MBT FINANCIAL CORP
Form 10-Q
November 14, 2011

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

FORM 10-Q

(Mark One)
þ Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2011

Or

¨ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Commission File Number: 000-30973

MBT FINANCIAL CORP.
(Exact name of registrant as specified in its charter)

Michigan	38-3516922
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

102 E. Front Street
Monroe, Michigan 48161
(Address of principal executive offices)
(Zip Code)

(734) 241-3431
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

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

Large accelerated filer ¨	Accelerated Filer ¨
Non-accelerated filer ¨	Smaller reporting company þ

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

As of November 14, 2011, there were 17,285,320 shares of the Company's Common Stock outstanding.

Part I Financial Information
Item 1. Financial Statements

MBT FINANCIAL CORP.
CONSOLIDATED BALANCE SHEETS

Dollars in thousands	September 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
Cash and Cash Equivalents		
Cash and due from banks		
Non-interest bearing	$ 21,539	$ 13,789
Interest bearing	77,052	72,511
Total cash and cash equivalents	98,591	86,300
Securities - Held to Maturity	29,525	23,804
Securities - Available for Sale	318,857	289,365
Federal Home Loan Bank stock - at cost	10,605	11,831
Loans held for sale	656	973
Loans	702,774	752,887
Allowance for Loan Losses	(21,869)	(21,223)
Loans - Net	680,905	731,664
Accrued interest receivable and other assets	28,542	34,207
Bank Owned Life Insurance	48,279	50,664
Premises and Equipment - Net	29,441	30,569
Total assets	$ 1,245,401	$ 1,259,377
LIABILITIES		
Deposits:		
Non-interest bearing	$ 164,319	$ 148,208
Interest-bearing	865,328	883,685
Total deposits	1,029,647	1,031,893
Federal Home Loan Bank advances	110,000	113,500
Repurchase agreements	20,000	30,000
Notes Payable	135	135
Interest payable and other liabilities	10,689	9,851
Total liabilities	1,170,471	1,185,379
STOCKHOLDERS' EQUITY		
Common stock (no par value; 50,000,000 and 30,000,000 shares authorized, 17,279,696 and 17,252,329 shares issued and outstanding)	2,082	2,146
Retained Earnings	72,304	76,497
Unearned Compensation	(111)	(187)
Accumulated other comprehensive income (loss)	655	(4,458)
Total stockholders' equity	74,930	73,998
Total liabilities and stockholders' equity	$ 1,245,401	$ 1,259,377

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

MBT FINANCIAL CORP.
CONSOLIDATED STATEMENTS OF INCOME - UNAUDITED

Dollars in thousands, except per share data	Three Months Ended Sept. 30, 2011	2010	Nine Months Ended Sept. 30, 2011	2010
Interest Income				
Interest and fees on loans	$10,026	$11,587	$30,370	$35,178
Interest on investment securities-				
Tax-exempt	346	426	1,069	1,540
Taxable	2,050	1,742	6,211	6,784
Interest on balances due from banks	44	34	112	100
Total interest income	12,466	13,789	37,762	43,602
Interest Expense				
Interest on deposits	2,646	3,279	8,621	9,968
Interest on borrowed funds	864	1,089	2,838	5,620
Total interest expense	3,510	4,368	11,459	15,588
Net Interest Income	8,956	9,421	26,303	28,014
Provision For Loan Losses	2,700	7,464	11,300	13,414
Net Interest Income After				
Provision For Loan Losses	6,256	1,957	15,003	14,600
Other Income				
Income from wealth management services	972	936	2,955	3,039
Service charges and other fees	1,226	1,413	3,522	3,985
Net gain on sales of securities	555	183	651	3,269
Origination fees on mortgage loans sold	102	189	271	458
Bank owned life insurance income	405	693	1,207	1,532
Other	1,059	967	3,234	2,958
Total other income	4,319	4,381	11,840	15,241
Other Expenses				
Salaries and employee benefits	4,878	4,717	14,611	14,438
Occupancy expense	781	686	2,246	2,194
Equipment expense	722	780	2,164	2,417
Marketing expense	214	230	695	734
Professional fees	540	549	1,833	1,537
Collection expenses	47	67	181	263
Net loss on other real estate owned	818	1,076	2,943	3,066
Other real estate owned expenses	586	564	1,458	1,916
FDIC Deposit Insurance Assessment	618	1,029	2,254	2,271
Debt prepayment penalties	-	-	-	2,492
Other	739	978	2,651	2,875
Total other expenses	9,943	10,676	31,036	34,203
Income (Loss) Before Income Taxes	632	(4,338)	(4,193)	(4,362)
Income Tax Expense (Benefit)	-	-	-	-
Net Income (Loss)	$632	$(4,338)	$(4,193)	$(4,362)
Basic Earnings (Loss) Per Common Share	$0.04	$(0.27)	$(0.24)	$(0.27)
Diluted Earnings (Loss) Per Common Share	$0.04	$(0.27)	$(0.24)	$(0.27)
Common Stock Dividends Declared Per Share	$-	$-	$-	$-

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

MBT FINANCIAL CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY - UNAUDITED

Dollars in thousands	Common Stock	Retained Earnings	Unearned Compensation	Accumulated Other Comprehensive Income (Loss)	Total
Balance - January 1, 2011	$2,146	$76,497	$ (187)	$ (4,458)	$73,998
Issuance of Common Stock (27,367 shares)	41	-	-	-	41
Stock Offering Expense	(151)	-	-	-	(151)
Equity Compensation	46	-	76	-	122
Comprehensive income:					
Net loss	-	(4,193)	-	-	(4,193)
Change in net unrealized gain (loss) on securities available for sale - Net of tax effect of $(2,779)	-	-	-	5,387	5,387
Reclassification adjustment for gains included in net income - Net of tax effect of $221	-	-	-	(430)	(430)
Change in postretirement benefit obligation Net of tax effect of $(80)	-	-	-	156	156
Total Comprehensive Income					920
Balance - September 30, 2011	$2,082	$72,304	$ (111)	$ 655	$74,930

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4

MBT FINANCIAL CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED

	Nine Months Ended September 30,	
Dollars in thousands	2011	2010
Cash Flows from Operating Activities		
Net Loss	$(4,193)	$(4,362)
Adjustments to reconcile net loss to net cash from operating activities		
Provision for loan losses	11,300	13,414
Depreciation	1,535	1,604
Net amortization of investment premium and discount	762	938
Writedowns of Other Real Estate Owned	2,970	2,900
Net increase (decrease) in interest payable and other liabilities	1,074	(1,276)
Net increase (decrease) in interest receivable and other assets	(6,906)	2,210
Equity based compensation expense	122	62
Net gain on sale/settlement of securities	(651)	(3,269)
Increase in cash surrender value of life insurance	(1,206)	(1,531)
Net cash provided by operating activities	$4,807	$10,690
Cash Flows from Investing Activities		
Proceeds from maturities and redemptions of investment securities held to maturity	$9,154	$12,830
Proceeds from maturities and redemptions of investment securities available for sale	119,180	57,495
Proceeds from sales of investment securities held to maturity	-	150
Proceeds from sales of investment securities available for sale	5,068	143,093
Net decrease in loans	39,776	47,125
Proceeds from sales of other real estate owned	6,602	3,740
Proceeds from sales of other assets	229	1,294
Purchase of investment securities held to maturity	(14,875)	(1,582)
Purchase of Bank Owned Life Insurance	(63)	(1,222)
Proceeds from surrender of Bank Owned Life Insurance	3,654	455
Purchase of investment securities available for sale	(145,110)	(169,041)
Purchase of bank premises and equipment	(426)	(227)
Net cash provided by investing activities	$23,189	$94,110
Cash Flows from Financing Activities		
Net decrease in deposits	$(2,246)	$(9,331)
Proceeds from issuance of long term debt	-	35
Repayment of Federal Home Loan Bank borrowings	(3,500)	(115,000)
Repayment of repurchase agreements	(10,000)	-
Proceeds from issuance of common stock	41	1,164
Net cash used for financing activities	$(15,705)	$(123,132)
Net Increase (Decrease) In Cash and Cash Equivalents	$12,291	$(18,332)
Cash and Cash Equivalents at Beginning Of Period	86,300	69,746
Cash And Cash Equivalents At End Of Period	$98,591	$51,414
Supplemental Cash Flow Information		
Cash paid for interest	$11,778	$15,890
Cash paid for federal income taxes	$0	$0

Supplemental Schedule of Non Cash Investing Activities		
Transfer of loans to other real estate owned	$8,597	$8,086
Transfer of loans to other assets	$82	$227

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

5

MBT FINANCIAL CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The unaudited consolidated financial statements include the accounts of MBT Financial Corp. (the “Company”) and its subsidiary, Monroe Bank & Trust (the “Bank”). The Bank includes the accounts of its wholly owned subsidiary, MB&T Financial Services, Inc. The Bank operates eighteen branches in Monroe County, Michigan, seven branches in Wayne County, Michigan, and a mortgage loan office in Monroe County. The Bank’s primary source of revenue is from providing loans to customers, who are predominantly small and middle-market businesses and middle-income individuals. The Company’s sole business segment is community banking.

The accounting and reporting policies of the Bank conform to practice within the banking industry and are in accordance with accounting principles generally accepted in the United States. Preparation of financial statements in conformity with generally accepted accounting principles requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes in the near term are the determination of the allowance for loan losses, the valuation of other real estate owned, the deferred tax asset valuation allowance, and the fair value of investment securities.

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. However, such information reflects all adjustments (consisting of normal recurring adjustments), which are, in the opinion of Management, necessary for fair statement of results for the interim periods.

The significant accounting policies are as follows:

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its subsidiary. All material intercompany transactions and balances have been eliminated.

COMPREHENSIVE INCOME

Accounting principles generally require that revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, however, such as unrealized gains and losses on securities available for sale and amounts recognized related to postretirement benefit plans (gains and losses, prior service costs, and transition assets or obligations), are reported as a direct adjustment to the equity section of the balance sheet. Such items, along with net income, are components of comprehensive income.

BUSINESS SEGMENTS

While the Company's chief decision makers monitor the revenue streams of various products and services, operations are managed and financial performance is evaluated on a company wide basis. Accordingly, all of the Company’s operations are considered by management to be aggregated in one reportable segment.

FAIR VALUE

The Corporation measures or monitors many of its assets and liabilities on a fair value basis. Fair value is used on a recurring basis for assets and liabilities that are elected to be accounted for under The Fair Value Option as well as for certain assets and liabilities in which fair value is the primary basis of accounting. Examples of these include derivative instruments and available for sale securities. Additionally, fair value is used on a non-recurring basis to evaluate assets or liabilities for impairment or for disclosure purposes. Examples of these non-recurring uses of fair value include certain loans held for sale accounted for on a lower of cost or market basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Depending on the nature of the asset or liability, the Corporation uses various valuation techniques and assumptions when estimating fair value.

The Corporation applied the following fair value hierarchy:

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets. The Corporation's mutual fund investments where quoted prices are available in an active market generally are classified within Level 1 of the fair value hierarchy.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. The Corporation's borrowed funds and investments in U.S. government agency securities, government sponsored mortgage backed securities, and obligations of states and political subdivisions are generally classified in Level 2 of the fair value hierarchy. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Private equity investments and trust preferred collateralized debt obligations are classified within Level 3 of the fair value hierarchy. Fair values are initially valued based on transaction price and are adjusted to reflect exit values.

In financial statements filed by the Corporation prior to the statements for the quarter ended June 30, 2011, the Corporation classified its investments in U.S. Government agency debt securities and government sponsored mortgage backed securities as having Level 1 valuations. Beginning with the statements filed for the quarter ended June 30, 2011, the Corporation changed the classification of these securities to Level 2. Many of these types of securities do not trade on a daily basis, but fair values are quoted by securities dealers based on pricing models or quoted prices of securities with similar characteristics. Because of this, the Corporation now believes that it is more appropriate to classify these securities as Level 2. The effect of the change in classification is immaterial and prior period disclosures have not been restated.

When determining the fair value measurements for assets and liabilities required or permitted to be recorded at and/or marked to fair value, the Corporation considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability. When possible, the Corporation looks to active and observable markets to price identical assets or liabilities. When identical assets and liabilities are not traded in active markets, the Corporation looks to market observable data for similar assets or liabilities. Nevertheless, certain assets and liabilities are not actively traded in observable markets and the Corporation must use alternative valuation techniques to derive a fair value measurement.

ACCOUNTING PRONOUNCEMENTS

No recent accounting pronouncements are expected to have a significant impact on the Corporation's financial statements. Accounting Standards Update 2010-06 (ASU 2010-06), "Improving Disclosures about Fair Value Measurements" was issued by the Financial Accounting Standards Board (FASB). ASU 2010-06 requires additional disclosures regarding measurement of fair values of financial instruments. All required disclosures are incorporated into Note 8 to these interim statements.

Accounting Standards Update 2010-20 (ASU 2010-20), "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses" was issued by the Financial Accounting Standards Board (FASB) in July 2010. ASU 2010-20 provides new authoritative accounting guidance under ASC Topic 310, "Receivables," amending prior guidance to provide expanded disclosures focused around segments and classes of financing receivables (loans). The additional disclosures include details on our past due loans and credit quality indicators. For public entities, ASU 2010-20 disclosures are required for interim and annual reporting periods beginning on or after December 31, 2010. The expanded disclosures required under ASU 2010-20 are included in Note 5 to these interim statements.

In April 2011, the FASB issued Accounting Standards Update 2011-02 (ASU 2011-02), "A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring". ASU 2011-02 amended guidance clarifying whether a creditor has granted a concession, and whether a debtor is experiencing financial difficulties, for purposes of determining whether a restructuring constitutes a Troubled Debt Restructuring (TDR). The amended guidance also requires the Corporation to disclose new information about TDRs, including qualitative and quantitative information by portfolio segment and class. The amended guidance is effective for the first interim or annual reporting period beginning on or after June 15, 2011, and for purposes of identifying TDRs under the amended guidance, should be applied retrospectively to the beginning of the annual reporting period of adoption.

In June 2011, the FASB issued Accounting Standards Update 2011-05, Presentation of Comprehensive Income (ASU 2011-05). ASU 2011-05 provides entities with the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income, along with a total for other comprehensive income, and a total amount for comprehensive income. Regardless of whether an entity chooses to present comprehensive income in a single continuous statement or in two separate but consecutive statements, the entity is required to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. This update should be applied retrospectively effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. We anticipate this statement will be adopted with our 2012 annual financial statements.

2. EARNINGS PER SHARE

The calculations of earnings (loss) per common share are as follows:

	For the three months ended Sept. 30,		For the nine months ended Sept. 30,	
	2011	2010	2011	2010
Basic and Diluted				
Net profit (loss)	$632,000	$(4,338,000)	$(4,193,000)	$(4,362,000)
Net profit (loss) applicable to common stock	$632,000	$(4,338,000)	$(4,193,000)	$(4,362,000)
Average common shares outstanding	17,274,436	16,329,549	17,265,394	16,257,433
Earnings (Loss) per common share - basic and diluted	$0.04	$(0.27)	$(0.24)	$(0.27)

3. STOCK BASED COMPENSATION

Stock Options - The following table summarizes the options that had been granted to certain key executives in accordance with the Long-Term Incentive Compensation Plan that was approved by shareholders at the Annual Meeting of Shareholders on April 6, 2000.

	Shares		Weighted Average Exercise Price
Options Outstanding, January 1, 2011	444,575	$	17.28
Granted	-		-
Exercised	-		-
Forfeited	8,072		13.90
Options Outstanding, September 30, 2011	436,503	$	17.34
Options Exercisable, September 30, 2011	436,503	$	17.34

Stock Only Stock Appreciation Rights (SOSARs) - On January 27, 2011, Stock Only Stock Appreciation Rights (SOSARs) were awarded to certain executives in accordance with the MBT 2008 Stock Incentive Plan that was approved by shareholders on May 1, 2008. The SOSARs have a term of ten years and vest in three equal annual installments beginning on December 31, 2011. SOSARs granted under the plan are structured as fixed grants with the exercise price equal to the market value of the underlying stock on the date of the grant.

The fair value of $0.80 for the SOSARs was estimated at the date of the grant, using the Black-Scholes option pricing model, with the following assumptions: expected option lives of 7 years, expected volatility of 53.0%, a risk free rate of 1.90% and dividend yield of 3.00%. The following table summarizes the SOSARs that have been granted:

	Shares		Weighted Average Exercise Price
SOSARs Outstanding, January 1, 2011	224,000	$	5.12
Granted	107,000		1.85
Exercised	-		-
Forfeited	9,000		4.03
SOSARs Outstanding, September 30, 2011	322,000	$	4.07
SOSARs Exercisable, September 30, 2011	186,654	$	5.47

Restricted Stock Unit Awards – On January 27, 2011, performance restricted stock units were awarded to certain key executive officers in accordance with the MBT 2008 Stock Incentive Plan that was approved by shareholders on May 1, 2008. Each Restricted Stock Unit (RSU) is equivalent to one share of MBT Financial Corp. common stock. Stock will be issued to the participants following a two year performance period that ends on December 31, 2012. Up to 50% of the aggregate RSUs granted may be earned in each year of the performance period subject to satisfying weighted performance thresholds. Earned RSUs vest on December 31, 2013.

The total expense for equity based compensation was $37,000 in the third quarter of 2011 and $17,000 in the third quarter of 2010. The total expense for equity based compensation was $122,000 in the first nine months of 2011 and $62,000 in the first nine months of 2010.

4. LOANS

The Bank makes commercial, consumer, and mortgage loans primarily to customers in Monroe County, Michigan, southern and western Wayne County, Michigan, and surrounding areas. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on the automotive, manufacturing, and real estate development economic sectors.

Loans consist of the following (000s omitted):

	September 30, 2011	December 31, 2010
Residential real estate loans	$ 263,182	$ 269,153
Commercial and Construction real estate loans	335,776	369,661
Agriculture and agricultural real estate loans	22,128	20,453
Commercial and industrial loans	66,890	76,783
Loans to individuals for household, family, and other personal expenditures	14,798	16,837
Total loans, gross	702,774	752,887
Less: Allowance for loan losses	21,869	21,223
	680,905	731,664

Loans are placed in a nonaccrual status when, in the opinion of Management, the collection of additional interest is doubtful. All loan relationships over $250,000 that are classified by Management as nonperforming as well as selected performing accounts and all renegotiated loans are reviewed for impairment each quarter. Allowances for loans determined to be impaired are included in the allowance for loan losses. All cash received on nonaccrual loans is applied to the principal balance. Nonperforming assets consist of nonaccrual loans, loans 90 days or more past due, restructured loans, nonaccrual investment securities, and other real estate owned. Other real estate owned includes real estate that has been acquired in full or partial satisfaction of loan obligations or upon foreclosure and real estate that the bank has purchased but no longer intends to use for bank premises.

The following table summarizes nonperforming assets (000's omitted):

	September 30, 2011		December 31, 2010	
Nonaccrual loans	$ 57,673		$ 67,581	
Loans 90 days past due	29		4	
Restructured loans	16,023		14,098	
Total nonperforming loans	$ 73,725		$ 81,683	
Other real estate owned	18,690		19,432	
Other assets	49		383	
Nonperforming investment securities	2,749		2,568	
Total nonperforming assets	$ 95,213		$ 104,066	
Nonperforming assets to total assets	7.65	%	8.26	%
Allowance for loan losses to nonperforming loans	29.66	%	25.98	%

5. ALLOWANCE FOR LOAN LOSSES

The Company separates its loan portfolio into segments to perform the calculation and analysis of the allowance for loan losses. The six segments analyzed are Agriculture and Agricultural Real Estate, Commercial, Commercial Real Estate, Construction Real Estate, Residential Real Estate, and Consumer and Other. The Agriculture and Agricultural Real Estate segment includes all loans to finance agricultural production and all loans secured by agricultural real estate. This segment does not include loans to finance agriculture that are secured by residential real estate, which are included in the Residential Real Estate segment. The Commercial segment includes loans to finance commercial and industrial businesses that are not secured by real estate. The Commercial Real Estate segment includes loans secured by non-farm, non-residential real estate. The Construction Real Estate segment includes loans to finance construction and land development. This includes residential and commercial construction and land development. The Residential Real Estate segment includes all loans, other than construction loans, that are secured by single family and multi family residential real estate properties. The Consumer and Other segment includes all loans not included in any other segment. These are primarily loans to consumers for household, family, and other personal expenditures, such as autos, boats, and recreational vehicles.

Activity in the allowance for loan losses during the nine months ended September 30, 2011 was as follows (000's omitted):

September 30, 2011	Agriculture and Agricultural Real Estate	Commercial	Commercial Real Estate	Construction Real Estate	Residential Real Estate	Consumer and Other	Total
Allowance for loan losses:							
Beginning Balance	$77	$3,875	$9,040	$3,285	$4,596	$350	$21,223
Charge-offs	-	(1,650)	(5,857)	(1,258)	(3,162)	(212)	(12,139)
Recoveries	1	278	317	66	611	212	1,485
Provision	103	(201)	6,860	374	3,703	461	11,300
Ending balance	$181	$2,302	$10,360	$2,467	$5,748	$811	$21,869
Ending balance individually evaluated for impairment	$86	$660	$3,707	$848	$1,030	$94	$6,425
Ending balance collectively evaluated for impairment	95	1,642	6,653	1,619	4,718	717	15,444
Ending balance	$181	$2,302	$10,360	$2,467	$5,748	$811	$21,869
Loans:							
Ending balance individually evaluated for impairment	$1,120	$2,291	$37,056	$7,398	$18,484	$197	$66,546
Ending balance collectively evaluated for impairment	21,008	64,599	271,421	19,901	244,698	14,601	636,228
Ending balance	$22,128	$66,890	$308,477	$27,299	$263,182	$14,798	$702,774

Activity in the allowance for loan losses during the year ended December 31, 2010 was as follows (000's omitted):

December 31, 2010	Agriculture and Agricultural Real Estate	Commercial	Commercial Real Estate	Construction Real Estate	Residential Real Estate	Consumer and Other	Total
Allowance for loan losses:							
Beginning Balance	$142	$6,360	$8,331	$2,351	$6,382	$497	$24,063
Charge-offs	-	(2,907)	(10,024)	(5,303)	(5,370)	(951)	(24,555)
Recoveries	1	219	295	22	119	559	1,215
Provision	(66)	203	10,438	6,215	3,465	245	20,500
Ending balance	$77	$3,875	$9,040	$3,285	$4,596	$350	$21,223
Ending balance individually evaluated for impairment	$74	$2,016	$2,958	$876	$973	$49	$6,946
Ending balance collectively evaluated for impairment	3	1,859	6,082	2,409	3,623	301	14,277
Ending balance	$77	$3,875	$9,040	$3,285	$4,596	$350	$21,223
Loans:							
Ending balance individually evaluated for impairment	$655	$9,311	$40,605	$8,505	$22,135	$472	$81,683
Ending balance collectively evaluated for impairment	19,798	67,472	282,746	37,805	247,018	16,365	671,204
Ending balance	$20,453	$76,783	$323,351	$46,310	$269,153	$16,837	$752,887

Each period the provision for loan losses in the income statement results from the combination of an estimate by Management of loan losses that occurred during the current period and the ongoing adjustment of prior estimates of losses occurring in prior periods.

The provision for loan losses increases the allowance for loan losses, a valuation account which appears on the consolidated balance sheets. As the specific customer and amount of a loan loss is confirmed by gathering additional information, taking collateral in full or partial settlement of the loan, bankruptcy of the borrower, etc., the loan is charged off, reducing the allowance for loan losses. If, subsequent to a charge off, the Bank is able to collect additional amounts from the customer or sell collateral worth more than earlier estimated, a recovery is recorded.

To serve as a basis for making this provision, the Bank maintains an extensive credit risk monitoring process that considers several factors including: current economic conditions affecting the Bank's customers, the payment performance of individual loans and pools of homogeneous loans, portfolio seasoning, changes in collateral values, and detailed reviews of specific loan relationships.

The Company utilizes an internal loan grading system to assign a risk grade to all commercial loans, all renegotiated loans, and each commercial credit relationship. Grades 1 through 4 are considered “pass” credits and grades 5 through 9 are considered “watch” credits and are subject to greater scrutiny. Loans with grades 6 and higher are considered substandard and most are evaluated for impairment. A description of the general characteristics of each grade is as follows:

- Grade 1 – Excellent – Loans secured by marketable collateral, with adequate margin, or supported by strong financial statements. Probability of serious financial deterioration is unlikely. Possess a sound repayment source and a secondary source. This classification will also include all loans secured by certificates of deposit or cash equivalents.

- Grade 2 – Satisfactory – Loans that have less than average risk and clearly demonstrate adequate debt service coverage. These loans may have some vulnerability, but are sufficiently strong to have minimal deterioration if adverse factors are encountered, and are expected to be fully collectable.

- Grade 3 – Average – Loans that have a reasonable amount of risk and may exhibit vulnerability to deterioration if adverse factors are encountered. These loans should demonstrate adequate debt service coverage but warrant a higher level of monitoring to ensure that weaknesses do not advance.

- Grade 4 – Pass/Watch – Loans that are considered "pass credits" yet appear on the "watch list". Credit deficiency or potential weakness may include a lack of current or complete financial information. The level of risk is considered acceptable so long as the loan is given additional management supervision.

- Grade 5 – Watch – Loans that possess some credit deficiency or potential weakness that if not corrected, could increase risk in the future. The source of loan repayment is sufficient but may be considered inadequate by the Bank's standards.

- Grade 6 – Substandard – Loans that exhibit one or more of the following characteristics: (1) uncertainty of repayment from primary source and financial deterioration currently underway; (2) inadequate current net worth and paying capacity of the obligor; (3) reliance on secondary source of repayment such as collateral liquidation or guarantees; (4) distinct possibility the Bank will sustain loss if deficiencies are not corrected; (5) unusual courses of action are needed to maintain probability of repayment; (6) insufficient cash flow to repay principal but continuing to pay interest; (7) the Bank is subordinated or unsecured due to flaws in documentation; (8) loans are restructured or are on nonaccrual status due to concessions to the borrower when compared to normal terms; (9) the Bank is contemplating foreclosure or legal action due to deterioration in the loan; or (10) there is deterioration in conditions and the borrower is highly vulnerable to these conditions.

- Grade 7 – Doubtful – Loans that exhibit one or more of the following characteristics: (1) loans with the weaknesses of Substandard loans and collection or liquidation is not probable to result in payment in full; (2) the primary source of repayment is gone and the quality of the secondary source is doubtful; or (3) the possibility of loss is high, but important pending factors may strengthen the loan.

- Grades 8 & 9 - Loss – Loans are considered uncollectible and of such little value that carrying them on the Bank's financial statements is not feasible.

The assessment of compensating factors may result in a rating plus or minus one grade from those listed above. These factors include, but are not limited to collateral, guarantors, environmental conditions, history, plan/projection reasonableness, quality of information, and payment delinquency.

The portfolio segments in each credit risk grade as of September 30, 2011 are as follows (000s omitted):

	Agriculture and Agricultural Real Estate	Commercial	Commercial Real Estate	Construction Real Estate	Residential Real Estate	Consumer and Other	Total
Not Rated	$ 161	$ 962	$ 141	$ 3,079	$ 186,930	$ 14,535	$ 205,808
1	-	1,744	-	-	-	-	1,744
2	311	196	4,733	99	787	-	6,126
3	5,380	7,603	12,829	388	2,211	28	28,439
4	14,750	38,653	167,510	5,774	32,833	35	259,555
5	-	10,886	58,133	6,260	11,158	-	86,437
6	1,526	6,846	65,131	11,699	29,263	200	114,665
7	-	-	-	-	-	-	-
8	-	-	-	-	-	-	-
9	-	-	-	-	-	-	-
Total	$ 22,128	$ 66,890	$ 308,477	$ 27,299	$ 263,182	$ 14,798	$ 702,774
Performing	$ 20,918	$ 64,452	$ 270,155	$ 18,725	$ 240,350	$ 14,449	$ 629,049
Nonperforming	1,210	2,438	38,322	8,574	22,832	349	73,725
Total	$ 22,128	$ 66,890	$ 308,477	$ 27,299	$ 263,182	$ 14,798	$ 702,774

The portfolio segments in each credit risk grade as of December 31, 2010 are as follows (000s omitted):

	Agriculture and Agricultural Real Estate	Commercial	Commercial Real Estate	Construction Real Estate	Residential Real Estate	Consumer and Other	Total
Not Rated	$ 56	$ 1,002	$ 177	$ 4,983	$ 202,020	$ 16,609	$ 224,847
1	-	955	-	-	-	-	955
2	351	319	5,381	107	1,136	-	7,294
3	8,941	5,600	18,939	1,064	2,409	40	36,993
4	10,146	43,197	152,697	16,285	25,754	32	248,111
5	-	11,384	73,651	8,918	12,237	-	106,190
6	959	14,326	72,506	14,953	25,597	156	128,497
7	-	-	-	-	-	-	-
8	-	-	-	-	-	-	-
9	-	-	-	-	-	-	-
Total	$ 20,453	$ 76,783	$ 323,351	$ 46,310	$ 269,153	$ 16,837	$ 752,887
Performing	$ 19,798	$ 67,472	$ 282,746	$ 37,805	$ 247,018	$ 16,365	$ 671,204
Nonperforming	655	9,311	40,605	8,505	22,135	472	81,683
Total	$ 20,453	$ 76,783	$ 323,351	$ 46,310	$ 269,153	$ 16,837	$ 752,887

Loans are considered past due when contractually required payment of interest or principal has not been received. The amount classified as past due is the entire principal balance outstanding of the loan, not just the amount of payments that are past due. The following is a summary of past due loans as of September 30, 2011 and December 31, 2010 (000s omitted):

September 30, 2011	30-59 Days Past Due	60-89 Days Past Due	>90 Days Past	Total Past Due	Current	Total Loans	Recorded

			Due				Investment >90 Days Past Due and Accruing
Agriculture and Agricultural Real Estate	$217	$20	$424	$661	$21,467	$22,128	$-
Commercial	380	588	879	1,847	65,043	66,890	26
Commercial Real Estate	2,973	2,155	11,646	16,774	291,703	308,477	-
Construction Real Estate	86	33	4,844	4,963	22,336	27,299	-
Residential Real Estate	5,794	1,594	6,370	13,758	249,424	263,182	-
Consumer and Other	165	63	53	281	14,517	14,798	3
Total	$9,615	$4,453	$24,216	$38,284	$664,490	$702,774	$29

December 31, 2010	30-59 Days Past Due	60-89 Days Past Due	>90 Days Past Due	Total Past Due	Current	Total Loans	Recorded Investment >90 Days Past Due and Accruing
Agriculture and Agricultural Real Estate	$98	$-	$343	$441	$20,012	$20,453	$-
Commercial	2,265	1,031	3,999	7,295	69,488	76,783	4
Commercial Real Estate	8,212	4,532	14,391	27,135	296,216	323,351	-
Construction Real Estate	186	46	6,136	6,368	39,942	46,310	-
Residential Real Estate	6,331	4,910	14,962	26,203	242,950	269,153	-
Consumer and Other	213	43	291	547	16,290	16,837	-
Total	$17,305	$10,562	$40,122	$67,989	$684,898	$752,887	$4

Loans are placed on non-accrual status when, in the opinion of Management, the collection of additional interest is doubtful. Loans are automatically placed on non-accrual status upon becoming ninety days past due, however, loans may be placed on non-accrual status regardless of whether or not they are past due. All cash received on non-accrual loans is applied to the principal balance. Loans are considered for return to accrual status on an individual basis when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The following is a summary of non-accrual loans as of September 30, 2011 and December 31, 2010 (000s omitted):

	9/30/2011	12/31/2010
Agriculture and Agricultural Real Estate	$1,167	$386

Commercial	2,116	7,179
Commercial Real Estate	29,155	32,033
Construction Real Estate	7,568	7,556
Residential Real Estate	17,477	20,087
Consumer and Other	190	340
Total	$57,673	$67,581

For loans deemed to be impaired due to an expectation that all contractual payments will probably not be received, impairment is measured by comparing the Bank's recorded investment in the loan to the present value of expected cash flows discounted at the loan's effective interest rate, the fair value of the collateral, or the loan's observable market price.

The following is a summary of impaired loans as of September 30, 2011 and December 31, 2010 (000s omitted):

September 30, 2011	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized in the Nine Months Ended
With no related allowance recorded:					
Agriculture and Agricultural Real Estate	$509	$1,049	$-	$578	$37
Commercial	312	584	-	378	21
Commercial Real Estate	8,326	11,203	-	8,760	257
Construction Real Estate	1,544	2,284	-	1,541	21
Residential Real Estate	9,221	11,161	-	10,358	579
Consumer and Other	34	34	-	34	-
With an allowance recorded:					
Agriculture and Agricultural Real Estate	611	611	86	612	4
Commercial	1,979	2,613	660	2,420	70
Commercial Real Estate	28,730	36,198	3,707	35,200	961
Construction Real Estate	5,854	9,326	848	7,799	72
Residential Real Estate	9,263	12,011	1,030	10,319	444
Consumer and Other	163	163	94	165	7
Total:					
Agriculture and Agricultural Real Estate	$1,120	$1,660	$86	$1,190	$41
Commercial	2,291	3,197	660	2,798	91
Commercial Real Estate	37,056	47,401	3,707	43,960	1,218
Construction Real Estate	7,398	11,610	848	9,340	93
Residential Real Estate	18,484	23,172	1,030	20,677	1,023
Consumer and Other	197	197	94	199	7

December 31, 2010	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized in the Year Ended
With no related allowance recorded:					
Agriculture and Agricultural Real Estate	$-	$-	$-	$-	$-
Commercial	1,069	2,220	-	1,845	108
Commercial Real Estate	16,968	23,585	-	19,314	819
Construction Real Estate	1,678	2,457	-	1,603	97
Residential Real Estate	14,816	12,175	-	10,033	480
Consumer and Other	337	-	-	-	-
With an allowance recorded:					
Agriculture and Agricultural Real Estate	655	656	74	656	7

Commercial	8,242	12,521	2,016	9,154	365
Commercial Real Estate	23,637	29,682	2,958	23,887	1,058
Construction Real Estate	6,827	11,171	876	7,280	190
Residential Real Estate	7,319	9,315	973	7,596	356
Consumer and Other	135	135	49	138	6
Total:					
Agriculture and Agricultural Real Estate	$655	$656	$74	$656	$7
Commercial	9,311	14,741	2,016	10,999	473
Commercial Real Estate	40,605	53,267	2,958	43,201	1,877
Construction Real Estate	8,505	13,628	876	8,883	287
Residential Real Estate	22,135	21,490	973	17,629	836
Consumer and Other	472	135	49	138	6

The Bank may agree to modify the terms of a loan in order to improve the Bank's ability to collect amounts due. These modifications may include reduction of the interest rate, extension of the loan term, or in some cases, reduction of the principal balance. Modifications that are performed due to the debtor's financial difficulties are considered Troubled Debt Restructurings ("TDRs").

Loans that have been classified as TDRs during the three and nine month periods ended September 30, 2011 are as follows (000s omitted from dollar amounts):

	Three months ended September 30, 2011			Nine months ended September 30, 2011		
	Number of Contracts	Pre-Modification Recorded Principal Balance	Post-Modification Recorded Principal Balance	Number of Contracts	Pre-Modification Recorded Principal Balance	Post-Modification Recorded Principal Balance
Agriculture and Agricultural Real Estate	-	$ -	$ -	-	$ -	$ -
Commercial	3	652	618	5	788	735
Commercial Real Estate	8	3,096	2,945	29	17,933	16,949
Construction Real Estate	3	421	421	6	1,327	1,156
Residential Real Estate	10	1,468	1,464	27	6,391	5,323
Consumer and Other	2	44	43	4	60	59
Total	26	$ 5,681	$ 5,491	71	$ 26,499	$ 24,222

The Bank considers TDRs that become 90 days or more past due under the modified terms as defaulted. Loans that became TDRs during the twelve months ended September 30, 2011 that subsequently defaulted during the three and nine months ended September 30, 2011 are as follows (000s omitted from dollar amounts):

	Three months ended September 30, 2011		Nine months ended September 30, 2011	
	Number of Contracts	Recorded Principal Balance	Number of Contracts	Recorded Principal Balance
Agriculture and Agricultural Real Estate	-	$-	-	$-
Commercial	-	-	-	-
Commercial Real Estate	-	-	-	-
Construction Real Estate	-	-	-	-

Residential Real Estate	1	694	1	694
Consumer and Other	-	-	-	-
Total	1	$694	1	$694

6. INVESTMENT SECURITIES

The following is a summary of the Bank's investment securities portfolio as of September 30, 2011 and December 31, 2010 (000's omitted):

	Held to Maturity September 30, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Obligations of U.S. Government Agencies	$6	$-	$-	$6
Obligations of States and Political Subdivisions	29,519	665	(112)	30,072
	$29,525	$665	$(112)	$30,078

	Available for Sale September 30, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Obligations of U.S. Government Agencies	$287,725	$7,232	$(170)	$294,787
Obligations of States and Political Subdivisions	13,924	425	(22)	14,327
Trust Preferred CDO Securities	9,549	-	(4,308)	5,241
Corporate Debt Securities	2,000	-	(3)	1,997
Other Securities	2,553	168	(216)	2,505
	$315,751	$7,825	$(4,719)	$318,857

	Held to Maturity December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Obligations of U.S. Government Agencies	$6	$-	$-	$6
Obligations of States and Political Subdivisions	23,798	303	(265)	23,836
	$23,804	$303	$(265)	$23,842

	Available for Sale December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Obligations of U.S. Government Agencies	$266,773	$2,526	$(2,264)	$267,035
Obligations of States and Political				

Subdivisions	14,881	49	(205)	14,725
Trust Preferred CDO Securities	9,563	-	(4,375)	5,188
Other Securities	2,553	80	(216)	2,417
	$293,770	$2,655	$(7,060)	$289,365

The investment securities portfolio is evaluated for impairment throughout the year. Impairment is recorded against individual securities, unless the decrease in fair value is attributable to interest rates or the lack of an active market, and Management determines that the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before a recovery of their amortized costs bases, which may be maturity. The following table shows the gross unrealized losses and fair value of the Company's investments with unrealized losses (in thousands), aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2011 and December 31, 2010.

	September 30, 2011					
	Less than 12 months		12 months or longer		Total	
	Aggregate Fair Value	Gross Unrealized Losses	Aggregate Fair Value	Gross Unrealized Losses	Aggregate Fair Value	Gross Unrealized Losses
Obligations of United States Government Agencies	$39,939	$170	$-	$-	$39,939	$170
Obligations of States and Political Subdivisions	7,352	120	1,074	14	8,426	134
Trust Preferred CDO Securities	-	-	5,241	4,308	5,241	4,308
Corporate Debt Securities	1,997	3	-	-	1,997	3
Equity Securities	-	-	324	216	324	216
	$49,288	$293	$6,639	$4,538	$55,927	$4,831

	December 31, 2010					
	Less than 12 months		12 months or longer		Total	
	Aggregate Fair Value	Gross Unrealized Losses	Aggregate Fair Value	Gross Unrealized Losses	Aggregate Fair Value	Gross Unrealized Losses
Obligations of United States Government Agencies	$83,030	$2,264	$-	$-	$83,030	$2,264
Obligations of States and Political Subdivisions	12,192	296	1,931	174	14,123	470
Trust Preferred CDO Securities	-	-	5,188	4,375	5,188	4,375
Equity Securities	-	-	324	216	324	216
	$95,222	$2,560	$7,443	$4,765	$102,665	$7,325

The amount of investment securities issued by government agencies, states, and political subdivisions with unrealized losses and the amount of unrealized losses on those investment securities are primarily the result of market interest rates and not the result of the credit quality of the issuers of the securities. Because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other than temporarily impaired at September 30, 2011.

The Trust Preferred CDO Securities are issued by companies in the financial services industry, including banks, thrifts, and insurance companies. Each of the three securities owned by the Company is in an unrealized loss position. The main reasons for the impairment are the overall decline in market values for financial industry securities and the lack of an active market for these types of securities in particular. In determining whether the impairment is not other-than-temporary, the Company analyzed each security's expected cash flows. The assumptions used in the cash flow analysis were developed following a review of the financial condition of the individual obligors in the pools. The analysis concluded that disruption of our cash flows due to defaults by issuers was currently not expected to occur in one of the three securities owned. As a result of uncertainties in the market place affecting companies in the financial services industry, it is at least reasonably possible that a change in the estimate will occur in the near term. Because the Company does not intend to sell the investment and it is not more likely than not that the Company will be required to sell the investment before recovery of its amortized cost basis, which may be maturity, the Company does not consider this investment to be other than temporarily impaired at September 30, 2011.

7. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

Certain of the Bank’s assets and liabilities are financial instruments that have fair values that differ from their carrying values in the accompanying consolidated balance sheets. These fair values, along with the methods and assumptions used to estimate such fair values, are discussed below. The fair values of all financial instruments not discussed below (Cash and cash equivalents, Federal funds sold, Federal Home Loan Bank stock, Accrued interest receivable and other assets, Bank Owned Life Insurance, Demand deposits, NOW deposits, Savings deposits, Money market deposits, Federal funds purchased, and Interest payable and other liabilities) are estimated to be equal to their carrying amounts as of September 30, 2011 and December 31, 2010.

INVESTMENT SECURITIES

Fair value for the Bank’s investment securities was determined using the market value in active markets, where available. When not available, fair values are estimated using the fair value hierarchy. In the fair value hierarchy, Level 2 fair values are determined using observable inputs other than Level 1 market prices, such as quoted prices for similar assets. Level 3 values are determined using unobservable inputs, such as discounted cash flow projections. These Estimated Market Values are disclosed in Note 6. The fair value disclosures required are in Note 8.

LOANS, NET

The fair value of all loans is estimated by discounting the future cash flows associated with the loans, using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

OTHER TIME DEPOSITS

The fair value of other time deposits, consisting of fixed maturity certificates of deposit, is estimated by discounting the related cash flows using the rates currently offered for deposits of similar remaining maturities.

FHLB ADVANCES AND SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

The fair value of fixed and variable rate Federal Home Loan Bank advances and Securities Sold under Repurchase Agreements, is estimated by discounting the related cash flows using the rates currently available for borrowings of similar remaining maturities.

OFF-BALANCE-SHEET FINANCIAL INSTRUMENTS

The fair values of commitments to extend credit and standby letters of credit and financial guarantees written are estimated using the fees currently charged to engage into similar agreements. The fair values of these instruments are not significant.

OTHER FINANCIAL INSTRUMENTS

The fair values of the Federal Home Loan Bank of Indianapolis stock, Loans Held for Sale, Accrued Interest Receivable, and Accrued Interest Payable are estimated to be equal to their carrying values.

The carrying amounts and approximate fair values as of September 30, 2011 and December 31, 2010 are as follows (000's omitted):

	September 30, 2011		December 31, 2010	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial Assets:				
Cash and due from banks	$98,591	$98,591	$86,300	$86,300
Securities - Held to Maturity	29,525	30,078	23,804	23,842
Securities - Available for Sale	318,857	318,857	289,365	289,365
Federal Home Loan Bank Stock	10,605	10,605	11,831	11,831
Loans Held for Sale	656	656	973	973
Loans, net	680,905	692,093	731,664	755,312
Accrued Interest Receivable	4,024	4,024	3,912	3,912
Financial Liabilities:				
Demand, NOW, savings and money market savings deposits	670,918	670,918	631,997	631,997
Other Time Deposits	358,729	360,836	399,896	405,736
Borrowed funds				
Variable Rate FHLB Advances	110,000	113,499	110,000	115,045
Fixed Rate FHLB Advances	-	-	3,500	3,567
Repurchase Agreements	20,000	23,038	30,000	33,796
Notes Payable	135	135	135	135
Accrued Interest Payable	564	564	882	882

8. FAIR VALUE MEASUREMENTS

The following tables present information about the Company's assets measured at fair value on a recurring basis at September 30, 2011 and December 31, 2010, and the valuation techniques used by the Company to determine those fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Company has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Company's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Assets measured at fair value on a recurring basis are as follows (000's omitted):

Investment Securities Available for Sale	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at 9/30/2011
Obligations of U.S. Government Agencies	$-	$294,787	$ -	$294,787
Obligations of States and Political Subdivisions	-	14,327	-	14,327
Trust Preferred CDO Securities	-	-	5,241	5,241
Corporate Debt Securities	-	1,997	-	1,997
Other Securities	2,181	324	-	2,505
Total Securities Available for Sale	$2,181	$311,435	$ 5,241	$318,857

Investment Securities Available for Sale	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at 12/31/2010
Obligations of U.S. Government Agencies	$ 267,035	$ -	$ -	$ 267,035
Obligations of States and Political Subdivisions	-	14,725	-	14,725
Trust Preferred CDO Securities	-	-	5,188	5,188
Other Securities	2,093	324	-	2,417
Total Securities Available for Sale	$ 269,128	$ 15,049	$ 5,188	$ 289,365

The changes in Level 3 assets measured at fair value on a recurring basis were (000's omitted):

Investment Securities - Available for Sale	2011	2010
Balance at January 1	$5,188	$7,215
Total realized and unrealized gains (losses) included in income	-	-
Total unrealized gains (losses) included in other comprehensive income	53	81
Net purchases, sales, calls and maturities	-	(3,920)
Net transfers in/out of Level 3	-	-
Balance at September 30	$5,241	$3,376

Of the Level 3 assets that were held by the Company at September 30, 2011, the unrealized gain for the nine months ended September 30, 2011 was $53,000, which is recognized in other comprehensive income in the consolidated statements of financial condition. The Company did not have any sales or purchases of Level 3 available for sale securities during the period.

Both observable and unobservable inputs may be used to determine the fair value of positions classified as Level 3 assets. As a result, the unrealized gains and losses for these assets presented in the tables above may include changes in fair value that were attributable to both observable and unobservable inputs.

The Company owns pooled Trust Preferred Securities ("TRUPs") with a fair value of $5,241,000 as of September 30, 2011. Trading of these types of securities has increased recently but is primarily conducted on a distress sale or forced liquidation basis. As a result, the Company measures the fair values of these assets using Level 3 inputs, specifically discounted cash flow projections.

The Company also has assets that under certain conditions are subject to measurement at fair value on a nonrecurring basis. These assets include loans and Other Real Estate Owned. The Company estimated the fair values of these assets using Level 3 inputs, specifically discounted cash flow projections.

Assets measured at fair value on a nonrecurring basis are as follows (000's omitted):

	Balance at September 30, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$66,546	$-	$-	$ 66,546
Other Real Estate Owned	$18,690	$-	$-	$ 18,690

	Balance at December 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$81,683	$-	$-	$ 81,683
Other Real Estate Owned	$19,432	$-	$-	$ 19,432

Impaired loans categorized as Level 3 assets consist of non-homogenous loans that are considered impaired. The Company estimates the fair value of the loans based on the present value of expected future cash flows using management's best estimate of key assumptions. These assumptions include future payment ability, timing of payment streams, and estimated realizable values of available collateral (typically based on outside appraisals). Other Real Estate Owned (OREO) consists of property received in full or partial satisfaction of a receivable. The Company utilizes independent appraisals to estimate the fair value of OREO properties.

9. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated statements of condition.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for its other lending activities.

Financial instruments whose contractual amounts represent off-balance sheet credit risk were as follows (000s omitted):

	Contractual Amount September 30, 2011	December 31, 2010
Commitments to extend credit:		
Unused portion of commercial lines of credit	$ 63,434	$ 59,238
Unused portion of credit card lines of credit	2,716	2,987

Unused portion of home equity lines of credit	15,204	15,905
Standby letters of credit and financial guarantees written	4,455	4,710
All other off-balance sheet commitments	-	-

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Most commercial lines of credit are secured by real estate mortgages or other collateral, and generally have fixed expiration dates or other termination clauses. Since the lines of credit may expire without being drawn upon, the total committed amounts do not necessarily represent future cash requirements. Credit card lines of credit have various established expiration dates, but are fundable on demand. Home equity lines of credit are secured by real estate mortgages, a majority of which have ten year expiration dates, but are fundable on demand. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of the collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on Management's credit evaluation of the counterparty.

Standby letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements and other business transactions.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction

MBT Financial Corp. (the "Company) is a bank holding company with one subsidiary, Monroe Bank & Trust ("the Bank"). The Bank is a commercial bank with a wholly owned subsidiary, MB&T Financial Services. MB&T Financial Services is an insurance agency which sells insurance policies to the Bank. The Bank operates 18 branch offices in Monroe County, Michigan and 7 offices in Wayne County, Michigan. The Bank's primary source of income is interest income on its loans and investments and its primary expense is interest expense on its deposits and borrowings.

The national economic recovery is continuing slowly, and conditions in southeast Michigan are also slowly improving. Local unemployment rates improved significantly over the past year, but remain higher than the national average and historical norms. Commercial and residential development property values have shown some stability and certain residential property values have shown some improvement. Our total problem assets, which include nonperforming loans, other real estate owned, non accrual investments, and performing loans that are internally classified as potential problems, decreased $3.6 million, or 2.5% during the third quarter of 2011, allowing us to decrease our Allowance for Loan and Lease Losses (ALLL) from $22.6 million to $21.9 million. The loan portfolio decreased $14.4 million during the quarter, and the ALLL as a percent of loans decreased slightly from 3.15% at June 30, 2011 to 3.11% at September 30, 2011. Although local property values and the unemployment rate have stabilized over the past several quarters, we anticipate a slower than normal recovery in our local markets in 2011 and 2012. We will continue to focus our efforts on improving asset quality, maintaining liquidity, strengthening capital, and controlling expenses.

Net Interest Income decreased $465,000 compared to the third quarter of 2010 as the net interest margin decreased from 3.32% to 3.16% and the average earning assets decreased $5.6 million, or 0.5%. The provision for loan losses decreased from $7.5 million in the third quarter of 2010 to $2.7 million in the third quarter of 2011. Improvement in the risk ratings of loans, a decrease in the historical loss rates, and the decrease in the size of the loan portfolio decreased the amount of ALLL required. As a result, we were able to record a provision that was smaller than the net charge offs for the quarter. Non interest income, net of securities transactions, decreased $434,000 compared to last year, as a decrease in overdraft service charges that resulted from a decrease in NSF check activity and origination fees on mortgage loans sold decreased due to a significant decline in mortgage loan activity. Also, income from Bank Owned Life Insurance policies decreased due to a favorable adjustment to the asset values in the third quarter of 2010 and a reduction in the amount of policies owned in 2011. Non interest expenses decreased $733,000, or 6.9% due to lower losses on Other Real Estate Owned, and lower FIDC deposit insurance assessments. We continue to work to control costs, and we decreased several non interest expense categories. We expect credit related expenses, including the costs of carrying a high level of Other Real Estate Owned (OREO), to continue to improve, but still remain above normal levels.

Critical Accounting Policies

The Company’s Allowance for Loan Losses, Deferred Tax Asset Valuation Allowance, Fair Value of Investment Securities, and Other Real Estate Owned are “critical accounting estimates” because they are estimates that are based on assumptions that are highly uncertain, and if different assumptions were used or if any of the assumptions used were to change, there could be a material impact on the presentation of the Company’s financial condition. These assumptions include, but are not limited to, collateral values, the effect of economic conditions on the financial condition of the borrowers, the Company, and the issuers of investment securities, market interest rates, and projected earnings for the Company.

To determine the Allowance for Loan Losses, the Company estimates losses on all loans that are not classified as non accrual or renegotiated by applying historical loss rates, adjusted for current conditions, to those loans. In addition, all non accrual loan relationships over $250,000 that are classified by Management as nonperforming as well as selected performing accounts and all renegotiated loans are individually tested for impairment. Any amount of monetary impairment is included in the Allowance for Loan Losses.

Income tax accounting standards require companies to assess whether a valuation allowance should be established against deferred tax assets based on the consideration of all evidence using a “more likely than not” standard. We reviewed our deferred tax asset, considering both positive and negative evidence and analyzing changes in near term market conditions as well as other factors that may impact future operating results. Significant negative evidence is our net operating losses for the last three years, combined with a difficult economic environment and a slow economic recovery projected for southeast Michigan. Positive evidence includes our history of strong earnings prior to 2008, our third quarter 2011 profit, our strong capital position, our steady net interest margin, and our non interest expense control initiatives. Based on our analysis of the evidence, we believed that it was appropriate to maintain a valuation allowance equal to the full amount of the deferred tax asset as of September 30, 2011.

To determine the fair value of investment securities, the Company utilizes quoted prices in active markets for identical assets, quoted prices for similar assets in active markets, or discounted cash flow calculations for investments where there is little, if any, market activity for the asset.

To determine the fair value of Other Real Estate Owned, the Company utilizes independent appraisals to estimate the fair value of the property.

Financial Condition

National economic conditions began to recover in the second half of 2009, but regional conditions remained weak until 2010. Local unemployment and property values have stabilized and the economic environment in southeast Michigan is continuing to slowly show improvement. Our nonperforming assets decreased 7.1% during the quarter, from $102.4 million to $95.2 million, and total problem assets decreased from $145.7 million to $142.1 million. Total loans decreased due to low loan demand, payments received in the ordinary course of business, and charge offs of existing loans. We continued to manage toward a decreased use of high cost wholesale funding, which has helped mitigate the reduction in our net interest margin that is occurring due to the change in the mix of earning assets and the ongoing repricing of earning assets in this historically low interest rate environment. While some lending opportunities exist, the economy is expected to continue to recover very slowly in our market area into 2012. The Company expects low deposit growth and a slight reduction in total assets in 2011, and intends to continue to focus efforts on improved credit quality, capital management, and enterprise risk mitigation.

Since December 31, 2010, total loans decreased $50.1 million (6.7%) because the weak loan demand did not result in enough new loan activity to offset write downs recorded and payments received. At the same time, deposits decreased only $2.2 million, or 0.2% as our efforts to reduce brokered certificates of deposit were offset by an increase in local deposit activity. This reduction in loans and deposits resulted in a decrease of $14.0 million (1.1%) in total assets since the end of 2010. Total capital increased $932,000 or 1.3%, as the loss of $4.2 million was offset by the increase of $5.1 million in the accumulated other comprehensive income (AOCI) due to an increase in the value of our securities available for sale. The increase in capital and the decrease in total assets caused the capital to assets ratio to increase from 5.88% at December 31, 2010 to 6.02% at September 30, 2011.

The amount of nonperforming assets ("NPAs") decreased $7.2 million or 7.1% during the third quarter of 2011. NPAs include non performing loans, which decreased 5.8% from $78.3 million to $73.7 million, and Other Real Estate Owned and Other Assets ("OREO"), which decreased 12.3% from $21.3 million to $18.7 million. Total problem assets, which includes all NPAs and performing loans that are internally classified as substandard, decreased $3.6 million, or 2.5%. The Company's Allowance for Loan and Lease Losses ("ALLL") decreased $0.8 million since June 30, 2011, resulting from a decrease in the FAS 114 specific allocations from $7.4 million to $6.4 million, primarily due to a decrease in the amount of the portfolio subject to the FAS 114 method. Our FAS 5 general allocation increased slightly from $15.2 million to $15.4. The ALLL is now 3.11% of loans, compared to 3.15% at June 30, 2011 and 2.82% at December 31, 2010. The ALLL is 29.66% of nonperforming loans ("NPLs"), compared to 25.98% at year end and 26.06% at September 30, 2010. In light of current economic conditions, we believe that at this level the ALLL adequately estimates the potential losses in the loan portfolio.

Results of Operations – Third Quarter 2011 vs. Third Quarter 2010

Net Interest Income - A comparison of the income statements for the three months ended September 30, 2010 and 2011 shows a decrease of $465,000, or 4.9%, in Net Interest Income. Interest income on loans decreased $1.6 million or 13.5% as the average loans outstanding decreased $87.8 million and the average yield on loans decreased from 5.74% to 5.58%. The interest income on investments, fed funds sold, and interest bearing balances due from banks increased $238,000 as the average amount of investments, fed funds sold, and interest bearing balances due from banks increased $82.2 million but the yield decreased from 2.51% to 2.25%. The yield on investments decreased because the Company is maintaining its strong liquidity position by keeping its excess funds in low yielding short term investments and deposits in the Federal Reserve Bank. An improvement in the term structure of interest rates, a continued low overall level of interest rates, and the maturity and prepayment of some high cost borrowings and brokered certificates of deposit allowed funding costs to decrease considerably. The interest expense on deposits decreased $633,000 or 19.3% as the average deposits increased $6.3 million but the average cost of deposits decreased from 1.27% to 1.02%. The cost of borrowed funds decreased $225,000 as the average amount of borrowed funds decreased $13.4 million and the average cost of the borrowings decreased from 3.01% to 2.63%.

Provision for Loan Losses - The Provision for Loan Losses decreased from $7.5 million in the third quarter of 2010 to $2.7 million in the third quarter of 2011. Net charge offs were $3.5 million during the third quarter of 2011, compared to $10.7 million in the third quarter of 2010. Each quarter, the Company conducts a review and analysis of its ALLL to determine its adequacy. This analysis involves specific allocations for impaired credits and a general allocation for losses expected based on historical experience adjusted for current conditions. Due to a decrease in the size of the portfolio, a decrease in the historical loss percentages, and a decrease in the specific allocations, we were able to maintain an adequate ALLL in the third quarter of 2011 even though we recorded a provision that was less than our net charge offs. The ALLL is 3.11% of loans as of September 30, 2011, and, in light of current economic conditions, we believe that at this level the ALLL adequately estimates the potential losses in our loan portfolio.

Other Income – Non interest income, excluding securities gains, decreased $434,000, or 10.3% compared to the third quarter of 2010. Service charges and other fees on deposit accounts decreased $187,000, or 13.2%, primarily due to a decrease in overdraft fees on checking accounts. Origination fees on mortgage loan sold decreased $87,000, or 46.0% due to lower mortgage loan origination volume in 2011. Income on Bank Owned Life Insurance policies decreased 41.6% from $693,000 to $405,000 due to a positive valuation adjustment in 2010 and a reduction of policies owned this year. The gain on securities transactions increased $372,000 due to some callable federal agency bond calls in the third quarter of 2011. The gain resulted from bonds that were owned at discounts being called at par. Other non interest income increased $92,000, or 9.5%, primarily due to higher rental income on other real estate owned.

Other Expenses – Total non interest expenses decreased $733,000, or 6.9% compared to the third quarter of 2010. Salaries and Employee Benefits increased $161,000, or 3.4%, due to increases in medical insurance, life insurance, and payroll tax expenses. Occupancy expense increased $95,000, or 13.8%, as we accrued $100,000 for the estimated additional costs of the environmental cleanup of our Temperance branch location. Losses on Other Real Estate Owned (OREO) properties decreased $258,000 compared to the third quarter of 2010 as the rate of decrease in the values of foreclosed properties slowed in 2011. We conducted two auctions of OREO properties late in the third quarter of 2011. Most of the sales will not close until the fourth quarter, but the losses were recognized as write downs of the property values in the third quarter. FDIC deposit insurance premium expense decreased $411,000, or 39.9%, due to a change in the assessment method in 2011.

As a result of the above activity, the Profit Before Income Taxes in the third quarter of 2011 was $632,000, an improvement of $4.97 million compared to the loss of $4.338 million in the third quarter of 2010. No income tax benefit or expense was recorded in either year due to our net operating loss carry forwards and the uncertainty of our expected ability to utilize our existing deferred tax assets.

Results of Operations – Year to Date September 30, 2011 vs. Year to Date September 30, 2010

Net Interest Income - A comparison of the income statements for the nine months ended September 30, 2010 and 2011 shows a decrease of $1.7 million, or 6.1%, in Net Interest Income. Interest income on loans decreased $4.8 million or 13.7% as the average loans outstanding decreased $90.9 million and the average yield on loans decreased from 5.75% to 5.59%. The interest income on investments, fed funds sold, and interest bearing balances due from banks decreased $1.0 million even though the average amount of investments, fed funds sold, and interest bearing balances due from banks increased $39.2 million as the yield decreased from 2.93% to 2.33%. The continued low overall level of interest rates and the maturity and prepayment of some high cost borrowings and brokered certificates of deposit allowed funding costs to decrease considerably. The interest expense on deposits decreased $1.3 million or 13.5% even though the average deposits increased $13.2 million as the average cost of deposits decreased from 1.30% to 1.11%. The cost of borrowed funds decreased $2.8 million as the average amount of borrowed funds decreased $67.5 million and the average cost of the borrowings decreased from 3.67% to 2.77%.

Provision for Loan Losses - The Provision for Loan Losses decreased from $13.4 million in the first nine months of 2010 to $11.3 million in the first nine months of 2011. Net charge offs were $10.7 million during the first three quarters of 2011, compared to $16.7 million in the first three quarters of 2010. Each quarter, the Company conducts a review and analysis of its ALLL to determine its adequacy. This analysis involves specific allocations for impaired credits and a general allocation for losses expected based on historical experience adjusted for current conditions. Due to an increase in the historical loss percentages, it was necessary to record a provision in excess of the net charge offs in order to maintain an adequate ALLL in the first nine months of 2011. The ALLL is 3.11% of loans as of September 30, 2011, and, in light of current economic conditions, we believe that at this level the ALLL adequately estimates the potential losses in our loan portfolio.

Other Income – Non interest income, excluding securities gains, decreased $783,000, or 6.5% compared to the first three quarters of 2010. Service charges and other fees on deposit accounts decreased $463,000, or 11.6%, primarily due to a decrease in overdraft fees on checking accounts. Origination fees on mortgage loans sold decreased 40.8% from $458,000 in 2010 to $271,000 in 2011 due to a significant decline in the amount of mortgage loan activity. Income from bank owned life insurance policies decreased $325,000, or 21.2% due to a positive valuation adjustment in 2010 and a decrease in policies owned in 2011. The gain on securities transactions decreased $2.6 million due to a large of amount of securities sales in the second quarter of 2010. Other non interest income increased $276,000, or 9.3%, mainly due to increases of $173,000 in OREO rental income and $62,000 in ATM and debit card income.

Other Expenses – Total non interest expenses decreased $3.2 million, or 9.3% compared to the first three quarters of 2010 due to debt prepayment penalties of $2.5 million in the second quarter of 2010. Most expense categories were flat or decreased due to ongoing cost containment initiatives. Professional fees increased $296,000, or 19.3%, primarily due to increases in legal and other professional fees paid for collection activities. Expenses of other real estate owned decreased $458,000 due to reductions in maintenance, insurance, and property taxes on foreclosed properties.

As a result of the above activity, the Loss Before Income Taxes decreased $169,000 from a loss of $4,362,000 in the first nine months of 2010 to a loss of $4,193,000 in the first nine months of 2011. No income tax benefit was recorded in either year due to the uncertainty of our expected ability to utilize our existing deferred tax assets.

Cash Flows

Cash flows provided by operating activities decreased from $10.7 million in the first nine months of 2010 to $4.8 million in the first nine months of 2011. The cash provided by operations decreased even though the net loss did not change significantly because non-cash charges to earnings decreased, interest payable and other liabilities increased and interest receivable and other assets decreased. Cash flows from investing activities decreased from $94.1 million provided in the first nine months of 2010 to $23.2 million in the first nine months of 2011 primarily due to a decrease in the sales, maturities, and redemptions of investment securities. The decrease in the sales of investment securities was due to the sales of federal agency debt and mortgage backed securities in 2010 related to a restructuring of the portfolio and to generate the cash to prepay FHLB advances. Proceeds from maturities and redemptions of investment securities increased in 2011 as the low interest rate environment resulted in an increase in early redemptions of callable securities. In addition, the Corporation surrendered $3.7 million in Bank Owned Life Insurance policies that are no longer required to provide benefits to former employees and directors in 2011. The amount of cash used for financing activities decreased in the first nine months of 2011 compared to the first nine months of 2010 due to the repayment of borrowed funds in both periods.

Liquidity and Capital

The Company believes it has sufficient liquidity to fund its lending activity and allow for fluctuations in deposit levels. Internal sources of liquidity include the maturities of loans and securities in the ordinary course of business as well as our available for sale securities portfolio. External sources of liquidity include a line of credit with the Federal Home Loan Bank of Indianapolis, the Federal funds line that has been established with our correspondent bank, and Repurchase Agreements with money center banks that allow us to pledge securities as collateral for borrowings. As of September 30, 2011, the Bank utilized $110.0 million of its authorized limit of $265 million with the Federal Home Loan Bank of Indianapolis, none of its $10 million overdraft line of credit with the Federal Home Loan Bank of Indianapolis, and none of its $25 million of federal funds line with a correspondent bank.

The Company's Funds Management Policy includes guidelines for desired amounts of liquidity and capital. The Funds Management Policy also includes contingency plans for liquidity and capital that specify actions to take if liquidity and capital ratios fall below the levels contained in the policy. Throughout the first nine months of 2011 the Company was in compliance with its Funds Management Policy regarding liquidity and capital.

Total stockholders' equity of the Company was $74.9 million at September 30, 2011 and $74.0 million at December 31, 2010. The ratio of equity to assets was 6.02% at September 30, 2011 and 5.88% at December 31, 2010. Federal bank regulatory agencies have set capital adequacy standards for Total Risk Based Capital, Tier 1 Risk Based Capital, and Leverage Capital. These standards require banks to maintain Leverage and Tier 1 ratios of at least 4% and a Total Capital ratio of at least 8% to be adequately capitalized. The regulatory agencies consider a bank to be well capitalized if its Total Risk Based Capital is at least 10% of Risk Weighted Assets, Tier 1 Capital is at least 6% of Risk Weighted Assets, and the Leverage Capital Ratio is at least 5%.

The following table summarizes the capital ratios of the Company and the Bank:

	Actual Amount	Ratio		Minimum to Qualify as Well Capitalized Amount	Ratio	
As of September 30, 2011:						
Total Capital to Risk-Weighted Assets						
Consolidated	$84,630	10.26	%	$82,478	10	%
Monroe Bank & Trust	84,108	10.20	%	82,430	10	%
Tier 1 Capital to Risk-Weighted Assets						
Consolidated	74,174	8.99	%	49,487	6	%
Monroe Bank & Trust	73,583	8.93	%	49,458	6	%
Tier 1 Capital to Average Assets						
Consolidated	74,174	5.96	%	62,258	5	%
Monroe Bank & Trust	73,583	5.91	%	62,233	5	%

	Actual Amount	Ratio		Minimum to Qualify as Well Capitalized Amount	Ratio	
As of December 31, 2010:						
Total Capital to Risk-Weighted Assets						
Consolidated	$89,270	10.24	%	$87,196	10	%
Monroe Bank & Trust	88,440	10.15	%	87,120	10	%
Tier 1 Capital to Risk-Weighted Assets						
Consolidated	78,239	8.97	%	52,318	6	%

Monroe Bank & Trust	77,383	8.88	%	52,272	6	%
Tier 1 Capital to Average Assets						
Consolidated	78,239	6.24	%	62,705	5	%
Monroe Bank & Trust	77,383	6.17	%	62,672	5	%

On July 12, 2010, the Bank entered into a Consent Order with its state and federal regulators. While the Bank is under the Consent Order, it is classified as “adequately capitalized” even if its ratios meet the “well capitalized” guidelines.

During 2010, the Company conducted a Private Placement Memorandum (PPM) offering of debt and equity securities. The PPM offering raised $1.4 million in 2010, of which $1.2 million was invested in the stock of the Bank. On May 5, 2011, the shareholders of the Company approved an amendment to the Articles of Incorporation to increase the number of common shares authorized from 30,000,000 to 50,000,000. The Company is currently considering conducting a public offering of common stock to help improve its capital position. The size and timing of the offering have not been determined.

Market risk for the Bank, as is typical for most banks, consists mainly of interest rate risk and market price risk. The Bank’s earnings and the economic value of its equity are exposed to interest rate risk and market price risk, and monitoring this risk is the responsibility of the Asset/Liability Management Committee (ALCO) of the Bank. The Bank’s market risk is monitored monthly and it has not changed significantly since year-end 2010.

Forward-Looking Statements

Certain statements contained herein are not based on historical facts and are "forward-looking statements" within the meaning of Section 21A of the Securities Exchange Act of 1934. Forward-looking statements which are based on various assumptions (some of which are beyond the Company's control), may be identified by reference to a future period or periods, or by the use of forward-looking terminology, such as "may," "will," "believe," "expect," "estimate," "anticipate," "continue," or similar terms or variations on those terms, or the negative of these terms. Actual results could differ materially from those set forth in forward-looking statements, due to a variety of factors, including, but not limited to, those related to the economic environment, particularly in the market areas in which the Company operates, competitive products and pricing, fiscal and monetary policies of the U.S. Government, changes in government regulations affecting financial institutions, including regulatory fees and capital requirements, changes in prevailing interest rates, acquisitions and the integration of acquired businesses, credit risk management, asset/liability management, changes in the financial and securities markets, including changes with respect to the market value of our financial assets, the availability of and costs associated with sources of liquidity, and the ability of the Company to resolve or dispose of problem loans.

The Company does not undertake, and specifically disclaims any obligation, to publicly release the result of any revisions which may be made to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Bank faces market risk to the extent that the fair values of its financial instruments are affected by changes in interest rates. The Bank does not face market risk due to changes in foreign currency exchange rates, commodity prices, or equity prices. The asset and liability management process of the Bank seeks to monitor and manage the amount of interest rate risk. This is accomplished by analyzing the differences in repricing opportunities for assets and liabilities, by simulating operating results under varying interest rate scenarios, and by estimating the change in the net present value of the Bank's assets and liabilities due to interest rate changes.

Each month, the Asset and Liability Committee (ALCO), which includes the senior management of the Bank, estimates the effect of interest rate changes on the projected net interest income of the Bank. The sensitivity of the Bank's net interest income to changes in interest rates is measured by using a computer based simulation model to estimate the impact on earnings of both gradual and sudden increases or decreases of 100, 200, 300, and 400 basis points in the interest rates. The net interest income projections are compared to a base case projection, which assumes no changes in interest rates.

The Bank's ALCO has established limits in the acceptable amount of interest rate risk, as measured by the change in the Bank's projected net interest income, in its policy. Throughout the first nine months of 2011, the Bank's interest rate risk has remained within its policy limits.

The ALCO also monitors interest rate risk by estimating the effect of changes in interest rates on the economic value of the Bank's equity each month. The economic value of the Bank's equity is first determined by subtracting the fair value of the Bank's liabilities from the fair value of the Bank's assets. The Bank estimates the interest rate risk by calculating the effect of market interest rate changes on that economic value of its equity. For this analysis, the Bank assumes immediate parallel shifts of plus or minus 100, 200, and 300 basis points in interest rates. The discount rates used to determine the present values of the loans and deposits, as well as the prepayment rates for the loans, are based on Management's expectations of the effect of the rate changes on the market for loans and deposits. In addition, each quarter, the Bank conducts additional analyses that utilize other rate scenarios, such as larger shifts in rates and changes in the shape of the yield curve, to assess the Bank's exposure to interest rate risk in stress scenarios.

The Bank's interest rate risk, as measured by the net interest income and economic value of equity simulations, has not changed significantly from December 31, 2010.

Item 4. Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of September 30, 2011, pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2011, in alerting them in a timely manner to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic SEC filings.

There was no change in the Company's internal control over financial reporting that occurred during the Company's fiscal quarter ended September 30, 2011, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II Other Information

Item 1. Legal Proceedings

MBT Financial Corp. and its subsidiaries are not a party to, nor is any of their property the subject of any material legal proceedings other than ordinary routine litigation incidental to their respective businesses, nor are any such proceedings known to be contemplated by governmental authorities.

Item 1A. Risk Factors

In addition to the risk factors previously disclosed in Part I Item 1A of the Company's annual report on Form 10-K for its fiscal year ended December 31, 2010, the Company has identified the following new Risk Factor:

The Standard & Poor's downgrade of the U.S. government's sovereign credit rating, and in the credit ratings of instruments issued, insured or guaranteed by certain related institutions, agencies and instrumentalities, could result in risks to the Company and general economic conditions that we are not able to predict.

On August 5, 2011, Standard & Poor's downgraded the United States long-term debt rating from its AAA rating to AA+. On August 8, 2011, Standard & Poor's downgraded the credit ratings of long-term debt instruments issued by ten of the twelve Federal Home Loan Banks from AAA to AA+ (two of the FHLBs were already rated AA+). Instruments of this nature are key assets on the balance sheets of financial institutions, including the Bank. These downgrades could adversely affect the market value of such instruments, and could adversely impact our ability to obtain funding that is collateralized by affected instruments, as well as affecting the pricing of that funding when it is available. We cannot predict if, when, or how these changes to the credit ratings will affect economic conditions. These ratings downgrades could result in a significant adverse impact to the Company, and could exacerbate the other risks to which the Company is subject, including those described under Risk Factors in the Company's 2010 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities

None.

Item 5. Other Information

No matters to be reported.

Item 6. Exhibits

The following exhibits are filed as a part of this report:

3.1	Articles of Incorporation of MBT Financial Corp. Previously filed as Exhibit 3.1 to MBT Financial Corp.'s Form 10-Q for its quarter ended June 30, 2011.
3.2	Amended and Restated Bylaws of MBT Financial Corp. Previously filed as Exhibit 3.2 to MBT Financial Corp.'s Form 10-Q for its quarter ended March 31, 2008.
10.1	Amended and Restated Monroe Bank & Trust Supplemental Executive Retirement Agreement with H. Douglas Chaffin.
31.1	Certification by Chief Executive Officer required by Securities and Exchange Commission Rule 13a-14.
31.2	Certification by Chief Financial Officer required by Securities and Exchange Commission Rule 13a-14.
32.1	Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as enacted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as enacted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Signatures

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

MBT Financial Corp.
(Registrant)

Date November 14, 2011 By: /s/ H. Douglas Chaffin
H. Douglas Chaffin
President &
Chief Executive Officer

Date November 14, 2011 By: /s/ John L. Skibski

John L. Skibski
Executive Vice President and
Chief Financial Officer

Exhibit Index

Exhibit Number	Description of Exhibits
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