MBT FINANCIAL CORP
Form 10-K
March 14, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended **December 31, 2011**

Commission File Number: **000-30973**

MBT FINANCIAL CORP.

(Exact Name of Registrant as Specified in its Charter)

MICHIGAN	38-3516922
(State of Incorporation)	(I.R.S. Employer Identification No.)
102 E. Front St.	
Monroe, Michigan	48161
(Address of Principal Executive Offices)	(Zip Code)

(734) 241-3431

(Registrant's Telephone Number, Including Area Code)

None

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

Securities registered pursuant to section 12(b) of the Act: Common Stock, No Par Value, Registered on NASDAQ Global Select Market

Securities registered pursuant to section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ¨ NO þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. YES ¨ NO þ

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

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 reporting company" 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 June 30, 2011, the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $24.7 million based on the closing sale price as reported on the NASDAQ Global Select system.

As of March 14, 2012, there were 17,311,686 shares of the registrant's common stock, no par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2012 Annual Meeting of Shareholders of MBT Financial Corp. to be held on May 3, 2012 are incorporated by reference in this Form 10-K in response to Part III, Items 10, 11, 12, 13, and 14.

Special Note regarding Forward Looking Information

This document, including the documents that are incorporated by reference, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Exchange Act (the "Exchange Act"). You can identify forward-looking statements by words or phrases such as "will likely result," "may," "are expected to," "predict," "is anticipated," "estimate," "forecast," "projected," "future," "intends to," o include other similar words or phrases such as "believes," "plans," "trend," "objective," "continue," "remain," or similar expressions, or future or conditional verbs such as "will," "would," "should," "could," "might," "may," "hope," "can," "predict "potential," "continue," or similar verbs, or the negative of those terms or other words of similar meaning. You should read statements that contain these words carefully because they discuss our future expectations or state other "forward-looking" information. We believe that it is important to communicate our future expectations to our investors. Such forward-looking statements may relate to our financial condition, results of operations, plans, objectives, future performance, or business and are based upon the beliefs and assumptions of our management and the information available to our management at the time these disclosures are prepared. These forward-looking statements involve risks and uncertainties that we may not be able to accurately predict or control and our actual results may differ materially from the expectations we describe in our forward-looking statements. Shareholders should be aware that the occurrence of certain events could have an adverse effect on our business, results of operations, and financial condition. These events, many of which are beyond our control, include the following:

- general economic conditions and weakening in the economy, specifically the real estate market, either nationally or in Michigan;
- potential limitations on our ability to access and rely on wholesale funding sources;
- changes in accounting principles, policies, and guidelines applicable to bank holding companies and the financial services industry;
- fluctuation of our stock price;
- ability to attract and retain key personnel;
- ability to receive dividends from our subsidiaries;
- operating, legal, and regulatory risks, including risks relating to further deteriorations in credit quality, our allowance for loan losses, potential losses on dispositions of non-performing assets, and impairment of goodwill;
- the use of estimates in determining fair value of certain of our assets, which estimates may prove to be incorrect and result in significant declines in valuation;
- legislative or regulatory changes that adversely affect our business including changes in regulatory policies and principles, including the interpretation of regulatory capital or other rules;
- the results of examinations of us by the Federal Reserve and our bank subsidiary by the Federal Deposit Insurance Corporation, or other regulatory authorities, who could require us to increase our reserve for loan losses, write-down assets, change our regulatory capital position or affect our ability to borrow funds or maintain or increase deposits, which could adversely affect our liquidity and earnings;
- compliance with regulatory enforcement actions, including the Consent Order, legislative or regulatory changes that adversely affect our business, including changes in regulatory policies and principles, or the interpretation of regulatory capital or other rules;
- the availability of resources to address changes in laws, rules, or regulations or to respond to regulatory actions;
- adverse changes in the securities markets;
- economic, political, and competitive forces affecting our banking, securities, asset management, insurance, and credit services businesses;
- the impact on net interest income from changes in monetary policy and general economic conditions; and
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the risk that our analyses of these risks and forces could be incorrect and/or that the strategies developed to address them could be unsuccessful.

Other factors not currently anticipated may also materially and adversely affect our results of operations, cash flows, financial position, and prospects. We cannot assure you that our future results will meet expectations. While we believe the forward-looking statements in this report and the information incorporated herein by reference are reasonable, you should not place undue reliance on any forward-looking statement. The forward-looking statements contained or incorporated by reference in this document relate only to circumstances as of the date on which the statements are made. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Part I

Item 1. Business

General

MBT Financial Corp. (the “Corporation” or the “Company”) is a bank holding company as defined by the Bank Holding Company Act of 1956, as amended (the “BHCA”) headquartered in Monroe, Michigan. It was incorporated under the laws of the State of Michigan in January 2000, at the direction of the management of Monroe Bank & Trust (the “Bank”), for the purpose of becoming a bank holding company by acquiring all the outstanding shares of Monroe Bank & Trust.

Monroe Bank & Trust was incorporated and chartered as Monroe State Savings Bank under the laws of the State of Michigan in 1905. In 1940, Monroe Bank & Trust consolidated with Dansard Bank and moved to the present address of its main office. Monroe Bank & Trust operated as a unit bank until 1950 when it opened its first branch office in Ida, Michigan. It then continued its expansion to its present total of 24 branch offices, including its main office. Monroe Bank & Trust changed its name from "Monroe State Savings Bank" to "Monroe Bank & Trust" in 1968.

Monroe Bank & Trust provides customary retail and commercial banking and trust services to its customers, including checking and savings accounts, time deposits, safe deposit facilities, commercial loans, personal loans, real estate mortgage loans, installment loans, IRAs, ATM and night depository facilities, treasury management services, telephone and internet banking, personal trust, employee benefit and investment management services. Monroe Bank & Trust’s service areas are comprised of Monroe and Wayne counties in Southern Michigan.

Monroe Bank & Trust's deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") to applicable legal limits and Monroe Bank & Trust is supervised and regulated by the FDIC and Michigan Office of Financial and Insurance Regulation.

Competition

MBT Financial Corp., through its subsidiary, Monroe Bank & Trust, operates in a highly competitive industry. Monroe Bank & Trust's main competition comes from other commercial banks, national or state savings and loan institutions, credit unions, securities brokers, mortgage bankers, finance companies and insurance companies. Banks generally compete with other financial institutions through the banking products and services offered, the pricing of services, the level of service provided, the convenience and availability of services, and the degree of expertise and personal manner in which these services are offered. Monroe Bank & Trust encounters strong competition from most

of the financial institutions in Monroe Bank & Trust's extended market area.

The Bank’s primary market area is Monroe County, Michigan. According to the most recent market data, there are ten deposit taking/lending institutions competing in the Bank’s market. According to the most recent FDIC Summary of Deposits, the Bank ranks first in market share in Monroe County with 50.72% of the market. In 2001, the Bank began expanding into Wayne County, Michigan, and currently ranks thirteenth out of twenty-eight institutions operating in Wayne County with a market share of 0.42%. For the combined Monroe and Wayne County market, the Bank ranks sixth of twenty-nine institutions with a market share of 2.77%.

Supervision and Regulation

General

As a bank holding company, we are required by federal law to file reports with, and otherwise comply with, the rules and regulations of the Board of Governors of the Federal Reserve System (“Federal Reserve” or “Federal Reserve Board.”) The Bank is a Michigan state chartered commercial bank and is not a member of the Federal Reserve, and therefore, is regulated and supervised by the Commissioner of the Michigan Office of Financial and Insurance Regulation (“Michigan OFIR”) and the Federal Deposit Insurance Corporation (“FDIC”). The Michigan OFIR and the FDIC conduct periodic examinations of the Bank. The Bank is also a member of the Federal Home Loan Bank of Indianapolis (“FHLBI”) and subject to its regulations. The deposits of the Bank are insured under the provisions of the Federal Deposit Insurance Act by the FDIC to the fullest extent provided by law. The Corporation is also subject to regulation by the Securities and Exchange Commission (the “SEC”) by virtue of its status as a public company.

The system of supervision and regulation applicable to the Corporation establishes a comprehensive framework for its operations and is intended primarily for the protection of the FDIC's Deposit Insurance Fund ("DIF"), the Bank's depositors and the public, rather than the Corporation's shareholders and creditors. Changes in the regulatory framework, including changes in statutes, regulations and the agencies that administer those laws, could have a material adverse impact on the Corporation and its operations.

The federal and state laws and regulations that are applicable to banks and to some extent bank holding companies regulate, among other matters, the scope of their business, their activities, their investments, their reserves against deposits, the timing of the availability of deposited funds, the amount of loans to individual and related borrowers and the nature, amount of and collateral for certain loans, and the amount of interest that may be charged on loans. Various federal and state consumer laws and regulations also affect the services provided to consumers.

The Corporation and/or its subsidiary are required to file various reports with, and is subject to examination by regulators, including the FRB, the FDIC and OFIR. The FRB, FDIC and OFIR have the authority to issue orders to bank holding companies and/or banks to cease and desist from certain banking practices and violations of conditions imposed by, or violations of agreements with, the FRB, FDIC and OFIR. Certain of the Corporation's and/or its banking subsidiary regulators are also empowered to assess civil money penalties against companies or individuals in certain situations, such as when there is a violation of a law or regulation. Applicable state and federal law also grant certain regulators the authority to impose additional requirements and restrictions on the activities of the Corporation and or its banking subsidiary and, in some situations, the imposition of such additional requirements and restrictions will not be publicly available information.

Recent Regulatory Enforcement Actions

On July 12, 2010, the Bank entered into a stipulation and consent to the issuance of a consent order (the "Consent Order") with the FDIC and the Michigan OFIR. The Consent Order became effective July 22, 2010 and requires the following:

- The Bank must increase its Tier 1 Leverage ratio to a minimum of 8.0 percent and its Total Risk Based Capital ratio to a minimum of 11 percent within 90 days of the effective date of the Consent Order.
- The Bank must increase its Tier 1 Leverage ratio to a minimum of 9.0 percent and its Total Risk Based Capital ratio to a minimum of 12 percent within 180 days of the effective date of the Consent Order.
- The Bank must charge off any loans classified as "Loss" in the Report of Examination ("ROE") dated October 26, 2009. The Bank completed this prior to December 31, 2009.
- The Bank may not extend additional credit to any borrower who has uncollected debt to the Bank that has been charged off or is classified as "Loss" in the ROE.
- The Bank may not extend additional credit to any borrower who has uncollected debt to the Bank that is classified as "Substandard" or "Doubtful" in the ROE without prior approval of the Bank's board of directors.
- The Bank is required to adopt a written plan to reduce the Bank's risk position in each asset in excess of $1,000,000 which is more than 90 days delinquent or classified "Substandard" or "Doubtful" in the ROE.
- The Bank may not declare or pay any dividend without the prior written consent of the Regional Director of the FDIC and the Chief Deputy Commissioner of OFIR.

- Prior to the submission of all Reports of Condition and Income required by the FDIC, the Bank's board must review the adequacy of the allowance for loan and lease losses.
- Within 60 days of the effective date of the Consent Order, the Bank is to adopt a written profit plan and comprehensive budget for 2010 and 2011.
- The Bank is required to provide its shareholder with a copy of the Consent Order. The Bank's sole shareholder is the Registrant.

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- Within 30 days of the effective date of the Consent Order, the Bank's board of directors shall have in place a program for monitoring compliance with the Consent Order.
- While the Consent Order is in effect, the Bank shall furnish quarterly progress reports detailing the actions taken to secure compliance with the Consent Order and the results thereof to the FDIC and OFIR.

As of December 31, 2011, the Bank has achieved all of the requirements of the Consent Order except for the two capital ratio targets. A failure to achieve and maintain the capital ratio targets referred to in the Consent Order may result in further adverse regulatory actions, including the imposition of additional restrictions under the FDIC's Prompt Corrective Action regulations.

Regulatory Reform

Congress, U.S. Department of the Treasury ("Treasury"), and the federal banking regulators, including the FDIC, have taken broad action since early September 2008 to address volatility in the U.S. banking system and financial markets. Beginning in late 2008, the U.S. and global financial markets experienced deterioration of the worldwide credit markets, which created significant challenges for financial institutions both in the United States and around the world. Dramatic declines in the housing market in 2009 and 2010, marked by falling home prices and increasing levels of mortgage foreclosures, resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities and major commercial and investment banks. In addition, many lenders and institutional investors reduced and, in some cases, ceased to provide funding to borrowers, including other financial institutions, as a result of concern about the stability of the financial markets and the strength of counterparties.

In response to the financial market crisis and continuing economic uncertainty, the United States government, specifically the Treasury, the Federal Reserve Board and the FDIC working in cooperation with foreign governments and other central banks, took a variety of extraordinary measures designed to restore confidence in the financial markets and to strengthen financial institutions, including measures available under the *Emergency Economic Stabilization Act of 2008* ("EESA"), as amended by the *American Recovery and Reinvestment Act of 2009* ("ARRA"), which included the *Troubled Asset Relief Program* ("TARP").The stated purpose of TARP was to restore confidence and stability to the U.S. banking system and to encourage financial institutions to increase their lending to customers and to each other. As part of TARP, Treasury purchased debt or equity securities from participating financial institutions through the Treasury's Capital Purchase Plan ("CPP"). Participants in the CPP are subject to various restrictions regarding dividends, stock repurchases, corporate governance and executive compensation. We withdrew our application to participate in the program before it was determined whether or not we would be allowed to participate and, therefore, we are not subject to the restrictions imposed on CPP participants.

EESA also temporarily increased FDIC deposit insurance on most accounts from $100,000 to $250,000. This increase became permanent at the end of 2010 under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank Act"). Following a systemic risk determination, on October 14, 2008, the FDIC established a Temporary Liquidity Guarantee Program ("TLGP"). Under the Transaction Account Guarantee Program of the TLGP, the FDIC temporarily provided a 100% guarantee of the deposits in non-interest-bearing transaction deposit accounts in participating financial institutions. The Bank participated in this program. Consequently, all funds held in

non-interest-bearing transaction accounts (demand deposit accounts), Interest on Lawyers Trust Accounts (IOLTAs), and low-interest NOW accounts (defined as NOW accounts with interest rates no higher than 0.50%) with the Bank were covered under this program. This program expired December 31, 2010. The Dodd-Frank Act extended unlimited FDIC insurance coverage on non-interest bearing transaction accounts through December 31, 2012. Under the Dodd-Frank Act, low-interest NOW accounts are excluded from the definition of non-interest bearing transaction accounts.

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The Dodd-Frank Dodd-Frank Act is aimed, in part, at accountability and transparency in the financial system and includes numerous provisions that apply to and/or could impact the Corporation and its banking subsidiary. The Dodd-Frank Act implements changes that, among other things, affect the oversight and supervision of financial institutions, provide for a new resolution procedure for large financial companies, create a new agency responsible for implementing and enforcing compliance with consumer financial laws, introduce more stringent regulatory capital requirements, effect significant changes in the regulation of over the counter derivatives, reform the regulation of credit rating agencies, implement changes to corporate governance and executive compensation practices, incorporate requirements on proprietary trading and investing in certain funds by financial institutions (known as the "Volcker Rule"), require registration of advisers to certain private funds, and effect significant changes in the securitization market. In order to fully implement many provisions of the Dodd-Frank Act, various government agencies, in particular banking and other financial services agencies are required to promulgate regulations. Set forth below is a discussion of some of the major sections the Dodd-Frank Act and implementing regulations that have or could have a substantial impact on the Corporation and its banking subsidiary. Due to the volume of regulations required by the Dodd-Frank Act, not all proposed or final regulations that may have an impact on the Corporation or its banking subsidiary are necessarily discussed.

Debit Card Interchange Fees

The Dodd-Frank Act provides for a set of new rules requiring that interchange transaction fees for electric debit transactions be "reasonable" and proportional to certain costs associated with processing the transactions. The FRB was given authority to, among other things, establish standards for assessing whether interchange fees are reasonable and proportional. In June 2011, the FRB issued a final rule establishing certain standards and prohibitions pursuant to the Dodd-Frank Act, including establishing standards for debit card interchange fees and allowing for an upward adjustment if the issuer develops and implements policies and procedures reasonably designed to prevent fraud. The provisions regarding debit card interchange fees and the fraud adjustment became effective October 1, 2011. The rules impose requirements on the Corporation and its banking subsidiary and may negatively impact our revenues and results of operations.

Consumer Issues

The Dodd-Frank Act creates a new bureau, the Consumer Financial Protection Bureau (the “CFPB”), which has the authority to implement regulations pursuant to numerous consumer protection laws and has supervisory authority, including the power to conduct examinations and take enforcement actions, with respect to depository institutions with more than $10 billion in consolidated assets. The CFPB also has authority, with respect to consumer financial services to, among other things, restrict unfair, deceptive or abusive acts or practices, enforce laws that prohibit discrimination and unfair treatment and to require certain consumer disclosures.

Corporate Governance. The Dodd-Frank Act clarifies that the SEC may, but is not required to promulgate rules that would require that a company's proxy materials include a nominee for the board of directors submitted by a shareholder. Although the SEC promulgated rules to accomplish this, these rules were invalidated by a federal appeals court decision. The SEC has said that it will not challenge the ruling, but has not ruled out the possibility that new rules could be proposed. The Corporation is presently a “smaller reporting company” as defined by SEC regulations and

is therefore exempt from these provisions. The Dodd-Frank Act requires stock exchanges to have rules prohibiting their members from voting securities that they do not beneficially own (unless they have received voting instructions from the beneficial owner) with respect to the election of a member of the board of directors (other than an uncontested election of directors of an investment company registered under the Investment Company Act of 1940), executive compensation or any other significant matter, as determined by the SEC by rule.

Executive Compensation

The Dodd-Frank Act provides for a say on pay for shareholders of all public companies. Under the Dodd-Frank Act, each company must give its shareholders the opportunity to vote on the compensation of its executives at least once every three years. The Dodd-Frank Act also adds disclosure and voting requirements for golden parachute compensation that is payable to named executive officers in connection with sale transactions.

The Dodd-Frank Act requires the SEC to issue rules directing the stock exchanges to prohibit listing classes of equity securities if a company's compensation committee members are not independent. The Dodd-Frank Act also provides that a company's compensation committee may only select a compensation consultant, legal counsel or other advisor after taking into consideration factors to be identified by the SEC that affect the independence of a compensation consultant, legal counsel or other advisor.

The SEC is required under the Dodd-Frank Act to issue rules obligating companies to disclose in proxy materials for annual meetings of shareholders information that shows the relationship between executive compensation actually paid to their named executive officers and their financial performance, taking into account any change in the value of the shares of a company's stock and dividends or distributions.

The Dodd-Frank Act provides that the SEC must issue rules directing the stock exchanges to prohibit listing any security of a company unless the company develops and implements a policy providing for disclosure of the policy of the company on incentive-based compensation that is based on financial information required to be reported under the securities laws and that, in the event the company is required to prepare an accounting restatement due to the material noncompliance of the company with any financial reporting requirement under the securities laws, the company will recover from any current or former executive officer of the company who received incentive-based compensation during the three-year period preceding the date on which the company is required to prepare the restatement based on the erroneous data, any exceptional compensation above what would have been paid under the restatement.

The Dodd-Frank Act requires the SEC, by rule, to require that each company disclose in the proxy materials for its annual meetings whether an employee or board member is permitted to purchase financial instruments designed to hedge or offset decreases in the market value of equity securities granted as compensation or otherwise held by the employee or board member.

The Corporation is presently a “smaller reporting company” as defined by SEC regulations and is therefore exempt presently from some of the provisions noted above regarding compensation disclosures and required voting regarding say on pay.

Bank Regulation

Michigan banks are regulated and supervised by the Commissioner of the Michigan OFIR and as a state non-member the Bank is regulated and supervised by the FDIC. Summarized below are some of the more important regulatory and supervisory laws and regulations applicable to the Bank.

Business Activities. The activities of state banks are governed by state as well as federal law and regulations. These laws and regulations delineate the nature and extent of the investments and activities in which state institutions may engage.

Loans to One Borrower. Michigan law provides that a Michigan commercial bank may not provide loans or extensions of credit to a person in excess of 15% of the capital and surplus of the bank. The limit, however, may be increased to 25% of capital and surplus if approval of two-thirds of the Bank’s board of directors is granted. At

December 31, 2011, the Bank's regulatory limit on loans to one borrower was $12.165 million or $20.275 million for loans approved by two-thirds of the Board of Directors. If the Michigan OFIR determines that the interests of a group of more than one person, co-partnership, association or corporation are so interrelated that they should be considered as a unit for the purpose of extending credit, the total loans and extensions of credit to that group are combined. At December 31, 2011, the Bank did not have any loans with one borrower that exceeded its regulatory limit.

At December 31, 2011, loans that had high loan to value ratios at origination were quantified by management and represented less than 10% of total outstanding loans as of the balance sheet date. Additionally, management quantified all loans (mortgage, consumer and commercial) that required interest only payments as of the balance sheet date and determined that these types of loans were less than 10% of total loans outstanding at December 31, 2011. Based on these facts, management concluded no concentrations of credit risk existed at December 31, 2011.

Dividends. The Corporation's ability to pay dividends on its common stock depends on its receipt of dividends from the Bank. The Bank is subject to restrictions and limitations in the amount and timing of the dividends it may pay to the Corporation. Dividends may be paid out of a Michigan commercial bank's net income after deducting all bad debts. A Michigan commercial bank may only pay dividends on its common stock if the bank has a surplus amounting to not less than 20% of its capital after the payment of the dividend. If a bank has a surplus less than the amount of its capital, it may not declare or pay any dividend until an amount equal to at least 10% of net income for the preceding one-half year (in the case of quarterly or semi-annual dividends) or at least 10% of net income of the preceding two consecutive half-year periods (in the case of annual dividends) has been transferred to surplus.

Federal law also affects the ability of a Michigan commercial bank to pay dividends. The FDIC's prompt corrective action regulations prohibit an insured depository institution from making capital distributions, including dividends, if the institution has a regulatory capital classification of "undercapitalized," or if it would be undercapitalized after making the distribution. The FDIC may also prohibit the payment of dividends if it deems any such payment to constitute an unsafe and unsound banking practice. Under the terms of the Consent Order issued by the FDIC and the Michigan OFIR, the Bank is prohibited from paying dividends without the consent of the FDIC and Michigan OFIR.

Michigan OFIR Assessments. Michigan commercial banks are required to pay supervisory fees to the Michigan OFIR to fund the operations of the Michigan OFIR. The amount of supervisory fees paid by a bank is based upon a formula involving the bank's total assets, as reported to the Michigan OFIR.

State Enforcement. Under Michigan law, the Michigan OFIR has broad enforcement authority over state chartered banks and, under certain circumstances, affiliated parties, insiders, and agents. If a Michigan commercial bank does not operate in accordance with the regulations, policies and directives of the Michigan OFIR or is engaging, has engaged or is about to engage in an unsafe or unsound practice in conducting the business of the bank, the Michigan OFIR may issue and serve upon the bank a notice of charges with respect to the practice or violation. The Michigan OFIR enforcement authority includes: cease and desist orders, receivership, conservatorship, removal and suspension of officers and directors, assessment of monetary penalties, emergency closures, liquidation and the power to issue orders and declaratory rulings.

Federal Enforcement. The FDIC has primary federal enforcement responsibility over state non-member banks and has the authority to bring actions against the institution and all institution-affiliated parties, including stockholders, and any attorneys, appraisers and accountants, who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an insured institution. Formal enforcement action may range from the issuance of a capital directive, cease and desist, consent order to removal of officers and/or directors of the institution as well as receivership, conservatorship or termination of deposit insurance. Civil penalties cover a wide range of violations and can amount to $25,000 per day, or even $1 million per day in especially egregious cases. Federal law also establishes criminal penalties for certain violations.

Capital Requirements. Under FDIC regulations, federally-insured state-chartered banks that are not members of the Federal Reserve ("state non-member banks"), such as the Bank, are required to comply with minimum leverage capital requirements. For an institution determined by the FDIC not to be anticipating or experiencing significant growth and to be in general a strong banking organization, rated composite 1 under the Uniform Financial Institutions Ranking System established by the Federal Financial Institutions Examination Council, the minimum capital leverage requirement is a ratio of Tier 1 capital to total assets of 3%. For all other institutions, the minimum leverage capital ratio is not less than 4%. Tier 1 capital is principally composed of the sum of common stockholders' equity, noncumulative perpetual preferred stock (including any related surplus) and minority investments in certain subsidiaries, less intangible assets (except for certain servicing rights and credit card relationships). As of December 31, 2011, the Tier 1 capital to average total assets ratio for the Bank was 6.03%.

The Bank must also comply with the FDIC risk-based capital guidelines. Risk-based capital ratios are determined by allocating assets and specified off-balance sheet items to four risk-weighted categories ranging from 0% to 100%, with higher levels of capital being required for the categories perceived as representing greater risk. For example, under the FDIC's risk-weighting system, cash and securities backed by the full faith and credit of the U.S. Government are given a 0% risk weight, loans fully secured by one-to-four family residential properties generally have a 50% risk weight and commercial loans have a risk weight of 100%.

State non-member banks must maintain a minimum ratio of total capital to risk-weighted assets of at least 8%, of which at least one-half must be Tier 1 capital. Total capital consists of Tier 1 capital plus Tier 2 or supplementary capital items, the principal elements of which include allowances for loan losses in an amount of up to 1.25% of risk-weighted assets, cumulative preferred stock, a portion of the net unrealized gain on equity securities and other capital instruments such as subordinated debt.

The FDIC has adopted a regulation providing that it will take into account the exposure of a bank's capital and economic value to changes in interest rate risk in assessing a bank's capital adequacy. For more information about interest rate risk, see "Managements Discussion and Analysis - Quantitative and Qualitative Disclosures about Market Risk."

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") established a system of prompt corrective action to resolve the problems of undercapitalized financial institutions. Under this system, the federal banking regulators have established five capital categories ("well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized"), and all institutions are assigned one such category. Federal banking regulators are required to take various mandatory supervisory actions and are authorized to take other discretionary actions with respect to institutions in the three undercapitalized categories. The severity of the action depends upon the capital category in which the institution is placed. At December 31, 2011, the Bank's regulatory capital classification was "adequately capitalized." Although the Bank's nominal capital ratios are above those required to be considered "well capitalized", the existence of a written agreement with the FDIC limits the Bank's capital classification to "adequately capitalized."

For further discussion regarding the Corporation's regulatory capital requirements, see Note 13 to the 2011 Consolidated Financial Statements.

*Deposit Insurance Assessments***.** All of the Bank's deposits are insured under the Federal Deposit Insurance Act by the FDIC to the fullest extent permitted by law. As an FDIC-insured institution, the Bank is required to pay deposit insurance premium assessments to the FDIC. The FDIC has adopted a risk-based assessment system whereby FDIC-insured depository institutions pay insurance premiums at rates based on their risk classification. An institution's risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to the regulators. The FDIC recently raised assessment rates to increase funding for the Deposit Insurance Fund (the

"DIF"), which is currently underfunded.

The Dodd-Frank Act makes permanent the general $250,000 deposit insurance limit for insured deposits. In addition, federal deposit insurance for the full net amount of deposits in noninterest-bearing transaction accounts was extended to January 1, 2013 for all insured banks.

The Dodd-Frank Act changes the deposit insurance assessment framework, primarily by basing assessments on an institution's average total consolidated assets less average tangible equity (subject to risk-based adjustments that would further reduce the assessment base for custodial banks) rather than domestic deposits, which is expected to shift a greater portion of the aggregate assessments to large banks, as described in detail below. The Dodd-Frank Act also eliminates the upper limit for the reserve ratio designated by the FDIC each year, increases the minimum designated reserve ratio of the DIF from 1.15% to 1.35% of the estimated amount of total insured deposits by September 30, 2020, and eliminates the requirement that the FDIC pay dividends to depository institutions when the reserve ratio exceeds certain thresholds. On December 20, 2010, the FDIC raised the minimum designated reserve ratio of DIF to 2%. The ratio is higher than the minimum reserve ratio of 1.35% as set by the Dodd-Frank Act. Under the Dodd-Frank Act, the FDIC is required to offset the effect of the higher reserve ratio on small insured depository institutions, defined as those with consolidated assets of less than $10 billion.

On February 7, 2011, the FDIC approved a final rule on Assessments, Dividends, Assessment Base and Large Bank Pricing. The final rule, mandated by the Dodd-Frank Act, changes the deposit insurance assessment system from one that is based on domestic deposits to one that is based on average consolidated total assets minus average tangible equity. Because the new assessment base under the Dodd-Frank Act is larger than the current assessment base, the final rule's assessment rates are lower than the current rates, which achieves the FDIC's goal of not significantly altering the total amount of revenue collected from the industry. In addition, the final rule adopts a "scorecard" assessment scheme for larger banks and suspends dividend payments if the DIF reserve ratio exceeds 1.5% but provides for decreasing assessment rates when the DIF reserve ratio reaches certain thresholds. The final rule also determines how the effect of the higher reserve ratio will be offset for institutions with less than $10 billion of consolidated assets.

The FDIC may terminate a depository institution's deposit insurance upon a finding that the institution's financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices or has violated any applicable rule, regulation, order or condition enacted or imposed by the institution's regulatory agency.

Transactions with Related Parties. The Bank's authority to engage in transactions with an "affiliate" (generally, any company that controls or is under common control with a depository institution) is limited by federal law. Federal law places quantitative and qualitative restrictions on these transactions and imposes specified collateral requirements for certain transactions. The purchase of low quality assets from affiliates is generally prohibited. Transactions with affiliates must be on terms and under circumstances that are at least as favorable to the institution as those prevailing at the time for comparable transactions with non-affiliated companies.

The Bank's authority to extend credit to executive officers, directors and 10% shareholders ("insiders"), as well as entities such persons control, is also governed by federal law. Among other restrictions, these loans are generally required to be made on terms substantially the same as those offered to unaffiliated individuals and not involve more than the normal risk of failure to make required repayment. The Sarbanes-Oxley Act of 2002 generally prohibits the Corporation from extending or maintaining credit, arranging for the extension of credit, or renewing an extension of credit, in the form of a personal loan to or for any director or executive officer (or equivalent thereof), except for extensions of credit made, maintained, arranged or renewed by the Corporation that are subject to the federal law restrictions discussed above.

Standards for Safety and Soundness. The federal banking agencies have adopted Interagency Guidelines prescribing Standards for Safety and Soundness. The guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions. The guidelines address internal controls and information systems, the internal audit system, credit underwriting, loan documentation, interest rate risk exposure, asset growth, asset quality, earnings and compensation, and fees and benefits. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the guidelines, the agency may require the institution to submit an acceptable plan to achieve compliance with the standard.

Investment Activities. Since the enactment of the FDIC Improvement Act, all state-chartered FDIC insured banks have generally been limited to activities of the type and in the amount authorized for national banks, notwithstanding state law. The FDIC Improvement Act and the FDIC permit exceptions to these limitations. For example, the FDIC is authorized to permit such institutions to engage in state authorized activities or investments that do not meet this standard (other than direct equity investments) for institutions that meet all applicable capital requirements if it is determined that such activities or investments do not pose a significant risk to the DIF.

Mergers and Acquisitions. The Bank may engage in mergers or consolidations with other depository institutions or their holding companies, subject to review and approval by applicable state and federal banking agencies. When reviewing a proposed merger, the federal banking regulators consider numerous factors, including the effect on competition, the financial and managerial resources and future prospects of existing and proposed institutions, the effectiveness of FDIC-insured institutions involved in the merger in addressing money laundering activities and the convenience and needs of the community to be served, including performance under the Community Reinvestment Act.

Interstate Branching. Beginning June 1, 1997, federal law permitted the responsible federal banking agencies to approve merger transactions between banks located in different states, regardless of whether the merger would be prohibited under the law of the two states. The law also permitted a state to “opt in” to the provisions of the Interstate Banking Act before June 1, 1997, and permitted a state to “opt out” of the provisions of the Interstate Banking Act by adopting appropriate legislation before that date. Michigan did not “opt out” of the provisions of the Interstate Banking Act. Accordingly, beginning June 1, 1997, a Michigan commercial bank could acquire an institution by merger in a state other than Michigan unless the other state had opted out. The Interstate Banking Act also authorizes *de novo* branching into another state, but only if the host state enacts a law expressly permitting out of state banks to establish such branches within its borders. Effective with the enactment of The Dodd-Frank Act, the FDI Act and the National Bank Act have been amended to remove the expressly required “opt-in” concept applicable to *de novo* interstate branching and now permits national and insured state banks to engage in *de novo* in interstate branching if, under the laws of the state where the new branch is to be established, as a state bank chartered in that state would be permitted to establish a branch.

Community Reinvestment Act. The Community Reinvestment Act requires that, in connection with examinations of financial institutions within their respective jurisdictions, the Federal Reserve, the FDIC, or the OCC, shall evaluate the record of each financial institution in meeting the credit needs of its local community, including low and moderate-income neighborhoods. These facts are also considered in evaluating mergers, acquisitions, and applications to open a branch or facility. Failure to adequately meet these criteria could impose additional requirements and limitations on the Bank. The Bank received a “satisfactory” rating in its most recent Community Reinvestment Act evaluation by the FDIC. Additionally, we must publicly disclose the terms of various Community Reinvestment Act-related agreements.

Privacy. The FRB, FDIC and other bank regulatory agencies have adopted final guidelines (the "Guidelines) for safeguarding confidential, personal customer information. The Guidelines require each financial institution, under the supervision and ongoing oversight of its Board of Directors or an appropriate committee thereof, to create, implement and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information, protect against any anticipated threats or hazards to the security or integrity of such information and protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer. The Corporation has adopted a customer information security program that has been approved by the Corporation's Board of Directors (the "Board”). The GLBA requires financial institutions to implement policies and procedures regarding the disclosure of nonpublic personal information about consumers to non-affiliated third parties. In general, the statute requires explanations to consumers on policies and procedures regarding the disclosure of such nonpublic personal information, and, except as otherwise required by law, prohibits

disclosing such information except as provided in the banking subsidiary's policies and procedures. The Corporation's banking subsidiary has implemented a privacy policy.

Anti-Money Laundering Initiatives and the USA Patriot Act. A major focus of federal governmental policy on financial institutions in recent years has been aimed at combating money laundering and terrorist financing. The USA Patriot Act of 2001 (the "USA Patriot Act") substantially broadened the scope of United States' anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. The U.S. Department of the Treasury has issued a number of implementing regulations which apply to various requirements of the USA Patriot Act to financial institutions such as us. These regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputation consequences for the institution, including the imposition of enforcement actions and civil monetary penalties.

Federal Home Loan Bank. The Bank is a member of the Federal Home Loan Bank of Indianapolis ("FHLBI"), one of the 12 regional Federal Home Loan Banks. The FHLBI provides a central credit facility primarily for member institutions. The Bank, as a member of the FHLBI, is required to acquire and hold shares of capital stock in the FHLBI in an amount equal to at least 1.0% of the aggregate principal amount of its unpaid residential mortgage loans and similar obligations at the beginning of each year, or 1/20 of its advances (borrowings) from the FHLBI, whichever is greater. The Bank was in compliance with this requirement and its investment in FHLBI stock at December 31, 2011 was $10.6 million. The FHLB Banks function as a central reserve bank by providing credit for financial institutions throughout the United States. Advances are generally secured by eligible assets of a member, which include principally mortgage loans and obligations of, or guaranteed by, the U.S. government or its agencies. Advances can be made to the Bank under several different credit programs of the FHLBI. Each credit program has its own interest rate, range of maturities and limitations on the amount of advances permitted based on the financial condition of the member institution and the adequacy of collateral pledged to secure the credit.

Federal Reserve Board. The Federal Reserve Board regulations require banks to maintain non-interest-earning reserves against their net transaction accounts, nonpersonal time deposits and Eurocurrency liabilities (collectively referred to as reservable liabilities).

Overdraft Regulation. The Federal Reserve Board amended Regulation E (Electronic Fund Transfers) effective July 1, 2010 to require consumers to opt in, or affirmatively consent, to the institution's overdraft service for ATM and one-time debit card transactions before overdraft fees may be assessed on the account. Consumers also must be provided a clear disclosure of the fees and terms associated with the institution's overdraft service.

Other Regulations. Interest and other charges collected or contracted for by the Bank are subject to state usury laws and federal laws concerning interest rates. The Bank's loan operations are also subject to federal laws applicable to credit transactions, such as:

- the federal "Truth-In-Lending Act," governing disclosures of credit terms to consumer borrowers;

- the "Home Mortgage Disclosure Act of 1975," requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- the "Equal Credit Opportunity Act," prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- the "Fair Credit Reporting Act of 1978," governing the use and provision of information to credit reporting agencies;
- the "Fair Debt Collection Act," governing the manner in which consumer debts may be collected by collection agencies; and
- the rules and regulations of the various federal agencies charged with the responsibility of implementing these federal laws.

The deposit operations of the Bank are subject to:

- the "Right to Financial Privacy Act," which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records; and

- the "Electronic Funds Transfer Act" and Regulation E issued by the Federal Reserve to implement that act, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services.

Holding Company Regulation

General. The Corporation, as a bank holding company registered under the Bank Holding Company Act of 1956, as amended, is subject to regulation, supervision, and examination by the Board of Governors of the Federal Reserve System. The Corporation is also required to file annually a report of its operations with the Federal Reserve Board. This regulation and oversight is generally intended to ensure that the Corporation limits its activities to those allowed by law and that it operates in a safe and sound manner without endangering the financial health of the Bank.

Under the Bank Holding Company Act, the Corporation must obtain the prior approval of the Federal Reserve Board before it may acquire control of another bank or bank holding company, merge or consolidate with another bank holding company, acquire all or substantially all of the assets of another bank or bank holding company, or acquire direct or indirect ownership or control of any voting shares of any bank or bank holding company if, after such acquisition, the Corporation would directly or indirectly own or control more than 5% of such shares.

Federal statutes impose restrictions on the ability of a bank holding company and its nonbank subsidiaries to obtain extensions of credit from its subsidiary bank, on the subsidiary bank’s investments in the stock or securities of the holding company, and on the subsidiary bank’s taking of the holding company’s stock or securities as collateral for loans to any borrower. A bank holding company and its subsidiaries are also prevented from engaging in certain tie-in arrangements in connection with any extension of credit, lease or sale of property, or furnishing of services by the subsidiary bank.

A bank holding company is required to serve as a source of financial and managerial strength to its subsidiary banks and may not conduct its operations in an unsafe or unsound manner. In addition, it is the Federal Reserve Board policy that a bank holding company should stand ready to use available resources to provide adequate capital to its subsidiary banks during periods of financial stress or adversity and should maintain the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks. A bank holding company’s failure to meet its obligations to serve as a source of strength to its subsidiary banks will generally be considered by the Federal Reserve Board to be an unsafe and unsound banking practice or a violation of the Federal Reserve Board regulations, or both.

Non-Banking Activities. The business activities of the Corporation, as a bank holding company, are restricted by the Bank Holding Company Act. Under the Bank Holding Company Act and the Federal Reserve Board’s bank holding company regulations, the Corporation may only engage in, acquire, or control voting securities or assets of a company engaged in, (1) banking or managing or controlling banks and other subsidiaries authorized under the Bank Holding Company Act and (2) any non-banking activity the Federal Reserve Board has determined to be so closely related to banking or managing or controlling banks to be a proper incident thereto. These include any incidental activities necessary to carry on those activities as well as a lengthy list of activities that the Federal Reserve Board has determined to be so closely related to the business of banking as to be a proper incident thereto.

Financial Modernization. The Gramm-Leach-Bliley Act, which became effective in March 2000, permits greater affiliation among banks, securities firms, insurance companies, and other companies under a new type of financial services company known as a “financial holding company.” A financial holding company essentially is a bank holding company with significantly expanded powers. Financial holding companies are authorized by statute to engage in a number of financial activities previously impermissible for bank holding companies, including securities underwriting, dealing and market making; sponsoring mutual funds and investment companies; insurance underwriting and agency; and merchant banking activities. The Act also permits the Federal Reserve Board and the Treasury Department to authorize additional activities for financial holding companies if they are “financial in nature” or “incidental” to financial activities. A bank holding company may become a financial holding company if each of its subsidiary banks is well capitalized, well managed, and has at least a “satisfactory” CRA rating. A financial holding company must provide notice to the Federal Reserve Board within 30 days after commencing activities previously determined by statute or by the Federal Reserve Board and Department of the Treasury to be permissible. The Corporation has not submitted notice to the Federal Reserve Board of our intent to be deemed a financial holding company.

Regulatory Capital Requirements. The Federal Reserve Board has adopted capital adequacy guidelines under which it assesses the adequacy of capital in examining and supervising a bank holding company and in analyzing applications to it under the Bank Holding Company Act. The Federal Reserve Board's capital adequacy guidelines are similar to those imposed on the Bank by the FDIC.

Restrictions on Dividends. The Corporation relies on dividends from the Bank to pay dividends to shareholders. The Michigan Banking Code of 1999 states, in part, that bank dividends may be declared and paid only out of accumulated net earnings and may not be declared or paid unless surplus (retained earnings) is at least equal to contributed capital. The Bank has not declared or paid any dividends that have caused its retained earnings to be reduced below the amount required. Finally, dividends may not be declared or paid if the Bank is in default in payment of any assessment due the Federal Deposit Insurance Corporation.

The Federal Reserve Board has issued a policy statement on the payment of cash dividends by bank holding companies, which expresses the Federal Reserve Board's view that a bank holding company should pay cash dividends only to the extent that the holding company's net income for the past year is sufficient to cover both the cash dividends and a rate of earnings retention that is consistent with the holding company's capital needs, asset quality and overall financial condition. The Federal Reserve Board also indicated that it would be inappropriate for a company experiencing serious financial problems to borrow funds to pay dividends. Furthermore, under the federal prompt corrective action regulations, the Federal Reserve Board may prohibit a bank holding company from paying any dividends if the holding company's bank subsidiary is classified as "undercapitalized."

Employees

MBT Financial Corp. has no employees other than its three officers, each of whom is also an employee and officer of Monroe Bank & Trust and who serve in their capacity as officers of MBT Financial Corp. without compensation. As of December 31, 2011, Monroe Bank & Trust had 348 full-time employees and 14 part-time employees. Monroe Bank & Trust provides a number of benefits for its full-time employees, including health and life insurance, workers' compensation, social security, paid vacations, numerous bank services, and a 401(k) plan.

Executive Officers of the Registrant

NAME	AGE	POSITION
H. Douglas Chaffin	56	President & Chief Executive Officer
Donald M. Lieto	56	Executive Vice President, Senior Administration Manager, Monroe Bank & Trust
Scott E. McKelvey	52	Executive Vice President, Senior Wealth Management Officer, Monroe Bank & Trust
James E. Morr	65	Executive Vice President, General Counsel, and Chief Risk Officer, Monroe Bank & Trust; Secretary, MBT Financial Corp.
Thomas G. Myers	55	Executive Vice President & Chief

		Lending Manager, Monroe Bank & Trust
John L. Skibski	47	Executive Vice President & Chief Financial Officer, Monroe Bank & Trust; Treasurer, MBT Financial Corp.

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There is no family relationship between any of the Directors or Executive Officers of the registrant and there is no arrangement or understandings between any of the Directors or Executive Officers and any other person pursuant to which he was selected a Director or Executive Officer nor with any respect to the term which each will serve in the capacities stated previously.

The Executive Officers of the Bank are elected to serve for a term of one year at the Board of Directors Annual Organizational Meeting, held in May.

H. Douglas Chaffin was President & Chief Executive Officer in each of the last five years. Donald M. Lieto was Executive Vice President, Senior Administration Manager in each of the last five years. Scott E. McKelvey was Executive Vice President, Senior Wealth Management Officer in 2011, 2010, 2009, 2008, and 2007, and Senior Vice President – Downriver Community President in 2007. James E. Morr was Executive Vice President, General Counsel and Chief Risk Officer in 2011, 2010, 2009, 2008, and 2007 and Executive Vice President, Senior Wealth Management Officer and General Counsel in 2007. Thomas G. Myers was Executive Vice President & Chief Lending Manager in each of the last five years. John L. Skibski was Executive Vice President & Chief Financial Officer in each of the last five years.

Available Information

MBT Financial Corp. makes its annual report on Form 10-K, its quarterly reports on Form 10-Q, its current reports on Form 8-K, and all amendments to those reports available on its website as soon as reasonably practicable after they are filed with or furnished to the SEC, free of charge. The website address is www.mbandt.com.

Item 1A. Risk Factors

Not applicable for smaller reporting companies.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

MBT Financial Corp. does not conduct any business other than its ownership of Monroe Bank & Trust’s stock. MBT Financial Corp. operates its business from Monroe Bank & Trust’s headquarters facility. Monroe Bank & Trust operates its business from its main office complex, 24 full service branches in the counties of Monroe and Wayne,

Michigan, and a mortgage loan origination office in Monroe, Michigan. The Bank owns its main office complex and 23 of its branches. The mortgage loan origination office and one of the Bank's branches are leased.

Item 3. Legal Proceedings

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

MBT Financial Corp. and its subsidiaries have not been required to pay a penalty to the IRS for failing to make disclosures required with respect to certain transactions that have been identified by the IRS as abusive or that have a significant tax avoidance purpose.

Item 4. Mine Safety Disclosures

Not Applicable.

Part II

Item 5. Market for the Registrant's Common Equity, Related Security Holder Matters, and Issuer Purchases of Equity Securities

Common stock consists of 17,291,729 shares with a book value of $4.38. No dividends were declared on common stock during 2011. The common stock is traded on the NASDAQ Global Select Market under the symbol MBTF. Below is a schedule of the high and low trading price for the past two years by quarter. These prices represent those known to Management, but do not necessarily represent all transactions that occurred.

	2011		2010	
	High	Low	High	Low
1st quarter	$2.00	$1.46	$2.15	$1.35
2nd quarter	$1.75	$1.29	$4.30	$1.24
3rd quarter	$1.60	$1.13	$2.33	$1.26
4th quarter	$1.46	$0.80	$2.10	$1.42

Dividends declared during the past three years on a quarterly basis were as follows:

	2011	2010	2009
1st quarter	$ -	$ -	$0.01
2nd quarter	$ -	$ -	$0.01
3rd quarter	$ -	$ -	$-
4th quarter	$ -	$ -	$-

As of December 31, 2011, the number of holders of record of the Corporation's common shares was 1,201. The payment of future cash dividends is at the discretion of the Board of Directors and is subject to a number of factors, including results of operations, general business conditions, growth, financial condition, and other factors deemed relevant. Further, the Corporation's ability to pay future cash dividends is subject to certain regulatory requirements and restrictions discussed in the sections captioned "Recent Regulatory Enforcement Actions" and "Bank Regulation-Dividends" in Item 1 above. Given the Corporation's operating results and need to raise additional capital, Management's expectation is that the payment of dividends will continue to be suspended for the foreseeable future.

Item 6. Selected Financial Data

The selected financial data for the five years ended December 31, 2011 are derived from the audited Consolidated Financial Statements of the Corporation. The financial data set forth below contains only a portion of our financial statements and should be read in conjunction with the Consolidated Financial Statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this Form 10-K.

Selected Consolidated Financial Data

Dollar amounts are in thousands, except per share data	2011	2010	2009	2008	2007
Consolidated Statements of Income					
Interest Income	$49,560	$56,586	$71,004	$84,903	$93,551
Interest Expense	14,433	19,758	29,989	42,514	50,782
Net Interest Income	35,127	36,828	41,015	42,389	42,769
Provision for Loan Losses	13,800	20,500	36,000	18,000	11,407
Net Interest Income after Provision for Loan Losses	21,327	16,328	5,015	24,389	31,362
Other Income	18,230	19,436	10,480	15,985	15,634
Other Expenses	42,819	44,480	49,774	39,999	37,234
Income before Provision for Income Taxes	(3,262)	(8,716)	(34,279)	375	9,762
Provision for Income Taxes	500	3,183	(102)	(1,317)	2,049
Net Income (Loss)	$(3,762)	$(11,899)	$(34,177)	$1,692	$7,713
Net Income (Loss) available to Common Shareholders	$(3,762)	$(11,899)	$(34,177)	$1,692	$7,713
Per Common Share					
Basic Net Income (Loss)	$(0.22)	$(0.72)	$(2.11)	$0.10	$0.47
Diluted Net Income (Loss)	(0.22)	(0.72)	(2.11)	0.10	0.47
Cash Dividends Declared	-	-	0.02	0.54	0.72
Book Value at Year End	4.38	4.29	5.04	7.49	7.90
Average Common Shares Outstanding	17,270,528	16,498,734	16,186,478	16,134,570	16,415,425
Consolidated Balance Sheets (Year End)					
Total Assets	$1,238,027	$1,259,377	$1,383,369	$1,562,401	$1,556,806
Total Securities	400,868	325,000	356,865	466,043	438,058
Total Loans	679,475	752,887	848,979	940,948	1,000,828

Allowance for Loan Losses	20,865		21,223		24,063		18,528		20,222	
Deposits	1,022,310		1,031,893		1,031,791		1,136,078		1,109,980	
Borrowings	127,135		143,635		258,500		291,500		304,800	
Total Shareholders' Equity	75,711		73,998		81,764		120,977		127,447	
Selected Financial Ratios										
Return on Average Assets	-0.30	%	-0.92	%	-2.36	%	0.11	%	0.50	%
Return on Average Equity	-5.11	%	-14.06	%	-29.53	%	1.36	%	5.77	%
Net Interest Margin	3.07	%	3.10	%	3.06	%	2.96	%	2.99	%
Dividend Payout Ratio	0.00	%	0.00	%	-0.95	%	514.78	%	152.40	%
Allowance for Loan Losses to Period End Loans	3.07	%	2.82	%	2.83	%	1.97	%	2.02	%
Allowance for Loan Losses to Non Performing Loans	27.63	%	25.98	%	27.94	%	34.45	%	59.60	%
Non Performing Loans to Period End Loans	11.10	%	10.84	%	10.13	%	5.71	%	3.39	%
Net Charge Offs to Average Loans	1.97	%	2.89	%	3.36	%	2.00	%	0.49	%

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Critical Accounting Policies - The Bank's Allowance for Loan Losses is a "critical accounting estimate" because it is an estimate that is 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 Corporation's financial condition. These assumptions include, but are not limited to, collateral values and the effect of economic conditions on the financial condition of the Bank's borrowers. To determine the Allowance for Loan Losses, the Bank estimates losses on all loans that are not classified as non-accrual or renegotiated by applying historical loss rates, adjusted for environmental factors, to those loans. This portion of the analysis utilizes the loss history for the most recent eight quarters, adjusted for qualitative factors including recent delinquency rates, real estate values, and economic conditions. In addition, all loans over $250,000 that are nonaccrual and all loans that are renegotiated are individually tested for impairment. Impairment exists when the carrying value of a loan is greater than the realizable value of the collateral pledged to secure the loan or the presented value of the cash flow of the loan. Any amount of monetary impairment is included in the Allowance for Loan Losses. Management is of the opinion that the Allowance for Loan Losses of $20,865,000 as of December 31, 2011 was adequate.

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at the lower of fair value or the loan carrying amount at the date of foreclosure. Subsequent to foreclosure, appraisals or other independent valuations are periodically obtained by Management and the assets are carried at the lower of carrying amount or fair value less costs to sell.

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 2008 through 2011, combined with a difficult economic environment consisting of persistently high unemployment and a very slow economic recovery in southeast Michigan. Positive evidence includes our history of strong earnings prior to 2008, our strong capital position, our steady net interest margin, and our non interest expense control initiatives. Based on our analysis of the evidence, we believe that it is appropriate to maintain a valuation allowance equal to the full amount of the deferred tax asset of $24.2 million as of December 31, 2011.

The Bank owns three pooled Trust Preferred Collateralized Debt Obligations in its investment securities portfolio. Due to the lack of an active market for securities of this type, the Bank utilizes an independent third party valuation firm to calculate fair values based on discounted projected cash flows in accordance with the appropriate standards. This valuation analysis includes a determination of the portion of the fair value impairment that is the result of credit losses. The portion of the impairment that is the result of credit losses is recognized in earnings as Other Than Temporary Impairment and the impairment related to all other factors is recognized in Other Comprehensive Income.

Recent Accounting Pronouncements – No recent accounting pronouncements are expected to have a significant impact on the Corporation's financial statements. Accounting Standards Update 2011-02 (ASU 2011-02), "A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring" was issued by the Financial Accounting Standards Board (FASB) in April 2011. ASU 2011-02 provides additional guidance to help creditors determine 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. The amendments in this update were effective for the Company for the year ended December 31, 2011. The impact of the adoption of this standard on the Company's financial disclosures is reflected in Note 5 to the Company's consolidated financial statements.

Accounting Standards Update 2011-04 (ASU 2011-04), “Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs” was issued by FASB in May 2011. ASU 2011-04 clarifies existing fair value measurement and disclosure requirements and changes existing principles and disclosure guidance. Clarification was made to disclosure of quantitative information about the unobservable inputs for level 3 fair value measurements. Changes to existing principles and disclosures included measurement of financial instruments managed within a portfolio, the application of premiums and discounts in fair value measurement, and additional disclosures related to fair value measurements. The updated guidance and requirements are effective for financial statements issued for the first annual period beginning after December 15, 2011. The adoption of this standard is not expected to have a material impact on the Company’s financial statements.

Accounting Standards Update 2011-05 (ASU 2011-05), “Comprehensive Income” was issued by FASB in June 2011. ASU 2011-05 requires an entity to present the total of comprehensive income, the components of comprehensive income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but continuous statements. This standard eliminates the option to present the components of other comprehensive income as a part of the statement of changes in stockholders’ equity. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 31, 2011. The implementation of this standard will only change the presentation of comprehensive income; it will not have an impact on the Company’s financial position or its results of operations. ASU 2011-12 was issued by FASB in December 2011. ASU 2011-12 defers the requirement to present reclassification adjustments for each component of OCI in both net income and OCI and the face of the financial statements until fiscal years, and interim periods within those fiscal years, beginning after December 15, 2012. The other requirements of ASU 2011-05 were not affected by ASU 2011-12.

Results of Operations

Comparison of 2011 to 2010 – The Net Loss decreased $8.1 million from $11.9 million in 2010 to $3.8 million in 2011 mainly due to the decrease of $6.7 million in the Provision for Loan Losses and the decrease of $2.7 million in federal income tax expense. The primary source of earnings for the Bank is its net interest income, which decreased $1.7 million, or 4.6% compared to 2010. Net interest income decreased as the net interest margin decreased from 3.10% to 3.07% and the average earning assets decreased $41.6 million, or 3.5%. Earning assets decreased due to the continued low loan demand and Management’s efforts to improve the Bank’s capital ratios by reducing its assets. Interest income decreased $7.0 million during 2011 as the yield on earnings assets decreased from 4.77% to 4.33%, while the amount of earning assets decreased slightly from $1.19 billion to $1.14 billion. Interest expense decreased $5.3 million compared to 2010 as the average amount of interest bearing liabilities decreased $58.5 million and the cost of the interest bearing liabilities decreased from 1.85% in 2010 to 1.43% in 2011. The decrease in the average cost of funds was due to the historically low level of market interest rates throughout the year and because most of the reduction in the outstanding balances of interest bearing liabilities occurred in reduction in the balances of higher cost borrowed funds.

The Provision for Loan Losses decreased 32.7% from $20.5 million in 2010 to $13.8 million in 2011 as the amount of net charge offs decreased from $23.3 million in 2010 to $14.2 million in 2011. The slowly improving economic

conditions and continued high credit standards and collection efforts contributed to the decrease in charge offs. The net charge offs exceeded the provision by $358,000, causing a decrease of that amount in our Allowance for Loan Losses. Due to the decrease in the size of the portfolio, the Allowance as a percent of loans increased from 2.82% as of December 31, 2010 to 3.07% as of December 31, 2011.

Other Income decreased 6.2% from $19.4 million in 2010 to $18.2 million in 2011. Service charges and other fees decreased $603,000, or 11.4% as NSF fee income decreased due to lower overdraft activity. Security gains decreased $2.2 million due to the large amount of gains on sales of securities in 2010 that were the result of selling investments to pay off Federal Home Loan Bank advances. The gains recorded in 2011 were primarily the result of bonds owned at discounts being called at par. Mortgage loan origination income decreased 32.8% from 2010 as the weak real estate market conditions had a negative impact on the amount of sales and refinance activity. Income from Bank Owned Life Insurance increased $1.7 million, or 85.5%, due to the proceeds of a death claim for one of our directors in 2011. Other non-interest income increased 6.6% due to an increase in ATM and debit card interchange income.

Other expenses decreased $1.7 million, or 3.7% in 2011 compared to 2010. Salaries and benefits expense increased $369,000, or 1.9% as small reductions in salaries and retirement benefits were offset by increases in insurance costs and payroll taxes. Occupancy expense increased 8.2% as property taxes, utilities, and maintenance expenses all increased. The increase in maintenance expense includes an accrual of $340,000 for additional environmental cleanup costs at our Temperance branch location. Equipment expense decreased $229,000, or 7.2%, due to lower depreciation and maintenance costs. Professional fees increased 14.9% from $2.1 million in 2010 to $2.5 million in 2011 as legal fees increased due to collection activity and accounting fees increased due to IRS audit assistance costs. Expenses and losses on Other Real Estate Owned decreased $661,000, or 10.4% as the decline in real estate values slowed, decreasing the need to write down our properties. Maintenance, insurance, and property tax costs on OREO properties also decreased. Debt prepayment penalty expense decreased $2.5 million, or 100% due to the one time cost associated with prepaying Federal Home Loan Bank advances in 2010. Death benefit obligation expense increased $1.6 million due to the accrual of a death benefit payable to the beneficiary of one of our board members in 2011.

The Company’s net loss for 2011, before provision for income taxes, was $3.3 million, a decrease of $5.4 million compared to the pretax loss of $8.7 million in 2010. In 2010 we recorded a tax expense of $3.2 million to increase the valuation allowance to 100% of our deferred tax assets. In 2011 we recorded a tax expense of $500,000 for an estimated adjustment to our 2009 tax return resulting from our ongoing IRS exam. The exam is on going and this estimate is based on the information currently available. The net loss in 2011 was $3.8 million, an improvement of $8.1 million compared to the loss of $11.9 million in 2010.

Comparison of 2010 to 2009 – The Net Loss decreased from $34.2 million in 2009 to $11.9 million in 2010 due to significant decreases in the Provision for Loan Losses and non interest expenses. In addition, the Corporation experienced Other Than Temporary Impairment charges in its investment portfolio in 2009, which caused the non interest income to increase in 2010. The net interest income decreased $4.2 million, or 10.2% compared to 2009. Net interest income decreased even though the net interest margin improved from 3.06% to 3.10% because the average earning assets decreased $154.3 million, or 11.5%. The main reason for the decrease in earning assets and the improvement in the net interest margin was the retirement of $115.0 million of high cost borrowings from the Federal Home Loan Bank of Indianapolis in May, 2010. Economic conditions began to slowly improve in southeast Michigan, but loan demand remained weak and total loans decreased $96.1 million, or 11.3% during 2010. The low loan demand and some investment securities sales enabled the Bank to decrease the amount of the Bank’s funding from higher cost borrowings, which decreased our cost of funds, resulting in the increase in the net interest margin. Interest income decreased $14.4 million during 2010 as the yield on earnings assets decreased from 5.30% to 4.77%, while the amount of earning assets decreased from $1.34 billion to $1.19 billion. Interest expense decreased $10.2 million compared to 2009 as the average amount of interest bearing liabilities decreased $138.5 million and the cost of the interest bearing liabilities decreased from 2.48% in 2009 to 1.85% in 2010. The decrease in the average cost of funds was due to the historically low level of market interest rates throughout the year and because most of the reduction in the outstanding balances of interest bearing liabilities occurred in reduction in the balances of higher cost borrowed funds.

The provision for loan loss expense decreased 43.1%, from $36.0 million in 2009 to $20.5 million in 2010. The decrease in the provision expense was possible because the credit quality of the loan portfolio stabilized and the amount of net charge offs decreased from $30.5 million in 2009 to $23.3 million in 2010. Although the net charge offs exceeded the provision by $2.8 million, causing a reduction of that amount in the Allowance for Loan Losses, the

Allowance as a percent of loans only decreased from 2.83% as of December 31, 2009 to 2.82% as of December 31, 2010.

Other income increased from $10.5 million in 2009 to $19.4 million in 2010. The amount of wealth management fee income increased 7.6% from $3.8 million in 2009 to $4.0 million in 2010, primarily due to estate settlement fees. Service charges and other fees on deposit accounts decreased $0.5 million, or 8.5% due to a significant decrease in the amount of NSF activity. The Bank sold a large portion of its investment portfolio in 2010 to generate the cash needed to payoff its advances from the Federal Home Loan Bank of Indianapolis. Investment securities sales produced a gain of $3.3 million in 2010, which was $4.2 million, or 56.1% less than the gain produced by a portfolio restructuring in 2009. In 2009, The Company also recorded a charge to earnings of $11.8 million to recognize the Other Than Temporary Impairment (OTTI) of pooled trust preferred collateralized debt obligations (TruP CDOs) held in the Bank's investment portfolio. There was no additional OTTI in 2010, and as a result, non interest income increased by $11.8 million. Mortgage loan origination activity increased in 2010 as borrowers took advantage of the low rate environment to refinance, and mortgage loan origination income increased $245,000, or 51.8%. Income on Bank Owned Life Insurance policies increased $451,000, or 30.2% as a reduction in the benefit payable to participating officers and directors allowed the Bank to record more of the increase in the cash surrender value as income. Other non interest income increased $864,000, or 26.2% due to higher ATM and debit card interchange income and higher rental income on Other Real Estate Owned (OREO).

Other expenses decreased $5.3 million, or 10.6% compared to 2009 due to cost control efforts and a significant reduction in losses and write downs of OREO properties as the decline in property values began to abate. Salaries and benefits decreased $1.6 million or 7.9% as salaries and wages decreased $0.9 million due to the reduction in fulltime equivalent employees from 362 as of December 31, 2009 to 342 as of December 31, 2010, and the elimination of the bonus program in 2010. Employee benefits decreased $0.7 million due to the elimination of the matching contribution to the 401(k) plan after the first quarter of 2010 and lower health insurance costs due to the decrease in staff. Occupancy expense decreased $393,000, or 12.1% primarily due to lower maintenance expense as the utilization of outsourced janitorial services was decreased. Professional fees increased $0.6 million, or 37.9% in 2010 due to increased legal fees and other collection related services. Losses on sales and write downs of OREO decreased from $10.5 million in 2009 to $3.7 million in 2010 as the rapid decrease in real estate values experienced in 2009 appears to have slowed considerably. FDIC deposit insurance assessments increased $254,000, or 8.8% due to an increase in the Bank's assessment rate as the result of the change in the Bank's risk rating in 2010. Other expenses decreased from $4.5 million in 2009 to $3.9 million in 2010 due to lower ATM and debit card processing costs and lower state taxes.

The Company's net loss for 2010, before the provision for income taxes was $8.7 million, a decrease of $25.6 million from the reported pre tax loss of $34.3 million in 2009. In 2009, we established a valuation allowance of $13.8 million against our $17 million Deferred Tax Asset (DTA), and as a result, only recorded a tax benefit of $102,000 on our pre tax loss of $34.3 million. In 2010, we decided to record a tax expense of $3.2 million to increase the DTA valuation allowance to the full amount of the DTA. This resulted in a net loss of $11.9 million in 2010, compared to a net loss of $34.2 million in 2009.

Earnings for the Bank are usually highly reflective of the Net Interest Income. Economic conditions deteriorated rapidly in 2008, and the Federal Open Market Committee (FOMC) of the Federal Reserve lowered the fed funds rate target to 0-0.25%, where it has remained. The yield curve shape became steeply, positively sloped in 2009 and through 2010. The Fed extended its quantitative easing program in 2010 and 2011 in an attempt to keep longer term market rates low and encourage borrowing and fight deflation. This removed some of the slope from the yield curve. Loan and investment yields follow long term market yields, and the yield on our loans decreased from 5.84% in 2009 to 5.70% in 2010 and 5.53% in 2011. The yields on our investment securities also decreased each year, from 4.15% in 2009 to 2.78% in 2010 and 2.30% in 2011. In the current environment of historically low interest rates, we have been reinvesting our investment portfolio cash flow into shorter maturity securities and maintaining large cash reserves, which contributed to the decline in the investment yield in 2010 and 2011. Funding costs are more closely tied to the short term rates, and the average cost of our deposits decreased from 1.70% in 2009 to 1.28% in 2010 and to 1.04% in 2011. Borrowed funds costs are primarily based on the 3 month LIBOR, which also decreased sharply in 2009 before leveling off in 2010 and rising late in 2011. As a result our average cost of borrowed funds decreased from 4.30% in 2009 to 3.52% in 2010 and to 2.76% in 2011. This caused our net interest margin to increase slightly from 3.06% in 2009 to 3.10% in 2010 before decreasing slightly to 3.07% in 2011. The average cost of interest bearing deposits was 1.22%, 1.49%, and 1.94%, for 2011, 2010, and 2009, respectively. The following table shows selected financial ratios for the same three years.

	2011	2010	2009
Return on Average Assets	-0.30%	-0.92 %	-2.36 %
Return on Average Equity	-5.11%	-14.06%	-29.53%

Dividend Payout Ratio	0.00	%	0.00	%	-0.95	%
Average Equity to Average Assets	5.84	%	6.54	%	8.00	%

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Balance Sheet Activity – Due to the poor asset quality and the losses recorded in 2009 and 2010, the Bank faced increased regulatory scrutiny, including a requirement to increase its capital ratios. In 2010, the Corporation continued to focus its balance sheet strategy on restricting asset growth and actively managing capital. During the year, assets decreased $124.0 million, or 9.0% as the Bank used loan maturities and investment sales to fund the prepayment of Federal Home Loan Bank advances. This balance sheet strategy continued throughout 2011, with assets decreasing another $21.4 million, or 1.7%, and total borrowed funds decreasing 11.5% from $143.5 million to $127.0 million. The investment portfolio primarily consists of mortgage backed securities issued by GNMA, and debt securities issued by U.S government agencies and states and political subdivisions. During 2011, as economic conditions began to improve nationally, we purchased a small amount of intermediate term corporate debt securities. We also continued to hold three pooled trust preferred securities issued by banks and insurance companies. Due to the lack of an active market for pooled trust preferred collateralized debt obligations (TruP CDOs), we utilize an independent third party to value that portion of our investment portfolio. Based on these third party valuations, the values of these securities are significantly below our cost. The fair values of each of the three trust preferred CDOs improved during 2010 and 2011, and no Other Than Temporary Impairment has been recognized since 2009. Our loan portfolio decreased $73.4 million as the slowly recovering economic conditions have not resulted in an increase in local loan demand. The largest decreases in the loan portfolio were in construction real estate loans, down $22.9 million, or 49.4%, and commercial and residential real estate loans, which decreased 5.0% and 5.1%, respectively. The soft real estate market and the high amount of charge offs in these areas contributed to their declines. We expect the loan portfolio to continue to decrease in the first quarter of 2012 before stabilizing and then beginning to increase before the end of 2012. Deposits decreased $9.6 million, or 0.9%, to $1.022 billion in 2011. We continued to allow our brokered certificates of deposit to mature without being renewed and replaced that funding with in market deposit growth. We reduced our total brokered CDs from $47.0 million at December 31, 2010 to $24.0 million at December 31, 2011. The mix of deposits changed during 2011 as the low interest rate environment caused many customers to put their maturing certificate of deposits into checking and savings accounts. We also did not replace our maturing FHLB advances and repurchase agreements in 2011, bringing the total amount of non deposit funding down from $143.5 million at December 31, 2010 to $127.0 million at December 31, 2011. This change in the funding structure, along with the decrease in interest rates, contributed to the decrease in interest expense in 2011.

Asset Quality - The Corporation uses an internal loan classification system as a means of tracking and reporting problem and potential problem credit assets. Loans that are rated one to four are considered “pass” or high quality credits, loans rated five are “watch” credits, and loans rated six and higher are “problem assets”, which includes non performing loans. Non performing assets include all loans that are 90 days or more past due, non accrual loans, Other Real Estate Owned (OREO), and Troubled Debt Restructurings (TDRs). Asset quality began to weaken in 2007 and problem assets increased to $157.8 million, or 12.5% of total assets at December 31, 2010. Throughout 2011, economic conditions nationally and in southeast Michigan improved moderately. Although unemployment remains high and property values have not begun to recover, problem assets decreased to $136.8 million, or 11.0% of total assets at December 31, 2011.

The Corporation monitors the Allowance for Loan and Lease Losses (ALLL) and the values of the OREO each quarter, making adjustments when necessary. We believe that the ALLL adequately provides for the losses in the portfolio and that the reported OREO value is accurate as of December 31, 2011. We expect the recovery of the local economic environment to continue to slowly along with the rest of the country in 2012. This may result in continued

high unemployment and low property values in our market area. However, loans that were 30-89 days past due decreased from $27.9 million, or 3.70% of loans, as of December 31, 2010 to $15.6 million, or 2.29% of loans as of December 31, 2011. Delinquency is one of the indications of potential problems with a loan, and this second consecutive decrease in early delinquencies may be an indication that the problem asset level will continue to improve in 2012. We also expect the provision for loan losses to improve again in 2012, although it is still expected to remain above our normal levels.

Cash Flow – Cash flows provided by operations decreased compared to 2010 as the impact of the smaller loss and the increase in interest payables and other liabilities was offset by the smaller decrease in interest receivable and other assets and the change in the deferred tax asset. The increase in other liabilities was primarily due to the accrual of a death benefit payable of $1.6 million. Cash flows provided by investing activities decreased $108.4 million from 2010 to 2011 due to the large amount of securities sold in 2010 to repay Federal Home Loan Bank Advances. Cash used for financing activity decreased from $113.5 million in 2010 to $26.0 million in 2011 primarily due to a decrease in the amount of borrowed funds that were repaid. Total cash and cash equivalents decreased $10.3 million in 2011 as the Corporation moved a portion of its cash held at the Federal Reserve into investment securities.

Liquidity and Capital - The Corporation has maintained sufficient liquidity to allow for fluctuations in deposit levels. Internal sources of liquidity are provided by the maturities of loans and securities as well as holdings of securities Available for Sale. External sources of liquidity include a line of credit with the Federal Home Loan Bank of Indianapolis, a Federal funds line that has been established with a correspondent bank, and Repurchase Agreements with money center banks that allow us to pledge securities as collateral for borrowings. The Federal Reserve Bank discount window, which also allows us to pledge securities and loans as collateral for borrowings, is only available to us under the secondary credit program, and therefore is no longer part of our liquidity planning process. As of December 31, 2011, the Bank utilized $107 million of its authorized limit of $275 million with the Federal Home Loan Bank of Indianapolis and none of its $25 million federal funds line with its correspondent bank.

Total stockholders' equity of the Corporation was $75.7 million at December 31, 2011 and $74.0 million at December 31, 2010. The stockholders' equity increased $1.7 million during the year, the ratio of equity to assets increased from 5.9% as of December 31, 2010 to 6.1% as of December 31, 2011. Federal bank regulatory agencies have set capital adequacy standards for Total Risk Based Capital, Tier 1 Risk Based Capital, and Leverage Capital. These regulatory 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, the Leverage Capital Ratio is at least 5%, and the Bank is not subject to any written agreements or order issued by the FDIC pursuant to Section 8 of the Federal Deposit Insurance Act.

The following table summarizes the capital ratios of the Corporation:

	December 31, 2011		December 31, 2010		Minimum to be Well Capitalized	
Tier 1 Leverage Ratio	6.07	%	6.24	%	5	%
Tier 1 Risk based Capital	9.21	%	8.97	%	6	%
Total Risk Based Capital	10.48	%	10.24	%	10	%

At December 31, 2011 and December 31, 2010, the Bank exceeded the minimum ratios to be considered "well capitalized". However, since July 22, 2010 the Bank has been operating under a Consent Order with the FDIC, and as of December 31, 2011 and December 31, 2010, the Bank was considered to be "Adequately Capitalized" under the regulatory standards. As an "Adequately Capitalized" institution, the Bank is not allowed to issue new brokered certificates of deposit or to replace maturing brokered certificates of deposit without a waiver from the FDIC. The Bank maintains a high level of liquidity and its balance sheet management strategy involves reducing the use of out of market funding, so the capital classification does not have an impact on the Bank's operations. The Consent Order from the FDIC is a written agreement the Bank has with its regulators requiring, among other things, improvement in our capital ratios and asset quality. As a part of this written agreement, the Bank agreed to take certain actions to improve the Bank's credit administration and developed a written plan to target a minimum Tier 1 Leverage Capital ratio of 9% and a Total Risked Based Capital ratio of 12%. The Bank's Tier 1 Leverage Capital ratio decreased from 6.17% at December 31, 2010 to 6.03% at December 31, 2011. The Total Risk Based Capital ratio increased from 10.15% at December 31, 2010 to 10.42% at December 31, 2011. In response to the Consent Order, the Company

commenced a Private Placement Memorandum (PPM) offering of debt and equity securities in the third quarter of 2010. The offering was terminated on March 31, 2011. The PPM offering raised $1.4 million, of which $1.2 million was invested in the stock of the Bank. The Company does not expect to attain the 9% Tier 1 Leverage Ratio or the 12% Total Risk Based capital ratio targets set forth in the Consent Order during 2012 without additional new capital. In 2011 the shareholders approved an amendment to the Articles of Incorporation to increase the number of common shares authorized. In light of continued softness in the market for capital offerings for community banking organizations and the recent improvement in asset quality and earnings, the Board of Directors will evaluate the appropriateness and the timing of any future capital offering based on improved market conditions and the Company's needs.

The following table shows the investment portfolio for the last three years (000s omitted).

	Held to Maturity December 31, 2011		December 31, 2010		December 31, 2009	
	Amortized Cost	Estimated Market Value	Amortized Cost	Estimated Market Value	Amortized Cost	Estimated Market Value
U.S. Government agency and corporation obligations	$ -	$ -	$ -	$ -	$ -	$ -
Mortgage Backed Securities issued by U.S. Government Agencies	-	-	6	6	6	6
Securities issued by states and political subdivisions in the U.S.	35,364	35,812	23,798	23,836	36,427	36,411
Total	$ 35,364	$ 35,812	$ 23,804	$ 23,842	$ 36,433	$ 36,417
Pledged securities	$ 1,111	$ 1,125	$ 4,502	$ 4,544	$ 5,089	$ 5,129

	Available for Sale December 31, 2011		December 31, 2010		December 31, 2009	
	Amortized Cost	Estimated Market Value	Amortized Cost	Estimated Market Value	Amortized Cost	Estimated Market Value
U.S. Government agency and corporation obligations (excluding mortgage-backed securities)	$ 161,483	$ 165,532	$ 127,065	$ 127,291	$ 104,353	$ 102,892
Mortgage Backed Securities issued by U.S. Government Agencies	156,883	160,168	139,708	139,744	152,130	151,736
Securities issued by states and political subdivisions in the U.S.	14,616	15,178	14,881	14,725	35,117	35,637
Trust Preferred CDO Securities	9,542	5,467	9,563	5,188	13,485	7,215
Corporate Debt Securities	6,070	5,979	-	-	8,383	7,509
Other domestic securities (debt and equity)	2,567	2,575	2,553	2,417	2,553	2,357
Total	$ 351,161	$ 354,899	$ 293,770	$ 289,365	$ 316,021	$ 307,346
Pledged securities	$ 131,616	$ 137,220	$ 139,278	$ 140,031	$ 232,220	$ 231,182

The following table shows average daily balances, interest income or expense amounts, and the resulting average rates for interest earning assets and interest bearing liabilities for the last three years. Also shown are the net interest income, total interest rate spread, and the net interest margin for the same periods.

	Years Ended December 31,								
	2011			2010			2009		
(Dollars in Thousands)	Average Daily Balance	Interest Earned or Paid	Average Yield	Average Daily Balance	Interest Earned or Paid	Average Yield	Average Daily Balance	Interest Earned or Paid	Average Yield
Investments									
Interest Bearing Balances Due From Banks	$58,558	$151	0.26 %	$49,972	$131	0.26%	$30,161	$89	0.30%
Obligations of US Government Agencies	304,422	7,722	2.54 %	258,859	7,888	3.05%	283,030	12,572	4.44%
Obligations of States & Political Subdivisions[1]	43,235	1,542	3.57 %	48,614	1,955	4.02%	82,523	3,358	4.07%
Other Securities	20,720	433	2.09 %	22,405	602	2.69%	39,549	2,076	5.25%
Total Investments	426,935	9,848	2.31 %	379,850	10,576	2.78%	435,263	18,095	4.16%
Loans									
Commercial	495,581	27,380	5.52 %	554,474	31,384	5.66%	619,198	35,217	5.69%
Mortgage	204,311	10,469	5.12 %	171,417	9,021	5.26%	192,881	10,944	5.67%
Consumer	17,880	1,863	10.42%	80,702	5,605	6.95%	93,274	6,748	7.23%
Total Loans[2]	717,772	39,712	5.53 %	806,593	46,010	5.70%	905,353	52,909	5.84%
Federal Funds Sold	41	-	n/a	-	-	n/a	-	-	n/a
Total Interest Earning Assets	1,144,748	49,560	4.33 %	1,186,443	56,586	4.77%	1,340,616	71,004	5.30%
Cash & Non Interest Bearing Due From Banks	18,207			17,239			17,748		
Interest Receivable and Other Assets	86,614			100,620			105,067		
Total Assets	$1,249,569			$1,304,302			$1,463,431		
Savings Accounts	$121,378	$219	0.18 %	$114,657	$300	0.26%	$106,446	$343	0.32%
NOW Accounts	109,587	266	0.24 %	103,236	545	0.53%	92,544	637	0.69%
Money Market Deposits	267,650	758	0.28 %	266,139	983	0.37%	279,329	1,962	0.70%
Certificates of Deposit	376,806	9,455	2.51 %	395,887	11,266	2.85%	450,056	15,044	3.34%
Fed Funds Purch & Other Borrowings	135	11	8.50 %	3	-	0.00%	381	1	0.26%
Repurchase Agreements	23,918	1,101	4.60 %	30,000	1,388	4.63%	30,000	1,388	4.63%
FHLB Advances	111,197	2,623	2.36 %	159,185	5,276	3.31%	248,837	10,614	4.27%
Total Interest Bearing Liabilities	1,010,671	14,433	1.43 %	1,069,107	19,758	1.85%	1,207,593	29,989	2.48%
Non-interest Bearing Deposits	155,504			141,409			129,789		

Other Liabilities	10,370	9,998	11,490
Total Liabilities	1,176,545	1,220,514	1,348,872
Stockholders' Equity	73,024	83,788	114,559
Total Liabilities & Stockholders' Equity	$1,249,569	$1,304,302	$1,463,431
Net Interest Income	$35,127	$36,828	$41,015
Interest Rate Spread	2.90 %	2.92%	2.82%
Net Interest Income as a percent of average earning assets	3.07 %	3.10%	3.06%

[1]Interest income on Obligations of States and Political Subdivisions is not on a taxable equivalent basis.

[2]Total Loans excludes Overdraft Loans, which are non-interest earning. These loans are included in Other Assets. Total Loans includes nonaccrual loans. When a loan is placed in nonaccrual status, all accrued and unpaid interest is charged against interest income. Loans on nonaccrual status do not earn any interest.

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The following table summarizes the changes in interest income and interest expense attributable to changes in interest rates and changes in the volume of interest earning assets and interest bearing liabilities for the period indicated:

	Years Ended December 31, 2011 versus 2010			2010 versus 2009			2009 versus 2008		
	Changes due to increased (decreased)			Changes due to increased (decreased)			Changes due to increased (decreased)		
(Dollars in Thousands)	Rate	Volume	Net	Rate	Volume	Net	Rate	Volume	Net
Interest Income									
Investments									
Interest Bearing Balances Due From Banks	$(3)	$23	$20	$(16)	$59	$43	$(169)	$229	$60
Obligations of US Government Agencies	(1,555)	1,388	(167)	(3,610)	(1,074)	(4,684)	(1,949)	(1,552)	(3,501)
Obligations of States & Political Subdivisions	(196)	(216)	(412)	(23)	(1,380)	(1,403)	(282)	250	(32)
Other Securities	(124)	(45)	(169)	(574)	(901)	(1,475)	(293)	(534)	(827)
Total Investments	(1,878)	1,150	(728)	(4,223)	(3,296)	(7,519)	(2,693)	(1,607)	(4,300)
Loans									
Commercial	(668)	(3,336)	(4,004)	(153)	(3,680)	(3,833)	(3,355)	(3,185)	(6,540)
Mortgage	(283)	1,731	1,448	(705)	(1,218)	(1,923)	(678)	(1,057)	(1,735)
Consumer	621	(4,363)	(3,742)	(233)	(910)	(1,143)	(552)	(736)	(1,288)
Total Loans	(330)	(5,968)	(6,298)	(1,091)	(5,808)	(6,899)	(4,585)	(4,978)	(9,563)
Federal Funds Sold	-	-	-	-	-	-	-	(36)	(36)
Total Interest Income	(2,208)	(4,818)	(7,026)	(5,314)	(9,104)	(14,418)	(7,278)	(6,621)	(13,899)
Interest Expense									
Savings Accounts	(99)	18	(81)	(69)	26	(43)	139	21	160
NOW Accounts	(313)	34	(279)	(166)	74	(92)	(117)	86	(31)
Money Market Deposits	(230)	5	(225)	(886)	(93)	(979)	(3,852)	(301)	(4,153)
Certificates of Deposit	(1,268)	(543)	(1,811)	(1,967)	(1,811)	(3,778)	(3,023)	(1,803)	(4,826)
Fed Funds Purch & Other Borrowings	11	0	11	1	(1)	-	(8)	(457)	(465)
Repurchase agreements	(6)	(281)	(287)	-	-	-	6	(92)	(86)
FHLB Advances	(1,063)	(1,590)	(2,653)	(1,515)	(3,824)	(5,339)	(2,621)	(503)	(3,124)
Total Interest Expense	(2,968)	(2,357)	(5,325)	(4,602)	(5,629)	(10,231)	(9,476)	(3,049)	(12,525)
Net Interest Income	$760	$(2,461)	$(1,701)	$(712)	$(3,475)	$(4,187)	$2,198	$(3,572)	$(1,374)

For a variety of reasons, including volatile economic conditions, fluctuating interest rates, and large amounts of local municipal deposits, we have attempted, for the last several years, to maintain a liquid investment position. The percentage of securities held as Available for Sale was 90.9% as of December 31, 2011 and 92.4% as of December 31,

2010. The percentage of securities that mature within five years was 27.3% as of December 31, 2011 and 23.3% as of December 31, 2010. The following table presents the scheduled maturities for each of the investment categories, and the average yield on the amounts maturing. The yields presented for the Obligations of States and Political Subdivisions are not tax equivalent yields. The interest income on a portion of these securities is exempt from federal income tax. The Corporation's statutory federal income tax rate was thirty-four percent in 2011.

	Maturing Within 1 year		1 - 5 years		5 - 10 Years		Over 10 Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
(Dollars in Thousands)										
Obligations of US Government Agencies	$-	0.00%	$75,690	1.31%	$74,826	2.83%	$15,016	1.80%	$165,532	2.04%
Mortgage Backed Securities issued by US Gov't Agencies	-	0.00%	-	0.00%	-	0.00%	160,168	3.48%	160,168	3.48%
Obligations of States & Political Subdivisions	7,678	2.64%	17,063	2.79%	16,190	4.03%	9,611	3.79%	50,542	3.35%
Trust Preferred CDO Securities	-	0.00%	-	0.00%	-	0.00%	5,467	1.24%	5,467	1.24%
Corporate Debt Securities	-	0.00%	5,979	3.47%	-	0.00%	-	0.00%	5,979	3.47%
Other Securities	-	0.00%	-	0.00%	-	0.00%	2,575	0.00%	2,575	0.00%
Total	$7,678	2.64%	$98,732	1.70%	$91,016	3.04%	$192,837	3.26%	$390,263	2.80%

Our loan policies also reflect our awareness of the need for liquidity. We have short average terms for most of our loan portfolios, in particular real estate mortgages, the majority of which are normally written for five years or less. The following table shows the maturities or repricing opportunities (whichever is earlier) for the Bank’s interest earning assets and interest bearing liabilities at December 31, 2011. The repricing assumptions shown are consistent with those established by the Bank’s Asset and Liability Management Committee (ALCO). Savings accounts and interest bearing demand deposit accounts are non-maturing, variable rate deposits, which may reprice as often as daily, but are not included in the zero to six month category because in actual practice, these deposits are only repriced if there is a large change in market interest rates. The effect of including these accounts in the zero to six-month category is depicted in a subsequent table. Money Market deposits are also non-maturing, variable rate deposits; however, these accounts are included in the zero to six-month category because they may get repriced following smaller changes in market rates.

(Dollars in Thousands)	Assets/Liabilities at December 31, 2011, Maturing or Repricing in: 0 - 6 Months	6 - 12 Months	1 - 2 Years	2 - 5 Years	Over 5 Years	Total Amount
Interest Earning Assets						
US Treas Secs & Obligations of US Gov't Agencies	$124,117	$42,843	$33,219	$54,758	$70,763	$325,700
Obligations of States & Political Subdivisions	16,064	4,924	4,550	13,375	11,629	50,542
Other Securities	8,021	4,000	-	2,000	-	14,021
Commercial Loans	149,697	36,344	93,162	144,414	3,141	426,758
Mortgage Loans	23,673	37,007	20,091	35,961	20,631	137,363
Consumer Loans	34,417	6,116	6,951	13,307	3,497	64,288
Intereset Bearing DFB	57,794	-	-	-	-	57,794
Total Interest Earning Assets	$413,783	$131,234	$157,973	$263,815	$109,661	$1,076,466
Interest Bearing Liabilities						
Savings Deposits	$283,201	$-	$-	$-	$-	$283,201
Other Time Deposits	109,861	52,025	81,734	87,831	1,438	332,889
FHLB Advances	107,000	-	-	-	-	107,000
Repurchase Agreements	-	-	5,000	15,000	-	20,000
Notes Payable	-	-	-	135	-	135
Total Interest Bearing Liabilities	$500,062	$52,025	$86,734	$102,966	$1,438	$743,225
Gap	$(86,279)	$79,209	$71,239	$160,849	$108,223	$333,241
Cumulative Gap	$(86,279)	$(7,070)	$64,169	$225,018	$333,241	$333,241
Sensitivity Ratio	0.83	2.52	1.82	2.56	76.26	1.45
Cumulative Sensitivity Ratio	0.83	0.99	1.10	1.30	1.45	1.45

If savings and interest bearing demand deposit accounts were included in the zero to six months category, the Bank’s gap would be as shown in the following table:

	Assets/Liabilities at December 31, 2011, Maturing or Repricing in: 0-6 Months	6-12 Months	1-2 Years	2-5 Years	Over 5 Years	Total
Total Interest Earning Assets	$413,783	$131,234	$157,973	$263,815	$109,661	$1,076,466
Total Interest Bearing Liabilities	$741,430	$52,025	$86,734	$102,966	$1,438	$984,593
Gap	$(327,647)	$79,209	$71,239	$160,849	$108,223	$91,873
Cumulative Gap	$(327,647)	$(248,438)	$(177,199)	$(16,350)	$91,873	$91,873
Sensitivity Ratio	0.56	2.52	1.82	2.56	76.26	1.09
Cumulative Sensitivity Ratio	0.56	0.69	0.80	0.98	1.09	1.09

The amount of loans due after one year with floating interest rates is $172,341,000.

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The following table shows the remaining maturity for Certificates of Deposit with balances of $100,000 or more as of December 31 (000s omitted):

	Years Ended December 31,		
(Dollars in Thousands)	2011	2010	2009
Maturing Within			
3 Months	$18,623	$20,057	$31,376
3 - 6 Months	19,673	8,695	12,039
6 - 12 Months	17,816	35,719	13,637
Over 12 Months	56,231	59,266	60,507
Total	$112,343	$123,737	$117,559

For 2012, we expect the FOMC to keep the fed funds target rate between zero and one-quarter percent all year. Other factors in the economic environment, such as high unemployment and low real estate values, will continue to improve, and opportunities for lending activity will increase in 2012. In the near term, our focus will continue to be on controlling our asset quality, improving our capital position, and maintaining a high level of liquidity while pursuing new lending opportunities. Both the Consent Order entered into by the Bank with the FDIC in July, 2010, and the Bank's internal capital policy require maintaining higher levels of capital than the federal banking regulators require in order to have a regulatory capital classification of "well capitalized." Based on our earnings expectations and our current capital levels, we will need to raise capital from external sources in order to reach our targeted level of capital. We expect the total asset level to stabilize in 2012, but we plan to continue to reduce our use of non core funding as brokered CDs, FHLB borrowings, and repurchase agreements mature. Due to the stable balance sheet and interest rate environment, we do not expect a significant change in our net interest income in 2012.

In 2011 our provision for loan losses was significantly less than in 2010, due to a decrease in actual losses recognized and a decrease in the amount of Allowance for Loan Losses required. We believe that our Allowance for Loan Losses provides adequate coverage for the losses in our portfolio, and because we expect asset quality to continue to improve in 2012, we expect that we will be able to maintain the adequacy of the allowance while recording a provision for loan losses expense that is less than our net charge offs in 2012. We also expect the net charge offs to be lower in 2012 due to the improvements in the asset quality and the economic environment.

We anticipate that non interest income will decrease significantly due to a reduction in the gains on sales of investment securities and due to the life insurance proceeds received in 2011. We expect non-interest expenses to decrease due to lower losses on OREO sales and write downs, and lower OREO holding costs. Non interest expenses will also decrease due to the death benefit expense recorded in 2011.

The following table shows the loan portfolio for the last five years (000s omitted).

	Book Value at December 31,				
	2011	2010	2009	2008	2007
Domestic Loans:					
Agriculture and Agricultural Real Estate	$15,931	$20,453	$17,470	$20,222	$15,773
Commercial and industrial	63,762	76,783	93,865	109,337	107,156
Commercial Real Estate	307,075	323,351	351,027	352,934	357,622
Construction Real Estate	23,423	46,310	64,520	98,104	149,271
Residential Real Estate	255,555	269,153	299,287	329,836	329,280
Consumer and Other	13,729	16,837	22,810	30,515	41,726
Total loans and leases, net of unearned income	$679,475	$752,887	$848,979	$940,948	$1,000,828
Nonaccrual loans	$51,066	$67,581	$56,938	$47,872	$30,459
Loans 90 days or more past due and accruing	$20	$4	$20	$93	$102
Troubled debt restructurings	$24,774	$14,098	$29,102	$5,811	$3,367

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in the process of collection. In all cases, loans are placed on nonaccrual or charged off at an earlier date if principal or interest is considered doubtful. Interest paid on nonaccrual loans is applied to the principal balance outstanding, so no interest income was recognized on nonaccrual loans in 2011. If the nonaccrual loans outstanding as of December 31, 2011 had been current in accordance with their original terms, the Bank would have recorded $3,545,000 in gross interest income on those loans during 2011.

The following is an analysis of the transactions in the allowance for loan losses:

	Years Ended December 31,				
(Dollars in Thousands)	2011	2010	2009	2008	2007
Balance Beginning of Period	$21,223	$24,063	$18,528	$20,222	$13,764
Loans Charged Off (Domestic)					
Agriculture and Agricultural Real Estate	-	-	932	-	-
Commercial	1,893	2,907	6,186	7,591	1,052
Commercial Real Estate	7,456	10,024	6,362	4,639	258
Construction Real Estate	2,177	5,303	8,858	4,162	2,131
Residential Real Estate	4,097	5,370	9,021	3,235	1,895
Consumer and Other	249	951	635	1,021	1,050
Recoveries (Domestic)					
Agriculture and Agricultural Real Estate	1	1	-	-	-
Commercial	376	219	607	201	731
Commercial Real Estate	324	295	241	117	-
Construction Real Estate	81	22	126	81	7
Residential Real Estate	689	119	227	52	41
Consumer and Other	243	559	328	503	658
Net Loans Charged Off	14,158	23,340	30,465	19,694	4,949
Provision Charged to Operations	13,800	20,500	36,000	18,000	11,407
Balance End of Period	$20,865	$21,223	$24,063	$18,528	$20,222
Ratio of Net Loans Charged Off to Average Total Loans Outstanding	1.97 %	2.89 %	3.36 %	2.00 %	0.49 %

The following analysis shows the allocation of the allowance for loan losses:

	Years Ended December 31,									
	2011		2010		2009		2008		2007	
(Dollars in Thousands)	$ Amount	% of loans to total loans	$ Amount	% of loans to total loans	$ Amount	% of loans to total loans	$ Amount	% of loans to total loans	$ Amount	% of loans to total loans
Balance at end of period applicable to:										
Domestic										
Agriculture and Agricultural Real Estate	$64	2.3 %	$77	2.7 %	$142	2.1 %	$43	2.1 %	$143	1.6 %
Commercial	2,184	9.4 %	3,875	10.2 %	6,360	11.0 %	3,428	11.6 %	2,293	10.7 %

Commercial Real Estate	9,351	45.2	%	9,040	43.0	%	8,331	41.3	%	6,481	37.6	%	8,985	35.6	%
Construction Real Estate	2,632	3.4	%	3,285	6.1	%	2,351	7.6	%	2,915	10.4	%	3,610	14.9	%
Residential Real Estate	6,227	37.7	%	4,596	35.8	%	6,382	35.3	%	5,192	35.1	%	4,633	33.0	%
Consumer and Other	407	2.0	%	350	2.2	%	497	2.7	%	469	3.2	%	558	4.2	%
Foreign	-	0.0	%	-	0.0	%	-	0.0	%	-	0.0	%	-	0.0	%
Total	$20,865	100.0	%	$21,223	100.0	%	$24,063	100.0	%	$18,528	100.0	%	$20,222	100.0	%

Each period the provision for loan losses in the statement of operations 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.

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. 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. Year-end nonperforming assets, which include nonaccrual loans, loans ninety days or more past due, renegotiated debt, nonaccrual securities, and other real estate owned, decreased $8.9 million, or 8.5%, from 2010 to 2011. Nonperforming assets as a percent of total assets at year-end decreased from 8.3% in 2010 to 7.7% in 2011. The Allowance for Loan Losses as a percent of nonperforming loans at year-end increased from 26.0% in 2010 to 27.6% in 2011.

The provision for loan losses increases the allowance for loan losses, a valuation account which appears on the consolidated statements of condition. 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.

Contractual Obligations – The following table shows the Corporation's contractual obligations.

	Payment Due by Period				
(Dollars in Thousands)	Total	Less than 1 year	1 - 3 Years	3 - 5 Years	Over 5 Years
Long Term Debt Obligations	$127,135	$5,000	$107,000	$15,135	$-
Operating Lease Obligations	541	197	294	41	9
Salary Continuation Obligations	969	58	116	172	623
Total Contractual Obligations	$128,645	$5,255	$107,410	$15,348	$632

Off-Balance Sheet Arrangements – Please see Note 17 to the audited financial statements provided under Item 8 to this Annual Report for information regarding the Corporation's off-balance sheet arrangements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

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, which committee monitors such risk on a monthly basis.

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 (gap analysis, as shown in Item 6), 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, 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 gradual increases or decreases of 100, 200, and 300 basis points in the prime rate. The net interest income projections are compared to a base case projection, which assumes no changes in interest rates. The table below summarizes the net interest income sensitivity as of December 31, 2011 and 2010.

(Dollars in Thousands)	Base Projection	Rates Up 1%	Rates Up 2%	Rates Up 3%	Rates Down 1%	Rates Down 2%	Rates Down 3%
Year-End 2011 12 Month Projection							
Interest Income	$ 43,874	$45,412	$47,017	$48,612	$ 42,603	$ 41,528	$ 40,568
Interest Expense	10,672	11,388	12,110	12,825	10,295	10,239	10,224
Net Interest Income	$ 33,202	$34,024	$34,907	$35,787	$ 32,308	$ 31,289	$ 30,344
Percent Change From Base Projection		2.5 %	5.1 %	7.8 %	-2.7 %	-5.8 %	-8.6 %
ALCO Policy Limit (+/-)		5.0 %	7.5 %	10.0 %	5.0 %	7.5 %	10.0 %

(Dollars in Thousands)	Base Projection	Rates Up 1%	Rates Up 2%	Rates Up 3%	Rates Down 1%	Rates Down 2%	Rates Down 3%
Year-End 2010 12 Month Projection							
Interest Income	$ 49,729	$51,198	$52,857	$54,578	$ 48,599	$ 47,212	$ 46,000
Interest Expense	15,040	15,876	16,714	17,544	14,710	14,642	14,621
Net Interest Income	$ 34,689	$35,322	$36,143	$37,034	$ 33,889	$ 32,570	$ 31,379
Percent Change From Base Projection		1.8 %	4.2 %	6.8 %	-2.3 %	-6.1 %	-9.5 %
ALCO Policy Limit (+/-)		5.0 %	7.5 %	10.0 %	5.0 %	7.5 %	10.0 %

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. At December 31, 2011, the estimated variability of the net interest income under all rate scenarios was within the policy guidelines. Throughout 2011, the estimated variability of the net interest income was within the Bank’s established policy limits in the all rate scenarios analyzed.

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 actual 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 fair values are determined in accordance with *Fair Value Measurement*. The Bank estimates the interest rate risk by calculating the effect of market interest rate shocks on the economic value of its equity. For this analysis, the Bank assumes immediate increases or decreases of 100, 200, and 300 basis points in the prime lending rate. 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 shock on the market for loans and deposits. The table below summarizes the amount of interest rate risk to the fair value of the Bank’s assets and liabilities and to the economic value of the Bank’s equity.

Fair Value at December 31, 2011

(Dollars in Millions)	Rates Base	Up 1%	Up 2%	Up 3%	Down 1%	Down 2%	Down 3%
Assets	$1,287,604	$1,264,804	$1,237,865	$1,210,356	$1,300,320	$1,308,426	$1,314,349
Liabilities	1,160,071	1,139,208	1,118,984	1,099,378	1,179,618	1,182,183	1,182,183
Stockholders' Equity	$127,533	$125,596	$118,881	$110,978	$120,702	$126,243	$132,166
Change in Equity		-1.5 %	-6.8 %	-13.0 %	-5.4 %	-1.0 %	3.6 %
ALCO Policy Limit (+/-)		10.0 %	20.0 %	30.0 %	10.0 %	20.0 %	30.0 %

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	Fair Value at December 31, 2010						
	Rates						
(Dollars in Millions)	Base	Up 1%	Up 2%	Up 3%	Down 1%	Down 2%	Down 3%
Assets	$1,287,184	$1,264,426	$1,240,767	$1,217,684	$1,303,459	$1,314,582	$1,324,861
Liabilities	1,179,170	1,156,858	1,135,273	1,114,385	1,200,001	1,214,896	1,217,227
Stockholders' Equity	$108,014	$107,568	$105,494	$103,299	$103,458	$99,686	$107,634
Change in Equity		-0.4 %	-2.3 %	-4.4 %	-4.2 %	-7.7 %	-0.4 %
ALCO Policy Limit (+/-)		10.0 %	20.0 %	30.0 %	10.0 %	20.0 %	30.0 %

The Bank’s ALCO has established limits in the acceptable amount of interest rate risk, as measured by the change in economic value of the Bank’s equity, in its policy. Throughout 2011, the estimated variability of the economic value of equity was within the Bank’s established policy limits.

Item 8. Financial Statements and Supplementary Data

Financial Statements and Supplementary Data

See Pages 36 – 66.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders

MBT Financial Corp. and Subsidiaries

Monroe, Michigan

We have audited the accompanying consolidated balance sheets of MBT Financial Corp. and Subsidiaries as of December 31, 2011 and December 31, 2010 and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2011. We have also audited the company's internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying financial statements. Our responsibility is to express an opinion on these financial statements and an opinion on the company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance

with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of MBT Financial Corp. and Subsidiaries as of December 31, 2011 and 2010, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, MBT Financial Corp. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control - Integrated Framework issued by the committee of Sponsoring Organizations of the Treadway Commission (COSO).

As discussed in Note 20 to the consolidated financial statements, the Corporation has recurring losses from operations and its subsidiary bank is operating under a Consent Order with its primary regulator. Management's plans in regards to these matters are also described in Note 20.

/s/ Plante & Moran, PLLC

Auburn Hills, Michigan

March 14, 2012

Consolidated Balance Sheets

Dollars in thousands	December 31, 2011	2010
Assets		
Cash and Cash Equivalents (Note 2)		
Cash and due from banks		
Non-interest bearing	$18,201	$13,789
Interest bearing	57,794	72,511
Total cash and cash equivalents	75,995	86,300
Securities - Held to Maturity (Note 3)	35,364	23,804
Securities - Available for Sale (Note 3)	354,899	289,365
Federal Home Loan Bank stock - at cost	10,605	11,831
Loans held for sale	1,035	973
Loans (Note 4)	679,475	752,887
Allowance for Loan Losses (Note 5)	(20,865)	(21,223)
Loans - Net	658,610	731,664
Accrued interest receivable and other assets (Note 11)	7,700	14,775
Other Real Estate Owned	16,650	19,432
Bank Owned Life Insurance (Note 9)	47,653	50,664
Premises and Equipment - Net (Note 6)	29,516	30,569
Total assets	$1,238,027	$1,259,377
Liabilities		
Deposits:		
Non-interest bearing	$164,852	$148,208
Interest-bearing (Note 7)	857,458	883,685
Total deposits	1,022,310	1,031,893
Federal Home Loan Bank advances (Note 8)	107,000	113,500
Securities sold under repurchase agreements (Note 8)	20,000	30,000
Interest payable and other liabilities (Note 9)	13,006	9,986
Total liabilities	1,162,316	1,185,379
Stockholders' Equity (Notes 10, 13 and 15)		
Common stock (no par value; 50,000,000 and 30,000,000 shares authorized, 17,291,729 and 17,252,329 shares issued and outstanding)	2,099	2,146
Retained Earnings	72,735	76,497
Unearned Compensation	(87)	(187)
Accumulated other comprehensive income (loss)	964	(4,458)

Total stockholders' equity	75,711	73,998
Total liabilities and stockholders' equity	$1,238,027	$1,259,377

The accompanying notes are an integral part of these statements.

Consolidated Statements of Operations

Dollars in thousands	Years Ended December 31, 2011	2010	2009
Interest Income			
Interest and fees on loans	$39,712	$46,010	$52,909
Interest on investment securities-			
Tax-exempt	1,415	1,936	3,358
Taxable	8,282	8,508	14,648
Interest on balances due from banks	151	132	89
Total interest income	49,560	56,586	71,004
Interest Expense			
Interest on deposits (Note 7)	10,698	13,094	17,986
Interest on borrowed funds	3,735	6,664	12,003
Total interest expense	14,433	19,758	29,989
Net Interest Income	35,127	36,828	41,015
Provision For Loan Losses (Note 5)	13,800	20,500	36,000
Net Interest Income After Provision For Loan Losses	21,327	16,328	5,015
Other Income			
Wealth management income	3,919	4,049	3,762
Service charges and other fees	4,694	5,297	5,788
Net gain on sales of securities	1,084	3,260	7,421
Other Than Temporary Impairment losses on securities	-	-	(14,952)
Non credit related losses on securities not expected to be sold (recognized in other comprehensive income)	-	-	3,191
Net impairment losses	-	-	(11,761)
Origination fees on mortgage loans sold	482	718	473
Bank owned life insurance income	3,607	1,944	1,493
Other	4,444	4,168	3,304
Total other income	18,230	19,436	10,480
Other Expenses			
Salaries and employee benefits (Notes 9 and 15)	19,475	19,106	20,740
Occupancy expense (Note 6)	3,103	2,867	3,260
Equipment expense	2,941	3,170	3,069
Marketing expense	849	991	1,034
Professional fees	2,477	2,155	1,563

Collection expense	233	377	750
Net loss on other real estate owned	3,561	3,699	10,533
Other real estate owned expense	2,108	2,630	1,437
FDIC insurance premium	2,947	3,130	2,876
Debt prepayment penalties	-	2,492	-
Death benefit obligation expense	1,639	-	-
Other	3,486	3,863	4,512
Total other expenses	42,819	44,480	49,774
Loss Before Provision For Income Taxes	(3,262)	(8,716)	(34,279)
Provision For (Benefit From) Income Taxes (Note 12)	500	3,183	(102)
Net Loss	$(3,762)	$(11,899)	$(34,177)
Basic Loss Per Common Share (Note 14)	$(0.22)	$(0.72)	$(2.11)
Diluted Loss Per Common Share (Note 14)	$(0.22)	$(0.72)	$(2.11)

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Stockholders' Equity

Dollars in thousands	Common Stock	Retained Earnings	Unearned Compensation	Accumulated Other Comprehensive Income (Loss)	Total
Balance - January 1, 2009	$ 321	$ 122,896	$ -	$ (2,240)	$ 120,977
Issuance of Common Stock (61,628 shares)					
Restricted stock awards (15,000 shares)	45	-	-	-	45
Other stock issued (46,628 shares)	102	-	-	-	102
Equity Compensation	125	-	-	-	125
Dividends declared ($0.02 per share)	-	(323)	-	-	(323)
Comprehensive income:					
Net loss	-	(34,177)	-	-	(34,177)
Change in net unrealized loss on securities available for sale - Net of tax effect of $4,437	-	-	-	(8,240)	(8,240)
Reclassification adjustment for losses included in net income - Net of tax effect of $(1,519)	-	-	-	2,821	2,821
Change in postretirement liability - Net of tax effect of $(234)	-	-	-	434	434
Total Comprehensive Loss					(39,162)
Balance - December 31, 2009	$ 593	$ 88,396	$ -	$ (7,225)	$ 81,764
Issuance of Common Stock (1,042,219 shares)					
Restricted stock awards (120,000 shares)	186	-	(216)	-	(30)
Other stock issued (922,219 shares)	1,303	-	-	-	1,303
Equity compensation	64	-	29	-	93
Comprehensive income:					
Net loss	-	(11,899)	-	-	(11,899)
Change in net unrealized loss on securities available for sale - Net of tax effect of $(2,669)	-	-	-	4,860	4,860
Reclassification adjustment for losses included in net income - Net of tax effect of $1,109	-	-	-	(2,151)	(2,151)
Change in postretirement liability - Net of tax effect of $(30)	-	-	-	58	58
Total Comprehensive Loss					(9,132)
Balance - December 31, 2010	$ 2,146	$ 76,497	$ (187)	$ (4,458)	$ 73,998

Issuance of Common Stock (39,400 shares)	54	-	-	-	54
Stock Offering Expense	(151)	-	-	-	(151)
Equity compensation	50	-	100	-	150
Comprehensive income:					
Net loss	-	(3,762)	-	-	(3,762)
Change in net unrealized loss on securities available for sale - Net of tax effect of $(3,139)	-	-	-	6,088	6,088
Reclassification adjustment for losses included in net income - Net of tax effect of $368	-	-	-	(716)	(716)
Change in postretirement liability - Net of tax effect of $(26)	-	-	-	50	50
Total Comprehensive Income					1,660
Balance - December 31, 2011	$ 2,099	$ 72,735	$ (87)	$ 964	$ 75,711

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Dollars in thousands	Years Ended December 31, 2011	2010	2009
Cash Flows from Operating Activities			
Net Loss	$(3,762)	$(11,899)	$(34,177)
Adjustments to reconcile net loss to net cash from operating activities			
Provision for loan losses	13,800	20,500	36,000
Depreciation	2,021	2,122	2,228
(Increase) decrease in net deferred federal income tax asset	(497)	3,183	7,087
Net amortization of investment premium and discount	1,137	1,300	555
Writedowns on other real estate owned	3,733	3,729	7,917
Net increase (decrease) in interest payable and other liabilities	1,457	(1,375)	(1,863)
Net (increase) decrease in interest receivable and other assets	4,130	12,564	(7,541)
Equity based compensation expense	150	93	125
Net gain on sale/settlement of securities	(1,084)	(3,260)	(7,421)
Net gain on life insurance claims	(385)	-	-
Other Than Temporary Impairment of investment securities	-	-	11,761
Increase in cash surrender value of life insurance	(1,583)	(1,944)	(1,593)
Net cash provided by (used for) operating activities	$19,117	$25,013	$13,078
Cash Flows from Investing Activities			
Proceeds from maturities and redemptions of investment securities held to maturity	$11,721	$14,070	$31,583
Proceeds from maturities and redemptions of investment securities available for sale	138,264	69,302	150,050
Proceeds from sales of investment securities held to maturity	-	150	-
Proceeds from sales of investment securities available for sale	10,365	162,252	289,274
Net decrease in loans	48,097	60,079	42,797
Proceeds from sales of other real estate owned	10,428	6,653	8,211
Proceeds from sales of other assets	210	1,300	215
Purchase of investment securities held to maturity	(23,281)	(1,582)	(21,170)
Purchase of bank owned life insurance	(62)	(1,222)	(1,439)
Proceeds from surrender of bank owned life insurance	3,654	455	568
Proceeds from bank owned life insurance claims	3,026	-	-
Purchase of investment securities available for sale	(204,847)	(206,108)	(353,471)
Purchase of bank premises and equipment	(968)	(318)	(1,819)
Net cash provided by investing activities	$(3,393)	$105,031	$144,799
Cash Flows from Financing Activities			
Net increase (decrease) in deposits	$(9,583)	$102	$(104,287)
Proceeds from issuance of long term debt	-	135	-
Repayment of Federal Home Loan Bank borrowings	(6,500)	(115,000)	(33,000)
Repayment of repurchase agreements	(10,000)	-	-

Issuance of common stock	54	1,273	147
Dividends paid	-	-	(1,777)
Net cash used for financing activities	$(26,029)	$(113,490)	$(138,917)
Net Increase (Decrease) in Cash and Cash Equivalents	$(10,305)	$16,554	$18,960
Cash and Cash Equivalents at Beginning of Year (Note 1)	86,300	69,746	50,786
Cash and Cash Equivalents at End of Year (Note 1)	$75,995	$86,300	$69,746
Supplemental Cash Flow Information			
Cash paid for interest	$14,838	$20,135	$30,829
Cash paid (refunded) for federal income taxes	$-	$(7,385)	$240
Supplemental Schedule of Non Cash Investing Activities			
Transfer of loans to other real estate owned	$11,001	$12,185	$18,296
Transfer of loans to other assets	$94	$446	$264

The accompanying notes are an integral part of these statements.

Notes To Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

The consolidated financial statements include the accounts of MBT Financial Corp. (the “Corporation”) and its wholly owned subsidiary, Monroe Bank & Trust (the “Bank”). The Bank includes the accounts of its wholly owned subsidiary, MB&T Financial Services, Inc. The Bank operates seventeen banking offices and a mortgage loan office in Monroe County, Michigan and seven banking offices in Wayne County, Michigan. 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 Corporation’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 fair value of investment securities, and the valuation of other real estate owned.

The significant accounting policies are as follows:

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Corporation and its subsidiary. All material intercompany transactions and balances have been eliminated. Certain prior year amounts have been reclassified to conform to the current year presentation.

SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK

Most of the Corporation's activities are with customers located within southeast Michigan. Notes 3 and 4 discuss the types of securities and lending that the Corporation engages in. The Corporation does not have any significant concentrations in any one industry or to any one customer.

INVESTMENT SECURITIES

Investment securities that are classified as “held to maturity” are stated at cost, and adjusted for accumulated amortization of premium and accretion of discount. The Bank has the intention and, in Management’s opinion, the ability to hold these investment securities until maturity. Investment securities that are classified as “available for sale” are stated at estimated market value, with the related unrealized gains and losses reported as an amount, net of taxes, as a component of stockholders’ equity. The market value of securities is based on quoted market prices. For securities that do not have readily available market values, estimated market values are calculated based on the market values of comparable securities.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

LOANS

The Bank grants mortgage, commercial, and consumer loans to customers. Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in the process of collection. In all cases, loans are placed on nonaccrual or charged off at an earlier date if principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash basis or cost recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

LOANS HELD FOR SALE

Loans held for sale consist of fixed rate residential mortgage loans with maturities of 15 to 30 years. Such loans are recorded at the lower of aggregate cost or estimated fair value.

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific and general components. The specific component relates to loans that are classified as non-accrual or renegotiated. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience, adjusted for qualitative factors.

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of homogeneous loans are collectively evaluated for impairment. Accordingly, the Corporation does not separately identify individual consumer and residential loans for impairment disclosures.

FORECLOSED ASSETS (INCLUDES OTHER REAL ESTATE OWNED)

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at the lower of fair value or the loan carrying amount at the date of the foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by Management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets.

BANK PREMISES AND EQUIPMENT

Bank premises and equipment are stated at cost, less accumulated depreciation of $36,942,000 in 2011 and $34,971,000 in 2010. The Bank uses the straight-line method to provide for depreciation, which is charged to operations over the estimated useful lives of the assets. Depreciation expense amounted to $2,021,000 in 2011, $2,122,000 in 2010, and $2,228,000 in 2009.

The cost of assets retired and the related accumulated depreciation are eliminated from the accounts and the resulting gains or losses are reflected in operations in the year the assets are retired.

BANK OWNED LIFE INSURANCE

Bank owned life insurance policies are stated at the current cash surrender value of the policy, or the policy death proceeds less any obligation to provide a death benefit to an insured's beneficiaries if that value is less than the cash surrender value. Increases in the asset value are recorded as earnings in other income.

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.

The components of accumulated other comprehensive income (loss) and related tax effects are as follows:

Dollars in thousands	2011	2010	2009
Unrealized gains (losses) on securities available for sale	$4,822	$(1,145)	$(13,014)
Reclassification adjustment for losses (gains) realized in income	(1,084)	(3,260)	4,340
Net unrealized gains (losses)	$3,738	$(4,405)	$(8,674)
Post retirement benefit obligations	(2,277)	(2,353)	(2,441)
Tax effect	(497)	2,300	3,890
Accumulated other comprehensive income (loss)	$964	$(4,458)	$(7,225)

CASH AND CASH EQUIVALENTS

For the purpose of the consolidated statement of cash flows, cash and cash equivalents include cash and balances due from banks and federal funds sold which mature within 90 days.

INCOME TAXES

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the various temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

STOCK-BASED COMPENSATION

The amount of compensation is measured at the fair value of the awards when granted, and this cost is expensed over the required service period, which is normally the vesting period of the options. Compensation cost is recorded for awards that were granted after January 1, 2006 and prior option grants that vest after January 1, 2006.

The weighted average fair value of options granted was $0.80, $0.45, and $0.52, in 2011, 2010, and 2009, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions used for grants in 2011, 2010, and 2009: expected option lives of seven years for all three; expected volatility of 53.0%, 35.7%, and 25.8%; risk-free interest rates of 1.90%, 3.36%, and 3.38%; and dividend yields of 3.00%, 3.00%, and 4.87%, respectively.

OFF BALANCE SHEET INSTRUMENTS

In the ordinary course of business, the Corporation has entered into commitments to extend credit, including commitments under credit card arrangements, commercial letters of credit and standby letters of credit. Such financial instruments are recorded when they are funded.

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.

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.

RECENT ACCOUNTING PRONOUNCEMENTS

Accounting Standards Update 2011-02 (ASU 2011-02), “A Creditor’s Determination of Whether a Restructuring is a Troubled Debt Restructuring” was issued by the Financial Accounting Standards Board (FASB) in April 2011. ASU 2011-02 provides additional guidance to help creditors determine 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. The amendments in this update were effective for the Company for the year ended December 31, 2011. The impact of the adoption of this standard on the Company’s financial disclosures is reflected in Note 5 to the Company’s consolidated financial statements.

Accounting Standards Update 2011-04 (ASU 2011-04), “Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs” was issued by FASB in May 2011. ASU 2011-04 clarifies existing fair value measurement and disclosure requirements and changes existing principles and disclosure guidance. Clarification was made to disclosure of quantitative information about the unobservable inputs for level 3 fair value measurements. Changes to existing principles and disclosures included measurement of financial instruments managed within a portfolio, the application of premiums and discounts in fair value measurement, and additional disclosures related to fair value measurements. The updated guidance and requirements are effective for financial statements issued for the first annual period beginning after December 15, 2011. The adoption of this standard is not expected to have a material impact on the Company’s financial statements.

Accounting Standards Update 2011-05 (ASU 2011-05), “Comprehensive Income” was issued by FASB in June 2011. ASU 2011-05 requires an entity to present the total of comprehensive income, the components of comprehensive income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but continuous statements. This standard eliminates the option to present the components of other comprehensive income as a part of the statement of changes in stockholders’ equity. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 31, 2011. The implementation of this standard will only change the presentation of comprehensive income; it will not have an impact on the Company’s financial position or its results of operations. ASU 2011-12 was issued by FASB in December 2011. ASU 2011-12 defers the requirement to present reclassification adjustments for each component of OCI in both net income and OCI and the face of the financial statements until fiscal years, and interim periods within those fiscal years, beginning after December 15, 2012. The other requirements of ASU 2011-05 were not affected by ASU 2011-12.

(2) Cash and Due from Banks

The Bank is required by regulatory agencies to maintain legal reserve requirements based on the level of balances in deposit categories. Cash balances restricted from usage due to these requirements were $3,652,000 and $4,883,000 at December 31, 2011 and 2010, respectively. Cash and due from banks includes certain deposits held at correspondent banks which are fully insured by the FDIC.

(3) Investment Securities

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

	Held to Maturity December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Obligations of States and Political Subdivisions	35,364	688	(240)	35,812
	$35,364	$ 688	$ (240)	$ 35,812

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	Available for Sale December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Obligations of U.S. Government Agencies	$161,483	$ 4,071	$ (22)	$165,532
Mortgage Backed Securities issued by U.S. Government Agencies	156,883	3,320	(35)	160,168
Obligations of States and Political Subdivisions	14,616	567	(5)	15,178
Trust Preferred CDO Securities	9,542	-	(4,075)	5,467
Corporate Debt Securities	6,070	-	(91)	5,979
Other Securities	2,567	156	(148)	2,575
	$351,161	$ 8,114	$ (4,376)	$354,899

	Held to Maturity December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Mortgage Backed Securities issued by 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	$127,065	$ 1,260	$ (1,034)	$127,291
Mortgage Backed Securities issued by U.S. Government Agencies	139,708	1,266	(1,230)	139,744
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 amortized cost, estimated market value, and weighted average yield of securities at December 31, 2011, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties (000s omitted).

	Held to Maturity			Available for Sale		
	Amortized Cost	Estimated Market Value	Weighted Average Yield	Amortized Cost	Estimated Market Value	Weighted Average Yield
Maturing within						

1 year	$5,740	$ 5,753	2.54	%	$1,931	$1,937	2.93	%
1 through 5 years	14,166	14,314	2.78	%	84,283	84,568	1.52	%
6 through 10 years	9,438	9,606	4.19	%	77,478	81,578	2.91	%
Over 10 years	6,020	6,139	4.54	%	28,019	24,074	1.70	%
Total	35,364	35,812	3.42	%	191,711	192,157	2.12	%
Mortgage Backed Securities	-	-	0.00	%	156,883	160,168	3.48	%
Securities with no stated maturity	-	-	0.00	%	2,567	2,574	0.00	%
Total	$35,364	$ 35,812	3.42	%	$351,161	$354,899	2.71	%

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 has the intent and ability to hold the investment for a period of time sufficient to allow for an anticipated recovery in the market value. The fair values of investments with an amortized cost in excess of their fair values at December 31, 2011 and December 31, 2010 are as follows (000s omitted):

December 31, 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	$14,729	$ 22	$-	$ -	$14,729	$ 22
Mortgage Backed Securities issued by U.S. Government Agencies	26,453	35	-	-	26,453	35
Obligations of States and Political Subdivisions	12,766	239	1,261	6	14,027	245
Trust Preferred CDO Securities	-	-	5,467	4,075	5,467	4,075
Corporate Debt Securities	5,979	91	-	-	5,979	91
Equity Securities	-	-	392	148	392	148
	$59,927	$ 387	$7,120	$ 4,229	$67,047	$ 4,616

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. The company has the ability and intent to hold these securities until recovery, which may be until maturity. The fair value of these securities is expected to recover as the securities approach maturity. As of December 31, 2011 and December 31, 2010, there were 66 and 127 securities in an unrealized loss position, respectively.

The Trust Preferred 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 has been in an unrealized loss position for more than 12 months. 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 that 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 banks in the pools. The analysis concluded that disruption of our cash flows due to defaults by issuers was currently not expected to occur in two of the three securities owned. Because the Company does not intend to sell these investments and it is not more

likely than not that the Company will be required to sell these investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider these investments to be other than temporarily impaired at December 31, 2011. 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.

The Other Than Temporary Impairment (OTTI) analysis of one of the three Trust Preferred CDO securities indicated that its impairment most likely is not temporary. Accounting regulations require entities to split OTTI charges between credit losses, which are charged to earnings, and other impairment, which is charged to Other Comprehensive Income (OCI). As of December 31, 2011, the CDO that has OTTI has an amortized cost of $2,239,000 and a fair value of $1,245,000. The impairment of $994,000 was charged to OCI.

Investment securities carried at $138,331,000 and $144,533,000 were pledged or set aside to secure borrowings, public and trust deposits, and for other purposes required by law at December 31, 2011 and December 31, 2010, respectively.

At December 31, 2011, Obligations of U. S. Government Agencies included securities issued by the Federal Home Loan Banks with an estimated market value of $121,153,000 and Mortgage Backed Securities issued by U. S. Government Agencies included securities issued by the Government National Mortgage Association with an estimated market value of $160,168,000. At December 31, 2010, Obligations of U. S. Government Agencies included securities issued by the Federal Home Loan Banks with an estimated market value of $97,376,000 and Mortgage Backed Securities issued by U. S. Government Agencies included securities issued by the Government National Mortgage Association of $139,744,000.

For the years ended December 31, 2011, 2010, and 2009, proceeds from sales of securities amounted to $10,365,000, $162,252,000, and $289,274,000, respectively. Gross realized gains amounted to $1,086,000, $3,378,000, and $8,529,000, respectively. Gross realized losses amounted to $2,000, $118,000, and $12,869,000, respectively. The tax provision applicable to these net realized gains and losses amounted to $368,000, $1,109,000, and ($1,519,000), respectively.

On April 27, 2010 the Bank sold an Obligation of States and Political Subdivisions investment security that was classified as Held to Maturity. The security sold had a par value of $150,000 and an amortized cost of $151,000. The security was sold for $150,000, resulting in a loss of $1,000 on the sale. The security was sold after being downgraded by a rating agency following the issuer's failure to meet debt service coverage requirements.

(4) Loans

Loan balances outstanding as of December 31 consist of the following (000s omitted):

	2011	2010
Residential real estate loans	$255,555	$269,153
Commercial and Construction real estate loans	330,498	369,661
Agriculture and agricultural real estate loans	15,931	20,453
Commercial and industrial loans	63,762	76,783
Loans to individuals for household, family, and other personal expenditures	13,729	16,837
Total loans, gross	$679,475	$752,887
Less: Allowance for loan losses	20,865	21,223
	$658,610	$731,664

Included in Loans are loans to certain officers, directors, and companies in which such officers and directors have 10 percent or more beneficial ownership in the aggregate amount of $9,519,000 and $16,869,000 at December 31, 2011 and 2010, respectively. In 2011, new loans and other additions amounted to $24,966,000, and repayments and other reductions amounted to $32,316,000. In 2010, new loans and other additions amounted to $28,787,000, and repayments and other reductions amounted to $33,840,000. In Management's judgment, these loans were made on substantially the same terms and conditions as those made to other borrowers, and do not represent more than the normal risk of collectibility or present other unfavorable features.

Loans carried at $92,517,000 and $107,544,000 at December 31, 2011 and 2010, respectively, were pledged to secure Federal Home Loan Bank advances.

(5) Allowance For Loan Losses and Credit Quality of Loans

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 for the years ended December 31, 2011 and 2010 was as follows (000s omitted):

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	-	(1,893)	(7,456)	(2,177)	(4,097)	(249)	(15,872)
Recoveries	1	376	324	81	689	243	1,714
Provision	(14)	(174)	7,443	1,443	5,039	63	13,800
Ending balance	$ 64	$ 2,184	$ 9,351	$ 2,632	$ 6,227	$ 407	$ 20,865
Ending balance individually evaluated for impairment	$ 64	$ 700	$ 3,906	$ 1,394	$ 2,923	$ 46	$ 9,033
Ending balance collectively evaluated for impairment	-	1,484	5,445	1,238	3,304	361	11,832
Ending balance	$ 64	$ 2,184	$ 9,351	$ 2,632	$ 6,227	$ 407	$ 20,865
Loans:							
Ending balance individually evaluated for impairment	$ 1,078	$ 2,566	$ 36,424	$ 8,589	$ 21,929	$ 217	$ 70,803
Ending balance collectively evaluated for impairment	14,853	61,196	270,651	14,834	233,626	13,512	608,672
Ending balance	$ 15,931	$ 63,762	$ 307,075	$ 23,423	$ 255,555	$ 13,729	$ 679,475

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	$ 656	$ 10,075	$ 42,326	$ 8,398	$ 16,948	$ 135	$ 78,538
Ending balance collectively evaluated for impairment	19,797	66,708	281,025	37,912	252,205	16,702	674,349
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 statement of operations 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 and each credit relationship with more than $250,000 of aggregate credit exposure. 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 December 31, 2011 and 2010 are as follows (000s omitted):

2011	Agriculture and Agricultural Real Estate	Commercial	Commercial Real Estate	Construction Real Estate	Residential Real Estate	Consumer and Other	Total
Not Rated	$ 158	$ 823	$ 139	$ 3,021	$ 181,853	$ 13,454	$199,448
1	-	1,188	-	-	-	-	1,188
2	145	341	3,735	95	770	-	5,086
3	3,547	7,049	14,331	322	1,853	26	27,128
4	10,337	32,726	163,586	3,261	29,984	31	239,925
5	274	14,556	65,611	6,124	10,969	-	97,534
6	1,470	7,079	59,673	10,600	30,126	218	109,166
7	-	-	-	-	-	-	-
8	-	-	-	-	-	-	-
9	-	-	-	-	-	-	-
Total	$ 15,931	$ 63,762	$ 307,075	$ 23,423	$ 255,555	$ 13,729	$679,475
Performing	$ 14,753	$ 61,054	$ 270,072	$ 13,657	$ 230,729	$ 13,350	$603,615
Nonperforming	1,178	2,708	37,003	9,766	24,826	379	75,860
Total	$ 15,931	$ 63,762	$ 307,075	$ 23,423	$ 255,555	$ 13,729	$679,475

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2010	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 December 31, 2011 and 2010 (000s omitted):

2011	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	$ 614	$ -	$ 364	$ 978	$ 14,953	$ 15,931	$ -
Commercial	1,530	50	1,240	2,820	60,942	63,762	11
Commercial Real Estate	3,340	286	11,988	15,614	291,461	307,075	-
Construction Real Estate	460	2,093	2,134	4,687	18,736	23,423	-
Residential Real Estate	5,604	1,337	5,344	12,285	243,270	255,555	-
Consumer and Other	188	58	130	376	13,353	13,729	9
Total	$ 11,736	$ 3,824	$ 21,200	$ 36,760	$ 642,715	$ 679,475	$ 20

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 December 31, 2011 and 2010 (000s omitted):

	2011	2010
Agriculture and Agricultural Real Estate	$ 867	$ 386
Commercial	2,309	7,179
Commercial Real Estate	23,557	32,033
Construction Real Estate	6,653	7,556
Residential Real Estate	17,484	20,087
Consumer and Other	196	340
Total	$ 51,066	$ 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 December 31, 2011 and 2010 (000s omitted):

2011	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Agriculture and Agricultural Real Estate	$ 425	$ 974	$ -	$ 527	$ 43
Commercial	335	602	-	398	27
Commercial Real Estate	8,284	11,811	-	7,760	291
Construction Real Estate	330	569	-	350	18
Residential Real Estate	7,423	9,697	-	8,527	609
Consumer and Other	107	107	-	108	4
With an allowance recorded:					
Agriculture and Agricultural Real Estate	653	654	64	655	8
Commercial	2,231	2,942	700	2,272	113
Commercial Real Estate	28,140	36,889	3,906	31,733	1,337
Construction Real Estate	8,259	11,930	1,394	9,046	220
Residential Real Estate	14,506	17,157	2,923	15,413	790
Consumer and Other	110	110	46	149	11
Total:					
Agriculture and Agricultural Real Estate	$ 1,078	$ 1,628	$ 64	$ 1,182	$ 51
Commercial	2,566	3,544	700	2,670	140
Commercial Real Estate	36,424	48,700	3,906	39,493	1,628
Construction Real Estate	8,589	12,499	1,394	9,396	238
Residential Real Estate	21,929	26,854	2,923	23,940	1,399
Consumer and Other	217	217	46	257	15

2010	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Agriculture and Agricultural Real Estate	$ -	$ -	$ -	$ -	$ -
Commercial	1,833	2,220	-	1,845	108
Commercial Real Estate	18,689	23,585	-	19,314	819

Construction Real Estate	1,571	2,457	-	1,603	97
Residential Real Estate	9,629	12,175	-	10,033	480
Consumer and Other	-	-	-	-	-
With an allowance recorded:					
Agriculture and Agricultural Real Estate	656	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	$ 656	$ 656	$ 74	$ 656	$ 7
Commercial	10,075	14,741	2,016	10,999	473
Commercial Real Estate	42,326	53,267	2,958	43,201	1,877
Construction Real Estate	8,398	13,628	876	8,883	287
Residential Real Estate	16,948	21,490	973	17,629	836
Consumer and Other	135	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 were classified as TDRs during the year ended December 31, 2011 are as follows (000s omitted from dollar amounts):

	December 31, 2011		
	Number of Contracts	Pre-Modification Recorded Principal Balance	Post-Modification Recorded Principal Balance
Agriculture and Agricultural Real Estate	-	$ -	$ -
Commercial	11	1,000	796
Commercial Real Estate	38	22,938	18,592
Construction Real Estate	10	4,284	3,958
Residential Real Estate	40	9,554	7,686
Consumer and Other	6	137	80
Total	105	$ 37,913	$ 31,112

The Bank considers TDRs that become 90 days or more past due under the modified terms as defaulted. Loans that became TDRs during the year ended December 31, 2011 that subsequently defaulted during the year ended December 31, 2011 are as follows (000s omitted from dollar amounts):

	December 31, 2011	
	Number of Contracts	Recorded Principal Balance
Agriculture and Agricultural Real Estate	-	$ -
Commercial	-	-
Commercial Real Estate	1	211
Construction Real Estate	3	420
Residential Real Estate	1	533
Consumer and Other	-	-
Total	5	$ 1,164

(6) Bank Premises and Equipment

Bank premises and equipment as of year end are as follows (000s omitted):

	2011	2010
Land, buildings and improvements	$44,335	$43,906

Equipment, furniture and fixtures	22,123	21,634
Total Bank premises and equipment	$66,458	$65,540
Less accumulated depreciation	36,942	34,971
Bank premises and equipment, net	$29,516	$30,569

Bank Premises and Equipment includes Construction in Progress of $81,000 as of December 31, 2011 and $15,000 as of December 31, 2010.

The Company has entered into lease commitments for office locations. Rental expense charged to operations was $193,000, $195,000, and $296,000 for the years ended December 31, 2011, 2010, and 2009, respectively. The future minimum lease payments are as follows:

Year	Minimum Payment
2012	$147,000
2013	138,000
2014	80,000
2015	7,000
Thereafter	-

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(7) Deposits

Interest expense on time certificates of deposit of $100,000 or more in the year 2011 amounted to $3,009,000, as compared with $3,294,000 in 2010, and $3,771,000 in 2009. At December 31, 2011, the balance of time certificates of deposit of $100,000 or more was $112,343,000, as compared with $123,737,000 at December 31, 2010. The amount of time deposits with a remaining term of more than 1 year was $173,936,000 at December 31, 2011 and $191,883,000 at December 31, 2010. The following table shows the scheduled maturities of Certificates of Deposit as of December 31, 2011 (000s omitted):

	Under $100,000	$100,000 and over
2012	$ 102,841	$ 56,112
2013	59,258	24,899
2014	28,624	19,562
2015	16,619	5,238
2016	11,245	6,532
Thereafter	1,959	-
Total	$ 220,546	$ 112,343

Time certificates of deposit under $100,000 include $23,921,000 of brokered certificates of deposit as of December 31, 2011, and $46,778,000 as of December 31, 2010. The Bank did not have any brokered certificates of deposit over $100,000 as of December 31, 2011 and December 31, 2010.

(8) Federal Home Loan Bank Advances and Repurchase Agreements

The following is a summary of the Bank's borrowings from the Federal Home Loan Bank of Indianapolis as of December 31, 2011 and 2010 (000s omitted):

December 31, 2011

	Floating Rate		Fixed Rate	
Maturing in	Amount	Rate	Amount	Rate
2013	95,000	2.76%	-	-
2014	12,000	0.72%	-	-
	$107,000	2.53%	$-	0.00%

December 31, 2010

	Floating Rate		Fixed Rate	

Maturing in	Amount	Rate	Amount	Rate
2011	3,000	0.45%	3,500	5.08%
2013	95,000	2.57%	-	-
2014	12,000	0.46%	-	-
	$110,000	2.28%	$3,500	5.08%

The weighted average maturity of the Federal Home Loan Bank advances was 1.5 years and 2.4 years as of December 31, 2011 and 2010, respectively. The interest rates on the floating rate advances reset quarterly based on the three month LIBOR rate plus a spread ranging from 16 to 260 basis points. The advances are subject to prepayment penalties and the provisions and conditions of the credit policy of the Federal Home Loan Bank of Indianapolis.

The following is a summary of the Bank's borrowings under repurchase agreements as of December 31, 2011 and 2010 (000s omitted):

Securities Sold Under Agreements to Repurchase
December 31, 2011

	Floating Rate		Fixed Rate	
Maturing in	Amount	Rate	Amount	Rate
2012	-	-	5,000	4.12%
2016	-	-	15,000	4.65%
	$ -	-	$20,000	4.52%

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Securities Sold Under Agreements to Repurchase
December 31, 2010

	Floating Rate		Fixed Rate	
Maturing in	Amount	Rate	Amount	Rate
2011	$ -	-	$ 10,000	4.65 %
2012	-	-	5,000	4.12 %
2016	-	-	15,000	4.65 %
	$ -	-	$ 30,000	4.56 %

Investment securities issued by U.S. Government agencies with a carrying value of $27.7 million and $40.8 million were pledged to secure the repurchase agreement borrowings at December 31, 2011 and December 31, 2010, respectively.

(9) Retirement Plans and Postretirement Benefit Plans

In 2000, the Bank implemented a retirement plan that included both a money purchase pension plan, as well as a voluntary profit sharing 401(k) plan for all employees who meet certain age and length of service eligibility requirements. In 2002, the Bank amended its retirement plan to freeze the money purchase plan and retain the 401(k) plan. To ensure that the plan meets the Safe Harbor provisions of the applicable sections of the Internal Revenue Code, the Bank contributes an amount equal to four percent of the employee’s base salary to the 401(k) plan for all eligible employees. In addition, an employee may contribute from 1 to 75 percent of his or her base salary, up to a maximum of $22,000 in 2011. The Bank did not match employee’s elective contributions in 2011 or in the last three quarters of 2010. The Bank matched 25% of the first eight percent contributed by the employee in the first quarter of 2010. Depending on the Bank’s profitability, an additional profit sharing contribution may be made by the Bank to the 401(k) plan. There were no profit sharing contributions in 2011, 2010, and 2009. The total retirement plan expense was $582,000, for the year ended December 31, 2011, $651,000 for the year ended December 31, 2010, and $1,025,000 for the year ended December 31, 2009.

The Bank has a postretirement benefit plan that generally provides for the continuation of medical benefits for all employees hired before January 1, 2007 who retire from the Bank at age 55 or older, upon meeting certain length of service eligibility requirements. The Bank does not fund its postretirement benefit obligation. Rather, payments are made as costs are incurred by covered retirees. The amount of benefits paid under the postretirement benefit plan was $167,000 in 2011, $232,000 in 2010, and $247,000 in 2009. The amount of insurance premium paid by the Bank for retirees is capped at 200% of the cost of the premium as of December 31, 1992.

A reconciliation of the accumulated postretirement benefit obligation (“APBO”) to the amounts recorded in the consolidated balance sheets in Interest Payable and Other Liabilities at December 31 is as follows (000s omitted):

	2011	2010
APBO	$2,479	$2,277
Unrecognized net transition obligation	(54)	(107)
Unrecognized prior service costs	(9)	(13)
Unrecognized net gain	182	264
Accrued benefit cost at fiscal year end	$2,598	$2,421

The changes recorded in the accumulated postretirement benefit obligation were as follows (000s omitted):

	2011	2010
APBO at beginning of year	$2,277	$2,078
Service cost	102	98
Interest cost	111	111
Actuarial loss (gain)	80	97
Plan participants' contributions	76	125
Benefits paid during year	(167)	(232)
APBO at end of year	$2,479	$2,277

Components of the Bank's postretirement benefit expense were as follows:

	2011	2010	2009
Service cost	$102	$98	$101
Interest cost	111	111	112
Amortization of transition obligation	54	53	53
Prior service costs	4	4	4
Amortization of gains	(2)	(10)	(10)
Net postretirement benefit expense	$269	$256	$260

The APBO as of December 31, 2011 and 2010 was calculated using assumed discount rates of 4.50% and 5.00%, respectively. Based on the provisions of the plan, the Bank's expense is capped at 200% of the 1992 expense, with all expenses above the cap incurred by the retiree. The expense reached the cap in 2004, and accordingly the impact of an increase in health care costs on the APBO was not calculated.

The Bank Owned Life Insurance policies fund a Death Benefit Only (DBO) obligation that the Bank has with 7 of its active directors, 5 retired directors, 14 active executives, and 8 retired executives. The DBO plan, which replaced previous split dollar agreements, provides a taxable death benefit. The benefit for directors is grossed up to provide a net benefit to each director's beneficiaries based on that director's length of service on the board. The directors' net death benefits are $500,000 for director service of less than 3 years, $600,000 for service up to 5 years, $750,000 for service up to 10 years, and $1,000,000 for director service of 10 years or more. The active directors who participate in the plan have all waived the postretirement benefit. The executives' beneficiaries will receive a grossed up benefit that will provide a net benefit equal to two times the executive's base salary if death occurs during employment and a postretirement benefit equal to the executive's final annual salary rate at the time of retirement if death occurs after retirement.

Information for the postretirement death benefits and health care benefits is as follows as of the December 31 measurement date (000s):

	Postretirement Death Benefit Obligations		Postretirement Health Care Benefits	
	2011	2010	2011	2010
Change in benefit obligation				
Benefit obligation at beginning of year	$ 4,892	4,437	$ 2,277	$ 2,078
Service cost	26	41	102	98
Interest cost	240	239	111	111
Plan participants' contributions	-	-	76	125
Actuarial loss (gain)	214	175	80	97
Benefits paid	-	-	(167)	(232)
Benefit obligation at end of year	$ 5,372	$ 4,892	$ 2,479	$ 2,277
Change in accrued benefit cost				
Accrued benefit cost at beginning of year	$ 2,395	$ 1,801	$ 2,421	$ 2,273
Service cost	26	41	102	98
Interest cost	240	239	111	111
Amortization	315	314	55	46
Employer contributions	-	-	(91)	(107)
Net gain	-	-	-	-
Accrued benefit cost at end of year	$ 2,976	$ 2,395	$ 2,598	$ 2,421
Change in plan assets				

Fair value of plan assets at beginning of year	$ -	$ -	$ -	$ -
Employer contributions	-	-	91	107
Plan participants' contributions	-	-	76	125
Benefits paid during year	-	-	(167)	(232)
Fair value of plan assets at end of year	$ -	$ -	$ -	$ -
Funded status at end of year	$ (2,396)	$ (2,497)	$ 119	$ 144

Amounts recognized in other liabilities as of December 31 consist of (000s):

	Postretirement Death Benefit Obligations		Postretirement Health Care Benefits	
	2011	2010	2011	2010
Assets	$ -	-	$ -	$ -
Liabilities	5,372	4,892	2,479	2,277
Total	$ 5,372	$ 4,892	$ 2,479	$ 2,277

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Amounts recognized in accumulated other comprehensive income as of December 31 consist of (000s):

	Postretirement Death Benefit Obligations		Postretirement Health Care Benefits	
	2011	2010	2011	2010
Net loss (gain)	$ 97	(116)	$ (182)	$ (264)
Transition obligation (asset)	-	-	54	107
Prior service cost (credit)	2,299	2,613	9	13
	$ 2,396	$ 2,497	$ (119)	$ (144)

(10) Stockholders' Equity

On September 8, 2010, the Corporation commenced a private placement offering (the "Private Placement") of up to 2,500,000 shares of the Corporation's common stock, without par value. The shares of common stock being offered were not registered under the Securities Act of 1933 (the "Act") in reliance of the exemption from registration provided by Section 4(2) of the Act and Rule 506 of SEC Regulation D. As of December 31, 2010, the Corporation had sold 887,638 shares of common stock pursuant to the Private Placement for the aggregate cash consideration of $1,242,000. The Private Placement terminated on March 31, 2011. No additional shares were issued under the Private Placement in 2011.

(11) 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, Federal funds purchased, Interest payable and other liabilities, and Notes payable) are estimated to be equal to their carrying amounts as of December 31, 2011 and 2010.

CASH AND CASH EQUIVALENTS

The carrying amounts of cash and cash equivalents approximate fair values.

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 3 and the required fair value disclosures are in Note 19.

LOANS AND LOANS HELD FOR SALE

Loans Held for Sale consists of fixed rate mortgage loans originated by the Bank. The fair value of Loans Held for Sale is the estimated value the Bank will receive upon sale of the loan. The fair value of all other 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

A portion of the Federal Home Loan Bank advances in the accompanying consolidated balance sheets were written with a put option that allows the Federal Home Loan Bank to require repayment or conversion to a variable rate advance. The fair value of these putable Federal Home Loan Bank advances is estimated using the binomial lattice option pricing method.

The estimated fair value of the 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 similarly structured borrowings with similar maturities.

ACCRUED INTEREST

The carrying amounts of accrued interest approximate fair value.

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.

FAIR VALUES

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

	December 31, 2011		December 31, 2010	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial Assets:				
Cash and due from banks	$75,995	$75,995	$86,300	$86,300
Securities - Held to Maturity	35,364	35,812	23,804	23,842
Securities - Available for Sale	354,899	354,899	289,365	289,365
Federal Home Loan Bank Stock	10,605	10,605	11,831	11,831
Loans Held for Sale	1,035	1,035	973	973
Loans, net	658,610	684,007	731,664	755,312
Accrued Interest Receivable	3,582	3,582	3,912	3,912
Financial Liabilities:				
Demand, NOW, savings and money market savings deposits	689,421	689,421	631,997	631,997
Other Time Deposits	332,889	339,927	399,896	405,736
Borrowed funds				
Variable Rate FHLB Advances	107,000	109,664	110,000	115,045
Fixed Rate FHLB Advances	-	-	3,500	3,567
Repurchase Agreements	20,000	22,773	30,000	33,796
Accrued Interest Payable	477	477	882	882

(12) Federal Income Taxes

Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be reversed. The Corporation and the Bank file a consolidated Federal income tax return.

The provision for Federal income taxes consists of the following (000s omitted):

	2011	2010	2009
Federal income taxes currently payable (refundable)	$500	$-	$(7,189)
Provision (credit) for deferred taxes on:			
Book (over) under tax loan loss provision	390	670	(1,937)
Accretion of bond discount	(1)	(74)	(46)
Net deferred loan origination fees	9	40	(14)
Accrued postretirement benefits	(254)	(150)	(293)
Tax over (under) book depreciation	(83)	(16)	197
Alternative minimum tax	-	(67)	(264)
Non-accrual loan interest	(953)	(243)	294
Write down of other real estate owned	(103)	(380)	(411)
Other than temporary impairment AFS securities	-	3,550	(4,116)
Net operating loss carry forward	(2,039)	(6,950)	-
Other, net	(236)	(274)	(173)
Total deferred provision (credit)	(3,270)	(3,894)	(6,763)
Valuation allowance deferred tax assets	3,270	7,077	13,850
Net deferred provision	-	3,183	7,087
Tax expense	$500	$3,183	$(102)

The effective tax rate differs from the statutory rate applicable to corporations as a result of permanent differences between accounting and taxable income as follows:

	2011	2010	2009
Statutory rate	(34.0)%	(34.0)%	(34.0)%
Municipal interest income	(13.4)	(6.9)	(3.0)
Other, net	(37.6)	(3.8)	(3.7)
Valuation allowance	100.3	81.2	40.4
Effective tax rate	15.3 %	36.5 %	(0.3)%

In accordance with ASC 740, the Company is required to establish a valuation allowance for deferred tax assets when it is "more likely than not" that a portion or the entire deferred tax asset will not be realized. The evaluation requires significant judgment and extensive analysis of all available positive and negative evidence, the forecast of future income, applicable tax planning strategies, and assessments of current and future economic and business conditions.

During 2010, the Company established a deferred tax valuation allowance after evaluating all positive and negative evidence. The expense for recording the valuation allowance was a non cash item, and the recording of the expense does not imply that the Company owes additional taxes. As business and economic conditions change, the Company will reevaluate the criteria related to the recognition of deferred tax assets. As of December 31, 2011, the valuation allowance totals $24.2 million.

In the ordinary course of business, the Company enters into certain transactions that have tax consequences. From time to time, the Internal Revenue Service (IRS) questions and/or challenges the tax positions taken by the Company with respect to those transactions. The Company believes that its tax returns were filed based upon applicable statutes, regulations, and case law in effect at the time of the transactions. The IRS, an administrative authority of a court, if presented with the transactions could disagree with the Company's interpretation of the tax law.

The Company is currently under an audit of its tax returns filed for the 2004, 2005, 2007, 2008, 2009 and 2010 tax years. Based on current knowledge and probability assessments of various potential outcomes, the Company believes that the accrued tax liability is adequate to absorb the effect, if any, relating to the ultimate resolution of the uncertain tax position challenged by the IRS.

The components of the net deferred Federal income tax asset (included in Interest Receivable and Other Assets on the accompanying consolidated balance sheets) at December 31 are as follows (000s omitted):

	2011	2010
Deferred Federal income tax assets:		
Allowance for loan losses	$7,467	$7,857
Net deferred loan origination fees	197	206
Tax versus book depreciation differences	178	95
Net unrealized losses on securities available for sale	-	1,500
Accrued postretirement benefits	2,911	2,683
Alternative minimum tax	771	771
Non-accrual loan interest	1,318	364
Write down of other real estate owned	1,954	1,851
Other than temporary impairment AFS securities	566	566
Net operating loss	8,989	6,950
Other, net	977	764
Gross deferred tax asset	25,328	23,607
Valuation allowance	(24,197)	(20,927)
Total deferred federal tax asset	$1,131	$2,680
Deferred Federal income tax liabilities:		
Accretion of bond discount	$(23)	$(24)
Net unrealized gains on securities available for sale	$(1,271)	$-
Other	(334)	(356)
Total deferred federal tax liabilities	$(1,628)	$(380)
Net deferred Federal income tax asset (liability)	$(497)	$2,300

The Corporation has net operating loss carry forwards of approximately $26.4 million that are available to reduce future taxable income through the year ending December 31, 2031.

(13) Regulatory Capital Requirements

The Corporation and the Bank are subject to various regulatory capital requirements administered by the Federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory (and possibly additional discretionary) actions by regulators that, if undertaken, could have a direct material effect on the Corporation's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation and the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Corporation and the Bank to maintain minimum amounts and ratios (set forth in the accompanying tables) of Total and Tier 1 capital to risk weighted assets and of Tier 1 capital to average assets.

As of December 31, 2011 and 2010, the Bank's capital ratios exceeded the required minimums to be considered well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum Total risk based, Tier 1 risk based, and Tier 1 leverage ratios as set forth in the tables, as well as meeting other requirements specified by the federal banking regulators, including not being subject to any written agreement or order issued by the FDIC pursuant to section 8 of the Federal Deposit Insurance Act.

Since July 22, 2010, the Bank has been under a Consent Order (the "Consent Order") with the FDIC and the Michigan OFIR. The Consent Order requires the Bank to, among other things, increase its Tier 1 Leverage ratio to 9.0% and its Total Risk Based Capital ratio to 12.0%. The Bank is in compliance with all of the other provisions of the Consent Order, which include a requirement to charge off all loans classified as "Loss" in the Report of Examination; a prohibition against extending additional credit to borrowers whose debt has been charged off; a prohibition against extending additional credit to borrowers whose debt is classified as "Substandard" or "Doubtful" without board of directors approval; a requirement to develop a written plan to reduce the Bank's risk position in each asset in excess of $1,000,000 which is more than 90 days delinquent or classified as "Substandard" or "Doubtful"; a prohibition against declaring or paying dividends without written permission from the FDIC and the Michigan OFIR; a requirement for board approval of the allowance for loan and lease losses prior to filing the Bank's quarterly Reports of Condition and Income required by the FDIC; adoption of a two year written profit plan; implementation of a plan to monitor compliance with the Consent Order; and a requirement to furnish quarterly progress reports to the FDIC and Michigan OFIR detailing action taken to secure compliance with the Consent Order. If the Bank is unable to timely comply with the Consent Order, there could be material adverse effects on the Bank and the Corporation.

Due to the existence of the Consent Order, the Bank is considered to be "Adequately Capitalized" as of December 31, 2011 and 2010. There are no conditions or events since December 31, 2011 that Management believes have changed the Bank's category.

The Corporation's and Bank's actual capital amounts and ratios are also presented in the table (000s omitted in dollar amounts).

	Actual		Minimum to Qualify as Well Capitalized*	
	Amount	Ratio	Amount	Ratio
As of December 31, 2011:				
Total Capital to Risk-Weighted Assets				
Consolidated	$84,970	10.48%	$ 81,084	10 %
Monroe Bank & Trust	84,441	10.42%	81,033	10 %
Tier 1 Capital to Risk-Weighted Assets				
Consolidated	74,695	9.21 %	48,650	6 %
Monroe Bank & Trust	74,106	9.15 %	48,620	6 %
Tier 1 Capital to Average Assets				
Consolidated	74,695	6.07 %	61,505	5 %
Monroe Bank & Trust	74,106	6.03 %	61,481	5 %

	Actual		Minimum to Qualify as Well Capitalized*	
	Amount	Ratio	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 %

* Although the Bank's capital ratios exceed the "Well Capitalized" minimums, the Bank is categorized as "Adequately Capitalized" as of December 31, 2011 and 2010 due to its Consent Order with the FDIC.

(14) Earnings (Loss) Per Share

The calculation of earnings (loss) per common share for the years ended December 31 is as follows:

	2011	2010	2009
Basic and Diluted			
Net loss	$(3,762,000)	$(11,899,000)	$(34,177,000)
Less preferred dividends	-	-	-
Net loss applicable to common stock	$(3,762,000)	$(11,899,000)	$(34,177,000)
Average common shares outstanding	17,270,528	16,498,734	16,186,478
Loss per common share - basic and diluted	$(0.22)	$(0.72)	$(2.11)

(15) Stock-Based Compensation Plan

The Long-Term Incentive Compensation Plan approved by shareholders at the April 6, 2000 Annual Meeting of Shareholders of Monroe Bank & Trust authorized the Board of Directors to grant nonqualified stock options to key employees and non-employee directors. Such grants could be made until January 2, 2010 for up to 1,000,000 shares of the Corporation's common stock. The amount that could be awarded to any one individual was limited to 100,000 shares in any one calendar year. The MBT Financial Corp. 2008 Stock Incentive Plan was approved by shareholders at the May 1, 2008 Annual meeting of shareholders of MBT Financial Corp. This plan replaced the Long-Term Incentive Compensation Plan and authorized the Board of Directors to grant equity incentive awards to key employees and non-employee directors. Such grants may be made until May 1, 2018 for up to 1,000,000 shares of the Corporation's common stock. The amount that may be awarded to any one individual is limited to 100,000 shares in any one calendar year. As of December 31, 2011, the number of shares available under the plan is 459,979. This includes 85,300 shares that were previously awarded that have been forfeited.

Stock Option Awards - Stock options granted under the plans have exercise prices equal to the fair market value at the date of grant. Options granted under the plan may be exercised for a period of no more than ten years from the date of grant. All options granted are fully vested at December 31, 2011.

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 Financial Corp. 2008 Stock Incentive Plan. The SOSARs have a term of 10 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. Upon exercise, the executive will generally receive common shares equal in value to the excess of the market value of the shares over the exercise price on the exercise date.

The fair value of each option and SOSAR grant is estimated on the date of grant using the Black-Scholes option pricing model with the assumptions disclosed in Note 1 to the consolidated financial statements.

A summary of the status of stock options and SOSARs under the plans is presented in the table below.

	2011		2010		2009	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Stock Options						
Options Outstanding, January 1	444,575	$ 17.28	489,075	$ 17.35	541,976	$ 17.42
Granted	-	-	-	-	-	-
Exercised	-	-	-	-	-	-
Forfeited/Expired	8,072	13.90	44,500	18.03	52,901	18.03
Options Outstanding, December 31	436,503	$ 17.34	444,575	$ 17.28	489,075	$ 17.35
Options Exercisable, December 31	436,503	$ 17.34	444,575	$ 17.28	489,075	$ 17.35
Stock Only Stock Appreciation Rights (SOSARs)						
SOSARs Outstanding, January 1	224,000	$ 5.12	221,500	$ 5.23	99,500	$ 8.53
Granted	107,000	1.85	16,000	1.52	141,500	3.03
Exercised	-	-	-	-	-	-
Forfeited/Expired	11,000	3.64	13,500	2.58	19,500	6.13
SOSARs Outstanding, December 31	320,000	$ 4.08	224,000	$ 5.12	221,500	$ 5.23
SOSARs Exercisable, December 31	253,321	$ 4.67	190,820	$ 5.49	124,682	$ 5.63
Weighted Average Fair Value of Options or SOSARs Granted During Year		$ 0.75		$ 0.45		$ 0.52

The options and SOSARs exercisable as of December 31, 2011 are exercisable at prices ranging from $1.52 to $23.40. The number of options and SOSARs and remaining life at each exercise price are as follows:

Outstanding and Exercisable Options		
Exercise Price	Shares	Remaining Life (in years)
$ 13.20	68,335	1.01
$ 13.85	22,168	0.01
$ 15.33	78,000	5.01
$ 16.24	67,000	4.01
$ 16.69	93,500	2.01
$ 23.40	107,500	3.01
	436,503	2.84

Exercise Price	Outstanding SOSARs Shares	Outstanding SOSARs Remaining Life (in years)	Exercisable SOSARs Shares	Exercisable SOSARs Remaining Life (in years)
$ 1.52	12,000	8.01	12,000	8.01
$ 1.85	101,000	9.07	34,321	9.07
$ 3.03	121,000	7.01	121,000	7.01
$ 8.53	86,000	6.60	86,000	6.60
	320,000	7.59	253,321	7.20

A summary of the status of the Corporation's nonvested SOSARs as of December 31, 2011 and changes during the year ended December 31, 2011 is as follows:

Nonvested SOSAR Shares	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2011	33,180	$ 0.52
Granted	107,000	0.75
Vested	(66,667)	0.66
Forfeited	(6,834)	0.77
Nonvested at December 31, 2011	66,679	$ 0.72

As of December 31, 2011, there was $53,000 of total unrecognized compensation cost related to nonvested share based compensation arrangements granted under the Plan. The cost is expected to be recognized over a weighted average period of 2 years.

Restricted Stock Awards – On September 23, 2010, 120,000 restricted shares were awarded to certain key executives in accordance with the MBT Financial Corp. 2008 Stock Incentive Plan. The restricted shares will vest as follows:

Date	Shares Vesting
June 30, 2012	20,000
September 23, 2012	50,000
September 23, 2013	25,000
September 23, 2014	25,000

A summary of the status of the Corporation's nonvested restricted stock awards as of December 31, 2010 and 2011, and changes during the years then ended is as follows:

Restricted Stock Awards	2011	2010
Nonvested at January 1	135,000	15,000
Granted	-	120,000
Vested	15,000	-
Forfeited	-	-
Nonvested at December 31	120,000	135,000

The total expense recorded for the restricted stock awards was $100,000 in 2011 and $29,000 in 2010. The amount of unrecognized compensation cost related to the nonvested portion of restricted stock awards under the plan was $87,000 as of December 31, 2011 and $187,000 as of December 31, 2010.

Restricted Stock Unit Awards – Restricted stock units granted under the plan result in an award of common shares to key employees based on selected performance metrics during the performance period. Key employees were granted 35,000 Restricted Stock Units (RSUs) on January 27, 2011. The RSUs will vest on December 31, 2013 based on the Bank achieving the performance targets in the following schedule, with up to 50% of the RSUs earned in 2011 and up to 50% of the RSUs earned in 2012.

Performance Metric	Weighting Percentage	Performance Requirement	2011 Performance Threshold	2012 Performance Threshold
Net Income (Loss) before tax	50 %		$ (4,319,000)	$ 3,503,000

			At or better than				
Tier 1 leverage ratio	25	%	At or greater than	6.22	%	6.30	%
Non accrual loans	25	%	At or less than	$ 55,000,000		$ 40,000,000	

The Tier 1 leverage ratio goal was not achieved in 2011. As a result, 75% of the 17,500 RSUs (13,125) that could be earned in 2011 will be awarded upon completion of the vesting period. The current expectation is that the 17,500 RSUs that may be earned in 2012 will be awarded. Accordingly, the Company recorded an expense of $15,000 in 2011 for the RSUs.

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(16) Parent Company

Condensed parent company financial statements, which include transactions with the subsidiary, are as follows (000s omitted):

Balance Sheets

	December 31,	
	2011	2010
Assets		
Cash and due from banks	$116	$339
Securities	392	324
Investment in subsidiary bank	75,220	73,192
Other assets	118	278
Total assets	$75,846	$74,133
Liabilities		
Dividends payable and other liabilities	$135	$135
Total liabilities	135	135
Stockholders' Equity		
Total stockholders' equity	75,711	73,998
Total liabilities and stockholders' equity	$75,846	$74,133

Statements of Operations

	Years Ended December 31,		
	2011	2010	2009
Income			
Dividends from subsidiary bank	$-	$-	$-
Other operating income	-	-	-
Total income	-	-	-
Expense			
Interest on borrowed funds	11	2	-
Other expense	399	298	592
Total expense	410	300	592
Loss before tax and equity in undistributed net loss of subsidiary bank	(410)	(300)	(592)
Income tax benefit	-	-	(202)
Loss before equity in undistributed net loss of subsidiary bank	(410)	(300)	(390)

Equity in undistributed net loss of subsidiary bank	(3,352)	(11,599)	(33,787)
Net Loss	$(3,762)	$(11,899)	$(34,177)

Statements of Cash Flows

	Years Ended December 31,		
	2011	2010	2009
Cash Flows Provided By Operating Activities:			
Net loss	$(3,762)	$(11,899)	$(34,177)
Equity in undistributed net income of subsidiary bank	3,352	11,599	33,787
Net decrease in other liabilities	-	-	(19)
Net decrease in other assets	133	92	223
Net cash used for operating activities	$(277)	$(208)	$(186)
Cash Flows Used For Investing Activities:			
Investment in subsidiary	$-	$(1,100)	$-
Net cash provided by investing activities	$-	$(1,100)	$-
Cash Flows Used For Financing Activities:			
Issuance of common stock	$54	$1,273	$147
Dividends paid	-	-	(1,777)
Issuance of long term debt	-	135	-
Net cash (used for) provided by financing activities	$54	$1,408	$(1,630)
Net Increase (Decrease) In			
Cash And Cash Equivalents	$(223)	$100	$(1,816)
Cash And Cash Equivalents			
At Beginning Of Year	339	239	2,055
Cash And Cash Equivalents At End Of Year	$116	$339	$239

Under current regulations, the Bank is limited in the amount it may loan to the Corporation. Loans to the Corporation may not exceed ten percent of the Bank’s capital stock, surplus, and undivided profits plus the allowance for loan losses. Loans from the Bank to the Corporation are required to be collateralized. Accordingly, at December 31, 2011, Bank funds available for loans to the Corporation amounted to $9,502,000. The Bank has not made any loans to the Corporation.

Federal and state banking laws place certain restrictions on the amount of dividends a bank may make to its parent company. Michigan law limits the amount of dividends that the Bank can pay to the Corporation without regulatory approval to the amount of net income then on hand. The Bank entered in to a Consent Order with the FDIC effective July 22, 2010 that prohibits the Bank from declaring dividends payable to the Company without regulatory approval.

(17) 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 balance sheets.

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 at December 31 were as follows (000s omitted):

	Contractual Amount	
	2011	2010
Commitments to extend credit:		
Unused portion of commercial lines of credit	$ 65,460	$ 59,238
Unused portion of credit card lines of credit	2,756	2,987
Unused portion of home equity lines of credit	15,026	15,905
Standby letters of credit and financial guarantees written	4,461	4,710
All other off-balance sheet assets	-	-

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, generally have fixed expiration dates or other termination clauses, and require payment of a fee. 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 counter party.

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. All of the letters of credit expire in 2012. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

Various legal claims also arise from time to time in the normal course of business, which, in the opinion of management, will have no material effect on the Company's consolidated financial statements.

(18) Quarterly Financial Information (Unaudited) (000s omitted):

2011	First	Second	Third	Fourth
Total Interest Income	$12,802	$12,494	$12,466	$11,798
Total Interest Expense	4,033	3,916	3,510	2,974
Net Interest Income	8,769	8,578	8,956	8,824
Provision for Loan Losses	5,750	2,850	2,700	2,500
Other Income	3,663	3,858	4,319	6,390
Other Expenses	10,724	10,369	9,943	11,783
Income (Loss) Before Provision For Income Taxes	(4,042)	(783)	632	931
Provision For Income Taxes	-	-	-	500
Net Income (Loss)	$(4,042)	$(783)	$632	$431
Basic Earnings (Loss) Per Common Share	$(0.23)	$(0.05)	$0.04	$0.02
Diluted Earnings (Loss) Per Common Share	$(0.23)	$(0.05)	$0.04	$0.02
Dividends Declared Per Share	$-	$-	$-	$-

2010	First	Second	Third	Fourth
Total Interest Income	$15,314	$14,499	$13,789	$12,984
Total Interest Expense	5,909	5,311	4,368	4,170
Net Interest Income	9,405	9,188	9,421	8,814
Provision for Loan Losses	2,200	3,750	7,464	7,086
Other Income	4,041	6,819	4,381	4,195
Other Expenses	10,898	12,629	10,676	10,277
Income (Loss) Before Provision For Income Taxes	348	(372)	(4,338)	(4,354)
Provision For Income Taxes	-	-	-	3,183
Net Income (Loss)	$348	$(372)	$(4,338)	$(7,537)
Basic Earnings (Loss) Per Common Share	$0.02	$(0.02)	$(0.27)	$(0.45)
Diluted Earnings (Loss) Per Common Share	$0.02	$(0.02)	$(0.27)	$(0.45)
Dividends Declared Per Share	$-	$-	$-	$-

(19) Fair Value Disclosures

The following tables present information about the Corporation's assets measured at fair value on a recurring basis at December 31, 2011 and 2010, and the valuation techniques used by the Corporation 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 at December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Obligations of U.S. Government Agencies	$ -	$ 165,532	$ -
MBS issued by U.S. Government Agencies		160,168	
Obligations of States and Political Subdivisions	-	15,178	-
Trust Preferred CDO Securities	-	-	5,467
Corporate Debt Securities	-	5,979	-
Other Securities	2,183	392	-
Total Securities Available for Sale	$ 2,183	$ 347,249	$ 5,467

Investment Securities Available for Sale 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)
Obligations of U.S. Government Agencies	$ -	$ 127,291	$ -
MBS issued by U.S. Government Agencies		139,744	
Obligations of States and Political Subdivisions	-	14,725	-
Trust Preferred CDO Securities	-	-	5,188
Other Securities	2,093	324	-
Total Securities Available for Sale	$ 2,093	$ 282,084	$ 5,188

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	300	1,893
Net purchases, sales, calls and maturities	(21)	(3,920)
Net transfers in/out of Level 3	-	-
Balance at December 31	$5,467	$5,188

Of the Level 3 assets that were held by the Corporation at December 31, 2011, the unrealized gain for the year was $300,000. That gain is recognized in other comprehensive income in the consolidated statements of financial condition. The Company did not have any sales of Level 3 available for sale securities during 2011. During 2010 the Company sold one Level 3 available for sale security. That security was sold at its carrying value of $3,920,000 and the company did not record a gain or loss on the sale. The Company did not purchase any Level 3 available for sale securities during 2011 or 2010.

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 also has assets that under certain conditions are subject to measurement at fair value on a non-recurring basis. These assets include held to maturity investments and loans. 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 December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 70,803	$ -	$ -	$ 70,803
Other Real Estate Owned	$ 16,650	$ -	$ -	$ 16,650

	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	$ 78,538	$ -	$ -	$ 78,538
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 Corporation 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 Corporation utilizes outside appraisals to estimate the fair value of OREO properties.

(20) Consent Order and Management's Plan

On July 12, 2010, Monroe Bank & Trust (the "Bank"), the wholly owned commercial bank subsidiary of the Corporation, entered into a stipulation and consent to the issuance of a consent order (the "Consent Order") with the Federal Deposit Insurance Corporation (FDIC") and the Office of Financial and Insurance Regulation of the state of Michigan ("OFIR"). The Consent Order was dated July 12, 2010 and became effective on July 22, 2010. The Consent Order requires the Bank to maintain minimum capital ratios and to make various procedural changes. Bank management has taken numerous steps to comply with the Consent Order and to improve its financial condition. See Note 13 for a complete disclosure of the requirements of the Consent Order.

Management and the Board of Directors are committed to complying with the terms of the Consent Order, and have already taken, and continue to take, numerous steps to address these matters. The Bank is in compliance with all of the requirements of the Consent Order except the minimum capital requirements. During 2011 the Bank continued implementing its strategic initiatives, including adjusting its balance sheet structure, increasing liquidity, reducing controllable operating costs, and improving asset quality by rehabilitating or liquidating problem credits. The efforts

of the Bank and improvements in the economic conditions have resulted in reductions in loan delinquencies and non performing assets. This improvement in asset quality has resulted in lower credit related expenses, which is improving earnings and enabling the Bank to increase its capital. The Corporation is also monitoring the equity market conditions. If the equity markets present an opportunity, the Corporation may sell capital securities and invest the proceeds in the Bank to further improve the Bank's capital ratios. The Bank reports to the FDIC and OFIR quarterly regarding its progress in complying with the provisions included in the Consent Order. Compliance with the terms of the Consent Order will continue to be an ongoing priority for management of the Bank.

In view of these matters, the Bank's ability to improve its financial condition is dependent on the success of management's plans to address concerns regarding profitability and asset quality. The Bank's management believes they have taken appropriate steps aimed at returning the Bank to profitability and improving asset quality. Management's success will ultimately be determined by its implementation of its plans, as well as factors beyond its control, such as the economy and real estate market.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

MBT Financial Corp. carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Corporation’s disclosure controls and procedures as of December 31, 2011, pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Corporation’s disclosure controls and procedures were effective as of December 31, 2011, in timely alerting them to material information relating to the Corporation (including its consolidated subsidiaries) required to be in the Corporation’s periodic SEC filings.

Management’s Report on Internal Control Over Financial Reporting

The management of MBT Financial Corp. is responsible for establishing and maintaining adequate internal control over financial reporting. MBT Financial Corp.’s internal control over financial reporting is a process designed under the supervision of the Corporation’s Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Corporation’s financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

MBT Financial Corp.’s management assessed the effectiveness of the Corporation’s internal control over financial reporting as of December 31, 2011 based on criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in “Internal Control-Integrated Framework.” Based on that assessment, management determined that, as of December 31, 2011, the Corporation’s internal control over financial reporting is effective, based on those criteria. Management’s assessment of the effectiveness of the Corporation’s internal control over financial reporting as of December 31, 2011 has been audited by Plante & Moran, PLLC, an independent registered public accounting firm, as stated in their report appearing on page 44.

There was no change in the Company's internal control over financial reporting that occurred during the Company's fiscal quarter ended December 31, 2011, that materially affected, or is reasonably likely to affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None.

Part III

Item 10. Directors and Executive Officers of the Registrant

(a) **Executive Officers –** See "Executive Officers" in part I, Item 1 hereof.

(b) **Directors and Executive Officers –** information required by this item is incorporated by reference from the sections entitled "Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement for the Annual Meeting of Shareholders that is to be filed with the Securities Exchange Commission.

(c) **Audit Committee Financial Expert –** The Board of Directors has determined that Peter H. Carlton, member of the Audit Committee, is an "audit committee financial expert" and "independent" as defined under applicable SEC and Nasdaq rules.

(d) MBT Financial Corp. has adopted its **Code of Ethics**, a code of ethics that applies to all its directors, officers, and employees, including its Chief Executive Officer, Chief Financial Officer, and internal auditor. A copy of the Code of Ethics is posted on our website at http://www.mbandt.com. In the event we make any amendment to, or grant any waiver of, a provision of the Code of Ethics that applies to the principal executive officers, principal financial officer, principal accounting officer, or controller, or persons performing similar functions that require disclosure under applicable SEC rules, we intend to disclose such amendment or waiver, the reasons for it, and the nature of any waiver, the name of the person to whom it was granted, and the date, on our internet website.

Item 11. Executive Compensation

Information required by this item is incorporated by reference from the sections entitled "Executive Compensation and Other Information" and "Compensation Committee Interlocks and Insider Participation in Compensation Decisions" in the Proxy Statement for the Annual Meeting of Shareholders that is to be filed with the Securities and Exchange Commission.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information required by this item is incorporated by reference from the section entitled "Ownership of Voting Shares" in the Proxy Statement for the Annual Meeting of Shareholders that is to be filed with the Securities and Exchange Commission.

Securities authorized for issuance under equity compensation plans as of December 31, 2011 were as follows:

	Number of securities to be issued upon exercise of outstanding options, warrants, and rights	Weighted average exercise price of outstanding options, warrants, and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity Compensation plans approved by security holders	849,634	$ 10.44	459,979
Equity Compensation plans not approved by security holders	0	0	0
Total	849,634	$ 10.44	459,979

Item 13. Certain Relationships and Related Transactions

Information required by this item is incorporated by reference from the section entitled "Certain Transactions" in the Proxy Statement for the Annual Meeting of Shareholders that is to be filed with the Securities and Exchange Commission.

Item 14. Principal Accountant Fees and Services

Information required by this item is incorporated by reference from the section entitled "Principal Accounting Firm Fees" in the Proxy Statement for the Annual Meeting of Shareholders that is to be filed with the Securities and Exchange Commission.

Part IV

Item 15. Exhibits and Financial Statement Schedules

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Financial Statements

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Consolidated Balance Sheets as of December 31, 2011 and 2010 – Page 36

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December 31, 2011, 2010, and 2009 – Page 37

Consolidated Statements of Changes in Stockholders' Equity for the Years Ended
December 31, 2011, 2010, and 2009 – Page 38

Consolidated Statements of Cash Flows for the Years Ended
December 31, 2011, 2010, and 2009 – Page 39

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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	MBT Financial Corp. 2008 Stock Incentive Compensation Plan. Previously filed as Exhibit 10 on Form 8-K filed by MBT Financial Corp. on June 5, 2008.
10.2	Monroe Bank & Trust Salary Continuation Agreement with Ronald D. LaBeau. Previously filed as Exhibit 10.2 to MBT Financial Corp.'s Form 10-K for its fiscal year ended December 31, 2000.
10.3	MBT Financial Corp. Amended and Restated Change in Control Agreement with H. Douglas Chaffin. Previously filed as Exhibit 10.5 to MBT Financial Corp.'s Form 10-K for its fiscal year ended December 31, 2005.
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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.
32.1	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 Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 14, 2012 MBT FINANCIAL CORP.

By: /s/ John L. Skibski
John L. Skibski
Chief Financial Officer

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

Dated: March 14, 2012

/s/ H. Douglas Chaffin H. Douglas Chaffin President, Chief Executive Officer & Director	/s/ John L. Skibski John L. Skibski Chief Financial Officer & Director
/s/ Michael J. Miller Michael J. Miller Chairman	/s/ Peter H. Carlton Peter H. Carlton Director
/s/ Joseph S. Daly Joseph S. Daly Director	/s/ Edwin L. Harwood Edwin L. Harwood Director
/s/ Debra J. Shah Debra J. Shah Director	/s/ Philip P. Swy Philip P. Swy Director
/s/ Karen Wilson Smithbauer Karen Wilson Smithbauer Director	

Exhibit Index

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