3
	$591,042	$64,130	$526,912	$483,242	$43,6

The growth in commercial loans is a result of the Corporation's efforts to increase the commercial loan portfolio as a percentage of total loans. A significant portion of this growth has been driven by the Corporation's new business development team. Management expects to see continued growth in the commercial loan portfolio in 2008.

Agricultural and residential real estate mortgages loans have remained essentially unchanged since December 31, 2006. Management does anticipate, however, that these groups will increase slightly during 2008.

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

EQUITY SECURITIES WITHOUT READILY DETERMINABLE FAIR VALUES

The largest components of equity securities without readily determinable fair values are Federal Home Loan Bank Stock and Federal Reserve Bank Stock. The Corporation has purchased additional shares of stock as a result of the consolidation of the Bank's charter as well as to fulfill stock requirements to borrow additional funds from the Federal Home Loan Bank.

DEPOSITS

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

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

	2007	2006	2005
Noninterest bearing demand deposits	$ 84,846	$ 83,902	$ 73,839
Interest bearing demand deposits	105,526	111,406	104,251
Savings deposits	196,682	178,001	153,397
Certificates of deposit	311,976	320,226	250,246
Brokered certificates of deposit	28,197	27,446	7,076
Internet certificates of deposit	6,246	4,859	3,669
Total	$733,473	$725,840	$592,478

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

	2007		2006		2005	
	$ Change	% Change	$ Change	% Change	$ Change	% Ch
Noninterest bearing demand deposits	$ 944	1.1%	$ 10,063	13.6%	$ 8,103	1
Interest bearing demand deposits	(5,880)	-5.3%	7,155	6.9%	2,889	
Savings deposits	18,681	10.5%	24,604	16.0%	(9,119)	-
Certificates of deposit	(8,250)	-2.6%	69,980	28.0%	15,984	
Brokered certificates of deposit	751	2.7%	20,370	287.9%	7,076	10
Internet certificates of deposit	1,387	28.5%	1,190	32.4%	3,669	10
Total	$ 7,633	1.1%	$133,362	22.5%	$28,602	

The following table presents the change in deposit categories for the year ended December 31, 2006, excluding the deposits acquired from The Farwell State Savings Bank:

Less

	Consolidated 12/31/06	deposits acquired from Farwell	Adjusted Consolidated 12/31/06	Conso 12/31/05	$ C
Noninterest bearing demand deposits	$ 83,902	$10,472	$ 73,430	$ 73,839	$
Interest bearing demand deposits	111,406	8,660	102,746	104,251	(1
Savings deposits	178,001	17,704	160,297	153,397	6
Certificates of deposit	320,226	35,507	284,719	250,246	34
Brokered certificates of deposit	27,446	995	26,451	7,076	19
Internet certificates of deposit	4,859	--	4,859	3,669	1
Total	$725,840	$73,338	$652,502	$592,478	$60

As shown in the preceding tables, the Corporation has observed consistent deposit growth over the past two years. In 2006, much of this growth came in the form of time sensitive deposits, including brokered and internet certificates of deposit. The majority of the 2007 growth was in savings deposits, which includes money market accounts. This change in mix is a direct result of the current interest rate environment. The rates paid on money market accounts have increased significantly during 2007 due to the increased competition for these deposits.

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

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

	2007		2006		2005	
	Amount	Rate	Amount	Rate	Amount	Rate
Noninterest bearing demand deposits	$ 80,128		$ 73,650		$ 69,610	
Interest bearing demand deposits	109,370	1.72%	105,476	1.58%	103,684	0.97%
Savings deposits	188,323	2.25%	158,327	1.69%	157,238	1.00%
Time deposits	349,941	4.71%	301,593	4.25%	245,559	3.58%
Total	$727,762		$639,046		$576,091	

The time remaining until maturity of time certificates and other time deposits of $100 or more at December 31, 2007 was as follows:

Maturity	
Within 3 months	$ 37,363

Within 3 to 6 months	29,011
Within 6 to 12 months	25,363
Over 12 months	40,582
TOTAL	$132,319

BORROWED FUNDS

As a result of the Corporation's recent loan growth, desire to increase its investment in high quality tax exempt municipal bonds, and the increased level of competition for deposits, the Corporation has increased its other borrowings significantly over the past year. Management does anticipate that the Corporation will continue to increase its borrowings throughout 2008 (See Note 11 of the Consolidated Financial Statements).

ESCROW FUNDS PAYABLE

The Corporation observed a decrease in escrow funds payable during 2007. This decrease can be attributed to Internal Revenue Code Section ("IRC") 1031 exchange account balances being reinvested by customers of IBT Title and Insurance Agency, Inc. ("IBT Title"). These IRC 1031 accounts allow owners of business or investment property to defer realized gains from the sale of business or investment property if the funds are reinvested in another property. As such, these balances can fluctuate significantly between periods as the funds are reinvested. The Corporation does not anticipate escrow funds payable to fluctuate significantly from current levels in 2008.

ACCRUED INTEREST AND OTHER LIABILITIES

The Corporation observed a significant decline in accrued interest and other liabilities during 2007. This decrease can primarily be attributed to a decrease of $2,890 in the net amount recognized for the Corporation's defined benefit pension plan primarily as a result of the plan curtailment (See Note 18 of the Consolidated Financial Statements).

CAPITAL

The capital of the Corporation consists solely of common stock, capital surplus, retained earnings, and accumulated other comprehensive income / (loss). The Corporation offers dividend reinvestment and employee and director stock purchase plans. Under the provisions of these Plans, the Corporation issued 63,233 shares of common stock generating $2,657 of capital during 2007, and 61,258 shares of common stock generating $2,459 of capital in 2006. The Corporation also offers share based payment awards through its equity compensation plan (See Note 18 of the consolidated financial statements). Pursuant to this plan, the Corporation generated $758 and $470 of capital in 2007 and 2006, respectively. On March 22, 2007 the Board of Directors amended its repurchase plan to allow management to repurchase up to 150,000 shares of the Corporation's common stock. Subsequent to this amendment, the Corporation repurchased 30,620 shares of stock. The Corporation also repurchased 12,600 shares of common stock during the first quarter of 2007 under the plan's previous provisions. During 2007, a total of 43,220 shares were repurchased at an average price of $43.51 per share, without being adjusted for the 10% stock dividend paid February 29,

2008. There were no shares repurchased in 2006 or 2005. Accumulated other comprehensive loss decreased $3,221 and consists of a $417 increase in unrealized gain on available-for-sale investment securities, a $1,907 reduction in unrecognized actuarial losses of the defined benefit pension plan, principally attributable to a plan curtailment in March, 2007, and an $897 implementation adjustment related to the early adoption on January 1, 2007 of FASB Statement No. 159 (See Note 3 of the Consolidated Financial Statements). All of these adjustments are net of tax.

The Federal Reserve Board's current recommended minimum primary capital to assets requirement is 6.0%. The Corporation's primary capital to average assets, which consists of shareholders' equity plus the allowance for loan losses less acquisition intangibles, was 11.50% at year end 2007. There are no commitments for significant capital expenditures.

The Federal Reserve Board has established a minimum risk based capital standard. Under this standard, a framework has been established that assigns risk weights to each category of on and off-balance-sheet items to arrive at risk adjusted total assets. Regulatory capital is divided by the risk adjusted assets with the resulting ratio compared to the minimum standard to determine whether a corporation has adequate capital. The minimum standard is 8%, of which at least 4% must consist of equity capital net of goodwill. The following table sets forth the percentages required under the Risk Based Capital guidelines and the Corporation's values at December 31, 2007:

Percentage of Capital to Risk Adjusted Assets:

	IBT Bancorp December 31, 2007	
	Required	Actual
Equity Capital	4.00%	15.81%
Secondary Capital	4.00%	1.20%
Total Capital	8.00%	17.01%

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 also prescribes minimum capital requirements for the Corporation's subsidiary Bank. At December 31, 2007, the Bank exceeded these minimums. For further information regarding the Bank's capital requirements, refer to Note 17 of the Notes to the accompanying Consolidated Financial Statements, "Minimum Regulatory Capital Requirements".

LIQUIDITY

The primary sources of the Corporation's liquidity are cash and cash equivalents, trading securities, and available-for-sale investment securities. These categories totaled $263,774 or 27.6% of assets as of December 31, 2007 as compared to $244,809 or 26.9% in 2006. Liquidity is important for financial institutions because of their need to meet loan funding commitments, depositor withdrawal requests and various other commitments discussed in the accompanying notes to consolidated financial statements. Liquidity varies significantly daily, based on customer activity.

Operating activities provided $60,387 of cash in 2007 as compared to using $1,789 in 2006. Net cash provided by financing activities equaled $38,470 in 2007 and $64,846 in 2006. The Corporation's investing activities used cash amounting to $104,633 in 2007 and $62,533 in 2006. The accumulated effect of the Corporation's operating, investing, and financing activities used $5,776 of cash in 2007 and provided $534 of cash in 2006.

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. As a result of this increased competition, the Corporation (as discussed above) has begun to rely more and more on brokered, internet deposits, and other borrowed funds as a key funding source.

In addition to these primary sources of liquidity, the Corporation has the ability to borrow in the federal funds market and at both the Federal Reserve Bank and the Federal Home Loan Bank. The Bank has over $100,000 of available credit from these secondary sources. The Corporation's liquidity is considered adequate by the management of the Corporation.

INTEREST RATE SENSITIVITY

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

Investment securities and other investments are scheduled according to their contractual maturity. Fixed rate loans are included in the appropriate time frame based on their scheduled amortization. Variable rate loans are included in the time frame of their earliest repricing. Of the $612,687 in total loans, $90,687 are variable rate loans. Time deposit liabilities are scheduled based on their contractual maturity except for variable rate time deposits in the amount of $1,960 that are included in the 0 to 3 month time frame.

Savings, NOW accounts, and money market accounts have no contractual maturity date and are believed to be predominantly noninterest rate sensitive by management. These accounts have been classified in the gap table according to their estimated withdrawal rates based upon management's analysis of deposit runoff over the past five years. Management believes this runoff experience is consistent with its expectation for the future. As of December 31, 2007, the Corporation had $75,297 more liabilities than assets maturing within one year. A negative gap position results when more liabilities, within a specified time frame, mature or reprice than assets.

INTEREST RATE SENSITIVITY

The following table shows the time periods and the amount of assets and liabilities available for interest rate repricing as of December 31, 2007. The interest rate sensitivity information for investment securities is based on the expected prepayments and call dates verses stated maturities. For purposes of this analysis, nonaccrual loans and the allowance for loan losses are excluded.

	0 to 3 Months	4 to 12 Months	1 to 5 Years	Over 5 Years
Interest Sensitive Assets				
Trading securities	$ 25,064	$ --	$ --	$ --
Investment securities	34,580	40,370	43,480	94,697
Loans	126,723	88,411	335,360	58,037
TOTAL	$186,367	$128,781	$378,840	$152,734
Interest Sensitive Liabilities				
Borrowed funds	$ 24,387	$ 6,000	$ 47,500	$ 15,000
Time deposits	73,266	154,784	118,232	137
Savings	63,017	25,715	107,950	--
Interest bearing demand	39,332	3,944	62,250	--
TOTAL	$200,002	$190,443	$335,932	$ 15,137
Cumulative gap (deficiency)	$(13,635)	$(75,297)	$(32,389)	$105,208
Cumulative gap (deficiency) as a % of assets	(1.43)%	(7.87)%	(3.39)%	11.00%

The following table shows the maturity of commercial and agricultural loans outstanding at December 31, 2007. Also provided are the amounts due after one year, classified according to the sensitivity to changes in interest rates.

	Due in			
	1 Year or Less	1 to 5 Years	Over 5 Years	Total
Commercial and agricultural	$65,822	$189,964	$29,927	$285,713
Interest Sensitivity				
Loans maturing after one year that have:				
Fixed interest rates		$172,200	$28,530	
Variable interest rates		17,764	1,397	
TOTAL		$189,964	$29,927	

ITEM 7 A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Corporation's primary market risks are interest rate risk and, to a lesser extent, liquidity risk. The Corporation has no significant foreign exchange risk, holds limited loans outstanding to oil and gas concerns, and does not utilize interest rate swaps or derivatives, except for interest rate locks, in the management of its interest rate risk. Any changes in foreign exchange rates or commodity prices would have an insignificant impact, if any, on the Corporation's interest income and cash flows. The Corporation does have a significant amount of loans extended to borrowers in agricultural production. The cash flow of such borrowers and ability to service debt is largely dependent on the commodity prices for corn, soybeans, sugar beets, milk, beef, and a variety of dry beans. The Corporation mitigates these risks by using conservative price and production yields when calculating a borrower's available cash flow to service their debt.

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

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

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

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

prepared for the year ended December 31, 2007 the Corporation's net interest income would increase during a period of decreasing interest rates.

The following tables provide information about the Corporation's assets and liabilities that are sensitive to changes in interest rates as of December 31, 2007 and 2006. The Corporation has no interest rate swaps, futures contracts, or other derivative financial options. The principal amounts of assets and time deposits maturing were calculated based on the contractual maturity dates. Savings and NOW accounts are based on management's estimate of their future cash flows.

	December 31, 2007					
(dollars in thousands)	2008	2009	2010	2011	2012	Thereaf
Rate sensitive assets						
Other interest bearing assets	$ 1,457	$ --	$ --	$ --	$ --	$ -
Average interest rates	3.21%	--	--	--	--	-
Trading securities	$ 9,342	$ 2,213	$ 3,269	$ 2,750	$ 2,820	$ 4,67
Average interest rates	4.86%	4.86%	4.20%	4.34%	3.50%	6.9
Fixed interest rate securities	$ 74,950	$24,122	$ 8,450	$ 8,082	$ 2,826	$94,69
Average interest rates	5.54%	4.98%	4.57%	3.99%	4.13%	3.9
Fixed interest rate loans	$124,447	$99,132	$98,275	$78,152	$63,957	$58,03
Average interest rates	6.72%	6.65%	6.87%	7.25%	7.28%	6.5
Variable interest rate loans	$ 41,596	$14,613	$18,792	$ 4,796	$ 6,435	$ 4,45
Average interest rates	7.94%	7.67%	7.66%	7.52%	7.31%	7.5
Rate sensitive liabilities						
Borrowed funds	$ 30,387	$ 6,500	$24,000	$ --	$17,000	$15,00
Average interest rates	4.77%	4.34%	4.69%	--	4.19%	4.7
Savings and NOW accounts	$132,008	$71,320	$69,183	$23,972	$ 5,725	$ -
Average interest rates	2.61%	1.15%	0.62%	0.59%	0.86%	0.0
Fixed interest rate time deposits	$226,090	$33,477	$42,835	$23,067	$18,853	$ 13
Average interest rates	4.61%	4.42%	4.53%	4.81%	4.63%	4.4
Variable interest rate time deposits	$ 1,375	$ 585	$ --	$ --	$ --	$ -
Average interest rates	4.09%	4.10%	--	--	--	-

	December 31, 2006					
	2007	2008	2009	2010	2011	Therea
Rate sensitive assets						
Other interest bearing assets	$ 2,992	$ --	$ --	$ --	$ --	$ -
Average interest rates	4.63%	--	--	--	--	-
Fixed interest rate securities	$ 76,761	$ 48,239	$21,380	$15,064	$12,983	$39,02
Average interest rates	3.87%	4.41%	4.14%	4.04%	3.75%	3.8
Fixed interest rate loans	$108,771	$100,331	$95,442	$75,359	$74,773	$37,26
Average interest rates	6.45%	6.41%	6.47%	6.55%	7.17%	6.2
Variable interest rate loans	$ 66,850	$ 12,598	$13,118	$ 4,301	$ 1,425	$ 80

Average interest rates	5.93%	8.81%	8.63%	8.76%	8.26%	9.2
Rate sensitive liabilities						
Borrowed funds	$ 23,489	$ 6,058	$ 8,500	$ 8,256	$ --	$12,00
Average interest rates	5.01%	4.78%	4.88%	5.10%	--	4.8
Savings and NOW accounts	$114,322	$ 78,084	$68,816	$22,601	$ 5,584	$ -
Average interest rates	3.14%	1.37%	0.70%	0.73%	0.92%	-
Fixed interest rate time deposits	$231,238	$ 43,789	$22,518	$31,822	$16,433	$ 53
Average interest rates	4.63%	4.21%	4.17%	4.47%	4.79%	5.2
Variable interest rate time deposits	$ 5,771	$ 424	$ 5	$ --	$ --	$ -
Average interest rates	4.16%	4.28%	4.34%	--	--	-

FORWARD LOOKING STATEMENTS

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following consolidated financial statements of the registrant accompanied by the report of our independent registered public accounting firm are set forth on pages 34 through 71 of this report:

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

The supplementary data regarding quarterly results of operations are set forth

under the table headed "Summary of Selected Financial Data" under Item 6 on 12 of this report.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of IBT BANCORP, INC. as of December 31, 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.

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
(Dollars in thousands)

	December 31	
	2007	2006
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
(Dollars in thousands)

	Year Ended December 31		
	2007	2006	2005
NUMBER OF SHARES OF COMMON STOCK OUTSTANDING			
Balance at beginning of year	6,335,861	4,974,715	4,896,4
Common stock dividends	--	497,299	
Issuance of common stock	71,479	66,372	78,3
Shares issued in exchange for bank acquisition	--	797,475	
Common stock repurchased	(43,220)	--	
BALANCE END OF YEAR	6,364,120	6,335,861	4,974,7
COMMON STOCK			
Balance at beginning of year	$ 114,785	$ 72,296	$ 66,9
Common stock dividends	--	20,887	
Transfer	--	(12,000)	
Issuance of common stock	2,657	33,132	2,6
Share-based payment awards under equity compensation plan	758	470	2,7
Common stock repurchased	(1,881)	--	

BALANCE END OF YEAR	116,319	114,785	72,2
RETAINED EARNINGS			
Balance at beginning of year	4,451	10,112	6,5
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	6,7
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)	(3,2
BALANCE END OF YEAR	7,027	4,451	10,1
ACCUMULATED OTHER COMPREHENSIVE LOSS			
Balance at beginning of year	(3,487)	(1,506)	(9
Cumulative adjustment to initially apply the fair value option of FASB Statement No. 159, net of tax	897		
Cumulative adjustment to intially apply FASB Statement No. 158, net of tax	--	(2,728)	
Other comprehensive income (loss)	2,324	747	(6
BALANCE END OF YEAR	(266)	(3,487)	(1,5
TOTAL SHAREHOLDERS' EQUITY END OF YEAR	$ 123,080	$ 115,749	$ 80,9

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

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

	YEAR ENDED DECEMBER 31		
	2007	2006	2005
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
(Dollars in thousands)

	Year Ending December 31		
	2007	2006	2005
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)
(Dollars in thousands)

	Year Ended	
	2007	20
OPERATING ACTIVITIES		
Net income	$ 7,930	$ 7
Reconciliation of net income to cash provided by (used in) operations:		
Provision for loan losses	1,211	
Provision for foreclosed asset losses	109	
Depreciation	1,960	1
Net amortization of investment securities	216	
Realized loss (gain) on sale of investment securities	19	
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	
Earnings on corporate owned life insurance policies	(432)	
Amortization of acquisition intangibles	278	
Deferred income taxes	301	
Share-based payment awards	758	
Net changes in operating assets and liabilities which provided (used) cash:		
Trading securities	53,235	
Loans held for sale	520	(1
Accrued interest receivable	(183)	
Other assets	(4,667)	(1
Escrow funds payable	(504)	(7
Accrued interest and other liabilities	(171)	(1
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	60,387	(1
INVESTING ACTIVITIES		
Activity in available-for-sale securities		
Maturities, calls, and sales	54,997	57

Purchases	(132,115)	(70
Activity in held to maturity securities		
Maturities, calls, and sales	--	
Loan principal originations, net	(24,455)	(44
Proceeds from sales of foreclosed assets	662	
Purchases of premises and equipment	(3,722)	(2
Acquisition of Farwell State Savings Bank, net of cash acquired	--	(2
Purchase of corporate owned life insurance policies	--	
NET CASH USED IN INVESTING ACTIVITIES	(104,633)	(62
FINANCING ACTIVITIES		
Net increase (decrease) in noninterest bearing deposits	944	
Net increase in interest bearing deposits	6,689	60
Net increase in other borrowed funds	34,365	6
Cash dividends paid on common stock	(4,304)	(3
Proceeds from the issuance of common stock	2,657	2
Common stock repurchased	(1,881)	
NET CASH PROVIDED BY FINANCING ACTIVITIES	38,470	64
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(5,776)	
Cash and cash equivalents at beginning of year	31,359	30
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 25,583	$ 31
Supplemental cash flows information:		
Interest paid	$ 25,872	$ 19
Federal income taxes paid	1,776	1
Transfer of loans to foreclosed assets	1,295	

See notes to consolidated financial statements.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION AND CONSOLIDATION: The consolidated financial statements include the accounts of IBT Bancorp, Inc. (the "Corporation"), a financial services holding company, and its wholly owned subsidiaries, Isabella Bank and Trust, 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 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 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 either doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that management believes affect its estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the 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.

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.

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 be recognized in the financial statements and that this cost be measured based on the fair value of the equity or liability instruments issued. SFAS No. 123(R) covers a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. SFAS 123(R) applies to new awards and awards modified, repurchased, or cancelled after January 1, 2006. Compensation expense is based on the fair value of the awards, which is generally the market price of the stock on the measurement date and is recognized ratably over the service period of the award.

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

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

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 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 with 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 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.

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.

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.

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 equivelants	$ 5,281	$ --	$ 5,281
Securities available for sale	17,166	--	17,166
Loans, net	63,874	(470)	63,404
Bank premises and equipment	307	600	907
Other assets	2,416	15	2,431

TOTAL ASSETS ACQUIRED	89,044	145	89,189
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Deposits	73,731	(393)	73,338
Accrued interest and other liabilities	1,114	--	1,114
TOTAL LIABILITIES ASSUMED	74,845	(393)	74,452
NET ASSETS ACQUIRED	$14,199	$ 538	14,737
Core deposit intangible			1,442
Goodwill			22,263
TOTAL CONSIDERATION PAID			$38,442

The fair value adjustments are being amortized over two years using the straight line amortization method. The core deposit intangible is being amortized using a 10 year sum-of-the-years' digits amortization schedule. Goodwill, which is not amortized, 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.

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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

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 1/1/2007 Early Ado of F

Investment securities	$79,198	$(1,359)	$77,83
FHLB borrowings included in other borrowed funds	(7,256)	(232)	(7,48
Pretax cumulative loss effect of early adoption of the fair value option		(1,591)	
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 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 is unobservable inputs.

Description	Fair Value Measurements 12/31/2007	Fair Value Measurements at December 31, 2007 Using		Changes in Fair December 31, 2007 Value Pursuant V	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Trading Gains and (Losses)	Othe Gains (Loss
RECURRING ITEMS					
Trading securities	$ 25,064	$ --	$ 25,064	$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	--	(6
NONRECURRING ITEMS					
Mortgage servicing rights	2,198	--	2,198	--	(
Other real estate owned	1,376	--	1,376	--	(10

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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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:

Securities Available-for-Sale	2007 Amortized Cost	2007 Gross Unrealized Gains	2007 Gross Unrealized Losses	2007 Fair Value
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

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

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 requried 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	
	A mortized 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	Fair	Gross Unrealized	Fair	Total Unrealized

Securities Available-for-Sale	Losses	Value	Losses	Value	Losses
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

	December 31, 2006				
	Less Than Twelve Months		Over Twelve Months		
Securities Available-for-Sale	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Total Unrealized Losses
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.

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	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

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

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 acqupisitions	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

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.

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
Marketing and advertising	642	697	624
Audit and SOX compliance fees	583	1,010	606
Other, not individually significant	4,527	3,715	3,292
	$6,548	$6,006	$5,126

NOTE 13 - FEDERAL INCOME TAXES

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

2007	2006	2005

Currently payable	$1,304	$1,645	$1,685
Deferred	301	274	263
FEDERAL INCOME TAXES	$1,605	$1,919	$1,948

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

	2007	2006	2005
Income taxes at 34% statutory rate	$ 3,242	$ 3,033	$ 2,966
Effect of nontaxble income	(1,782)	(1,239)	(1,100)
Effect of nondeductible expenses	145	125	82
FEDERAL INCOME TAXES	$ 1,605	$ 1,919	$ 1,948

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

	2007	2006
DEFERRED TAX ASSETS		
Allowance for loan losses	$1,658	$1,728
Deferred directors' fees	1,803	1,359
Employee benefit plans	33	307
Core deposit premium and acquisition expenses	116	--
Net unrealizd losses on trading securities	119	--
Net unrecognized actuarial loss on pension plan	424	1,405
Net unrealized loss on available-for-sale securities	--	392
Other	209	78
TOTAL DEFERRED TAX ASSETS	4,362	5,269
DEFERRED TAX LIABILITIES		
Prepaid pension asset	899	794
Premises and equipment	606	638
Accretion on securities	47	66
Core deposit premium and acquisition expenses	315	157
Net unrealized gains on available-for-sale securities	286	--
Other	194	178
TOTAL DEFERRED TAX LIABILITIES	2,347	1,833
NET DEFERRED TAX ASSETS	$2,015	$3,436

In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN No. 48), an interpretation of Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes. FIN No. 48 seeks to reduce the significant diversity in practice associated with financial statement recognition and measurement in accounting for income taxes and prescribes a recognition threshold and measurement attribute for disclosure of tax positions taken or expected to be taken on an income tax return, in order for those tax provisions to be recognized in the Corporation's financial statements. During 2007, the Corporation adopted the provisions of FIN No. 48. The adoption had no effect on the Corporation's financial statements.

The Corporation and its subsidiaries are subject to U.S. federal income tax. The Corporation is no longer subject to examination by taxing authorities for years before 2004. The Corporation does not expect the total amount of unrecognized tax benefits to significantly increase in the next twelve months.

The Corporation recognizes interest and/or penalties related to income tax matters in income tax expense. The Corporation does not have any amounts accrued for interest and penalties at December 31, 2007 and is not aware of any claims for such amounts by federal income tax authorities.

NOTE 14 - OFF-BALANCE-SHEET ACTIVITIES

CREDIT-RELATED FINANCIAL INSTRUMENTS

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

	CONTRACT AMOUNT	
	2007	2006
Unfunded commitments under lines of credit	$87,969	$85,077
Commercial and standby letters of credit	4,405	4,079

The Corporation's exposure to credit-related loss in the event of nonperformance by the counter parties to the financial instruments for commitments to extend credit and standby letters of credit 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.

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.

The Corporation considers standby letters of credit to be guarantees. 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 assets. Guarantees that are not derivative contracts have been recorded on the Corporation's consolidated balance sheet at their fair values at inception.

NOTE 15 - ON-BALANCE SHEET ACTIVITIES

DERIVATIVE LOAN COMMITMENTS

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

Outstanding derivative loan commitments expose the Corporation to the risk that the price of the loans arising from the exercise of the loan commitment might decline from the inception of the rate lock to funding of the loan due to increases in mortgage interest rates. If interest rates increase, the value of these loan commitments decreases. Conversely, if interest rates decrease, the value of these loan commitments increases. The notional amount of undesignated interest rate lock commitments was $311and $532 at December 31, 2007 and 2006, respectively.

FORWARD LOAN SALE COMMITMENTS

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

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

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

The Corporation expects that these forward loan sale commitments will experience changes in fair value opposite to change in fair value of derivate loan commitments. The notional amount of undesignated forward loan sale commitments was $2,525 and $3,266 at December 31, 2007 and 2006, respectively.

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

NOTE 16 - COMMITMENTS AND OTHER MATTERS

Banking regulations require banks to maintain cash reserve balances in currency or as deposits with the Federal Reserve Bank. At December 31, 2007 and 2006, the reserve balances amounted to $370 and $979, respectively.

Isabella Bank and Trust sponsors the IBT Foundation (the "Foundation"), which is a nonprofit entity formed for the purpose of distributing charitable donations to recipient organizations generally located in the communities serviced by Isabella Bank and Trust. The Bank periodically makes charitable contributions in the form of cash transfers to the Foundation. The Foundation is administered by members of the Isabella Bank and Trust Board of Directors. The assets and transactions of the Foundation are not included in the consolidated financial statements of IBT Bancorp, Inc. No donations were made to the Foundation by Isabella Bank and Trust during the years ended December 31, 2007, 2006 and 2005. The assets of the Foundation as of December 31, 2007 and 2006 were $1,069 and $1,318, respectively.

Banking regulations limit the transfer of assets in the form of dividends, loans, or advances from the Bank to the Corporation. At December 31, 2007, substantially all of the Bank's assets were restricted from transfer to the Corporation in the form of loans or advances. Consequently, bank dividends are the principal source of funds for the Corporation. Payment of dividends without regulatory approval is limited to the current years retained net income plus retained net income for the preceding two years, less any required transfers to capital surplus. At January 1, 2007, the amount available for dividends without regulatory approval was approximately $7,192.

The Bank has obtained approval to borrow up to $100,000 from the Federal Home Loan Bank (FHLB) of Indianapolis. Under the terms of the agreement, the Bank may obtain advances at the stated rate at the time of the borrowings. The Bank has agreed to pledge eligible mortgage loans and U.S. Treasury and governmental agencies as collateral for any such borrowings. The Corporation also has a $10,000 line of credit with LaSalle Bank that the Corporation has agreed to pledge stock for any advances.

NOTE 17 - MINIMUM REGULATORY CAPITAL REQUIREMENTS

The Corporation (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by the Federal Reserve Bank and the Federal Deposit Insurance Corporation (The Regulators). Failure to meet minimum capital requirements can initiate mandatory and possibly additional discretionary actions by The Regulators that if undertaken, could have a material effect on the Corporation's and Bank's financial statements. Under The Regulators' capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation and the Bank must meet specific capital guidelines that include quantitative measures of their assets, liabilities,

capital, and certain off-balance-sheet items, as calculated under regulatory accounting standards. The Bank's capital amounts and classifications are also subject to qualitative judgments by The Regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Corporation and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and Tier 1 capital to average assets (as defined). Management believes, as of December 31, 2007 and 2006, that the Corporation and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2007, the most recent notifications from The Regulators categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since the notifications that management believes has changed the Bank's categories. The Corporation's and each Bank's actual capital amounts (in thousands) and ratios are also presented in the table.

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Unde Prompt Correctiv Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
DECEMBER 31, 2007						
Total capital to risk weighted assets						
Isabella Bank & Trust	$ 75,769	12.7%	$47,705	8.0%	$59,632	10.0%
Consolidated	103,436	17.0	48,636	8.0	N/A	N/A
Tier 1 capital to risk weighted assets						
Isabella Bank & Trust	68,468	11.5	23,853	4.0	35,779	6.0
Consolidated	96,135	15.8	24,318	4.0	N/A	N/A
Tier 1 capital to average assets						
Isabella Bank & Trust	68,468	7.7	35,723	4.0	44,654	5.0
Consolidated	96,135	10.7	35,936	4.0	N/A	N/A
DECEMBER 31, 2006						
Total capital to risk weighted assets						
Isabella Bank & Trust	$ 51,484	12.2%	$33,748	8.0%	$42,185	10.0%
FSB Bank	30,660	20.4	12,025	8.0	15,032	10.0
Consolidated	96,792	16.6	46,552	8.0	N/A	N/A
Tier 1 capital to risk weighted assets						
Isabella Bank & Trust	46,917	11.1	16,874	4.0	25,311	6.0
FSB Bank	28,767	19.1	6,013	4.0	9,019	6.0
Consolidated	89,514	15.4	23,276	4.0	N/A	N/A
Tier 1 capital to average assets						
Isabella Bank & Trust	46,917	7.5	25,146	4.0	31,432	5.0
FSB Bank	28,767	12.3	9,337	4.0	11,672	5.0
Consolidated	89,514	11.6	30,926	4.0	N/A	N/A

NOTE 18 - BENEFIT PLANS

DEFINED BENEFIT PENSION PLAN

The Corporation has a non-contributory defined benefit pension plan covering substantially all of its employees. 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, suspended 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. As a result of the curtailment, the Corporation changed its method of accounting for the plan to be in accordance with SFAS No. 88 Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits. Due to the curtailment, future salary increases will not be considered and the benefits are based on years of service and the employees' five highest consecutive years of compensation out of the last ten years of service through March 1, 2007. As a result of the curtailment, the Corporation does not anticipate contributing to the plan in the future.

The curtailment resulted in a reduction of $2,939 in the projected benefit obligation, which served to reduce unrecognized net actuarial loss of $2,939, a component of accumulated other comprehensive loss.

Subsequent to the decision to curtail the defined benefit plan, the Corporation decided to increase the contributions to the Corporation's 401(k) plan effective January 1, 2007 (see "Other Employee Benefit Plans")

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

	2007	2006
Change in benefit obligation		
Benefit obligation, January 1	$10,996	$ 9,557
Service cost	109	593
Interest cost	489	607
Actuarial loss	51	724
Benefits paid, including plan expenses	(500)	(485)
Plan curtailment	(2,939)	--
BENEFIT OBLIGATION, DECEMBER 31	8,206	10,996
Change in plan assets		
Fair value of plan assets, January 1	9,199	7,609
Investment return	558	947
Corporation contribution	350	1,128
Benefits paid, including plan expenses	(500)	(485)
FAIR VALUE OF PLAN ASSETS, DECEMBER 31	9,607	9,199
FUNDED STATUS (DEFICIENCY) AT DECEMBER 31	$ 1,401	$(1,797)

	2007	2006
Change in prepaid (accrued) pension benefit costs		
Prepaid (accrued) benefit cost at January 1	$(1,797)	$ 2,148
Contributions to the plan	350	1,128
Net periodic benefit cost for the year	(2)	(939)
Plan curtailment loss	(40)	--
Net change in unrecognized actuarial loss and prior service cost	2,890	(4,134)
PREPAID (ACCRUED) PENSION BENEFIT COST AT DECEMBER 31	$ 1,401	$(1,797)

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During 2006, the Corporation adopted the provisions of Statement of Financial Accounting Standards No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans ("SFAS No. 158") and in accordance therewith reflected the under funded status of the plan in its consolidated balance sheet at December 31, 2006. Prospectively, the Corporation will adjust the liability to reflect the current funded status of the plan. Any gains or losses that arise during the period but are not recognized as components of net periodic benefit cost will be recognized as a component of other comprehensive income (loss).

The adoption of SFAS No. 158 had no effect on the Corporation's consolidated statement of operations for the year ended December 31, 2006, and it will not affect the Corporation's operating results in future periods.

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

	Before Application of SFAS No. 158	SFAS No. 158 Application Adjustments	After Application of SFAS No. 158
(Prepaid) accrued liability for pension benefits	$ (2,337)	$ 4,134	$ 1,797
Deferred income tax assets	2,030	1,406	3,436
Total liabilities	792,581	1,797	794,378
Accumulated other comprehensive loss	(759)	(2,728)	(3,487)
Total shareholders' equity	118,477	(2,728)	115,749

Amounts recognized in accumulated other comprehensive loss consist of:

	December 31		
	2007	2006	2005
Reduction of unrecognized pension cost, primarily			

as a result of plan curtailment	$ 2,890	$ --	$ --
Tax effect	(983)	--	--
Net of tax amount	1,907	--	--
Additional minimum pension liability	--	--	(1,839)
Tax effect	--	--	625
Net of tax amount	--	--	(1,214)
Adjustment to initially apply FASB Statement No. 158	--	(4,134)	--
Tax effect	--	1,406	--
Net of tax amount	--	(2,728)	--
TOTAL	$ 1,907	$(2,728)	$(1,214)

The accumulated benefit obligation was $8,206 and $8,072 at December 31, 2007 and 2006, respectively. The $4,134 adjustment to initially apply SFAS No. 158 in 2006 consisted primarily of previously unrecognized net actuarial losses.

An adjustment to the additional minimum pension liability in the amount of $1,839 was recorded as of December 31, 2005, which resulted in a reduction to other comprehensive loss.

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

NET PERIODIC BENEFIT COST	2007	2006	2005
Service cost on benefits earned for services rendered during the year	$ 109	$ 637	$ 558
Interest cost on projected benefit obligation	489	607	540
Expected return on plan assets	(628)	(555)	(463)
Amortization of unrecognized prior service cost	--	18	18
Amortization of unrecognized actuarial net loss	32	232	201
NET PERIODIC BENEFIT COST	$ 2	$ 939	$ 854

	2007	2006	2005
OTHER CHANGES IN PLAN ASSETS AND BENEFIT OBLIGATIONS RECOGNIZED IN OTHER COMPREHENSIVE INCOME (LOSS)			
Net reduction of unrecognized pension cost as a result of plan curtailment, net of tax	$1,907	$--	$ --
Adjustment to record the additional minimum pension			

liability, net of tax	--	--	1,214
TOTAL RECOGNIZED IN OTHER COMPREHENSIVE INCOME	$1,907	$--	$1,214

Accumulated other comprehensive loss at December 31, 2007 includes net actuarial losses of $1,244, of which $18 is expected to be amortized during the year ending December 31, 2008.

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

	2007	2006	2005
Weighted average discount rate	6.44%	6.00%	6.25%
Rate of increase in future compensation	N/A	4.50%	4.50%
Expected long-term rate of return	7.00%	7.50%	7.50%

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

	2007	2006	2005
Discount rate	6.44%	6.00%	6.25%
Rate of compensation increase	N/A	4.50%	4.50%
Expected long-term return on plan assets	7.00%	7.00%	7.50%

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

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

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

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

Asset Category	2007	2006

Money market	4.0%	100.0%
Equity securities	38.0%	--
Debt securities	58.0%	--
Total	100.00%	100.00%

As of December 31, 2007, the plan held $371 (4.0% of total plan assets) of funds in a money market account with Isabella Bank and Trust. The remaining funds are invested in two mutual funds managed by its investment advisors. These funds had $3,695 in equity investments and $5,541 in debt securities as of December 31, 2007.

As a result of the Corporation changing investment advisors as of year end 2006, all of the plan's assets were invested in money market accounts as of December 31, 2006. These funds were substantially re-invested by January 15, 2007.

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

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

The Corporation does not expect to make contributions to the pension plan in 2008.

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

Year	Amount
2008	$ 346
2009	350
2010	374
2011	392
2012	444
Years 2013 - 2017 (total)	3,165

OTHER EMPLOYEE BENEFIT PLANS

The Corporation maintains a nonqualified supplementary employee retirement plan (SERP) for qualified officers to provide supplemental retirement benefits to each participant. Expenses related to this program for 2007, 2006, and 2005 were $202, $97, and $85, respectively, and are being recognized over the participants' expected years of service. As a result of curtailing IBT Bancorp's defined benefit plan in March 2007, the Corporation established an additional SERP to maintain the benefit levels for all employees that were at least forty years old and had at least 15 years of service. The cost to provide this benefit was $120 for 2007.

The Corporation maintains a non-leveraged employee stock ownership plan (ESOP)

and a profit sharing plan which cover substantially all of its employees. Contributions to the plans are discretionary and are approved by the Board of Directors and recorded as compensation expense. Expenses related to the plans for 2007, 2006, and 2005 was $115, $13, and $11, respectively. Total allocated shares outstanding related to the ESOP at December 31, 2007, 2006, and 2005 were 149,154 , 161,762, and 159,987, respectively, were included in the computation of dividends and earnings per share in each of the respective years and have not been adjusted for the 10% stock dividend paid February 29, 2008.

The Corporation maintains a self-funded medical plan under which the Corporation is responsible for the first $50 per year of claims made by a covered family. Medical claims are subject to a lifetime maximum of $5,000 per covered individual. Expenses are accrued based on estimates of the aggregate liability for claims incurred and the Corporation's experience. Expenses were $1,804 in 2007, $1,316 in 2006 and $1,650 in 2005.

The Corporation offers dividend reinvestment, and employee and director stock purchase plans. The dividend reinvestment plan allows shareholders to purchase previously unissued IBT Bancorp common shares. The stock purchase plan allows employees and directors to

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purchase IBT Bancorp common stock through payroll deduction. The number of shares reserved for issuance under these plans are 280,000, with 38,850 shares unissued at December 31, 2007, as adjusted for the 10% stock dividend paid February 29, 2008. During 2007, 2006 and 2005, 63,233 shares were issued for $2,657, 61,258 shares were issued for $2,459, and 58,019 shares were issued for $2,180, respectively, in cash pursuant to these plans, exclusive of the effects of the 10% stock dividend paid February 29, 2008.

401(K) PLAN

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. The Corporation began making matching contributions equal to 25% of the first 3% of an employee's compensation contributed to the plan in 2005. Employees are 0% vested through their first two years of employment and are 100% vested after 6 years of service.

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. For the year ended December 31, 2007 and 2006, expenses attributable to the Plan were $439 and $47, respectively.

The Corporation's 401(k) plan was amended in November 2007. Pursuant to this amendment, the Corporation combined its ESOP and 401(k) plans. As of December 31, 2007, the ESOP funds are in the process of being transferred into the 401(k) plan. This transfer will be complete on April 1, 2008.

EQUITY COMPENSATION PLAN

Pursuant to the terms of the Deferred Director fee plan, directors of the Corporation and its subsidiaries are required to defer at least 25% of their earned board fees. Deferred fees are converted on a quarterly basis into stock

units of the Corporation's common stock. The fees are converted to stock units based on the purchase price for a share of common stock under the Corporation's Dividend Reinvestment Plan. Stock units credited to a participant's account are eligible for stock and cash dividends as declared. Upon retirement from the board, a participant is eligible to receive one share of common stock for each one stock unit. The Plan as modified does not allow for cash settlement, and therefore such share-based payment awards qualify for classification as equity. All authorized but unissued shares of common stock are eligible for issuance under this Plan. As of 2007 and 2006, respectively, 198,939 and 188,116 shares were to be issued under the plan, as adjusted for the 10% stock dividend paid on February 29, 2008 pursuant to an existing antidilution provision required by the plan.

NOTE 19 - COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) includes net income (loss) as well as unrealized gains and losses, net of tax, on available-for-sale investment securities owned and changes (beginning in 2007) in the funded status of the Corporation's defined benefit pension plan, which are excluded from net income. Unrealized investment securities gains and losses and changes in the funded status of the pension plan, net of tax, are excluded from net income, and are reflected as a direct charge or credit to shareholders' equity. Comprehensive income (loss) and the related components are disclosed in the accompanying consolidated statements of comprehensive income for each of the years ended December 31, 2007, 2006, and 2005.

The following is a summary of the components compromising the balance of accumulated other comprehensive loss reported on the consolidated balance sheets as of December 31 (presented net of tax):

	2007	2006
Unrealized gains (losses) on available-for-sale investment securities	$ 555	$ (759)
Unrecognized pension costs	(821)	(2,728)
ACCUMULATED OTHER COMPREHENSIVE LOSS	$(266)	$(3,487)

NOTE 20 - RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has granted loans to principal officers and directors and their affiliates (including their families and companies in which they have 10% or more ownership). Annual activity consisted of the following:

	2007	2006
Beginning balance	$10,749	$ 9,679
New loans	8,720	12,521

Repayments	(9,008)	(11,451)
Ending Balance	$10,461	$ 10,749

Total deposits of these principal officers and directors and their affiliates amounted to $10,526 and $10,467 at December 31, 2007 and 2006, respectively. In addition, IBT Bancorp's defined benefit plan and the Employee Stock Ownership Plan (Note 18) held deposits with the Bank aggregating $370 and $928, and $4,000 and $862, respectively, at December 31, 2007 and 2006.

NOTE 21 - FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

DEPOSIT LIABILITIES: Demand, savings, and money market deposits are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for variable rate certificates of deposit approximate their recorded book balance. Fair values for fixed-rate certificates

of deposit are estimated using discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

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

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

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

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

OFF-BALANCE-SHEET CREDIT-RELATED INSTRUMENTS: Fair values for off-balance-sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into consideration the remaining terms of the agreements and the counterparties' credit standings. The Corporation does not charge fees for lending commitments; thus it is not practicable to estimate the fair value of these instruments.

The following sets forth the estimated fair value and recorded carrying values of the Corporation's financial instruments as of December 31:

	2007		2006	
	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value
ASSETS				
Cash and demand deposits due from banks	$ 25,583	$ 25,583	$ 31,359	$ 31,359
Trading securities	25,064	25,064	--	--
Investment securities available for sale	213,127	213,127	213,450	213,450
Mortgage loans available for sale	2,228	2,214	2,765	2,734
Net loans	606,840	605,386	585,703	583,437
Accrued interest receivable	5,948	5,948	5,765	5,765
Mortgage servicing rights	2,198	2,198	2,155	2,155
LIABILITIES				
Deposits with no stated maturities	387,054	387,054	373,309	373,309
Deposits with stated maturities	348,488	346,419	352,595	352,531
Borrowed funds	91,897	92,887	58,390	58,303
Accrued interest payable	1,284	1,284	1,197	1,197

NOTE 22 - PARENT COMPANY ONLY FINANCIAL INFORMATION (UNAUDITED)

CONDENSED BALANCE SHEETS	December 31 2007	December 31 2006
ASSETS		
Cash on deposit at subsidiary Bank	$ 14,265	$ 4,075
Securities available for sale	2,210	2,534
Investments in subsidiaries	77,486	83,801
Premises and equipment	3,637	3,094
Other assets	26,309	25,258
TOTAL ASSETS	$123,907	$118,762
LIABILITIES AND SHAREHOLDERS' EQUITY		
Other liabilities	$ 827	$ 3,013
Shareholders' equity	123,080	115,749
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$123,907	$118,762

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CONDENSED STATEMENTS OF INCOME	Year Ended December 31 2007	2006	2005
Income			
Dividends from subsidiaries	$15,975	$4,025	$7,275
Interest income	177	305	182
Management fee and other	1,517	1,280	1,384
TOTAL INCOME	17,669	5,610	8,841
Expenses	3,890	3,872	2,808
Income before income tax benefit and equity in undistributed earnings of subsidiaries	13,779	1,738	6,033
Federal income tax benefit	773	825	478
	14,552	2,563	6,511
(Distributions in excess) undistributed earnings of subsidiaries	(6,622)	4,438	265
NET INCOME	$ 7,930	$7,001	$6,776

CONDENSED STATEMENTS OF CASH FLOWS	Year Ended December 31 2007	2006	2005
OPERATING ACTIVITIES			
Net income	$ 7,930	$ 7,001	$ 6,776
Adjustments to reconcile net income to cash provided by operations			
Distributions in excess (undistributed earnings) of subsidiaries	6,622	(4,438)	(265)
Share based payment awards	758	470	--
Depreciation	592	591	533
Net amortization of investment securities	4	21	27
Realized loss on sale of investment securities	--	8	--
Deferred income tax (benefit) expense	(165)	128	680
Changes in operating assets and liabilities which (used) provided cash			
Interest receivable	(2)	29	(29)
Other assets	(776)	(522)	(746)
Accrued interest and other expenses	(389)	138	(894)
NET CASH PROVIDED BY OPERATING ACTIVITIES	14,574	3,426	6,082
INVESTING ACTIVITIES			
Activity in available-for-sale securities			
Maturities, calls, and sales	595	6,650	344
Purchases	(266)	(4,380)	(1,523)
Purchases of equipment and premises	(1,135)	(660)	(3,455)
(Advances to) repayment of investment in subsidiaries	(50)	(8,394)	652
NET CASH USED IN INVESTING ACTIVITIES	(856)	(6,784)	(3,982)
FINANCING ACTIVITIES			
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 USED IN FINANCING ACTIVITIES	(3,528)	(1,316)	(570)
INCREASE (DECREASE) IN CASH AND CASH EQUIVELANTS	10,190	(4,674)	1,530
Cash and cash equivelants at beginning of year	4,075	8,749	7,219
CASH AND CASH EQUIVALENTS AT END OF YEAR	$14,265	$ 4,075	$ 8,749

NOTE 23 - OPERATING SEGMENTS

In prior years, the Corporation's reportable segments were based on legal entities that account for at least 10% of 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 for 2007, 2006, and 2005 represent approximately 90% or greater of the Corporation's total assets and operating results. As such, no additional segment information is presented.

NOTE 24 - SUBSEQUENT EVENTS

On January 1, 2008, IBT Bancorp acquired 100 percent of Greenville Community Financial Corporation (GCFC) in a transaction valued at $33,927. As a result of this acquisition, Greenville Community Bank, a wholly owned subsidiary of GCFC, merged with and into the Bank. Under the terms of the merger agreement, each share of GCFC common stock was automatically converted into the right to receive 0.6659 shares of IBT Bancorp common stock and $14.70 in cash. Exclusive of the effects of the 10% stock dividend paid February 29, 2008, the Corporation issued 514,809 shares of IBT Bancorp, Inc. common stock valued at $22,652 and paid a total of $11,365 in cash to GCFC shareholders.

IBT Bancorp is in the process of renaming the Corporation and the Bank. Effective February 15, 2008, Isabella Bank and Trust became Isabella Bank. On April 21, 2008, a new logo will be introduced and the banking divisions of The Farmers State Bank of Breckenridge, Farwell State Savings Bank, and Greenville Community Bank will be renamed Isabella Bank with a community identifier. Additionally, at the May 13, 2008 annual meeting, the shareholders will vote to approve the IBT Bancorp, Inc.'s Board of Director's recommendation to change IBT Bancorp, Inc.'s name to Isabella Bank Corporation.

On January 1, 2008, IBT Personnel, LLC merged with and into IB&T Employee Leasing, LLC. As a result of this merger, the Corporation is now a 100 percent owner of IB&T Employee Leasing, LLC. The purpose of this consolidation was to help reduce operating expenses through the elimination of duplications in processes and fees. The legal reorganization is not anticipated to have a significant impact on the Corporation's consolidated financial statements.

On March 1, 2008, IBT Title and Insurance Agency, Inc. merged its assets and liabilities with Corporate Title Agency, LLC, a third-party title business based in Traverse City, Michigan, to form CT/IBT Title Agency, LLC. As a result of this transaction, the Corporation became a 50 percent joint venture owner in CT/IBT Title Agency, LLC and will not be the managing partner. The purpose of this joint venture was to help IBT Title and Insurance Agency, Inc. expand its service area and to take advantage of economies of scale.

A 10% common stock dividend was declared on December 20, 2007, with a record date of January 1, 2008 and paid on February 29, 2008. All references to per-share amounts have been adjusted to give retroactive effect to this stock dividend, unless otherwise noted.

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

None

ITEM 9 A. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The Corporation's management carried out an evaluation, under the supervision and with the participation of the Chief Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15(d)-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of December 31, 2007, pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer and Principal Financial Officer concluded that the Corporation's disclosure controls and procedures as of December 31, 2007, are effective in timely alerting them to material

information relating to the Corporation (including its consolidated subsidiaries) required to be included in the Corporation's periodic filings under the Exchange Act.

CHANGES IN INTERNAL CONTROL

The Corporation also conducted an evaluation of internal control over financial reporting to determine whether any changes occurred during the quarter ended December 31, 2007, that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting. Based on this evaluation, management has concluded that there have been no such changes during the quarter ended December 31, 2007.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

- A documented organizational structure and division of responsibility;
- Established policies and procedures, including a code of conduct to foster a strong ethical climate which is communicated throughout the Corporation;
- Internal auditors that monitor the operation of the internal control system and report findings and recommendations to management and the Audit Committee;
- Procedures for taking action in response to an internal audit finding or recommendation;
- Regular reviews of our consolidated financial statements by qualified individuals; and
- The careful selection, training and development of our people.

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

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

Based upon these criteria, we believe that, as of December 31, 2007, our system of internal control over financial reporting was effective.

Our independent registered public accounting firm, Rehmann Robson PC, has audited our 2007 consolidated financial statements. Rehmann Robson PC was given unrestricted access to all financial records and related data, including minutes of all meetings of

stockholders, the Board of Directors and committees of the Board. Rehmann Robson PC has issued an unqualified audit opinion on our 2007 consolidated financial statements as a result of the audit and also has issued an attestation report the effectiveness of the Corporation's internal control over financial reporting.

IBT Bancorp, Inc.

By: //s// Dennis P. Angner

Dennis P. Angner
Chief Executive Officer
March 3, 2008

//s// Peggy L. Wheeler

Peggy L. Wheeler
Principal Financial Officer
March 3, 2008

ITEM 9 B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

For information concerning directors and certain executive officers of the Corporation, see "Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Corporation's 2007 Annual Meeting Proxy Statement ("Proxy Statement") which is incorporated herein by reference.

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

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

ITEM 11. EXECUTIVE COMPENSATION

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

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

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

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information as of December 31, 2007, with respect to compensation plans under which common shares of the Corporation are authorized for issuance to directors, officers or employees in exchange for consideration in the form of goods or services.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights (A)	Weighted Average Exercise Price of Outstanding Options, Warrants, and Rights (B)	Number of Rem Available Issuance Compensa (Excludin Reflected i
Equity compensation plans approved by Shareholders: None	--	--	
Equity compensation plans not approved by shareholders (1):			
Deferred director compensation plan*	198,938	(1)	
TOTAL	198,938		

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(1) Pursuant to the terms of the Deferred Director fee plan, directors of the Corporation and its subsidiaries are required to defer at least 25% of their earned board fees. Deferred fees are converted on a quarterly basis into stock units of the Corporation's common stock. The fees are converted to stock units based on the purchase price for a share of common stock under the Corporation's Dividend Reinvestment Plan. Stock units credited to a participant's account are eligible for stock and cash dividends as declared. Upon retirement from the board, a participant is eligible to receive one share of common stock for each one stock unit. The Plan as modified does not allow for cash settlement, and therefore such share-based payment awards qualify for classification as equity. All authorized but unissued shares of common stock are eligible for issuance under this Plan. As of 2007, 198,938 shares were to be issued under the plan, as adjusted for the 10% stock dividend paid on February 29, 2008 pursuant to an existing antidilution provision required by the plan.

* As adjusted for the 10% stock dividend paid February 29, 2008.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

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

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

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

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial Statements:

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

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets

Consolidated Statements of Changes in Shareholders' Equity

Consolidated Statements of Income

Consolidated Statements of Comprehensive Income

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

2. Financial Statement Schedules:

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

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

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

3(a) Amended Articles of Incorporation (1)

3(b) Amendment to the Articles of Incorporation (2)

3(c) Amendment to the Articles of Incorporation (4)

3(d) Amendment to the Articles of Incorporation (4)

3(e) Amended Bylaws (8)

3(f) Amendment to Bylaws (10)

10(a) Isabella Bank & Trust Executive Supplemental Income Agreement (2)*

10(b) Isabella Bank & Trust Deferred Compensation Plan (3)*

10(c) IBT Bancorp, Inc. and Related Companies Deferred Compensation Plan for Directors (5)*

10(d) Isabella Bank and Trust Death Benefit Only Agreement (6)*

10(e) Deferred Compensation Plan for Non-Employee Directors (9)*

10(f) IBT Bancorp Retirement Bonus Plan (11)*

14 Code of Business Conduct and Ethics (7)

21 Subsidiaries of the Registrant

23 Consent of Rehmann Robson, P.C. Independent Registered Public Accounting Firm

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

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

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

(1) Previously filed as an Exhibit to the IBT Bancorp, Inc. Form 10-K, dated March 12, 1991, and incorporated herein by reference.

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

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

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

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

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

(7) Previously filed as an Exhibit to IBT Bancorp, Inc. Form 8-K, dated April 25, 2006 and incorporated herein by reference.

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

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

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

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

* Management Contract or Compensatory Plan or Arrangement.

Signatures

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

IBT BANCORP, INC.
(Registrant)

by: /s/ Dennis P. Angner   Date: March 3, 2008

Dennis P. Angner
President and Chief Executive Officer

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

Signatures	Capacity	Date
/s/ Dennis P. Angner Dennis P. Angner	President and Chief Executive Officer and Director	March 3, 2008
/s/ Richard J. Barz Richard J. Barz	Director	March 11, 2008
/s/ Sandra L. Caul Sandra L. Caul	Director	March 3, 2008
/s/ James C. Fabiano James C. Fabiano	Director	March 4, 2008
/s/ Theodore W. Kortes Theodore W. Kortes	Director	March 10, 2008

/s/ David J. Maness David J. Maness	Director	March 3, 2008
/s/ W. Joseph Manifold W. Joseph Manifold	Director	March 3, 2008
/s/ W. Michael McGuire W. Michael McGuire	Director	March 3, 2008

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/s/ William J. Strickler William J. Strickler	Director	March 11, 2008
/s/ Dale Weburg Dale Weburg	Director	March 10, 2008
/s/ Peggy L. Wheeler Peggy L. Wheeler	Sr. Vice President and Controller (Principal Financial Officer)	March 3, 2008

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IBT Bancorp
FORM 10-K

Index to Exhibits

Exhibit Number	Exhibit	Form 10-K Page Number
21	Subsidiaries of the Registrant	79
23	Consent of Rehmann Robson P.C. Independent Registered Public Accounting Firm	80
31(a)	Certification pursuant to Rule 13a - 14(a) of the Chief	

	Executive Officer	81
31(b)	Certification pursuant to Rule 13a - 14(a) of the Principal Financial Officer	82
32	Section 1350 Certification of Chief Executive Officer and Principal Financial Officer	83