

Edgar Filing: MBT FINANCIAL CORP - Form 10-Q

MBT FINANCIAL CORP  
Form 10-Q  
November 10, 2008

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended September 30, 2008

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 000-30973

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

MICHIGAN  
(State or other jurisdiction of  
incorporation or organization)

38-3516922  
(I.R.S. Employer  
Identification No.)

102 E. FRONT STREET  
MONROE, MICHIGAN 48161  
(Address of principal executive offices)  
(Zip Code)

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

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

Yes  No

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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

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Yes [ ] No [X]

As of November 7, 2008, there were 16,142,652 shares of the Company's Common Stock outstanding.

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PART I FINANCIAL INFORMATION  
ITEM 1. FINANCIAL STATEMENTS

MBT FINANCIAL CORP.  
CONSOLIDATED BALANCE SHEETS

Dollars in thousands -----	SEPTEMBER 30, 2008 (UNAUDITED) -----	DECEMBER 31, 2007 -----
<b>ASSETS</b>		
Cash and Cash Equivalents		
Cash and due from banks	\$ 22,527	\$ 25,113
Fed Funds Sold	5,300	--
	-----	-----
Total cash and cash equivalents	27,827	25,113
Securities - Held to Maturity	38,248	44,734
Securities - Available for Sale	345,387	380,238
Federal Home Loan Bank stock - at cost	13,086	13,086
Loans held for sale	267	1,431
Loans - Net	962,363	980,606
Accrued interest receivable and other assets	41,658	36,370
Bank Owned Life Insurance	45,083	42,509
Premises and Equipment - Net	31,790	32,719
	-----	-----
Total assets	\$1,505,709	\$1,556,806
	=====	=====
<b>LIABILITIES</b>		
Deposits:		
Non-interest bearing	\$ 136,989	\$ 141,115
Interest-bearing	943,205	968,865
	-----	-----
Total deposits	1,080,194	1,109,980
Federal Home Loan Bank advances	261,500	256,500
Federal funds purchased	--	13,300
Repurchase agreements	30,000	35,000
Interest payable and other liabilities	13,602	14,579
	-----	-----
Total liabilities	1,385,296	1,429,359
	-----	-----
<b>STOCKHOLDERS' EQUITY</b>		
Common stock (no par value; 30,000,000 shares authorized, 16,139,538 and 16,148,863 shares issued and outstanding)	--	--
Retained Earnings	127,621	129,917
Accumulated other comprehensive loss	(7,208)	(2,470)
	-----	-----
Total stockholders' equity	120,413	127,447
	-----	-----
Total liabilities and stockholders' equity	\$1,505,709	\$1,556,806
	=====	=====

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

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### MBT FINANCIAL CORP. CONSOLIDATED STATEMENTS OF INCOME - UNAUDITED

	THREE MONTHS ENDED SEPTEMBER 30,	
Dollars in thousands, except per share data	2008	2007
<b>INTEREST INCOME</b>		
Interest and fees on loans	\$15,689	\$18,116
Interest on investment securities-		
Tax-exempt	844	875
Taxable	4,558	4,541
Interest on federal funds sold	22	25
	21,113	23,557
<b>INTEREST EXPENSE</b>		
Interest on deposits	6,263	8,277
Interest on borrowed funds	3,764	4,612
	10,027	12,889
<b>NET INTEREST INCOME</b>	11,086	10,668
<b>PROVISION FOR LOAN LOSSES</b>	4,100	1,000
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	6,986	9,668
<b>OTHER INCOME</b>		
Income from wealth management services	1,087	1,171
Service charges and other fees	1,683	1,599
Net gain on sales of securities	323	4
Origination fees on mortgage loans sold	73	169
Bank owned life insurance income	355	329
Other	744	656
	4,265	3,928
<b>OTHER EXPENSES</b>		
Salaries and employee benefits	5,090	5,363
Occupancy expense	801	845
Equipment expense	804	780
Marketing expense	297	426
Professional fees	401	369
Net loss on other real estate owned	2,215	12
Other	1,757	1,447
	11,365	9,242

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INCOME (LOSS) BEFORE INCOME TAXES	(114)	4,354
INCOME TAX EXPENSE (BENEFIT)	(438)	1,173
NET INCOME	\$ 324	\$ 3,181
BASIC EARNINGS PER COMMON SHARE	\$ 0.02	\$ 0.20
DILUTED EARNINGS PER COMMON SHARE	\$ 0.02	\$ 0.20
COMMON STOCK DIVIDENDS DECLARED PER SHARE	\$ 0.09	\$ 0.18

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

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MBT FINANCIAL CORP.  
CONSOLIDATED STATEMENTS OF INCOME - UNAUDITED

Dollars in thousands, except per share data	NINE MONTHS ENDED SEPTEMBER 30,	
	2008	2007
INTEREST INCOME		
Interest and fees on loans	\$47,888	\$53,628
Interest on investment securities-		
Tax-exempt	2,477	2,755
Taxable	14,312	14,038
Interest on federal funds sold	23	141
Total interest income	64,700	70,562
INTEREST EXPENSE		
Interest on deposits	20,122	24,213
Interest on borrowed funds	11,912	13,711
Total interest expense	32,034	37,924
NET INTEREST INCOME	32,666	32,638
PROVISION FOR LOAN LOSSES	8,000	2,500
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	24,666	30,138
OTHER INCOME		
Income from trust services	3,333	3,389
Service charges and other fees	4,795	4,698
Net gain on sales of securities	371	96
Origination fees on mortgage loans sold	357	562
Bank Owned Life Insurance income	985	959
Other	2,244	2,106
Total other income	12,085	11,810

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OTHER EXPENSES		
Salaries and employee benefits	16,113	16,411
Occupancy expense	2,712	2,569
Equipment expense	2,480	2,475
Marketing expense	894	1,047
Professional fees	1,325	1,145
Net loss on other real estate	2,604	22
Other	5,098	3,964
	-----	-----
Total other expenses	31,226	27,633
	-----	-----
INCOME BEFORE INCOME TAXES	5,525	14,315
INCOME TAX EXPENSE	836	3,896
	-----	-----
NET INCOME	\$ 4,689	\$10,419
	=====	=====
BASIC EARNINGS PER COMMON SHARE	\$ 0.29	\$ 0.63
	=====	=====
DILUTED EARNINGS PER COMMON SHARE	\$ 0.29	\$ 0.63
	=====	=====
COMMON STOCK DIVIDENDS DECLARED PER SHARE	\$ 0.45	\$ 0.54
	=====	=====

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

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MBT FINANCIAL CORP.  
CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED

	NINE MONTHS ENDED SEPTEMBER 30,	
Dollars in thousands	2008	2007
-----	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 4,689	\$ 10,419
Adjustments to reconcile net income to net cash from operating activities		
Provision for loan losses	8,000	2,500
Depreciation	2,003	2,030
Increase in net deferred Federal income tax asset	(743)	(475)
Net (accretion) amortization of investment premium and discount	(25)	(253)
Writedowns of Other Real Estate Owned	2,449	--
Net increase (decrease) in interest payable and other liabilities	(768)	949
Net increase in interest receivable and other assets	(5,398)	(2,184)
Equity based compensation expense	175	502
Net gain on sale/settlement of securities	(371)	(96)
Increase in cash surrender value of life insurance	(985)	(959)
	-----	-----
Net cash provided by operating activities	\$ 9,026	\$ 12,433

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CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities and redemptions of investment securities held to maturity	\$ 8,673	\$ 19,818
Proceeds from maturities and redemptions of investment securities available for sale	182,320	23,290
Proceeds from sales of investment securities available for sale	23,943	47,737
Net (increase) decrease in loans	11,407	(11,818)
Proceeds from sales of other real estate owned	2,225	1,482
Proceeds from sales of other assets	187	219
Purchase of investment securities held to maturity	(2,185)	(4,757)
Purchase of Bank Owned Life Insurance	(1,589)	(1,584)
Purchase of investment securities available for sale	(178,518)	(63,137)
Purchase of bank premises and equipment	(1,079)	(1,344)
	-----	-----
Net cash provided by investing activities	\$ 45,384	\$ 9,906
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Net decrease in deposits	\$ (29,786)	\$ (5,983)
Net increase (decrease) in short term borrowings	(13,300)	8,200
Proceeds from Federal Home Loan Bank borrowings	5,000	--
Net decrease in securities sold under agreements to repurchase	(5,000)	(5,000)
Proceeds from issuance of common stock	99	87
Repurchase of common stock	--	(7,427)
Dividends paid	(8,709)	(8,954)
	-----	-----
Net cash used for financing activities	\$ (51,696)	\$ (19,077)
	=====	=====
NET INCREASE IN CASH AND CASH EQUIVALENTS	\$ 2,714	\$ 3,262
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	25,113	27,903
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 27,827	\$ 31,165
	=====	=====

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

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

Dollars in thousands	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)
-----	-----	-----	-----
BALANCE - JANUARY 1, 2008	\$ --	\$129,917	\$ (2,470)
Issuance of Common Stock (14,541 shares)	--	99	--
Equity Compensation	--	175	--
Dividends declared (\$0.45 per share)	--	(7,259)	--
Comprehensive income:			
Net income	--	4,689	--

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Change in net unrealized loss on securities available for sale - Net of tax effect of \$2,495	--	--	(4,633)
Reclassification adjustment for gains included in net income - Net of tax effect of \$130	--	--	(241)
Change in postretirement benefit obligation Net of tax effect of (\$73)	--	--	136
	----	-----	-----
Total Comprehensive Income			
BALANCE - SEPTEMBER 30, 2008	\$ --	\$127,621	\$ (7,208)
	====	=====	=====

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

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

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

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

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

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

The significant accounting policies are as follows:

PRINCIPLES OF CONSOLIDATION

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

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eliminated.

### COMPREHENSIVE INCOME

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

### BUSINESS SEGMENTS

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

### FAIR VALUE

In February 2007, the Financial Accounting Standards Board "FASB" issued FAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (FAS 159). FAS 159 permits companies to elect on an instrument by instrument basis to fair value certain financial assets and

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financial liabilities with changes in fair value recognized in earnings as they occur. The election to fair value is generally irrevocable. In April 2007, the Corporation elected early adoption of FAS 159 as of January 1, 2007. The Corporation did not select any financial assets or financial liabilities for fair value measurement, but elected early adoption in order to be able to apply the fair value option to financial assets and financial liabilities that may be acquired prior to the effective date of the statements. Upon early adoption of FAS 159, the Corporation concurrently adopted the provisions of FAS 157, effective January 1, 2007.

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 FAS 159 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, which are in accordance with FAS 157.

In accordance with FAS 157, 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 U.S. government agency securities, government sponsored mortgage



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backed securities, and 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 obligations of states and political subdivisions and trust preferred securities 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 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.

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### 2. EARNINGS PER SHARE

The calculation of net income per common share for the three months ended September 30 is as follows:

	2008	2007
BASIC		
Net income	\$ 324,000	\$ 3,181,000
Less preferred dividends	--	--
Net income applicable to common stock	\$ 324,000	\$ 3,181,000
Average common shares outstanding	16,136,402	16,288,696
Earnings per common share - basic	\$ 0.02	\$ 0.20
	2008	2007

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DILUTED		
Net income	\$ 324,000	\$ 3,181,000
Less preferred dividends	--	--
	-----	-----
Net income applicable to common stock	\$ 324,000	\$ 3,181,000
	-----	-----
Average common shares outstanding	16,136,402	16,288,696
Stock option adjustment	27,461	21,583
	-----	-----
Average common shares outstanding - diluted	16,163,863	16,310,279
	-----	-----
Earnings per common share - diluted	\$ 0.02	\$ 0.20
	-----	-----

The calculation of net income per common share for the nine months ended September 30 is as follows:

	2008	2007
	-----	-----
BASIC		
Net income	\$ 4,689,000	\$10,419,000
Less preferred dividends	--	--
	-----	-----
Net income applicable to common stock	\$ 4,689,000	\$10,419,000
	-----	-----
Average common shares outstanding	16,131,436	16,509,813
	-----	-----
Earnings per common share - basic	\$ 0.29	\$ 0.63
	-----	-----

	2008	2007
	-----	-----
DILUTED		
Net income	\$ 4,689,000	\$10,419,000
Less preferred dividends	--	--
	-----	-----
Net income applicable to common stock	\$ 4,689,000	\$10,419,000
	-----	-----
Average common shares outstanding	16,131,436	16,509,813
Stock option adjustment	27,461	21,583
	-----	-----
Average common shares outstanding - diluted	16,158,897	16,531,396
	-----	-----
Earnings per common share - diluted	\$ 0.29	\$ 0.63
	-----	-----

### 3. STOCK BASED COMPENSATION

The following table summarizes the options that have been granted to non-employee directors and certain key executives in accordance with the Long-Term Incentive Compensation Plan that was approved by shareholders at the

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Annual Meeting of Shareholders on April 6, 2000.

	Shares	Weighted Average Exercise Price
	-----	-----
Options Outstanding, January 1, 2008	602,143	\$17.36
Granted	--	--
Exercised	--	--
Forfeited	58,334	16.90
	-----	-----
Options Outstanding, September 30, 2008	543,809	\$17.41
	-----	-----
Options Exercisable, September 30, 2008	457,987	\$17.75
	-----	-----

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On June 4, 2008, performance restricted stock units were awarded to certain key executives in accordance with the MBT 2008 Stock Incentive Plan that was approved by shareholders on May 1, 2008. Each restricted stock unit (RSU) is equivalent to one share of MBT Financial Corp. common stock. Stock will be issued to the participants following a three year performance period that ends on December 31, 2010 based on the cumulative earnings per share during that three year period. The RSUs vest on December 31, 2010. There were 21,500 RSUs granted, and none will be considered vested and earned for payment if the Company's three year cumulative earnings per share are less than \$2.16. The expense recorded for the RSUs in accordance with FAS 123(R) was \$20,000 in the first nine months of 2008. The amount of RSUs that will vest on December 31, 2010 is based on the three year cumulative earnings per share achieved by the company during the vesting period as shown in the following schedule:

Three Year Cumulative Fully Diluted EPS for the Performance Period Ending December 31, 2010	Percent PSUs Vested
-----	-----
\$2.40	100%
\$2.34	90%
\$2.28	80%
\$2.24	70%
\$2.21	60%
\$2.16	50%

On June 4, 2008, Stock Only Stock Appreciation Rights (SOSARs) were awarded to certain key executives in accordance with the MBT 2008 Stock Incentive Plan that was approved by shareholders on May 1, 2008. The SOSARs have a term of ten years and vest in three equal annual installments beginning December 31, 2008. SOSARs granted under the plan are structured as fixed grants with the exercise price equal to the market value of the underlying stock on the date of the grant.

The fair value of \$1.39 for the SOSARs was estimated at the date of the grant, using the Black-Scholes option pricing model, with the following assumptions: expected option lives of 7 years, expected volatility of 25.9%, a risk free rate

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of 3.61% and dividend yield of 4.87%. The expense recorded for the SOSARs in accordance with FAS 123(R) was \$33,000 in the first nine months of 2008. The following table summarizes the SOSARs that have been granted:

	Shares	Weighted Average Exercise Price
	-----	-----
SOSARs Outstanding, January 1, 2008	--	\$0.00
Granted	99,500	8.53
Exercised	--	--
Forfeited	--	--
	-----	-----
SOSARs Outstanding, September 30, 2008	99,500	\$8.53
	-----	-----
SOSARs Exercisable, September 30, 2008	--	\$0.00
	-----	-----

The total expense for equity based compensation was \$40,000 in the third quarter of 2008 and \$162,000 in the third quarter of 2007. The total expense for equity based compensation was \$175,000 in the first nine months of 2008 and \$502,000 in the first nine months of 2007.

#### 4. LOANS

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

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Loans consist of the following (000s omitted):

	September 30, 2008	December 31, 2007
	-----	-----
Residential real estate loans	\$458,675	\$ 489,038
Non-farm, non-residential real estate loans	342,802	357,622
Loans to finance agricultural production and other loans to farmers	12,455	5,981
Commercial and industrial loans	135,020	107,375
Loans to individuals for household, family, and other personal expenditures	32,064	40,705
All other loans (including overdrafts)	433	731
	-----	-----
Total loans, gross	981,449	1,001,452
Less: Deferred loan fees	678	624
	-----	-----
Total loans, net of deferred loan fees	980,771	1,000,828
Less: Allowance for loan losses	18,408	20,222
	-----	-----

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\$962,363                      \$ 980,606  
 =====                      =====

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

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

	September 30, 2008	December 31, 2007
	-----	-----
Nonaccrual loans	\$34,892	\$30,459
Loans 90 days past due	119	102
Restructured loans	6,685	3,367
	-----	-----
Total nonperforming loans	\$41,696	\$33,928
Other real estate owned	15,968	10,626
Other assets	1,925	1,939
	-----	-----
Total nonperforming assets	\$59,589	\$46,493
	=====	=====
Nonperforming assets to total assets	3.96%	2.99%
Allowance for loan losses to nonperforming loans	44.15%	59.60%

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5. ALLOWANCE FOR LOAN LOSSES

Activity in the allowance for loan losses was as follows (000's omitted):

	September 30, 2008	September 30, 2007
	-----	-----
Balance beginning of year	\$ 20,222	\$13,764
Provision for loan losses	8,000	2,500
Loans charged off	(10,516)	(3,183)
Recoveries	702	1,242
	-----	-----
Balance end of period	\$ 18,408	\$14,323
	=====	=====

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For each period, the provision for loan losses in the income statement is based on Management's estimate of the amount required to maintain an adequate Allowance for Loan 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, or the fair value of the collateral, or the loan's observable market price.

The provision for loan losses increases the Allowance for Loan Losses, a valuation account which is netted against loans on the consolidated statements of condition. When it is determined that a customer will not repay a loan, 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.

### 6. INVESTMENT SECURITIES

The following is a summary of the Bank's investment securities portfolio as of September 30, 2008 and December 31, 2007 (000's omitted):

	September 30, 2008		December 31, 2007	
	Amortized Cost	Estimated Market Value	Amortized Cost	Estimated Market Value
Held to Maturity				
Obligations of U.S. Government Agencies	\$ 7	\$ 7	\$ 7	\$ 8
Obligations of States and Political Subdivisions	38,241	37,924	44,727	45,036
	\$38,248	\$37,931	\$44,734	\$45,044
	=====	=====	=====	=====

	September 30, 2008		December 31, 2007	
	Amortized Cost	Estimated Market Value	Amortized Cost	Estimated Market Value
Available for Sale				
Obligations of U.S. Government Agencies	\$271,204	\$270,984	\$330,505	\$330,178
Obligations of States and Political Subdivisions	39,406	38,524	27,046	27,134
Other Securities	42,672	35,879	23,081	22,926
	\$353,282	\$345,387	\$380,632	\$380,238
	=====	=====	=====	=====

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The unrealized losses on investment securities are primarily the result of increases in market interest rates and not the result of credit quality of the issuers of the securities. The Company has the ability and intent to hold most of these securities until recovery, which may be until maturity. For securities in which the Company no longer has the intent to hold until recovery, the securities are treated as other than temporarily impaired and the amount of impairment is charged to earnings.

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### 7. FAIR VALUE MEASUREMENTS

The following tables present information about the Company's assets measured at fair value on a recurring basis at September 30, 2008, and the valuation techniques used by the Company to determine those fair values.

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

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

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

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

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

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Signific Unobserva Inputs (Lev
	-----	-----	-----
Investment Securities - Available for Sale	\$273,630	\$50,503	\$21,25

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

Investment  
Securities -  
Available for Sale  
-----

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BALANCE AT DECEMBER 31, 2007	\$ 585
Total realized and unrealized gains (losses) included in income	--
Total unrealized gains (losses) included in other comprehensive income	(4,268)
Net purchases, sales, calls and maturities	--
Net transfers in/out of Level 3	24,937
	-----
BALANCE AT SEPTEMBER 30, 2008	\$21,254

Of the Level 3 assets that were held by the Company at September 30, 2008, the unrealized loss for the nine months ended September 30, 2008 was \$4,439,000, which is recognized in other comprehensive income in the consolidated statements of financial condition. The Company did not have any sales or purchases of Level 3 available for sale securities during the period.

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

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The Level 3 fair values disclosed for December 31, 2007 through the first two quarters of 2008 included \$585,000 of available for sale investment securities issued by local municipalities. Previously the Company estimated the fair value of these bonds based on the present value of expected future cash flows using management's best estimate of key assumptions, including forecasted interest yield and payment rates, credit quality, and a discount rate commensurate with the current market and other risks involved. During the third quarter of 2008, the Company began using a yield curve pricing matrix to calculate the fair value, and these securities were transferred out of Level 3 and into Level 2. The Company owns pooled Trust Preferred Securities ("TRUPS) with a fair value of \$21,254,000 as of September 30, 2008. The Company reported the TRUPS as Level 2 assets as of June 30, 2008 using broker indications for fair values. As of September 30, 2008, trading of these types of securities was only conducted on a distress sale or forced liquidation basis. As a result, the Company is now measuring the fair values of these assets using Level 3 inputs, specifically discounted cash flow projections.

The Company also has assets that under certain conditions are subject to measurement at fair value on a 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 September 30, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Signific Unobserva Inputs (Level
-------------------------------------	--	---	---



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Investment Securities - Held to Maturity	\$38,248	\$ 7	\$33,388	\$ 4,85
Impaired loans accounted for under FAS 114	\$44,567	\$--	\$ --	\$44,56
Loan held for sale	\$ 267	\$--	\$ --	\$ 26
Other Real Estate Owned	\$17,893	\$--	\$17,893	\$ --

Held to maturity investment securities categorized as Level 3 assets primarily consist of debt issued by local municipalities. The Company estimates the fair value of these bonds based on the present value of expected future cash flows using management's best estimate of key assumptions, including forecasted interest yield and prepayment rates, credit quality and a discount rate commensurate with the current market and other risks involved.

Impaired loans accounted for under FAS 114 categorized as Level 3 assets consist of non-homogenous loans that are considered impaired. The Company estimates the fair value of the loans based on the present value of expected future cash flows using management's best estimate of key assumptions. These assumptions include future payment ability, timing of payment streams, and estimated realizable values of available collateral (typically based on outside appraisals).

8. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

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

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

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

	Contractual Amount	
	September 30, 2008	December 31, 2007
Commitments to extend credit:		
Unused portion of commercial lines of credit	\$64,680	\$92,774
Unused portion of credit card lines of credit	5,854	5,988
Unused portion of home equity lines of credit	21,257	20,047
Standby letters of credit and financial guarantees written	7,780	9,994
All other off-balance sheet assets	4,819	3,555

Commitments to extend credit are agreements to lend to a customer as long as

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

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

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

#### Introduction

MBT Financial Corp. (the "Company") is a bank holding company with one subsidiary, Monroe Bank & Trust ("the Bank"). The Bank is a commercial bank with two wholly owned subsidiaries, MBT Credit Company, Inc. and MB&T Financial Services. MBT Credit Company, Inc. conducts lending operations for the Bank and MB&T Financial Services is an insurance agency which sells insurance policies to the Bank. The Bank operates 20 branch offices in Monroe County, Michigan and 5 offices in Wayne County, Michigan. The Bank's primary source of income is interest income on its loans and investments and its primary expense is interest expense on its deposits and borrowings.

The ongoing challenges in the southeast Michigan economy, with increasing unemployment and decreasing real estate values, continue to have a negative impact on our performance. We monitor the quality of our loan portfolios closely, and we decided that the decrease in real estate values necessitated write downs of some of our Other Real Estate Owned this quarter. The decrease in the value of real estate collateral also required an increase in the allowance for loan losses. Our Allowance for Loan Losses is now \$18.4 million, or 1.88% of loans. Non performing assets (NPAs) decreased from \$62.3 million to \$59.6 million during the quarter, largely due to the OREO write downs and loan charge off activity.

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Net Interest Income increased \$418,000 compared to the third quarter of 2007 due to the improvement in the net interest margin. We are encouraged by the third consecutive quarterly improvement in the margin, and we are beginning to see the benefits of our cost reduction initiatives. Non interest income, excluding securities transactions, was flat compared to last year as Wealth Management fees decreased due to lower market values for investments and origination fees on mortgage loans sold decreased due to a significant decline in real estate lending activity. Credit quality issues also affected our non interest expenses, which increased 23% compared to last year. We expect credit related expenses to remain high, but we will see meaningful expense improvement in most other areas.

Our capital levels remain strong, and well above regulatory minimums required to be considered a well-capitalized institution. As of September 30, 2008 our total

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tangible capital was \$120,413,000. We have ample liquidity to meet the needs of our qualified loan customers, and continue to maintain a financially sound and solvent balance sheet. Due to the low level of earnings this year, our board of directors decided to reduce the quarterly dividend by \$0.09, or 50% during the third quarter. This preserved \$1.4 million of capital this quarter, and our board will continue to evaluate all options concerning the payment of our dividend each quarter.

### Critical Accounting Policies

The Company'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 Company'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 borrowers. To determine the Allowance for Loan Losses, the Company estimates losses on all loans that are not classified as non accrual or renegotiated by applying historical loss rates, adjusted for current conditions, to those loans in accordance with SFAS 5. In addition, all loans that are non accrual or renegotiated are individually tested for impairment. Any amount of monetary impairment is included in the Allowance for Loan Losses in accordance with SFAS 114.

In October 2008, the FASB issued FSP 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active. FSP 157-3 provides clarification of the application of FASB 157 in an inactive market. FSP 157-3 is effective for the Company's interim financial statements as of September 30, 2008. See Note 7, Fair Value Measurements, for additional discussion regarding changes in how the Company changed methods for determining fair values..

### Financial Condition

The economic conditions in southeast Michigan remained weak throughout the first nine months of 2008. Rising unemployment and decreasing property values resulted in decreases in loans and deposits, and an increase in nonperforming assets since the end of 2007. Although steepening of the yield curve helped the net interest margin improve, these balance sheet changes resulted in flat net interest income, a larger provision for loan losses, and higher credit related non interest expenses. While some lending opportunities exist, the economy is expected to remain weak well into 2009. On October 10, 2008, the Company purchased the deposits of Main Street Bank in Northville, Michigan after it was closed by regulators. This will add approximately \$80 million in deposits in the fourth quarter. Other than the Main Street acquisition, the Company does not expect significant deposit or asset growth and intends to continue to focus efforts on credit quality and capital management.

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Since December 31, 2007, total loans decreased \$20.0 million (2.0%) due to the weak loan demand. Total cash and investments decreased \$38.6 million (8.6%), and total assets decreased \$51.1 million (3.3%). Consumer loans decreased \$8.6 million, or 21.2% due to a reduction in lending for autos and other personal expenditures, especially boats and recreational vehicles. Residential real estate secured loans decreased \$30.4 million (6.2%) due to a decrease in residential development activity. Deposits decreased \$29.8 million, or 2.7%, due to a variety of factors, primarily including normal seasonal activity of large municipal depositors and aggressive certificate of deposit pricing strategies of some of the regional banks that have offices in our market area. Total capital

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decreased \$7.0 million or 5.5% because dividends declared exceeded net income by \$2.6 million, and accumulated other comprehensive income decreased \$4.7 million, primarily due to the decrease in the value of securities available for sale. The capital to assets ratio decreased from 8.19% at December 31, 2007 to 8.00% at September 30, 2008.

The amount of nonperforming assets ("NPAs") increased \$13.1 million or 28.2% since year end. NPAs include non performing loans, which increased 22.9% from \$33.9 million to \$41.7 million, and Other Real Estate Owned and Other Assets ("OREO"), which increased from \$12.6 million to \$17.9 million. Total problem assets, which includes all NPAs and performing loans that are internally classified as substandard, increased \$28.2 million, or 32.3%. The Company's Allowance for Loan and Lease Losses ("ALLL") decreased \$1.8 million since December 31, 2007, as the amount of specific allocations required by FAS 114 decreased from \$9.1 million to \$6.9 million, due to progress made in successfully resolving a large non performing asset and charge offs of amounts previously recognized as impaired loans. The FAS 5 portion of the allowance increased slightly from \$11.1 million to \$11.5 million because the impact of the increase in the loss factors was greater than the impact of the decrease in the loan portfolio. The loss factors, which include five year loss averages, and adjustments for various current factors, such as recent delinquency and charge off trends and national and local economic conditions, were increased due to the weak economic conditions and declining real estate values. The ALLL is now 1.88% of loans, compared to 2.02% at year end. The ALLL is 44.2% of NPLs, a decrease from 59.6% at year end. We believe that at this level the ALLL adequately estimates the potential losses in the loan portfolio.

### Results of Operations -- Third Quarter 2008 vs. Third Quarter 2007

Net Interest Income - A comparison of the income statements for the three months ended September 30, 2007 and 2008 shows an increase of \$418,000, or 3.9% in Net Interest Income. Interest income on loans decreased \$2.4 million or 13.4% as the average loans outstanding decreased \$30.2 million and the average yield on loans decreased from 7.13% to 6.37%. The interest income on investments and fed funds sold decreased \$17,000 even though the average amount of investments and fed funds sold increased \$9.7 million as the yield on investments and fed funds sold decreased from 5.30% to 5.16%. An improvement in the term structure of interest rates and a decrease in the overall level of interest rates allowed funding costs to decrease faster than asset yields. The interest expense on deposits decreased \$2.0 million or 24.3% even though average deposits increased \$1.4 million as the average cost of those deposits decreased from 3.03% to 2.31%. The cost of borrowed funds decreased \$848,000 even though the average amount of borrowed funds increased \$6.6 million as the average cost of the borrowings decreased from 6.12% to 4.89%.

Provision for Loan Losses - The Provision for Loan Losses increased from \$1.0 million in the third quarter of 2007 to \$4.1 million in the third quarter of 2008 due to increased non performing loans and weaker economic conditions. Net charge offs were \$3.8 million during the third quarter of 2008, compared to \$3.0 million in the third quarter of 2007. Each quarter, the

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Company conducts a review and analysis of its ALLL to ensure its adequacy. This analysis involves specific allocations for impaired credits and a general allocation for losses expected based on historical experience adjusted for current conditions.

Other Income -- Non interest income increased \$337,000 in the third quarter of

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2008 compared to the third quarter of 2007 as gains on securities transactions increased \$319,000. Wealth Management income decreased \$84,000, or 7.2% due to decreasing market values of assets under management, the value of which has a direct impact on fee income. Origination fees on mortgage loans sold decreased 56.8% from \$169,000 to \$73,000 due to significantly slower real estate lending activity. Other non interest income increased \$88,000, or 13.4% as ATM interchange income increased \$60,000 due to higher debit card activity.

Other Expenses -- Total non interest expenses increased \$2.1 million or 23.0% compared to the third quarter of 2007 primarily due to higher credit related expenses. Excluding OREO losses and write downs, non interest expenses decreased \$80,000. Salaries and Employee Benefits decreased \$273,000, or 5.1%, as the number of full time equivalent employees decreased from 426 to 366. Occupancy expense decreased \$44,000 or 5.2% due to lower maintenance costs. Professional fees increased \$32,000 due to credit related legal expenses. Losses on Other Real Estate Owned (OREO) increased \$2.2 million due to write downs on properties in 2008. Other OREO expenses increased \$338,000 compared to the third quarter of 2007 as the increase in OREO properties caused an increase in insurance, maintenance, and property tax expenses.

As a result of the above activity, the Income Before Income Taxes decreased \$4.5 million to a loss of \$114,000. The income tax expense decreased \$1.6 million from \$1.2 million to a benefit of \$438,000. The Net Profit of \$324,000 is a decrease of \$2.9 million from the profit of \$3.2 million in the third quarter of 2007.

Results of Operations -- First Nine Months 2008 vs. 2007

Net Interest Income - A comparison of the income statements for the nine months ended September 30, 2007 and 2008 shows an increase of \$28,000, or 0.1% in Net Interest Income. Interest income on loans decreased \$5.7 million or 10.7% as the average loans outstanding decreased \$9.1 million and the average yield on loans decreased from 7.17% to 6.46%. The interest income on investments and fed funds sold decreased \$122,000 even though the average amount of investments and fed funds increased \$5.7 million as the yield on investments and fed funds sold decreased from 5.27% to 5.16%. An improvement in the term structure of interest rates and a decrease in the overall level of interest rates allowed funding costs to decrease faster than asset yields. The interest expense on deposits decreased \$4.1 million or 16.9% even though average deposits increased \$206,000 as the average cost of those deposits decreased from 2.97% to 2.47%. The cost of borrowed funds decreased \$1.8 million even though the average amount of borrowed funds increased \$12.4 million as the average cost of the borrowings decreased from 6.07% to 5.06%.

Provision for Loan Losses - The Provision for Loan Losses increased from \$2.5 million in the first nine months of 2007 to \$8.0 million in the first nine months of 2008 due to increased non performing loans and weaker economic conditions. Net charge offs were \$9.8 million during the first nine months of 2008, compared to \$1.9 million in the first nine months of 2007.

Other Income -- Non interest income increased \$275,000 in the first nine months of 2008 compared to the first nine months of 2007. Gains on sales of investment securities increased \$275,000. Origination fees on mortgage loans sold decreased 36.5% from \$562,000 to \$357,000 due to significantly slower real estate lending activity. Other income increased \$138,000 as ATM interchange income increased \$191,000 due to increased debit card activity.

Other Expenses -- Total non interest expenses increased \$3.6 million or 13.0%

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compared to the first nine months of 2007 primarily due to higher credit related expenses. Salaries and benefits decreased \$298,000 due to the reduction in staff. Occupancy expense increased \$143,000 or 5.6% mainly due to accelerated depreciation on our temporary branch location in Petersburg in the first half of 2008. Professional fees increased \$180,000 due to credit related legal expenses. Losses on Other Real Estate Owned (OREO) increased \$2.6 million due to write downs on properties in 2008. Other OREO expenses increased \$804,000 compared to the first nine months of 2007 as the increase in OREO properties caused an increase in insurance, maintenance, and property tax expenses. Various other expenses increased \$182,000 primarily due to higher collection costs.

As a result of the above activity, the Income Before Income Taxes decreased \$8.8 million to \$5.5 million. The income tax expense decreased \$3.1 million from \$3.9 million to \$0.8 million. The percent of our income that is derived from tax exempt sources increased, and our effective tax rate decreased from 27.2% last year to 15.1%. The Net Profit of \$4.7 million is a decrease of \$5.7 million from the profit of \$10.4 million in the first nine months of 2007.

### Cash Flows

Cash flows from operating activities decreased from \$12.4 million in the first nine months of 2007 to \$9.0 million in the first nine months of 2008 due to the decrease in net income and the increase in interest receivable and other assets. Cash flows provided by investing activities increased from \$9.9 million in the first nine months of 2007 to \$45.4 million in the first nine months of 2008 primarily due to the large increase in the amount of investment securities called or matured in the first nine months of 2008. A significant portion of the investment activity proceeds was used to fund the reduction in deposits and to reduce the amount of short term borrowings. The amount of cash used for financing activities increased from \$19.1 million in the first nine months of 2007 to \$51.7 million in the first nine months of 2008 primarily due to a decrease in deposits in the first nine months of 2008.

### Liquidity and Capital

The Company maintains sufficient liquidity to fund its lending activity and 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, the Federal funds lines that have been established with correspondent banks, and Repurchase Agreements with money center banks that allow us to pledge securities as collateral for borrowings. As of September 30, 2008, the Bank utilized \$261.5 million of its authorized limit of \$275 million with the Federal Home Loan Bank of Indianapolis and none of its \$50 million of federal funds lines with its correspondent banks. The fed funds lines with correspondent banks were reduced from \$110 million to \$50 million during the quarter as two of the Company's three correspondent banks decreased their lines available to the Company. On October 10, 2008, the Company acquired the deposits of the former Main Street Bank after it was closed by regulators. This transaction provided a significant increase in the bank's liquidity in the fourth quarter of 2008 as the company obtained approximately \$86 million in deposits, \$11 million in investment securities, and \$75 million in cash

The Company's Funds Management Policy includes guidelines for desired amounts of liquidity and capital. The Funds Management Policy also includes contingency plans for liquidity and capital that specify actions to take if liquidity and capital ratios violate the guidelines. Throughout the third quarter of 2008 the Company was in compliance with its Funds Management Policy regarding liquidity and capital.

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Total stockholders' equity of the Company was \$120.4 million at September 30, 2008 and \$127.4 million at December 31, 2007. The ratio of equity to assets was 8.0% at September 30, 2008 and 8.2% at December 31, 2007. Federal bank regulatory agencies have set capital adequacy standards for Total Risk Based Capital, Tier 1 Risk Based Capital, and Leverage Capital. These standards require banks to maintain Leverage and Tier 1 ratios of at least 4% and a Total Capital ratio of at least 8% to be adequately capitalized. The regulatory agencies consider a bank to be well capitalized if its Total Risk Based Capital is at least 10% of Risk Weighted Assets, Tier 1 Capital is at least 6% of Risk Weighted Assets, and the Leverage Capital Ratio is at least 5%.

The following table summarizes the capital ratios of the Company:

	September 30, 2008 -----	December 31, 2007 -----	Minimum to be Well Capitalized -----
Leverage Capital	8.4%	8.4%	5.0%
Tier 1 Risk Based Capital	11.7%	11.8%	6.0%
Total Risk Based Capital	13.0%	13.1%	10.0%

At September 30, 2008 and December 31, 2007, the Bank was in compliance with the capital guidelines and is considered "well-capitalized" under regulatory standards.

On October 3, 2008, Congress passed the Emergency Economic Stabilization Act of 2008 ("EESA"), which provides the U. S. Secretary of the Treasury with broad authority to implement certain actions to help restore stability and liquidity to U. S. markets. One of the provisions resulting from the Act is the Treasury Capital Purchase Program ("CPP"), which provides direct equity investment of perpetual preferred stock by the Treasury in qualified financial institutions. The program is voluntary and requires an institution to comply with a number of restrictions and provisions, including limits on executive compensation, stock redemptions and declaration of dividends. Applications must be submitted by November 14, 2008, and are subject to approval by the Treasury. The CPP provides for a minimum investment of 1% of Risk-Weighted Assets, with a maximum investment equal to the lesser of 3% of Total Risk-Weighted Assets or \$25 billion. The perpetual preferred stock investment will have a dividend rate of 5% per year, until the fifth anniversary of the Treasury investment, and a dividend of 9%, thereafter. The CPP also requires the Treasury to receive warrants for common stock equal to 15% of the capital invested by the Treasury. On November 6, 2008, the Company's board of directors authorized application for participation in the CPP at 3% of its Risk Weighted Assets. Participation in the program is not automatic and subject to approval by the Treasury. If approved by the Treasury, the Company will need shareholder approval to amend its Articles of Incorporation to authorize issuance of preferred stock. While the Board determined that an application should be filed by the current deadline of November 14, 2008, it will continue to evaluate whether to participate in the CPP program if it is approved. In making its determination regarding participation, the Board will consider both the program's positive and negative aspects, its costs and any further clarification and details which are forthcoming regarding the effect of participation of MBT.

Market risk for the Bank, as is typical for most banks, consists mainly of

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interest rate risk and market price risk. The Bank's earnings and the economic value of its equity are exposed to interest rate risk and market price risk, and monitoring this risk is the responsibility of the Asset/Liability Management Committee (ALCO) of the Bank. The Bank's market risk is monitored monthly and it has not changed significantly since year-end 2007.

### Forward-Looking Statements

Certain statements contained herein are not based on historical facts and are "forward-looking statements" within the meaning of Section 21A of the Securities Exchange Act of 1934. Forward-looking statements which are based on various assumptions (some of which are beyond the Company's control), may be identified by reference to a future period or periods, or by the use of forward-looking terminology, such as "may," "will," "believe," "expect," "estimate," "anticipate," "continue," or similar terms or variations on those terms, or the negative of these terms. Actual results could differ materially from those set forth in forward-looking statements,

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due to a variety of factors, including, but not limited to, those related to the economic environment, particularly in the market areas in which the Company operates, competitive products and pricing, fiscal and monetary policies of the U.S. Government, changes in government regulations affecting financial institutions, including regulatory fees and capital requirements, changes in prevailing interest rates, acquisitions and the integration of acquired businesses, credit risk management, asset/liability management, changes in the financial and securities markets, including changes with respect to the market value of our financial assets, the availability of and costs associated with sources of liquidity, and the ability of the Company to resolve or dispose of problem loans.

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

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Each month, the Asset and Liability Committee (ALCO), which includes the senior management of the Bank, estimates the effect of interest rate changes on the projected net interest income of the Bank. The sensitivity of the Bank's net interest income to changes in interest rates is measured by using a computer based simulation model to estimate the impact on earnings of 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 Bank's ALCO has established limits in the acceptable amount of interest rate



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risk, as measured by the change in the Bank's projected net interest income, in its policy. Throughout the first nine months of 2008, the estimated variability of the net interest income was within the Bank's established policy limits.

The ALCO also monitors interest rate risk by estimating the effect of changes in interest rates on the economic value of the Bank's equity each month. The 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 Statement of Financial Accounting Standards Number 107, Disclosures about Fair Value of Financial Instruments. 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 parallel shifts of plus or minus 100, 200, and 300 basis points in interest rates. The discount rates used to determine the present values of the loans and deposits, as well as the prepayment rates for the loans, are based on Management's expectations of the effect of the rate shock on the market for loans and deposits.

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 the first nine months of 2008, the estimated variability of the economic value of equity was within the Bank's established policy limits.

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The Bank's interest rate risk, as measured by the net interest income and economic value of equity simulations, has not changed significantly from December 31, 2007.

### ITEM 4. CONTROLS AND PROCEDURES

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of September 30, 2008, pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2008, in alerting them in a timely manner to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic SEC filings.

There was no change in the Company's internal control over financial reporting that occurred during the Company's fiscal quarter ended September 30, 2008, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

### PART II OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS

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

#### ITEM 1A. RISK FACTORS

There have been no material changes in the risk factors disclosed by the Company

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in its Report on Form 10-K for the fiscal year ended December 31, 2007.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

The Company has a stock repurchase program which it publicly announced on January 22, 2008. On that date, the Board of Directors authorized the repurchase of 1 million of the Company's common shares, which authorization will expire on December 31, 2008. The Company did not repurchase any of its stock during the three months ended September 30, 2008.

On June 4, 2008, 90,500 Stock Only Stock Appreciation Rights (SOSARs) were awarded to certain key executives in accordance with the MBT 2008 Stock Incentive Plan that was approved by shareholders on May 1, 2008. The SOSARs have a term of ten years and vest in three equal annual installments beginning December 31, 2008. 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. Each award was granted pursuant to a Stock Only Stock Appreciation Rights Agreement (the "SOSAR Agreement") entered into with each award recipient. The SOSARs may be exercised in whole or in part during the term by giving written notice of exercise to the Company specifying the number of shares in respect of which the SOSAR is being exercised. Upon the exercise of a SOSAR, subject to satisfaction of the tax withholding requirements, each holder is entitled to receive the number of shares equal in value

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to the excess of the fair market value of a share on the exercise date over the exercise price of the SOSAR multiplied by the number of SOSARs being exercised. The above disclosure provides only a summary of the terms of each award. The general form of the SOSAR Agreement is provided as an exhibit to this Report.

On June 4, 2008, 22,300 performance restricted stock units were awarded to certain key executives in accordance with the MBT 2008 Stock Incentive Plan that was approved by shareholders on May 1, 2008. Each restricted stock unit ("RSU") is equivalent to one share of MBT Financial Corp. common stock. Stock will be issued to the participants following a three year performance period that ends on December 31, 2010 based on the cumulative earnings per share during that three year period. The RSUs vest on December 31, 2010. No RSUs will be considered vested and earned for payment if the Company's three year cumulative earnings per share are less than \$2.16. The above disclosure provides only a summary of the terms of each award. Each RSU award was granted pursuant to a Restricted Share Unit Agreement (the "RSU Agreement") entered into with each award recipient, the general form of which is provided as an exhibit to this Report.

These transactions were not registered under the Securities Act of 1933 (the "Act"), but were made in reliance upon the exemption from registration contained in Section 4(2) thereof.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

### ITEM 5. OTHER INFORMATION

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No matters to be reported.

ITEM 6. EXHIBITS

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

- 3.1 Restated Articles of Incorporation of MBT Financial Corp. Previously filed as Exhibit 3.1 to MBT Financial Corp.'s Form 10-K for its fiscal year ended December 31, 2000.
- 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.
- 31.1 Certification by Chief Executive Officer required by Securities and Exchange Commission Rule 13a-14.
- 31.2 Certification by Chief Financial Officer required by Securities and Exchange Commission Rule 13a-14.
- 32.1 Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as enacted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as enacted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

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

MBT Financial Corp.  
(Registrant)

November 7, 2008  
Date

By /s/ H. Douglas Chaffin  
-----  
H. Douglas Chaffin  
President &  
Chief Executive Officer

November 7, 2008  
Date

By /s/ John L. Skibski  
-----  
John L. Skibski  
Executive Vice President and  
Chief Financial Officer

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EXHIBIT INDEX

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Exhibit Number	Description of Exhibits
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