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

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

FORM 10-Q

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

For the quarterly period ended June 30, 2006

or

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

For the transition period from __________ to __________

Commission File Number: 0-18415

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

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

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

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

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

[X] Yes [ ] No

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). [ ] Yes [X] No

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Common Stock no par value, 5,491,252 as of July 18, 2006

IBT BANCORP, INC.
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PART I - FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(dollars in thousands)	June 30 2006	December 31 2005
ASSETS		
Cash and demand deposits due from banks	$ 30,168	$ 30,825
Securities available for sale (amortized cost of $200,175 in 2006 and $185,688 in 2005)	196,537	183,406
Mortgage loans available for sale	1,625	744
Loans		
Agricultural	49,243	49,424
Commercial	197,189	179,541
Personal	27,055	28,026
Residential real estate mortgage	232,811	226,251
TOTAL LOANS	506,298	483,242
Less allowance for loan losses	7,041	6,899
NET LOANS	499,257	476,343
Other assets	52,562	50,336
TOTAL ASSETS	$780,149	$741,654
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest bearing	$ 74,448	$ 73,839
NOW accounts	101,182	104,251
Certificates of deposit and other savings	329,820	328,780
Certificates of deposit over $100,000	110,307	85,608
TOTAL DEPOSITS	615,757	592,478
Other borrowed funds	71,011	52,165
Escrow funds payable	4,541	9,823
Accrued interest and other liabilities	5,714	6,286
TOTAL LIABILITIES	697,023	660,752
Shareholders' Equity		
Common stock -- no par value 10,000,000 shares authorized; outstanding-- 5,491,252 in 2006 (4,974,715 in 2005)	82,507	72,296
Retained earnings	3,020	10,112
Accumulated other comprehensive loss	(2,401)	(1,506)
TOTAL SHAREHOLDERS' EQUITY	83,126	80,902
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$780,149	$741,654

See notes to condensed consolidated financial statements.

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

	Six Months Ended June 30	
(dollars in thousands)	2006	2005
NUMBER OF SHARES OF COMMON STOCK OUTSTANDING		
Balance at beginning of period	4,974,715	4,896,412
10% common stock dividend	497,299	--
Issuance of common stock	19,238	23,114
BALANCE END OF PERIOD	5,491,252	4,919,526
COMMON STOCK		
Balance at beginning of period	$ 72,296	$ 66,908
10% common stock dividend	8,887	--
Issuance of common stock	1,093	790
Share-based payment awards under equity compensation plan	231	--
BALANCE END OF PERIOD	82,507	67,698
RETAINED EARNINGS		
Balance at beginning of period	10,112	6,590
Net income	3,008	3,108
10% common stock dividend	(8,887)	--
Cash dividends ($0.22 per share in 2006 and $0.20 in 2005)	(1,213)	(1,080)
BALANCE END OF PERIOD	3,020	8,618
ACCUMULATED OTHER COMPREHENSIVE LOSS		
Balance at beginning of period	(1,506)	(904)
Other comprehensive loss	(895)	(425)
BALANCE END OF PERIOD	(2,401)	(1,329)
TOTAL SHAREHOLDERS' EQUITY END OF PERIOD	$ 83,126	$ 74,987

See notes to condensed consolidated financial statements.

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

(dollars in thousands)	Three Months Ended June 30 2006	Three Months Ended June 30 2005	Six Months June 3 2006	
INTEREST INCOME				
Loans, including fees	$ 8,693	$7,464	$16,860	$
Investment securities				
Taxable	1,242	852	2,320	
Nontaxable	676	599	1,325	
Federal funds sold and other	64	68	138	
TOTAL INTEREST INCOME	10,675	8,983	20,643	
INTEREST EXPENSE				
Deposits	3,893	2,699	7,449	
Borrowings	633	365	1,139	
TOTAL INTEREST EXPENSE	4,526	3,064	8,588	
NET INTEREST INCOME	6,149	5,919	12,055	
Provision for loan losses	216	109	383	
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	5,933	5,810	11,672	
NONINTEREST INCOME				
Trust fees	217	199	431	
Service charges on deposit accounts	75	83	152	
Other service charges and fees	1,084	911	2,037	
Gain on sale of mortgage loans	54	60	111	
Title insurance revenue	673	592	1,147	
Other	233	254	459	
TOTAL NONINTEREST INCOME	2,336	2,099	4,337	
NONINTEREST EXPENSES				
Compensation	3,484	3,413	7,013	
Occupancy	412	375	868	
Furniture and equipment	723	666	1,436	
Other	1,350	1,168	2,960	
TOTAL NONINTEREST EXPENSES	5,969	5,622	12,277	
INCOME BEFORE FEDERAL INCOME TAXES	2,300	2,287	3,732	
Federal income taxes	506	522	724	
NET INCOME	$ 1,794	$1,765	$ 3,008	$
EARNINGS PER SHARE				
Basic	$ 0.33	$ 0.33	$ 0.55	$
Diluted	$ 0.32	$ 0.33	$ 0.53	$
Cash dividends per share	$ 0.11	$ 0.10	$ 0.22	$

See notes to condensed consolidated financial statements.

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

(dollars in thousands)	Three Months Ended June 30 2006	Three Months Ended June 30 2005	Six Months Ended June 30 2006	Six Months Ended June 30 2005
NET INCOME	$ 1,794	$1,765	$ 3,008	$
Other comprehensive (loss) income before income taxes:				
Unrealized holding (losses) gains on available-for-sale investment securities arising during the period	(1,076)	1,449	(1,459)	
Reclassification adjustment for net realized losses (gains) included in net income	103	(2)	103	
Other comprehensive (loss) income before income taxes	(973)	1,447	(1,356)	
Income tax benefit (expense) related to other comprehensive (loss) income	331	(493)	461	
OTHER COMPREHENSIVE (LOSS) INCOME	(642)	954	(895)	
COMPREHENSIVE INCOME	$ 1,152	$2,719	$ 2,113	$

See notes to condensed consolidated financial statements.

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

(dollars in thousands)	Six Months Ended June 30 2006	Six Months Ended June 30 2005
OPERATING ACTIVITIES		
Net income	$ 3,008	$ 3,108
Reconciliation of net income to cash (used in) provided by operations:		
Provision for loan losses	383	319
Depreciation	920	860
Net amortization of investment securities	404	523
Realized loss (gain) on sale of investment securities	103	(2)
Amortization and impairment of mortgage servicing rights	81	70
Increase in cash value of life insurance	(204)	(180)
Amortization of acquisition intangibles	47	47
Equity shares granted	231	--

Changes in operating assets and liabilities which (used) provided cash		
Mortgage loans available for sale	(881)	559
Interest receivable	162	278
Other assets	(422)	(288)
Escrow funds payable	(5,282)	1,582
Accrued interest and other liabilities	(572)	478
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(2,022)	7,354
INVESTING ACTIVITIES		
Activity in available-for-sale securities		
Maturities, calls, and sales	28,654	23,876
Purchases	(43,648)	(32,219)
Net increase in loans	(23,297)	(10,780)
Purchases of premises and equipment	(1,225)	(1,235)
Purchases of corporate owned life insurance policies	(499)	--
Acquisition of title office	(400)	--
NET CASH USED IN INVESTING ACTIVITIES	(40,415)	(20,358)
FINANCING ACTIVITIES		
Net increase in noninterest bearing deposits	609	3,162
Net increase in interest bearing deposits	22,670	3,408
Net increase in other borrowed funds	18,846	6,969
Cash dividends paid on common stock	(1,213)	(1,080)
Proceeds from the issuance of common stock	868	790
NET CASH PROVIDED BY FINANCING ACTIVITIES	41,780	13,249
(DECREASE) INCREASE IN CASH AND CASH EQUIVELANTS	(657)	245
Cash and cash equivelants at beginning of period	30,825	20,760
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 30,168	$ 21,005

See notes to condensed consolidated financial statements.

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

NOTE 1 - BASIS OF PRESENTATION

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

NOTE 2 - IMPLEMENTATION OF NEW ACCOUNTING STANDARD

On January 1, 2006, the Corporation adopted Financial Accounting Standards No. 123R (revised 2004), "Share-Based Payment" (SFAS No. 123R). This statement requires that compensation cost relating to share-based payment transactions be recognized in financial statements and that this cost be measured based on the fair value of the equity instruments issued. The adoption of this standard decreased earnings per share by $.01 and $.02 for the three month and six month periods ended June 30, 2006, respectively.

NOTE 3 - COMPUTATION OF EARNINGS PER SHARE

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

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

	Three months ended June 30		Six months ended June 30	
	2006	2005	2006	2005
Average number of common shares outstanding*	5,489,968	5,393,300	5,487,677	5,400,1
Effect of shares in the Deferred Director fee plan*	164,398	--	161,390	
Average number of common shares outstanding used to calculate diluted earnings per common share	5,654,366	5,393,300	5,649,067	5,400,1

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

NOTE 4 - OPERATING SEGMENTS

The Corporation's reportable segments are based on legal entities that account for at least 10% of operating results. The accounting policies are the same as those discussed in Note 1 to the Consolidated Financial Statements in the Corporation's annual report for the year ended December 31, 2005. The Corporation evaluates performance based principally on net income and asset quality of the respective segments. Summaries of selected financial information for the Corporation's reportable segments as of and for the three and six month periods ended June 30 follow:

(dollars in thousands)

Three Months Ended	Isabella Bank and Trust	Farmers State Bank	All Others (Including Parent)	Total

JUNE 30, 2006				
Total assets	$628,930	$137,669	$13,550	$780,149
Interest income	8,453	2,192	30	10,675
Net interest income	4,735	1,350	64	6,149
Provision for loan losses	169	47	--	216
Net income (loss)	1,579	387	(172)	1,794
JUNE 30, 2005				
Total assets	555,424	127,177	13,425	696,026
Interest income	7,007	1,934	42	8,983
Net interest income	4,556	1,316	47	5,919
Provision for loan losses	64	45	--	109
Net income (loss)	1,463	363	(61)	1,765

Six Months Ended	Isabella Bank and Trust	Farmers State Bank	All Others (Including Parent)	Total
JUNE 30, 2006				
Total assets	$628,930	$137,669	$13,550	$780,149
Interest income	16,308	4,275	60	20,643
Net interest income	9,276	2,656	123	12,055
Provision for loan losses	287	96	--	383
Net income (loss)	2,910	721	(623)	3,008
JUNE 30, 2005				
Total assets	555,424	127,177	13,425	696,026
Interest income	13,771	3,790	50	17,611
Net interest income	9,102	2,598	82	11,782
Provision for loan losses	229	90	--	319
Net income (loss)	2,726	703	(321)	3,108

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NOTE 5 - DEFINED BENEFIT PENSION PLAN

The Corporation has a defined benefit pension plan covering substantially all of its employees. Benefits are based on years of service and the employees' five highest consecutive years of compensation out of the last ten years of service. The funding policy is to contribute annually the maximum amount that can be deducted for federal income tax purposes. Contributions are intended to provide not only for benefits attributed to services to date but also for those expected to be earned in the future. The Corporation used a January 1, 2006 measurement date for this pension plan.

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

	Pension Benefits	
	Three months ended June 30	Six months ended June 30

	2006	2005	2006	2005
	(thousands)			
Components of net periodic benefit cost				
Service cost	$ 159	$ 137	$ 319	$ 274
Interest cost	152	135	304	270
Expected return on plan assets	(139)	(116)	(278)	(232)
Amortization of prior service cost	5	5	9	9
Amortization of net actuarial loss	58	50	116	101
Net periodic benefit cost	$ 235	$ 211	$ 470	$ 422

The Corporation contributed $1,128 and $232 to the pension plan during the six month periods ended June 30, 2006 and 2005, respectively. The Corporation does not expect to make additional contributions to the plan during 2006.

NOTE 6 - BUSINESS COMBINATION

On June 30, 2006, the Corporation's subsidiary IBT Title and Insurance Agency, Inc. completed the purchase of the Grayling, Michigan assets of Heart of the North, Inc. through the Agency's wholly-owned subsidiary, Milltown Title, LLC. The acquisition was accounted for as a purchase according to the provisions of SFAS No. 141. The purchase price was $625, which was funded through the issuance of $225 (5,114 shares) of IBT Bancorp stock and $400 cash. The purchase price was allocated $10 to premises and equipment, $475 to goodwill, $15 to title files, and $125 to other assets. This purchase is part of the Corporation's strategic intent to expand its title services to new markets.

NOTE 7 - POTENTIAL BUSINESS ACQUISITION

On December 22, 2005, IBT Bancorp, Inc. signed a definitive agreement (the "Agreement") to acquire The Farwell State Savings Bank ("Farwell"). Farwell operates two banking offices in Clare County, Michigan and had total assets and stockholders' equity of approximately $89,100 and $13,600 as of December 31, 2005. The Agreement was amended and restated effective May 2, 2006 to provide for the merger of Farwell with and into Farmers State Bank of Breckenridge, a wholly owned subsidiary of IBT. The acquisition is expected to be completed by the issuance of a combination of IBT Bancorp, Inc. common stock and cash valued at approximately $38,063. Completion of the acquisition is subject to a number of contingencies including but not limited to regulatory approval.

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NOTE 8 - RECENT ACCOUNTING PRONOUNCEMENTS

In March 2006, the Financial Accounting Standards Board issued an exposure draft that seeks to make improvements to Statement of Financial Accounting Standards No. 132R (SFAS No. 132R), "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans". The proposed amendment would not alter the basic approach to measuring plan assets, benefit obligations, or net periodic benefit cost (expense). Major changes to SFAS No. 132R proposed in the amendment include 1) the recognition of an asset or liability for the overfunded or underfunded status of a defined benefit plan, 2) the recognition of actuarial gains and losses and prior service costs and credits in other comprehensive income, 3) measurement of plan assets and benefit obligations as of the employer's balance sheet date, rather than at interim measurement dates as currently allowed, and

4) disclosure of additional information concerning actuarial gains and losses and prior service costs and credits recognized in other comprehensive income. The amendment's requirement for public companies to recognize on their balance sheet the asset or liability associated with the overfunded or underfunded status of a defined benefit pension plan would take effect for the years ending after December 15, 2006. Companies would be required to synchronize their measurement dates to the end of their fiscal years beginning after December 31, 2006. The Corporation is monitoring the proposed effects of SFAS No. 132R, which, if issued in its present form, is expected to reduce shareholders' equity in recognition of the underfunded status of our plan by approximately $1,300, based on the December 31, 2005 valuation date.

In July 2006, the FASB issued Interpretation No. 48, Accounting for Uncertain Tax Positions, which seeks to reduce the significant diversity in practice associated with recognition and measurement in the accounting for income taxes. It would apply to all tax positions accounted for in accordance with FASB Statement No. 109, Accounting for Income Taxes. Specifically, the Interpretation requires that a tax position meet a "more likely than not recognition threshold" for the benefit of the uncertain tax position to be recognized in the financial statements. This threshold is to be met assuming that the tax authorities will examine the uncertain tax position. The Interpretation also contains guidance with respect to the measurement of the benefit that is recognized for an uncertain tax position, when that benefit should be derecognized, and other matters. The effective date of the Interpretation is the quarter beginning January 1, 2007. The Corporation has not began to assess the impact of the new pronouncement.

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

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

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

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

RESULTS OF OPERATIONS

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

SUMMARY OF SELECTED FINANCIAL DATA

	Three Months Ended June 30		Six Months Ended June 30	
(Dollars in thousands except per share data)	2006	2005	2006	2005
INCOME STATEMENT DATA				
Net interest income	$6,149	$5,919	$12,055	$11,782
Provision for loan losses	216	109	383	319
Net income	1,794	1,765	3,008	3,108
PER SHARE DATA				
Earnings per share				
Basic	$ 0.33	$ 0.33	$ 0.55	$ 0.58
Diluted	0.32	0.33	0.53	0.58
Cash dividends per common share	0.11	0.10	0.22	0.20
RATIOS				
Average primary capital to average assets	11.70%	11.62%	11.69%	11.60%
Net income to average assets	0.94	1.02	0.80	0.90
Net income to average equity	8.62	9.48	7.31	8.40

NET INTEREST INCOME

Net interest income equals interest income less interest expense and is the primary source of income for IBT Bancorp. Interest income includes loan fees of $318 and $556 in the three and six month periods ended June 30, 2006, respectively, as compared to $305 and $567 during the same periods in 2005. For analytical purposes, net interest income is adjusted to a "taxable equivalent" basis by adding the income tax savings from interest on tax-exempt loans and securities, thus making year-to-year comparisons more meaningful.

(Continued on page 15)

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

(Dollars in Thousands)

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

	Three Months Ended				
	June 30, 2006			June 30,	
	Average Balance	Tax Equivalent Interest	Average Yield\ Rate	Average Balance	Tax Equival Intere
INTEREST EARNING ASSETS:					
Loans	$495,276	$ 8,693	7.02%	$457,257	$7,46
Taxable investment securities	124,605	1,242	3.99%	106,189	85
Non-taxable investment securities	74,617	1,070	5.74%	62,693	95
Federal funds sold	392	5	5.10%	3,786	2
Other	4,921	59	4.80%	3,538	4
Total earning assets	699,811	11,069	6.33%	633,463	9,33
NON EARNING ASSETS:					
Allowance for loan losses	(6,942)			(6,654)	
Cash and due from banks	25,512			21,297	
Premises and equipment	17,292			18,985	
Accrued income and other assets	28,492			24,698	
Total assets	$764,165			$691,789	
INTEREST BEARING LIABILITIES:					
Interest-bearing demand deposits	$101,157	366	1.45%	$102,876	21
Savings deposits	155,204	630	1.62%	157,383	36
Time deposits	283,918	2,897	4.08%	240,312	2,12
Other borrowed funds	53,629	633	4.72%	35,179	36
Total interest bearing liabilities	593,908	4,526	3.05%	535,750	3,06
NONINTEREST BEARING LIABILITIES:					
Demand deposits	69,902			69,810	
Other	17,071			11,735	
Shareholders' equity	83,284			74,494	
Total liabilities and equity	$764,165			$691,789	
Net interest income (FTE)		$ 6,543			$6,27
Net yield on interest earning assets (FTE)			3.74%		

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TABLE 2 - AVERAGE BALANCES; INTEREST RATE AND NET INTEREST INCOME

Results for the six months ended June 30, 2006 and June 30, 2005.

(Dollars in Thousands)

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

	Six Months Ended				
	June 30, 2006			June 30, 20	
	Average Balance	Tax Equivalent Interest	Average Yield\ Rate	Average Balance	Tax Equivalen Interest
INTEREST EARNING ASSETS:					
Loans	$490,078	$16,860	6.88%	$454,619	$14,623
Taxable investment securities	120,683	2,320	3.84%	105,494	1,683
Non-taxable investment securities	73,138	2,100	5.74%	61,415	1,873
Federal funds sold	942	21	4.46%	4,254	53
Other	5,053	117	4.63%	3,486	77
Total earning assets	689,894	21,418	6.21%	629,268	18,309
NON EARNING ASSETS:					
Allowance for loan losses	(6,935)			(6,576)	
Cash and due from banks	27,402			21,676	
Premises and equipment	17,302			18,850	
Accrued income and other assets	28,648			24,819	
Total assets	$756,311			$688,037	
INTEREST BEARING LIABILITIES:					
Interest-bearing demand deposits	$103,954	742	1.43%	$104,594	419
Savings deposits	156,108	1,223	1.57%	160,964	651
Time deposits	276,565	5,484	3.97%	238,195	4,101
Other borrowed funds	49,218	1,139	4.63%	31,613	658
Total interest bearing liabilities	585,845	8,588	2.93%	535,366	5,829
NONINTEREST BEARING LIABILITIES:					
Demand deposits	69,664			67,425	
Other	18,477			11,247	
Shareholders' equity	82,325			73,999	
Total liabilities and equity	$756,311			$688,037	
Net interest income (FTE)		$12,830			$12,480
Net yield on interest earning assets (FTE)			3.72%		

TABLE 3 - VOLUME AND RATE VARIANCE ANALYSIS

(Dollars in Thousands)

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

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

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

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

	Three Months Ended June 30, 2006 compared to June 30, 2005 Increase (Decrease) Due to			Six Months Ended June 30, 2006 compared to June 30, 2005 Increase (Decrease) Due to		
	Volume	Rate	Net	Volume	Rate	Net
CHANGES IN INTEREST INCOME:						
Loans	$645	$584	$1,229	$1,182	$1,055	$2,237
Taxable investment securities	163	227	390	263	374	637
Nontaxable investment securities	174	(58)	116	342	(115)	227
Federal funds sold	(33)	13	(20)	(57)	25	(32)
Other	17	(1)	16	36	4	40
Total changes in interest income	966	765	1,731	1,766	1,343	3,109
Interest bearing demand deposits	(4)	153	149	(3)	326	323
Savings deposits	(5)	274	269	(20)	592	572
Time deposits	417	359	776	712	671	1,383
Other borrowings	212	56	268	401	80	481
Total changes in interest expense	620	842	1,462	1,090	1,669	2,759
Net change in interest margin (FTE)	$346	$(77)	$ 269	$ 676	$ (326)	$ 350

NET INTEREST INCOME, CONTINUED

As shown in Table 1, net interest income, on a fully taxable equivalent (FTE) basis, was $6,543 for the three months ended June 30, 2006 compared to $6,274 for the same period in 2005, an increase of $269 or 4.29%. This increase was primarily the result of a 10.47% increase in earning assets, which was funded by a 10.86% increase in interest bearing liabilities. As shown in Table 3, these changes in volume provided the Corporation with an additional $346 of FTE net interest income. This $346 increase, however, was offset by a 0.22% decrease in the FTE net yield on interest earning assets, which resulted in a $77 decrease in FTE net interest income. This 0.22% decrease in FTE rate was a result of the average rate earned on interest earning assets rising slower than those paid on interest bearing liabilities.

As shown in Table 2, net interest income, on a fully taxable equivalent (FTE) basis, was $12,830 for the six months ended June 30, 2006 compared to $12,480 for the same period in 2005, an increase of $350 or 2.80%. This increase was primarily the result of a 9.63% increase in earning assets, which was funded by a 9.43% increase in interest bearing liabilities. As shown in Table 3, these changes in volume provided the Corporation with an additional $676 of FTE net interest income. This $676 increase, however, was offset by a 0.25% decrease in the FTE net yield on interest earning assets, which resulted in a $326 decrease in FTE net interest income. This 0.25% decrease in FTE rate was a result of the average rate earned on interest earning assets rising slower than those paid on interest bearing liabilities.

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

ALLOWANCE FOR LOAN LOSSES

The viability of any financial institution is ultimately determined by its management of credit risk. Net loans outstanding represent 64.0% of the Corporation's total assets and is the Corporation's single largest concentration of risk. The allowance for loan losses is management's estimation of potential future losses inherent in the existing loan portfolio. Factors used to evaluate the loan portfolio, and thus to determine the current charge to expense, include recent loan loss history, financial condition of borrowers, amount of nonperforming and impaired loans, overall economic conditions, and other factors. The following table summarizes the Corporation's charge off and recovery activity for the six month periods ended June 30, 2006 and 2005.

The table also compares the Corporation's allowance for loan loss as a percent of loans and loans classified as nonperforming as a percent of outstanding loans to its peer group. The Corporation's peer group includes 406 holding companies with assets between $500 million and $1.0 billion. In management's opinion, the allowance for loan losses is adequate as of June 30, 2006.

	Six Months Ended June 30	
	2006	2005
Allowance for loan losses - January 1	$6,899	$6,444
Loans charged off		
Commercial and agricultural	103	8
Real estate mortgage	181	22
Personal	171	170
TOTAL LOANS CHARGED OFF	455	200
Recoveries		
Commercial and agricultural	76	18
Real estate mortgage	15	65
Personal	123	94

TOTAL RECOVERIES	214	177
Net loans charged off	241	23
Provision charged to income	383	319
ALLOWANCE FOR LOAN LOSSES - JUNE 30	$7,041	$6,740
ALLOWANCE FOR LOAN LOSSES AS A % OF LOANS	1.39%	1.45%
PEER GROUP (AS OF MARCH 31, 2006 AND 2005)	1.21%	1.26%

	June 30	
	2006	2005
NONPERFORMING LOANS		
Total amount of loans outstanding at June 30	$506,298	$463,652
Nonaccrual loans	1,874	1,168
Accruing loans past due 90 days or more	1,053	1,318
Restructured loans	713	808
TOTAL	$ 3,640	$ 3,294
LOANS CLASSIFIED AS NONPERFORMING AS A % OF OUTSTANDING LOANS	0.72%	0.71%
PEER GROUP (AS OF MARCH 31, 2006 AND 2005)	0.48%	0.55%

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

NONINTEREST INCOME

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

	Three Months Ended				Six Months Ende		
	June 30		Change		June 30		C
	2006	2005	$	%	2006	2005	$

Trust fees	$ 217	$ 199	$ 18	9.0%	$ 431	$ 382	$ 49
Service charges on deposit accounts	75	83	(8)	-9.6%	152	117	35
Other service charges and fees							
NSF and overdraft fees	752	639	113	17.7%	1,377	1,163	214
ATM and debit card fees	134	109	25	22.9%	256	208	48
Freddie Mac servicing fee	161	153	8	5.2%	317	307	10
All other	37	10	27	270.0%	87	84	3
Total other service charges and fees	1,084	911	173	19.0%	2,037	1,762	275
Gain on sale of mortgage loans	54	60	(6)	-10.0%	111	136	(25
Title insurance revenue	673	592	81	13.7%	1,147	1,095	52
Other							
Increase in cash value of corporate owned life insurance policies	103	90	13	14.4%	203	181	22
Brokerage and advisory fees	51	51	--	0.0%	105	95	10
All other	79	113	(34)	-30.1%	151	188	(37
Total other	233	254	(21)	-8.3%	459	464	(5
TOTAL NONINTEREST INCOME	$2,336	$2,099	$237	11.3%	$4,337	$3,956	$381

Trust fees have steadily increased over the past few years. These increases have been driven by continued growth in the portfolio managed as well as the appreciation of trust assets. Management expects these increases to continue in the future.

Since the first quarter of 2005, the Corporation has made substantial efforts to increase noninterest income. To help achieve this goal, management analyzed various fees related to deposit accounts, including service charges, NSF and overdraft fees, and ATM and debit card fees. Based on this analysis, the Corporation made any necessary adjustments to ensure that its fee structure fell within a range of its competitors, while at the same time making sure that the fees remained fair to deposit customers. Management does not anticipate any significant changes to its deposit fee structure for the remainder of 2006, however due to the overall increase in fees being charged, it expects 2006 fees to be greater than those earned in 2005.

Title insurance revenues have grown as a result of changes in the competitive landscape in the Michigan title insurance industry. Due to the continued struggling Michigan economy and the decrease in volume in mortgage activity, some title insurance companies are closing offices around the state. These closures have provided the Corporation with an opportunity to take advantage of the decreased level of competition for business. Management believes that this decreased level of competition for business, coupled with the acquisition of Milltown Title, LLC will continue to provide solid increases in title insurance revenues for the rest of 2006.

The increase in the cash value from corporate owned life insurance policies relates to policies that had a carrying value of $11,236 as of June 30, 2006, and were included in other assets. These policies earned an average rate of 3.61% and 3.50% during the six month periods ended June 30, 2006 and 2005, respectively. Due to their preferential tax treatment, these policies have a taxable equivalent rate of 5.47% and 5.30% as of June 30, 2006 and 2005, respectively. These policies are placed with five different insurance companies with an S & P rating of A- or better. The increase in income related to the change of the cash surrender value of the policies can be attributed to both the increases in rates and the purchase of additional policies in January 2006.

All other noninterest income includes a $103 loss on the sale of securities, which occurred in the three month period ended June 30, 2006. Management has determined that the additional interest income which will be earned from the reinvestment of the proceeds of these sales will exceed the losses recognized by approximately $25 by year end 2006.

NONINTEREST EXPENSES

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

	Three Months Ended				Six Months Ended		
	June 30		Change		June 30		Cha
	2006	2005	$	%	2006	2005	$
Compensation							
Leased employee salaries	$2,462	$2,358	$104	4.4%	$ 4,925	$ 4,735	$190
Leased employee benefits	988	1,042	(54)	-5.2%	2,009	1,990	19
All other	34	13	21	161.5%	79	26	53
Total compensation	3,484	3,413	71	2.1%	7,013	6,751	262
Occupancy							
Depreciation	93	93	--	0.0%	199	180	19
Property taxes	83	87	(4)	-4.6%	167	174	(7)
Outside services	80	71	9	12.7%	165	154	11
Utilities	70	63	7	11.1%	164	143	21
Building rent	39	30	9	30.0%	78	56	22
All other	47	31	16	51.6%	95	88	7
Total occupancy	412	375	37	9.9%	868	795	73
Furniture and equipment							
Depreciation	347	344	3	0.9%	721	680	41
Service contracts	187	157	30	19.1%	363	300	63
Computer costs	106	92	14	15.2%	196	181	15
ATM and debit card fees	68	60	8	13.3%	128	124	4
All other	15	13	2	15.4%	28	26	2
Total furniture and equipment	723	666	57	8.6%	1,436	1,311	125
Other							
SOX compliance fees	115	62	53	85.5%	452	294	158
Audit fees	49	60	(11)	-18.3%	123	125	(2)
Marketing	152	144	8	5.6%	305	292	13
All other	1,034	902	132	14.6%	2,080	1,911	169
Other	1,350	1,168	182	15.6%	2,960	2,622	338
TOTAL NONINTEREST EXPENSES	$5,969	$5,622	$347	6.2%	$12,277	$11,479	$798

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

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

Leased employee benefits have decreased during the three months ended June 30, 2006, when compared to the same period in 2005. These decreases can be attributed to the unusually high level of medical claims paid during the same period in 2005. These claims have since decreased and employee benefits have only risen slightly during the first six months of 2006 as compared to the same period in 2005. Management does not anticipate medical claims to fluctuate significantly from current levels and, therefore, expects leased employee benefits to approximate current levels for the remaining six months of 2006.

In 2006, IBT Title entered into rental agreements with local realtors to perform mortgage closings in the realtors' offices. These rent payments are expected to continue for the rest of 2006.

Service contracts, computer expenses, and ATM and debit card fees continue to increase significantly from year to year. These increases are a result of the Corporation reinvesting in its technological infrastructure as well as increases in fees charged by vendors. This constant reinvestment helps the Corporation maintain a competitive edge in an ever changing marketplace. Management does expect service contracts to be higher in the last six months of 2006 when compared to the first six months of the year as a significant amount of the service contracts are renewed in June and July, and it is anticipated that increases will occur.

The Corporation continues to experience elevated costs associated with complying with the Sarbanes-Oxley Act of 2002 (SOX). The costs associated with compliance extend beyond the continued increases in SOX compliance fees and in other areas including

compensation expense. Management is continually analyzing ways to minimize the adverse financial statement impact of SOX compliance through the streamlining of the Corporation's loan and deposit operations. The Corporation has also made staff changes in the internal audit department which are expected to decrease external auditing, including SOX related fees.

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

ANALYSIS OF CHANGES IN FINANCIAL CONDITION

	June 30 2006	December 31 2005	$ Change	% Change (unannualized)

ASSETS				
Cash and demand deposits due from banks	$ 30,168	$ 30,825	$ (657)	-2.13%
Securities available for sale	196,537	183,406	13,131	7.16%
Mortgage loans available for sale	1,625	744	881	118.41%
Loans	506,298	483,242	23,056	4.77%
Allowance for loan losses	(7,041)	(6,899)	(142)	2.06%
Other assets	52,562	50,336	2,226	4.42%
TOTAL ASSETS	$780,149	$741,654	$38,495	5.19%
LIABILITIES AND SHAREHOLDERS' EQUITY				
LIABILITIES				
Deposits	$615,757	$592,478	$23,279	3.93%
Other borrowed funds	71,011	52,165	18,846	36.13%
Escrow funds payable	4,541	9,823	(5,282)	-53.77%
Accrued interest and other liabilities	5,714	6,286	(572)	-9.10%
TOTAL LIABILITIES	697,023	660,752	36,271	5.49%
SHAREHOLDERS' EQUITY	83,126	80,902	2,224	2.75%
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$780,149	$741,654	$38,495	5.19%

Since December 2005, the Corporation has experienced strong loan growth, with the majority of the growth coming from commercial loans. Management does anticipate that loan demand, particularly commercial loan demand, will remain strong for the remainder of 2006.

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

The Corporation, through its Banks, has established a policy that all amortized fixed rate mortgage loans with maturities greater than 15 years will be sold. During the six month period ended June 30, 2006, the Corporation sold $14,873 of mortgages as compared to $16,972 in mortgages for the same period in 2005. Management does not expect the sale of mortgages to fluctuate significantly from current levels based on current market trends and the current and projected interest rate environment.

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

The Corporation observed a substantial decrease in escrow funds payable during the first six months of 2006. This decrease can be attributed to Internal Revenue Code Section ("IRC") 1031 exchange account balances being reinvested by customers of IBT Title and Insurance Agency, Inc. ("IBT Title"). These IRC 1031 accounts allow owners of business or investment property to defer realized gains from the sale of business or investment property if the funds are reinvested in another property. As such, these balances can fluctuate significantly between periods as the funds are reinvested. The Corporation does anticipate that these 1031 exchange accounts will continue to decrease through 2006 as the funds are reinvested by IBT Title's customers.

LIQUIDITY

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

As of June 30, 2006, cash and cash equivalents as a percentage of total assets equaled 3.87%, versus 4.16% as of December 31, 2005. During the first six months of 2006, $41,780 in net cash was provided from financing activities. Operating activities used $2,022 in net cash and investing activities used $40,415. The accumulated effect of the Corporation's operating, investing and financing activities was a $657 decrease in cash and cash equivalents during the first six months of 2006.

In addition to cash and cash equivalents, investment securities available for sale are another source of liquidity. Securities available for sale were $196,537 as of June 30, 2006 and $183,406 as of December 31, 2005. In addition to these primary sources of liquidity, the Corporation has the ability to borrow in the federal funds market and at both the Federal Reserve Bank and the Federal Home Loan Bank. The Corporation's liquidity is considered adequate by management.

CAPITAL

The capital of the Corporation consists solely of common stock, surplus, retained earnings, and accumulated other comprehensive loss. The overall capital has increased $2,224 since December 31, 2005 primarily due to corporate earnings. Accumulated other comprehensive loss increased $895 due to unrealized losses in available-for-sale securities during 2006.

There are no significant regulatory constraints placed on the Corporation's capital. The Federal Reserve Board's current recommended minimum tier 1 and tier 2 capital to average assets requirement is 6.0%. The Corporation's tier 1 and tier 2 capital to adjusted average assets, which consists of shareholders' equity plus the allowance for loan losses less unamortized acquisition intangibles, was 11.6% as of June 30, 2006.

The Federal Reserve Board has established a minimum risk based capital standard. Under this standard, a framework has been established that assigns risk weights to each category of on- and off-balance sheet items to arrive at risk adjusted total assets. Regulatory capital is divided by the risk adjusted assets with the resulting ratio compared to the minimum standard to determine whether a bank has adequate capital. The minimum standard is 8%, of which at least 4% must consist of equity capital net of goodwill. The following table sets forth the percentages required under the Risk Based Capital guidelines and the Corporation's ratios as of June 30, 2006:

PERCENTAGE OF CAPITAL TO RISK ADJUSTED ASSETS

	IBT Bancorp June 30, 2006	
	Required	Actual
Equity Capital	4.00%	15.99%
Secondary Capital*	4.00%	1.25%
Total Capital	8.00%	17.24%

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

FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET ARRANGEMENTS

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

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

Commitments to extend credit, which totaled $81,521 at June 30, 2006, are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have variable interest rates, fixed expiration dates, or other termination clauses and may require the payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Standby letters of credit are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support private borrowing arrangements, including commercial paper, bond financing, and similar transactions. At June 30, 2006, the Corporation had a total of $1,708 in outstanding standby letters of credit.

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

Isabella Bank and Trust (IB&T), a subsidiary of the Corporation, sponsors the IBT Foundation (the "Foundation"), which is a nonprofit entity formed for the purpose of distributing charitable donations to recipient organizations generally located in the communities serviced by Isabella Bank and Trust. IB&T periodically makes charitable contributions in the form of cash transfers to the Foundation. The Foundation is administered by members of the Corporation's Board of Directors. The assets and transactions of the Foundation are not included in the consolidated financial statements of IBT Bancorp, Inc. The assets of the Foundation as of June 30, 2006 were $1,479.

FORWARD LOOKING STATEMENTS

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

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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

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

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

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

Quantitative Disclosures of Market Risk

(dollars in thousands)	June 30, 2006 2007	2008	2009	2010	2011	Thereafter
Rate sensitive assets						
Other interest bearing assets	$ 2,494	$ --	$ --	$ --	$ --	$ --
Average interest rates	1.75%	--	--	--	--	--
Fixed interest rate securities	$ 55,057	$47,298	$22,288	$13,904	$23,220	$34,770
Average interest rates	4.42%	3.55%	3.76%	4.21%	4.43%	3.76%
Fixed interest rate loans	$117,514	$73,395	$76,869	$59,016	$62,798	$30,139
Average interest rates	6.29%	6.30%	6.32%	6.38%	6.77%	5.86%
Variable interest rate loans	$ 50,764	$15,411	$12,396	$ 4,594	$ 2,483	$ 919
Average interest rates	9.25%	8.71%	8.46%	8.42%	8.53%	9.18%
Rate sensitive liabilities						
Borrowed funds	$ 32,112	$ 4,000	$12,613	$ 4,000	$ 5,286	$13,000
Average interest rates	4.95%	3.64%	4.89%	4.11%	5.69%	4.84%
Savings and NOW accounts	$ 90,398	$68,189	$64,721	$20,484	$ 5,522	$ --
Average interest rates	3.04%	1.06%	0.69%	0.64%	0.77%	--
Fixed interest rate time deposits	$183,852	$44,487	$23,093	$24,592	$13,801	$ 823
Average interest rates	4.24%	4.21%	3.88%	4.28%	4.52%	4.92%
Variable interest rate time deposits	$ 855	$ 492	$ --	$ --	$ --	$ --
Average interest rates	4.07%	4.09%	--	--	--	--

Quantitative Disclosures of Market Risk

(dollars in thousands)	June 30, 2005 2006	2007	2008	2009	2010	Thereafter
Rate sensitive assets						
Other interest bearing assets	$ 810	$ --	$ --	$ --	$ --	$ --
Average interest rates	3.07%	--	--	--	--	--
Fixed interest rate securities	$ 24,402	$44,721	$38,314	$16,047	$11,316	$34,932
Average interest rates	3.32%	3.30%	3.30%	3.49%	3.90%	3.17%
Fixed interest rate loans	$ 89,308	$75,952	$73,547	$52,286	$53,195	$24,623
Average interest rates	6.52%	5.98%	6.12%	5.90%	6.22%	5.33%
Variable interest rate loans	$ 50,378	$15,173	$19,495	$ 6,741	$ 3,645	$ 1,089
Average interest rates	7.47%	6.90%	6.81%	6.95%	6.96%	7.40%
Rate sensitive liabilities						
Borrowed funds	$ 15,973	$ 4,000	$ 4,166	$ 2,500	$ 6,312	$ 5,000
Average interest rates	3.62%	3.50%	3.65%	3.45%	5.03%	4.95%
Savings and NOW accounts	$ 51,847	$96,826	$78,705	$22,421	$ 6,117	$ --
Average interest rates	1.55%	1.28%	0.98%	1.25%	1.97%	0.00%
Fixed interest rate time deposits	$124,939	$52,390	$31,436	$16,315	$18,157	$ 1,010
Average interest rates	3.37%	3.94%	3.90%	3.42%	3.95%	4.62%
Variable interest rate time deposits	$ 936	$ 441	$ 8	$ --	$ --	$ --
Average interest rates	2.90%	2.90%	2.93%	--	--	--

ITEM 4 - CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

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

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

During the most recent fiscal quarter, no change occurred in the Corporation's internal control over financial reporting that materially affected, or is likely to materially affect, the Corporation's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1A - RISK FACTORS

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

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

(A) On June 30, 2006, pursuant to an exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended, IBT Bancorp, Inc. issued 5,114 shares of common stock, with a value of $225,000, to Heart of the North, Inc. ("HIN") in connection with the acquisition by Milltown Title, LLC, a wholly-owned subsidiary of IBT Title and Insurance Agency, Inc. of HIN's Grayling, Michigan assets pursuant to the terms of an Asset Purchase Agreement dated June 26, 2006.

(B) NONE

(C) REPURCHASES OF COMMON STOCK

In October 2002, the Corporation's Board of Directors authorized the repurchase of up to $2 million of the Corporation's common stock. This authorization does not have an expiration date. Based on repurchases since October 2002, the Corporation is currently able to repurchase up to $1.7 million of its common stock or 38,636 shares under the repurchase authorization. The following table provides information as of June 30, 2006, with respect to this plan:

	Shares Repurchased		
		Average Price	Maximum Shares That May Be Purchased Under

(Dollars in thousands)	Number	Per Share	the Plans or Programs
Balance, March 31, 2006			38,636
April 1 - 30, 2006	--	$--	--
May 1 - 31, 2006	--	--	--
June 1 - 30, 2006	--	--	--
Balance June 30, 2006	--	$--	38,636

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITIES HOLDERS

The registrant's annual meeting of shareholders was held on April 28, 2006. At the meeting the shareholders voted upon the following matters:

Election of Directors to terms ending 2008:

	For	Witheld
Dennis P. Angner	3,624,742	2,202
David J. Maness	3,627,869	4,034
W. Joseph Manifold	3,629,701	7,161
William J. Strickler	3,629,667	2,236

The terms of the following directors continued after the meeting:

James C. Fabiano
David W. Hole
Dale Weburg
Ronald E. Schumacher
Richard J. Barz
Sanda L. Caul
Timothy M. Miller

ITEM 6 - EXHIBITS

(a) Exhibits

The following exhibits are filed as part of this report:

3(a) Amended Articles of Incorporation (1)

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

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

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

3(e) Amended Bylaws (7)

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

Agreement (2)

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

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

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

10(e)* Amendment to the IBT Bancorp, Inc. and Related Companies Deferred Compensation Plan for Directors (8)

10(f)* The IBT Bancorp, Inc. and Related Companies Deferred Compensation Plan for Non-Employee Directors (9)

10(g)* First amendment to the IBT Bancorp, Inc. and Related Companies Deferred Compensation Plan for Non-Employee Directors (10)

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

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

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

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

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

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

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

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

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

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

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

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

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

* Management contract or compensatory plan or arrangement.

SIGNATURES

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

IBT Bancorp, Inc.

Date: July 27, 2006

/s/ Dennis P. Angner

Dennis P. Angner
Chief Executive Officer

/s/ Peggy L. Wheeler

Peggy L. Wheeler
Principal Financial Officer

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
31(a)	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Principal Executive Officer
31(b)	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Principal Financial Officer
32	Section 1350 Certification of Principal Executive Officer and Principal Financial Officer