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IBT BANCORP INC /MI/
Form DEF 14A
March 28, 2006

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

SCHEDULE 14A

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

Filed by the Registrant [X]
Filed by a Party other than the Registrant []

Check the appropriate box:

- Preliminary Proxy Statement
- CONFIDENTIAL, FOR USE OF THE COMMISSION ONLY (AS PERMITTED BY
RULE 14a-6(e) (2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Section 240.14a-12

IBT BANCORP, INC

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i) (4) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed
pursuant to Exchange Act Rule 0-11 (set forth the amount on which the
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[] Fee paid previously with preliminary materials.

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1) Amount Previously Paid:

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SEC 1913 (02-02)

IBT BANCORP, INC.
200 EAST BROADWAY
MOUNT PLEASANT, MICHIGAN 48858

NOTICE OF THE ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD APRIL 18, 2006

Notice is hereby given that the Annual Meeting of Shareholders of IBT Bancorp, Inc. will be held on Tuesday, April 18, 2006 at 7:00 p.m. Eastern Standard Time, at the Holiday Inn, 5665 E. Pickard Street, Mount Pleasant, Michigan. The meeting is for the purpose of considering and acting upon the following:

1. The election of four directors.

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

The Board of Directors has fixed March 1, 2006 as the record date for determination of shareholders entitled to notice of, and to vote at, the meeting or any adjournments thereof.

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

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By order of the Board of Directors

/s/ DEBRA CAMPBELL

Debra Campbell, Secretary

Dated: March 23, 2006

IBT BANCORP, INC.
200 EAST BROADWAY
MOUNT PLEASANT, MICHIGAN 48858

PROXY STATEMENT

GENERAL INFORMATION

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of IBT Bancorp, Inc. (the Corporation) a Michigan financial holding company, to be voted at the Annual Meeting of Shareholders of the Corporation to be held on Tuesday, April 18, 2006 at 7:00 p.m. at the Holiday Inn, 5665 E. Pickard Street, Mount Pleasant, Michigan, or at any adjournment or adjournments thereof, for the purposes set forth in the accompanying Notice of Annual Meeting of Shareholders and in this Proxy Statement.

This Proxy Statement has been mailed on March 28, 2006 to all holders of record of common stock as of the record date. If a shareholder's shares are held in the name of a broker, bank or other nominee, then that party should give the shareholder instructions for voting the shareholder's shares.

VOTING AT THE MEETING

The Board of Directors of the Corporation has fixed the close of business on March 1, 2006 as the record date for the determination of shareholders entitled to notice of, and to vote at, the Annual Meeting of Shareholders and any adjournment thereof. The Corporation has only one class of common stock and no preferred stock. As of March 1, 2006, there were 5,472,013 shares of common stock of the Corporation outstanding. Each outstanding share entitles the holder thereof to one vote on each separate matter presented for vote at the meeting. Shareholders may vote on matters that are properly presented at the meeting by either attending the meeting and casting a vote or by signing and returning the enclosed proxy. If the enclosed proxy is executed and returned, it may be revoked at any time before it is exercised at the meeting. All shareholders are encouraged to date and sign the enclosed proxy, indicate their choice with respect to the matters to be voted upon, and return it to the Corporation.

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

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

In the election of directors, director nominees receiving a plurality of votes cast at the meeting will be elected directors of the Corporation. Shares not voted, including broker non-votes, have no effect on the election of directors.

ELECTION OF DIRECTORS

The Board of Directors is divided into three classes, with the directors in each class being elected for a term of three years. At the Annual Meeting of Shareholders, four directors will be elected for terms ending with the annual meeting of shareholders in 2009.

Except as otherwise specified in the proxy, proxies will be voted for election of the four nominees named below. If a nominee becomes unable or unwilling to serve, proxies will be voted for such other person, if any, as shall be designated by the Board of Directors. However, the Corporation's management now knows of no reason to anticipate that this will occur. The four nominees for election as directors who receive the greatest number of votes cast will be elected directors. Each of the nominees has agreed to serve as a director if elected.

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE FOR THE ELECTION OF EACH OF THE FOUR DIRECTOR NOMINEES NOMINATED BY THE BOARD OF DIRECTORS.

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

DIRECTOR NOMINEES FOR TERMS ENDING IN 2009

Dennis P. Angner (age 50) has been a director of the Corporation since 2000. He also serves as an ex-officio member of all of the Corporation's subsidiary Boards of Directors and committees. Mr. Angner has been President and CEO of the Corporation since December 30, 2001. Prior to his appointment as President and CEO, he served as Executive Vice President of the Corporation.

David J. Maness (age 52) was appointed as a director of the Corporation in 2004, and serves on the Finance and Planning Committee and the Audit Committee. He also serves on the Board of Directors of Isabella Bank and Trust and Financial Group Information Services. Mr. Maness is President of Maness Petroleum, a geological and geophysical consulting service.

W. Joseph Manifold (age 54) was appointed to IBT Bancorp Inc.'s Board of Directors in July 2003, and serves as chairperson of the Audit Committee. Mr. Manifold also serves as a director of IBT Title and Insurance Agency, Inc. Mr. Manifold is a Certified Public Accountant and President of Federal Broach & Machine Company, a manufacturing company.

William J. Strickler (age 65) has been a director of the Corporation since 2002, and serves as chairperson of the Human Resource Committee, and also serves on the Nominating and Corporate Governance Committee. He has been a director of Isabella Bank and Trust since 1995. Mr. Strickler is President of Michiwest

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Energy, an oil and gas producer.

CURRENT DIRECTORS WITH TERMS ENDING IN 2007

James C. Fabiano (age 62) has been a director of Isabella Bank and Trust since 1979 and of the Corporation since 1988, of which he is currently serving as Chairperson and is an ex-officio member of all committees. He also serves as an ex-officio member of all the Corporation's subsidiary Boards of Directors. Mr. Fabiano is President and CEO of Fabiano Brothers, Inc., a wholesale distributor of beer, wine and certain specialty beverages.

David W. Hole (age 68) has been a director of Isabella Bank and Trust since 1982. He has served on the Board of the Corporation since 1988 and serves on the Human Resource Committee and the Finance and Planning Committee. He currently is a director of Financial Group Information Services. He retired as President and CEO of Isabella Bank and Trust and the Corporation on December 30, 2001.

Dale Weburg (age 62) has been a director of Farmers State Bank of Breckenridge since 1987 and currently serves as Chairperson. He has served on the Board of the Corporation since 2000 and is a member of the Financial Group Information Services Board of Directors. He also serves on the Nominating and Corporate Governance Committee, Audit Committee and is chairperson of the Finance and Planning Committee. Mr. Weburg is President of Weburg Farms, a cash crop farm operation.

CURRENT DIRECTORS WITH TERMS ENDING IN 2008

Richard J. Barz (age 57) was appointed director of the Corporation in 2002. He has been a director of Isabella Bank and Trust since 2000. Mr. Barz also serves on the Board of IBT Title and Insurance Agency, Inc., and Financial Group Information Services and is a member of the Human Resource Committee. Mr. Barz has been President and CEO of Isabella Bank and Trust since December 30, 2001. Prior to his appointment as President and CEO he served as Executive Vice President of Isabella Bank and Trust.

Sandra L. Caul (age 62) was appointed director of the Corporation in 2005. She currently serves as director of Isabella Bank and Trust and IBT Title and Insurance Agency, Inc. She also serves on the Human Resource

2

Committee. Ms. Caul retired in January 2005 as a state representative of the Michigan State House of Representatives. Ms. Caul is a registered nurse.

Timothy M. Miller (age 54) was appointed director of the Corporation in 2005. He has served as a director of Farmers State Bank of Breckenridge since 2002. Mr. Miller also serves as a director of Financial Group Information Services. Mr. Miller has been President and CEO of Farmers State Bank of Breckenridge since January 1, 2003. Prior to his appointment as President and CEO he served as Senior Vice President of Farmers State Bank of Breckenridge.

Ronald E. Schumacher (age 69) has been a director of the Corporation since 1988 and of Isabella Bank & Trust since 1984, of which he is currently serving as Chairperson. He also serves on the Human Resource Committee, Audit Committee and serves as chairperson of the Nominating and Corporate Governance Committee. Mr. Schumacher is the President of A. Schumacher Sons, a grain and beef farm operation.

Each of the directors has been engaged in their stated professions for more

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than five years. The principal occupation of Dennis P. Angner is with the Corporation, and he has been employed by Isabella Bank and Trust and/or the Corporation since 1984. Other executive officers of the Corporation include: Richard J. Barz, President of Isabella Bank and Trust, an employee of Isabella Bank & Trust and/or the Corporation since 1972; Timothy M. Miller, President of Farmers State Bank of Breckenridge, an employee of Farmers State Bank of Breckenridge and/or the Corporation since 1985; Peggy Wheeler (age 46), Senior Vice President and Controller of the Corporation, employed by Isabella Bank and Trust and/or the Corporation since 1977. All officers of the Corporation serve at the pleasure of the Board of Directors.

COMMITTEES OF THE BOARD OF DIRECTORS AND MEETING ATTENDANCE

The Board of Directors of the Corporation met 13 times during 2005. All incumbent directors attended 75% or more of the meetings held in 2005. The Board of Directors has an Audit Committee, a Nominating and Corporate Governance Committee, a Human Resource, and a Finance and Planning Committee.

The Audit Committee is composed of independent directors who meet the requirements for independence as defined in Rule 4200(a)(15) of the National Association of Securities Dealers' listing standards. Information regarding the functions performed by the Committee, its membership, and the number of meetings held during the year, is set forth in the "Report of the Audit Committee" included elsewhere in this annual proxy statement. The Audit Committee is governed by a written charter approved by the Board of Directors that was attached as Appendix A to the Corporation's proxy statement for the 2005 Annual Shareholders Meeting. In accordance with the provisions of the Sarbanes -- Oxley Act of 2002, Director Manifold meets the requirement of Audit Committee Financial Expert and has been so designated by the Board of Directors.

The Corporation has a standing Nominating and Corporate Governance Committee consisting of independent directors who meet the requirements for independence as defined in Rule 4200(a)(15) of the National Association of Securities Dealers' listing standards. The Committee consists of directors Schumacher, Strickler and Weburg. The Nominating and Corporate Governance Committee held five meetings in 2005, and all directors attended 75% or more of the meetings in 2005. The Board of Directors has approved a Nominating and Corporate Governance Committee Charter that was attached as Appendix B to the Corporation's proxy statement for the 2005 Annual Shareholders Meeting. The Nominating and Corporate Governance Committee is responsible for evaluating and recommending individuals for nomination to the Board of Directors for approval. In making its selections and recommendations, the Nominating and Corporate Governance Committee considers a variety of factors, which generally include the candidate's personal and professional integrity, independence, business judgment, and communication skills.

The Nominating and Corporate Governance Committee will consider as potential nominees, persons recommended by shareholders. Recommendations should be submitted in writing to the Secretary of the Corporation, 200 East Broadway, Mount Pleasant, Michigan 48858 and include the shareholder's name, address and number of shares of the Corporation owned by the shareholder. The recommendation should also include the name, age, address and qualifications of the recommended candidate for nomination. Recommendations for the 2007 Annual Meeting of Shareholders should be delivered no later than November 28, 2006. The Nominating and Corporate

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differently based on whether they are recommended to the Nominating and Corporate Governance Committee by a shareholder.

The Human Resource Committee of the Corporation is responsible for reviewing and recommending to the Corporation's Board of Directors the compensation of the Corporation's President and its subsidiaries, benefit plans and the overall percentage increase in salaries. The committee consists of directors, Barz, Hole, Schumacher, Strickler, and Caul.

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

4

REPORT OF THE AUDIT COMMITTEE

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

The Audit Committee is responsible for pre-approving all auditing services and permitted non-audit services to be performed during 2005 or thereafter for the Corporation by its independent auditors or any other auditing or accounting firm, except as noted below. The Audit Committee has established general guidelines for the permissible scope and nature of any permitted non-audit services in connection with its annual review of the audit plan and reviews the guidelines with the Board of Directors.

Management has the primary responsibility for the consolidated financial statements and the reporting process including the systems of internal controls. In fulfilling its oversight responsibilities, the Committee reviewed the audited consolidated financial statements in the Annual Report with management including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in the consolidated financial statements. The Committee also reviewed with management and the independent auditors, management's assertion on the design and effectiveness of the Corporation's internal control over financial reporting as of December 31, 2005.

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

The Committee discussed with the Corporation's internal and independent auditors the overall scope and plans for their respective audits. The Committee

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meets with the internal and independent auditors, with and without management present, to discuss the results of their examinations, their evaluations of the Corporation's internal controls and the overall quality of the Corporation's financial reporting process. The Committee held seven meetings during 2005, and all directors attended 75% or more of the meetings held in 2005.

In reliance on the reviews and discussions referred to above, the Committee recommended to the Board of Directors (and the Board has approved) that the audited consolidated financial statements and reports on management's assertion on the design and effectiveness of internal control over financial reporting be included in the Annual Report on Form 10-K for the year ended December 31, 2005 for filing with the Securities and Exchange Commission. The Committee has appointed Rehmann Robson, P.C. as the independent auditors for the 2006 audit.

Respectfully submitted,

/s/ W. Joseph Manifold

W. Joseph Manifold, Audit Committee
Chairperson

James C. Fabiano
David J. Maness
Ronald E. Schumacher
Dale D. Weburg

5

EXECUTIVE OFFICERS

Executive Officers of the Corporation are compensated in accordance with their employment with the applicable entity. The executive officers of the Corporation whose annual compensation exceeded \$100,000 for the periods indicated are as follows:

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION	
		SALARY (1)	ALL OTHER COMPENSATION (2)
Dennis P. Angner,.....	2005	\$262,530	\$ 9,442
President and CEO of IBT Bancorp, Inc.	2004	251,200	9,012
	2003	218,090	8,390
Richard J. Barz,.....	2005	\$251,840	\$11,720
Executive Vice President of IBT Bancorp, Inc.			
and	2004	242,000	11,162
President and CEO of Isabella	2003	216,340	8,993
Bank & Trust			

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Tim Miller,.....	2005	\$151,750	\$ --
Vice President of IBT Bancorp, Inc. and			
President	2004	141,515	--
and CEO of Farmers State Bank of Breckenridge	2003	128,396	1,770

- (1) Includes compensation voluntarily deferred under the Corporation's 401(k) and Non-qualified Deferred Salary Agreement and Board of Directors fees, paid in cash or deferred under the Non-qualified Deferred Directors Compensation Plan.
- (2) The amounts shown represent contributions by the Corporation under its Employee Stock Ownership Plan (ESOP), in which substantially all employees participate and expenses related to a nonqualified supplemental Executive Retirement Plan (ERP). The amounts contributed are as follows:

	YEAR	ESOP	ERP
	----	-----	-----
Dennis P. Angner.....	2005	\$ --	\$ 9,442
	2004	--	9,012
	2003	3,006	5,384
Richard J. Barz.....	2005	\$ --	\$11,720
	2004	--	11,162
	2003	2,982	6,011
Tim Miller.....	2005	\$ --	\$ --
	2004	--	--
	2003	1,770	--

The Corporation believes it generally maintains a conservative level of perquisites and personal benefits. The dollar value of perquisites and personal benefits provided to the named executive officer does not exceed 10% of his annual compensation.

REPORT ON EXECUTIVE COMPENSATION

Dennis P. Angner serves as President and Chief Executive Officer of the Corporation. With the exception of Dennis P. Angner, services performed by other executive officers of the Corporation are incidental to their primary services as officers and employees of a subsidiary Bank, and they receive no compensation directly from the Corporation. The compensation for the President of IBT Bancorp, Inc. and its subsidiaries is reviewed by the Corporation's Human Resource Committee and approved by the Corporation's Board of Directors based on

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recommendations from the Human Resource Committee.

The Committee's approach to determining the annual salary of executive officers is to offer competitive salaries in comparison with other comparable financial institutions. The Committee utilizes regional and national compensation surveys which provide salary ranges for banks of similar size. Based on these surveys, the Committee establishes salary ranges for all job classifications. In setting salaries, the Corporation seeks to assure relative fairness in the compensation of officers and to recognize the value of their contribution to the Corporation's overall success. Specific factors used to decide where an executive officer salary should be within the established range include the historical financial performance, financial performance outlook, years of service, and job performance. The salary paid to Dennis P. Angner, President and Chief Executive Officer of the Corporation, was in the 25th to 50th percentile in 2005. The Board's primary consideration in where Angner's salary fits within the defined range was based on a discretionary evaluation of his personal performance and years of service as President and CEO.

Respectfully submitted,

William J. Strickler, Chairperson
Dennis P. Angner
Richard J. Barz
Sandra L. Caul
James C. Fabiano
David W. Hole
Ronald E. Schumacher

THE DEFINED BENEFIT PENSION PLAN

The Corporation sponsors a defined benefit pension plan. This plan was originally adopted in 1973 and was substantially revised in 1989. Only employees, including leased employees, who have attained the age of 21 and who have worked more than 1,000 hours in the current plan year are eligible to participate.

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

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

The following table indicates estimated annual benefits payable upon normal retirement for various compensation levels and years of service. Additional benefits may be earned due to integration of social security benefits. The amounts that may be earned are undeterminable until retirement.

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FIVE YEAR AVERAGE OF HIGHEST COMPENSATION	YEARS OF ACCREDITED SERVICE		
	5	15	25
\$ 20,000	\$ 900	\$ 2,700	\$ 4,500
50,000	2,250	6,750	11,250
75,000	3,375	10,125	16,875
100,000	4,500	13,500	22,500
125,000	5,625	16,875	28,125
150,000	6,750	20,250	33,750
200,000	7,875	23,625	39,375

The amounts calculated under the plan's benefit formula assume a monthly payment for life. A married participant will generally receive an actuarially reduced monthly payment because the participant's surviving spouse will also receive monthly payments for life after the participant's death. As of December 31, 2005, Richard J. Barz had 33 years, Dennis P. Angner had 22 years, and Timothy M. Miller had 5 years of credited service under the plan.

HUMAN RESOURCE COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Human Resource Committee of the Corporation is responsible for reviewing and recommending to the Corporation's Board of Directors the compensation of the Corporation's President and its subsidiaries, benefit plans and the overall percentage increase in salaries. The committee consists of directors Strickler, Angner, Barz, Caul, Fabiano, Hole, and Schumacher. Director Barz did not participate in any of the procedures which pertain to executive officers compensation and was excused from the meetings at such times. Director Angner participated in deliberations concerning compensation of other executive officers, however, was excused from the meeting at which his compensation was set.

REMUNERATION OF DIRECTORS

The Corporation paid a \$4,000 retainer, and \$750 per board meeting to its directors during 2005 and \$225 per committee meeting attended. Directors of Isabella Bank and Trust were paid a \$2,800 retainer, \$700 per board meeting and \$200 per committee meeting attended. Farmers State Bank of Breckenridge paid a retainer of \$2,000, \$500 per board meeting, and \$120 per committee meeting attended (provided the committee meeting was on a non-board meeting day). Directors who are officers of a subsidiary are not paid for attendance at committee meetings.

The Corporation sponsors a deferred compensation plan for directors (the Directors' Plan). The Directors' Plan was adopted in 1984 and was substantially revised in 1989 and 1996 and was amended and frozen as of December 31, 2005. Under the Directors' Plan, deferred directors' fees are converted on a quarterly basis into stock units of the Corporation's common stock. The fees are converted based on the purchase price for a share of the Corporation's common stock under the Corporation's Dividend Reinvestment Plan. The board of directors adopted the new Plan on January 1, 2006 to comply with the American Jobs Creation Act of 2004.

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Pursuant to the terms of the Directors' Plan, directors of the Corporation and its subsidiaries were required to defer at least 25% of their earned board fees. The amount deferred under the terms of the Directors' Plan in 2005 was \$303,000, resulting in 13,715 stock units being credited to participants' accounts. As of December 31, 2005, there were 161,571 stock units credited to participants' accounts. Stock units credited to a participant's account are eligible for cash and stock dividends as payable. All amounts deferred are unsecured claims against the Corporation's general assets. The net cost of this benefit to the Corporation was \$98,000 in 2005.

Distribution from the Directors' Plan occurs when the participant terminates service with the Corporation and/or attains age 65. Distributions must take the form of shares of Corporation common stock equal to the number

8

of stock units credited to the participant's account. Any Corporation common stock issued under the Directors' Plan will be considered restricted stock under the Securities Act of 1933, as amended.

Inside directors Angner, Barz, and Miller deferred stock units were issued in 2005, pursuant to the Corporation's understanding of the Financial Accounting Standards Board's ("FASB") Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" (SFAS No. 123R). Under this standard their stock units would have been required to be marked to market quarterly, resulting in additional compensation expense. The IBT Bancorp Board of Directors amended its deferred compensation plan on December 31, 2005. Prior to December 31, 2005, the Plan contained a cash payout option, and a liability was recorded in the consolidated financial statements. The Plan as modified does not allow for cash settlement, and therefore such share-based payment awards qualify for classification as equity. The number of equivalent stock units outstanding will be included when calculating fully dilutive earnings per share.

SHARES IN DEFERRED DIRECTOR PLAN BY DIRECTOR

DIRECTOR	SHARES
Sandra Caul.....	8,705
James Fabiano.....	27,393
David Hole.....	19,056
Thomas L. Kleinhardt.....	4,825
Ronald Schumacher.....	11,147
William Strickler.....	11,190
Dale Weburg.....	4,829
Diane Morey.....	2,422
Wilson Lauer.....	425
Larry Sensabaugh.....	467
Bernard Siler.....	532
Nancy Shankel.....	425
Dave Maness.....	2,442
Joe Manifold.....	1,780
Greg Varner.....	349

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G. Charles Hubscher.....	758
Total for Retired Directors.....	64,826

TOTAL SHARES.....	161,571
	=====

INDEBTEDNESS OF AND TRANSACTIONS WITH MANAGEMENT

Certain directors and officers of the Corporation and members of their families were loan customers of the subsidiary Banks, or have been directors or officers of corporations, or partners of partnerships which have had transactions with the subsidiary Banks. In management's opinion, all such transactions are made in the ordinary course of business and are substantially on the same terms, including collateral and interest rates, as those prevailing at the same time for comparable transactions with other customers. These transactions do not involve more than normal risk of collectibility or present other unfavorable features. Total loans to these customers were approximately \$9,679,000 as of December 31, 2005.

STOCK PERFORMANCE

The graph below 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, 2000, and all dividends are reinvested.

STOCK PERFORMANCE
FIVE-YEAR TOTAL RETURN

(PERFORMANCE CHART)

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
----	-----	-----
12/31/2000	100.0	100.0

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12/31/2001	113.7	85.4	11
12/31/2002	133.0	58.7	11
12/31/2003	154.6	88.5	14
12/31/2004	181.3	97.1	16
12/31/2005	192.8	99.2	16

10

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information as of March 1, 2006 as to the common stock of the Corporation owned of record or beneficially by any person who is known to the Corporation to be the beneficial owner of more than 5% of the common stock of the Corporation.

NAME AND ADDRESS OF OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP		
	SOLE VOTING AND INVESTMENT POWERS	SHARED VOTING AND INVESTMENT POWERS	PERCENTAGE OF COMMON STOCK OUTSTANDING
James J. McGuirk..... P.O. Box 222 Mt. Pleasant, MI	365,402	--	6.68%

The following table sets forth certain information as of March 1, 2006 as to the common stock of the Corporation owned beneficially by each director and director nominee, by each named executive officer, and by all directors, director nominees and executive officers of the Corporation as a group.

NAME OF OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP			
	SOLE VOTING AND INVESTMENT POWERS	SHARED VOTING AND INVESTMENT POWERS	TOTAL BENEFICIAL OWNERSHIP	PERCENTAGE OF COMMON STOCK OUTSTANDING
Dennis P. Angner*.....	15,890	90	15,980	0.29%

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Richard J Barz*.....	16,897		16,897	0.31%
Sandra L. Caul.....		8,713	8,713	0.16%
James C. Fabiano.....	229,032		229,032	4.19%
David W. Hole.....		15,886	15,886	0.29%
W. Joseph Manifold.....	284		284	0.01%
Timothy M. Miller.....	39	3,059	3,098	0.06%
Ronald E. Schumacher.....		13,463	13,463	0.25%
William J. Strickler.....	68,247	5,055	73,302	1.34%
Dale D. Weburg.....	52,323	812	53,135	0.97%
David J. Maness.....	431		431	0.01%
All Directors, nominees and Executive Officers as a Group (11 persons).....	383,143	47,078	430,221	7.88%

* Trustees of the ESOP who vote ESOP stock.

AS TO OTHER BUSINESS WHICH MAY COME BEFORE THE MEETING

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

RELATIONSHIP WITH INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has appointed Rehmann Robson, P.C. as the independent auditors of the Corporation for the year ending December 31, 2006.

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

11

FEES FOR PROFESSIONAL SERVICES PROVIDED BY REHMANN ROBSON P.C.

The following table shows the aggregate fees billed by Rehmann Robson P.C. for audit and other services provided to the Corporation for 2005 and 2004.

	2005	2004
	-----	-----
Audit Fee.....	\$544,648	\$112,650
Audit Related Fees.....	3,600	5,750
Tax Fees.....	31,224	24,150
Other Professional Services Fees.....	21,184	19,079
	-----	-----
Total.....	\$600,656	\$161,629

=====

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

The audit related fees were for professional services in conjunction with FDICIA reporting in 2004 and consultation of technical issues in 2005.

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

Other professional service fees were for, training, Federal Home Loan Bank required procedures, and out of pocket costs. The Audit Committee has considered whether the services provided by Rehmann Robson P.C., other than the audit fees, is compatible with maintaining Rehmann Robson P.C. independence and believes that the other services provided are compatible.

PRE-APPROVAL POLICIES AND PROCEDURES

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

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

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

Applicable SEC rules and regulations permit waiver of the pre-approval requirements for services other than audit, review or attest services if certain conditions are met. Out of the services characterized above as Audit-Related, Tax and Professional Services, none were billed pursuant to these provisions in 2005 and 2004 without pre-approval.

SHAREHOLDER PROPOSALS

Any proposals which shareholders of the Corporation intend to present at the next annual meeting of the Corporation must be received before November 28, 2006 to be considered for inclusion in the Corporation's proxy

statement and proxy for that meeting. Proposals should be made in accordance with Securities and Exchange Commission Rule 14a-8.

COMMUNICATIONS WITH THE BOARD

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

CODE OF ETHICS

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

DIRECTORS' ATTENDANCE AT THE ANNUAL MEETING OF SHAREHOLDERS

The Corporation's directors are encouraged to attend the annual meeting of shareholders. At the 2005 annual meeting, all directors were in attendance.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

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

To the Corporation's knowledge, based solely on review of the copies of such reports furnished to the Corporation, during the year ended December 31, 2005 all Section 16(a) filing requirements were satisfied, with respect to the applicable officers, directors, and greater than 10 percent beneficial owners, except Sandra Caul did not file her Form 3, which was due May 6, 2005, until February 27, 2006.

OTHER MATTERS

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

By order of the Board of Directors

-s- DEBRA CAMPBELL

Debra Campbell, Secretary

IBT BANCORP, INC.

FINANCIAL INFORMATION INDEX

PAGE	DESCRIPTION
----	-----
15	Summary of Selected Financial Data
16 - 17	Report of Independent Registered Public Accounting Firm
18 - 22	Consolidated Financial Statements
23 - 46	Notes to Consolidated Financial Statements
47 - 61	IBT Financial Review
61 - 63	Common Stock and Dividend Information

SUMMARY OF SELECTED FINANCIAL DATA

	2005	2004	2003	2002	2001
	-----	-----	-----	-----	-----
	(DOLLARS IN THOUSANDS EXCEPT PER SHARE DATA)				
INCOME STATEMENT DATA					
Total interest income.....	\$ 36,882	\$ 33,821	\$ 35,978	\$ 38,161	\$ 40,798
Net interest income.....	23,909	23,364	23,528	22,905	21,538
Provision for loan losses.....	777	735	1,455	1,025	770
Net income.....	6,776	6,645	7,205	6,925	6,066
BALANCE SHEET DATA					
End of year assets.....	\$741,654	\$678,034	\$664,079	\$652,717	\$592,143
Daily average assets.....	700,624	675,157	659,323	623,507	566,547
Daily average deposits.....	576,091	567,145	563,600	549,970	494,847
Daily average loans/net.....	459,310	430,854	399,008	390,613	399,239
Daily average equity.....	74,682	70,787	65,770	59,540	54,787
PER SHARE DATA(1)					
Net income.....	\$ 1.25	\$ 1.24	\$ 1.36	\$ 1.33	\$ 1.17
Cash dividends.....	0.60	0.57	0.55	0.50	0.45
Book value (at year end).....	14.78	13.48	12.94	12.09	10.99
FINANCIAL RATIOS					

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Shareholders' equity to assets (year end).....	10.91%	10.71%	10.38%	9.71%	9.60%
Net income to average equity.....	9.07	9.39	10.95	11.63	11.07
Cash dividend payout to net income....	48.02	46.20	39.99	37.33	38.36
Net income to average assets.....	0.97	0.98	1.09	1.11	1.07

	2005				2004		
	4TH	3RD	2ND	1ST	4TH	3RD	2ND
Quarterly Operating Results:							
Total interest income.....	\$9,832	\$9,439	\$8,983	\$8,628	\$8,563	\$8,415	\$8,393
Interest expense.....	3,719	3,425	3,064	2,765	2,659	2,562	2,566
Net interest income.....	6,113	6,014	5,919	5,863	5,904	5,853	5,827
Provision for loan losses.....	262	196	109	210	150	120	225
Noninterest income.....	2,192	2,328	2,099	1,857	1,963	2,063	2,199
Noninterest expenses.....	5,514	5,891	5,622	5,857	5,724	5,502	5,477
Net income.....	1,924	1,744	1,765	1,343	1,663	1,749	1,756
Per Share of Common Stock:(1)							
Net income.....	\$ 0.35	\$ 0.32	\$ 0.33	\$ 0.25	\$ 0.31	\$ 0.33	\$ 0.33
Cash dividends.....	0.30	0.10	0.10	0.10	0.27	0.10	0.10
Book value (at quarter end)...	14.78	14.02	13.85	13.42	13.48	13.46	12.94

(1) Retroactively restated for the 10% stock dividend paid February 15, 2006.

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, 2005 and 2004, 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, 2005. We also have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that IBT BANCORP, INC. maintained effective internal control over financial reporting as of December 31, 2005, 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

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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, an opinion on management's assessment, 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, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. 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.

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, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States. Also, in our opinion, management's assessment that IBT BANCORP, INC. maintained effective internal control over financial reporting as of December 31, 2005 is fairly stated, in all material respects, based on criteria established in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission

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(COSO). Furthermore, in our opinion, IBT BANCORP, INC. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

-s- Rehmann Robson P.C.

Rehmann Robson P.C.

Saginaw, Michigan
March 3, 2006

17

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31	
	2005	2004
	(DOLLARS IN THOUSANDS)	
ASSETS		
Cash and demand deposits due from banks.....	\$ 30,825	\$ 20,760
Investment securities		
Securities available for sale (amortized cost of \$185,688 in 2005 and \$161,561 in 2004).....	183,406	162,030
Securities held to maturity (fair value -- \$537 in 2004)...	--	523
TOTAL INVESTMENT SECURITIES.....	183,406	162,553
Mortgage loans available for sale.....	744	2,339
Loans (net of the allowance for loan losses).....	476,343	446,451
Premises and equipment.....	19,172	18,533
Bank-owned life insurance.....	10,533	10,168
Accrued interest receivable.....	4,786	4,315
Acquisition intangibles and goodwill, net.....	3,253	3,347
Other assets.....	12,592	9,568
TOTAL ASSETS.....	\$741,654	\$678,034
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest bearing.....	\$ 73,839	\$ 65,736
NOW accounts.....	104,251	101,362
Certificates of deposit and other savings.....	328,780	323,954
Certificates of deposit over \$100,000.....	85,608	72,824
TOTAL DEPOSITS.....	592,478	563,876

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Other borrowed funds.....	52,165	30,982
Escrow funds payable.....	9,823	1,725
Accrued interest and other liabilities.....	6,286	8,857
	-----	-----
TOTAL LIABILITIES.....	660,752	605,440
Shareholders' Equity		
Common stock -- no par value 10,000,000 shares authorized; outstanding -- 4,974,715 in 2005 (4,896,412 in 2004)....	72,296	66,908
Retained earnings.....	10,112	6,590
Accumulated other comprehensive loss.....	(1,506)	(904)
	-----	-----
TOTAL SHAREHOLDERS' EQUITY.....	80,902	72,594
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY.....	\$741,654	\$678,034
	=====	=====

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

18

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	YEAR ENDED DECEMBER 31		
	2005	2004	2003

	(DOLLARS IN THOUSANDS)		

NUMBER OF SHARES OF COMMON STOCK OUTSTANDING			
Balance at beginning of year.....	4,896,412	4,403,404	4,336,283
Common stock dividends.....	--	440,191	--
Issuance of common stock.....	78,303	57,388	70,340
Common stock repurchased.....	--	(4,571)	(3,219)
	-----	-----	-----
BALANCE END OF YEAR.....	4,974,715	4,896,412	4,403,404
	=====	=====	=====
COMMON STOCK			
Balance at beginning of year.....	\$ 66,908	\$ 47,491	\$ 45,610
Common stock dividends.....	--	17,608	--
Issuance of common stock.....	2,684	2,001	2,008
Share based payment awards under equity compensation plan.....	2,704	--	--
Common stock repurchased.....	--	(192)	(127)
	-----	-----	-----
BALANCE END OF YEAR.....	72,296	66,908	47,491

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RETAINED EARNINGS			
Balance at beginning of year.....	6,590	20,623	16,299
Net income.....	6,776	6,645	7,205
Common stock dividends.....	--	(17,608)	--
Cash dividends (\$0.60 per share in 2005, \$0.57 per share in 2004, \$0.55 per share in 2003) ..	(3,254)	(3,070)	(2,881)
	-----	-----	-----
BALANCE END OF YEAR.....	10,112	6,590	20,623
ACCUMULATED OTHER COMPREHENSIVE LOSS			
Balance at beginning of year.....	(904)	822	1,548
Other comprehensive loss.....	(602)	(1,726)	(726)
	-----	-----	-----
BALANCE END OF YEAR.....	(1,506)	(904)	822
	-----	-----	-----
TOTAL SHAREHOLDERS' EQUITY END OF YEAR.....	\$ 80,902	\$ 72,594	\$ 68,936
	=====	=====	=====

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

19

CONSOLIDATED STATEMENTS OF INCOME

	YEAR ENDED DECEMBER 31		
	2005	2004	2003
	-----	-----	-----
(DOLLARS IN THOUSANDS EXCEPT PER SHARE DATA)			
INTEREST INCOME			
Loans, including fees.....	\$30,682	\$27,801	\$29,193
Investment securities			
Taxable.....	3,487	3,696	4,437
Nontaxable.....	2,398	2,116	2,004
Federal funds sold and other.....	315	208	344
	-----	-----	-----
TOTAL INTEREST INCOME.....	36,882	33,821	35,978
INTEREST EXPENSE			
Deposits.....	11,374	9,391	11,610
Borrowings.....	1,599	1,066	840
	-----	-----	-----
TOTAL INTEREST EXPENSE.....	12,973	10,457	12,450
	-----	-----	-----
NET INTEREST INCOME.....	23,909	23,364	23,528

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Provision for loan losses.....	777	735	1,455
	-----	-----	-----
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES.....	23,132	22,629	22,073
NONINTEREST INCOME			
Service charges and fees.....	4,928	4,735	5,141
Title insurance revenue.....	2,351	1,957	2,340
Gain on sale of mortgage loans.....	270	477	2,091
Other.....	927	996	1,173
	-----	-----	-----
TOTAL NONINTEREST INCOME.....	8,476	8,165	10,745
NONINTEREST EXPENSES			
Compensation and benefits.....	13,548	12,685	13,345
Occupancy.....	1,553	1,504	1,471
Furniture and equipment.....	2,657	2,484	2,560
Charitable donations.....	79	109	1,158
Other.....	5,047	5,489	5,044
	-----	-----	-----
TOTAL NONINTEREST EXPENSES.....	22,884	22,271	23,578
	-----	-----	-----
INCOME BEFORE FEDERAL INCOME TAXES.....	8,724	8,523	9,240
Federal income taxes.....	1,948	1,878	2,035
	-----	-----	-----
NET INCOME.....	\$ 6,776	\$ 6,645	\$ 7,205
	=====	=====	=====
Net income per basic share of common stock.....	\$ 1.25	\$ 1.24	\$ 1.36
	=====	=====	=====

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	YEAR ENDING DECEMBER 31		
	2005	2004	2003

	(DOLLARS IN THOUSANDS)		
NET INCOME.....	\$ 6,776	\$ 6,645	\$ 7,205
	-----	-----	-----
Other comprehensive loss before income taxes:			
Unrealized losses on available-for-sale securities:			
Unrealized holding losses arising during period....	(2,749)	(2,527)	(1,223)
Reclassification adjustment for net realized gains			

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included in net income.....	(2)	(106)	(85)
Reversal of minimum pension liability adjustment...	1,839	18	208
	-----	-----	-----
Other comprehensive loss before income tax benefit.....	(912)	(2,615)	(1,100)
Income tax benefit related to other comprehensive loss..	310	889	374
	-----	-----	-----
OTHER COMPREHENSIVE LOSS.....	(602)	(1,726)	(726)
	-----	-----	-----
COMPREHENSIVE INCOME.....	\$ 6,174	\$ 4,919	\$ 6,479
	=====	=====	=====

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

21

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31		
	2005	2004	2003

	(DOLLARS IN THOUSANDS)		
OPERATING ACTIVITIES			
Net income.....	\$ 6,776	\$ 6,645	\$ 7,205
Reconciliation of net income to cash provided by operations:			
Provision for loan losses.....	777	735	1,455
Depreciation.....	1,735	1,552	1,703
Net amortization of investment securities.....	957	1,558	1,592
Realized gain on sale of investment securities...	(2)	(106)	(85)
Amortization and impairment of mortgage servicing rights.....	140	135	643
Increase in cash value of life insurance.....	(365)	(427)	(608)
Amortization of acquisition intangibles.....	94	93	94
Deferred income taxes (benefit).....	263	305	(41)
Changes in operating assets and liabilities which provided (used) cash			
Loans held for sale.....	1,595	1,976	9,077
Interest receivable.....	(471)	219	363
Other assets.....	(1,443)	(1,235)	(1,008)
Escrow funds payable.....	8,098	(1,033)	(328)
Accrued interest and other liabilities.....	298	2,325	(198)
	-----	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES.....	18,452	12,742	19,864
INVESTING ACTIVITIES			

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Activity in available-for-sale securities			
Maturities, calls, and sales.....	31,962	72,633	49,776
Purchases.....	(57,044)	(68,892)	(64,710)
Activity in held to maturity securities			
Maturities, calls, and sales.....	523	765	620
Net increase in loans.....	(30,669)	(31,531)	(31,615)
Purchases of premises and equipment.....	(2,374)	(4,300)	(3,018)
Acquisition of title office.....	--	--	(36)
Redemption of cash value life insurance.....	--	288	389
	-----	-----	-----
NET CASH USED IN INVESTING ACTIVITIES.....	(57,602)	(31,037)	(48,594)
FINANCING ACTIVITIES			
Net increase (decrease) in noninterest bearing			
deposits.....	8,103	(2,024)	4,654
Net increase (decrease) in interest bearing			
deposits.....	20,499	(1,807)	1,597
Net increase in other borrowed funds.....	21,183	12,929	260
Cash dividends paid on common stock.....	(3,254)	(3,070)	(2,881)
Proceeds from the issuance of common stock.....	2,684	2,001	2,008
Common stock repurchased.....	--	(192)	(127)
	-----	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES.....	49,215	7,837	5,511
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....	10,065	(10,458)	(23,219)
Cash and cash equivalents at beginning of year.....	20,760	31,218	54,437
	-----	-----	-----
CASH AND CASH EQUIVALENTS AT END OF YEAR....	\$ 30,825	\$ 20,760	\$ 31,218
	=====	=====	=====
Supplemental cash flows information:			
Interest paid.....	\$ 12,814	\$ 10,420	\$ 12,450
Federal income taxes paid.....	1,000	2,569	2,034

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

22

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, Farmers State Bank of Breckenridge, 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

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array of financial products and services in mid-Michigan. Its banking subsidiaries, Isabella Bank and Trust and Farmers State Bank of Breckenridge, offer banking services through 21 locations, 24-hour banking services locally and nationally through shared automatic teller machines, 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 Banks' principal markets. The Corporation's results of operations can be significantly affected by changes in interest rates or changes in the local economic environment.

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, and Benchmark Title of Greenville. IBT Title provides title insurance and abstract searches, and closes real estate loans.

Financial Group Information Services provides information technology services for all of IBT Bancorp's subsidiaries.

IBT Personnel and IB&T Employee Leasing provide payroll services, benefit administration, and other human resource services to IBT Bancorp's subsidiaries.

USE OF ESTIMATES:

In preparing consolidated financial statements in conformity with generally accepted accounting principles, 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 mortgage servicing rights, the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

CASH AND CASH EQUIVALENTS:

For purposes of the consolidated statements of cash flows, cash and cash

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equivalents include cash and balances due from banks, federal funds sold, and other deposit accounts, all of which mature within ninety days.

SECURITIES:

Debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Securities not classified as held to maturity are classified as "available for sale" and 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 estimating other-than-temporary impairment losses, 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. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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 Banks 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, unless such loans are the subject of a restructuring agreement.

LOANS HELD FOR SALE:

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or 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 Banks. 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 Banks, 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 Banks do 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. Generally, purchased servicing rights are capitalized at the cost to acquire the 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. Capitalized servicing rights are reported in other assets and

25

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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 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.

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.

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.

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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 of significant property improvements are capitalized, whereas costs relating to holding property are expensed. The portion of interest costs relating to development of real estate is capitalized. 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.

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.

RESTRICTED INVESTMENTS:

Included in other assets are restricted securities of \$3,080 in 2005 and \$2,910 in 2004. Restricted securities include the stock of the Federal Reserve Bank and the Federal Home Loan Bank and have no contractual maturity.

BANK 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.

26

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

ACQUISITION INTANGIBLES AND GOODWILL:

Isabella Bank and Trust previously acquired branch facilities and related deposits in a business combination accounted for as a purchase. The acquisition of the branches included amounts related to the valuation of customer deposit relationships (core deposit intangibles). The core deposit intangible is included in other assets and is being amortized on the straight line basis over nine years, the expected life of the acquired relationship. Goodwill is included in other assets and is not amortized but is evaluated for impairment at least annually.

FEDERAL INCOME TAXES:

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Federal income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxes currently due plus deferred income taxes. Deferred income taxes are recognized for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred income tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets or liabilities are recorded or settled. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. As changes in income tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

EARNINGS PER COMMON SHARE:

Net income per share amounts are computed by dividing net income by the weighted average number of shares outstanding. All per share amounts have been adjusted for the stock dividend paid February 15, 2006. The weighted average numbers of common shares outstanding were 5,416,961 in 2005; 5,344,585 in 2004; and 5,270,085 in 2003, as adjusted for the 10% stock dividend paid February 15, 2006.

RECLASSIFICATIONS:

Certain amounts reported in the 2004 and 2003 consolidated financial statements have been reclassified to conform with the 2005 presentation.

RECENT ACCOUNTING PRONOUNCEMENTS:

In April 2005, the Securities and Exchange Commission adopted a new rule that amends the compliance dates for implementation of Financial Accounting Standards Board's ("FASB") Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" (SFAS No. 123R). The 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 or liability instruments issued. SFAS No. 123R covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. The Corporation will adopt SFAS No. 123R on January 1, 2006 and due to the Plan amendment discussed in Note 16, does not believe the impact the adoption of the standard will have a material impact on the Corporation's results of operations.

NOTE 2 -- RESTRICTIONS ON CASH AND AMOUNTS DUE FROM BANKS

Banking regulations require banks to maintain cash reserve balances in currency or as deposits with the Federal Reserve Bank. At December 31, 2005 and 2004, the reserve balances amounted to \$711 and \$849, respectively.

27

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 3 -- INVESTMENT SECURITIES

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

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	2005			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
Securities available-for-sale				
U.S. Government and federal agencies..	\$ 53,953	\$--	\$1,040	\$ 52,913
States and political subdivisions.....	95,976	532	1,073	95,435
Corporate.....	13,294	3	77	13,220
Mortgage-backed.....	22,465	22	649	21,838
TOTAL.....	\$185,688	\$557	\$2,839	\$183,406

	2004			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
Securities available-for-sale				
U.S. Government and federal agencies..	\$ 51,704	\$ 38	\$ 463	\$ 51,279
States and political subdivisions.....	83,619	1,433	420	84,632
Corporate.....	4,766	31	43	4,754
Mortgage-backed.....	21,472	111	218	21,365
TOTAL.....	\$161,561	\$1,613	\$1,144	\$162,030
Securities held-to-maturity				
Mortgage-backed.....	\$ 3	\$ --	\$ --	\$ 3
States and political subdivisions.....	520	18	4	534
TOTAL.....	\$ 523	\$ 18	\$ 4	\$ 537

At December 31, 2005 and 2004 investment securities with carrying values of approximately \$10,516 and \$18,972 were pledged to secure public deposits and for other purposes as necessary or required by law. At December 31, 2005 and 2004, the carrying amount of securities pledged to secure repurchase agreements was \$8,832 and \$1,017, respectively.

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The amortized cost and fair value of available-for-sale securities by contractual maturity at December 31, 2005 are as follows:

	AVAILABLE FOR SALE	
	AMORTIZED COST	FAIR VALUE
Within 1 year.....	\$ 51,883	\$ 51,498
Over 1 year through 5 years.....	82,534	81,403
After 5 years through 10 years.....	27,044	26,902
Over 10 years.....	1,762	1,765
	-----	-----
	163,223	161,568
Mortgage-backed securities.....	22,465	21,838
	-----	-----
	\$185,688	\$183,406
	=====	=====

28

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

During 2005, 2004, and 2003, proceeds from sale of securities available for sale amounted to \$4,588, \$45,044, and \$16,874, respectively. Gross realized gains amounted to \$9, \$129, and \$85, respectively. Gross realized losses amounted to \$7, \$23, and \$0, respectively. The tax provision applicable to these net realized gains and losses amounted to \$0, \$36, and \$31, respectively.

Information pertaining to securities with gross unrealized losses at December 31, 2005, aggregated by investment category and length of time that individual securities have been in continuous loss position, follows:

LESS THAN TWELVE MONTHS		OVER TWELVE MONTHS	
GROSS UNREALIZED LOSSES	FAIR VALUE	GROSS UNREALIZED LOSSES	FAIR VALUE
-----	-----	-----	-----

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Securities available-for-sale				
U.S. Government and federal agency.....	\$157	\$17,155	\$ 883	\$35,171
States and political subdivisions.....	397	27,687	676	26,633
Corporate.....	1	931	76	3,563
Mortgage-backed.....	106	7,053	543	13,169
	----	-----	-----	-----
TOTAL SECURITIES AVAILABLE-FOR-SALE.....	\$661	\$52,826	\$2,178	\$78,536
	====	=====	=====	=====

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and 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.

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 management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available for sale, no declines are deemed to be other than temporary.

NOTE 4 -- LOANS

The Banks grant 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

A summary of the major classifications of loans is as follows:

	DECEMBER 31	
	-----	-----
	2005	2004
	-----	-----

Mortgage loans on real estate

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Residential 1-4 family.....	\$160,542	\$152,706
Commercial.....	111,997	96,739
Agricultural.....	29,575	32,383
Construction.....	17,871	35,384
Second mortgages.....	24,560	17,143
Equity lines of credit.....	23,278	22,188
	-----	-----
Total mortgage loans.....	367,823	356,543
Commercial and agricultural loans		
Commercial.....	67,544	49,413
Agricultural production.....	19,849	16,796
	-----	-----
Total commercial and agricultural loans.....	87,393	66,209
Consumer installment loans		
Personal.....	26,304	28,463
Credit cards.....	1,722	1,680
	-----	-----
Total consumer installment loans.....	28,026	30,143
Total Loans.....	483,242	452,895
Less: Allowance for loan losses.....	6,899	6,444
	-----	-----
Loans, net.....	\$476,343	\$446,451
	=====	=====

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

	YEAR ENDED DECEMBER 31:		
	2005	2004	2003
	-----	-----	-----
Balance at beginning of year.....	\$6,444	\$6,204	\$ 5,593
Loans charged off.....	(643)	(935)	(1,140)
Recoveries.....	321	440	296
Provision charged to income.....	777	735	1,455
	-----	-----	-----
BALANCE AT END OF YEAR.....	\$6,899	\$6,444	\$ 6,204
	=====	=====	=====

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

	2005	2004	2003
	-----	-----	-----

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Impaired loans without a valuation allowance.....	\$2,211	\$1,786	\$1,836
Impaired loans with a valuation allowance.....	314	448	2,787
	-----	-----	-----
Total impaired loans.....	\$2,525	\$2,234	\$4,623
	=====	=====	=====
Valuation allowance related to impaired loans.....	\$ 184	\$ 304	\$ 622
	=====	=====	=====
Total nonaccrual loans.....	\$1,375	\$1,900	\$4,121
	=====	=====	=====
Accruing loans past due 90 days or more.....	\$1,058	\$ 702	\$1,380
	=====	=====	=====
Average investment in impaired loans.....	\$2,531	\$2,949	\$5,155

30

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Interest income recognized on impaired loans was not significant during any of the three years in the period ended December 31, 2005. No additional funds are committed to be advanced in connection with impaired loans.

NOTE 5 -- 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 \$256,358, \$253,282 and \$245,709 at December 31, 2005, 2004, and 2003 respectively. 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:

	2005	2004	2003
	-----	-----	-----
Balance at beginning of year.....	\$ 2,046	\$ 1,714	\$ 511
Mortgage servicing rights capitalized.....	2,520	2,633	3,369
Accumulated amortization.....	(2,429)	(2,279)	(1,955)
Impairment valuation allowance.....	(12)	(22)	(211)
	-----	-----	-----
BALANCE AT END OF YEAR.....	\$ 2,125	\$ 2,046	\$ 1,714
	=====	=====	=====

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Activity in the impairment valuation allowance consisted of reductions of \$10, \$189, and \$427 for the years ended December 31, 2005, 2004, and 2003.

NOTE 6 -- PREMISES AND EQUIPMENT

A summary of premises and equipment at December 31 follows:

	2005	2004
	-----	-----
Land.....	\$ 3,027	\$ 3,027
Buildings and improvements.....	12,528	11,054
Furniture and equipment.....	21,003	20,614
	-----	-----
Total.....	36,558	34,695
Less accumulated depreciation.....	17,386	16,162
	-----	-----
PREMISES AND EQUIPMENT, NET.....	\$19,172	\$18,533
	=====	=====

Depreciation expense amounted to \$1,735, \$1,552 and \$1,703 in 2005, 2004, and 2003, respectively.

NOTE 7 -- GOODWILL AND OTHER INTANGIBLE ASSETS

Included in other assets on the accompanying consolidated balance sheets are the following amounts as of December 31:

	2005	2004
	-----	-----
Branch acquisition goodwill.....	\$2,036	\$2,036
Title company goodwill.....	1,100	1,100
	-----	-----
Total goodwill.....	3,136	3,136
Core deposit intangibles, net.....	117	211
	-----	-----
	\$3,253	\$3,347
	=====	=====

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The core deposit intangibles are being amortized on a straight-line basis over nine years. Management periodically reviews these assets to determine whether the carrying values have been impaired.

NOTE 8 -- DEPOSITS

Scheduled maturities of time deposits for the years succeeding December 31, 2005 are as follows:

YEAR	AMOUNT
----	-----
2006.....	\$145,612
2007.....	49,368
2008.....	27,863
2009.....	17,451
2010.....	20,316
Thereafter.....	381

Interest expense on time deposits greater than \$100 was \$2,751 in 2005, \$2,140 in 2004, and \$2,127 in 2003.

NOTE 9 -- SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase, which are classified as secured borrowings, 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 approximately \$8,832 and \$1,017 at December 31, 2005 and 2004, 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.

NOTE 10 -- BORROWED FUNDS

Borrowed funds consist of the following obligations at December 31:

	2005	2004
	-----	-----
Federal Home Loan Bank advances.....	\$45,286	\$27,312
Federal Funds purchased.....	6,500	2,974
Securities sold under agreements to repurchase.....	266	530

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Unsecured note payable.....	113	166
	-----	-----
	\$52,165	\$30,982
	=====	=====

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 Banks.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

	2005	
	AMOUNT	RATE
	-----	-----
Fixed rate advances due 2006.....	\$ 5,500	2.76%
Two Year putable advance due 2006.....	5,000	5.08%
Fixed rate advances due 2007.....	5,000	3.72%
Fixed rate advances due 2008.....	6,000	4.79%
Fixed rate advances due 2009.....	3,500	3.66%
Fixed rate advances due 2010.....	5,286	5.18%
One Year putable advance due 2010.....	3,000	4.98%
Fixed rate advances due 2012.....	2,000	4.90%
Fixed rate advances due 2015.....	10,000	4.84%
	-----	-----
	\$45,286	4.44%
	=====	=====

	2004	
	AMOUNT	RATE
	-----	-----

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Fixed rate advances due 2006.....	\$ 5,500	2.76%
Two Year putable advance due 2006.....	5,000	5.08%
Fixed rate advances due 2007.....	4,000	3.64%
Fixed rate advances due 2009.....	3,500	3.66%
Fixed rate advances due 2010.....	4,312	5.39%
One Year putable advance due 2010.....	3,000	4.98%
Fixed rate advances due 2012.....	2,000	4.90%
	-----	----
	\$27,312	4.24%
	=====	=====

The unsecured note payable has an imputed interest rate of 4.16% and is payable in annual installments of \$60,000, including interest, through July 2007.

NOTE 11 -- OTHER NON-INTEREST EXPENSES

A summary of expenses included in Other Non-Interest Expenses for the year ended December 31:

	2005	2004	2003
	-----	-----	-----
Director fees.....	\$ 503	\$ 496	\$ 459
Marketing and advertising.....	624	522	538
SOX 404 compliance.....	398	734	--
Other, not individually significant.....	3,522	3,737	4,047
	-----	-----	-----
	\$5,047	\$5,489	\$5,044
	=====	=====	=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 12 -- FEDERAL INCOME TAXES

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

2005	2004	2003
------	------	------

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	-----	-----	-----
Currently payable.....	\$1,685	\$1,573	\$2,076
Deferred taxes / (benefit).....	263	305	(41)
	-----	-----	-----
FEDERAL INCOME TAXES.....	\$1,948	\$1,878	\$2,035
	=====	=====	=====

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:

	2005	2004	2003
	-----	-----	-----
Income at statutory rate.....	\$ 2,966	\$ 2,898	\$ 3,142
Effect of nontaxable income and nondeductible expenses.....	(1,018)	(1,020)	(1,107)
	-----	-----	-----
PROVISION FOR FEDERAL INCOME TAXES.....	\$ 1,948	\$ 1,878	\$ 2,035
	=====	=====	=====

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, as of December 31 are as follows:

	2005	2004
	-----	-----
DEFERRED TAX ASSETS		
Allowance for loan losses.....	\$1,550	\$1,411
Deferred directors' fees.....	919	886
Employee benefit plans.....	531	756
Core deposit premium and acquisition expenses.....	23	107
Net unrealized loss on minimum pension liability.....	--	625
Net unrealized loss on available-for-sale securities....	776	--
Other.....	51	63
	-----	-----
TOTAL DEFERRED TAX ASSETS.....	3,850	3,848

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	-----	-----
DEFERRED TAX LIABILITIES		
Prepaid pension asset.....	\$ 730	\$ 595
Premises and equipment.....	663	745
Accretion on securities.....	35	19
Net unrealized gain on available-for-sale securities....	--	160
Other.....	226	181
	-----	-----
TOTAL DEFERRED TAX LIABILITIES.....	1,654	1,700
	-----	-----
NET DEFERRED TAX ASSETS.....	\$2,196	\$2,148
	=====	=====

NOTE 13 -- OFF-BALANCE-SHEET ACTIVITIES

CREDIT-RELATED FINANCIAL INSTRUMENTS

The Corporation is party to credit related 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

34

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

contract or notional amounts of these instruments reflect the extent of involvement the Corporation has in a particular class of financial instrument.

The Corporation is exposed 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.

Commitments to extend credit, which totaled \$69,591 and \$67,590 at December 31, 2005 and 2004, respectively, 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.

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 December 31, 2005 and 2004 the Corporation had a total of \$1,565 and \$991, respectively, 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

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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.

INTEREST RATE RISK MANAGEMENT -- DERIVATIVE LOAN INSTRUMENTS

The Corporation enters into rate lock commitments to extend credit to borrowers for generally a 30-day or 60-day period for the origination of loans. Unfunded loans for which commitments have been entered into are called "pipeline loans". Some of these rate lock commitments will ultimately expire without being completed. To the extent that a loan is ultimately granted and the borrower ultimately accepts the terms of the loan, these rate lock commitments expose the Corporation to variability in the fair value due to changes in interest rates. If interest rates increase, the value of these rate lock commitments decreases. Conversely, if interest rates decrease, the value of these rate lock commitments increases.

To mitigate the effect of this interest rate risk, the Banks enter into offsetting derivative contracts, primarily forward loan sale commitments. The con