MBT FINANCIAL CORP
Form 10-Q
November 15, 2010

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

FORM 10-Q

(Mark One)

x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2010

Or

o Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 000-30973

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Date 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 ¨ No ¨

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

Large accelerated filer o Accelerated Filer o
Non-accelerated filer o Smaller reporting company x

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

As of November 15, 2010, there were 17,202,422 shares of the Company’s Common Stock outstanding.

Part I Financial Information

Item 1. Financial Statements

MBT FINANCIAL CORP.
CONSOLIDATED BALANCE SHEETS

		September 30, 2010 (Unaudited)		December 31, 2009
Dollars in thousands				
ASSETS				
Cash and Cash Equivalents				
Cash and due from banks				
Non-interest bearing	$	18,053	$	18,448
Interest bearing		33,361		51,298
Total cash and cash equivalents		51,414		69,746
Securities - Held to Maturity		25,044		36,433
Securities - Available for Sale		286,280		307,346
Federal Home Loan Bank stock - at cost		13,086		13,086
Loans held for sale		1,181		931
Loans - Net		764,127		824,916
Accrued interest receivable and other assets		37,492		50,580
Bank Owned Life Insurance		50,251		47,953
Premises and Equipment - Net		31,001		32,378
Total assets	$	1,259,876	$	1,383,369
LIABILITIES				
Deposits:				
Non-interest bearing	$	143,597	$	135,038
Interest-bearing		878,863		896,753
Total deposits		1,022,460		1,031,791
Federal Home Loan Bank advances		113,500		228,500
Repurchase agreements		30,000		30,000
Notes Payable		35		-
Interest payable and other liabilities		9,802		11,314
Total liabilities		1,175,797		1,301,605
STOCKHOLDERS' EQUITY				
Common stock (no par value; 30,000,000 shares authorized,				
17,030,844 and 16,210,110 shares issued and outstanding)		1,807		593
Retained Earnings		84,034		88,396
Accumulated other comprehensive loss		(1,762)		(7,225)
Total stockholders' equity		84,079		81,764
Total liabilities and stockholders' equity	$	1,259,876	$	1,383,369

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

MBT FINANCIAL CORP.
CONSOLIDATED STATEMENTS OF INCOME - UNAUDITED

Dollars in thousands, except per share data	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Interest Income				
Interest and fees on loans	$ 11,587	$ 13,229	$ 35,178	$ 39,994
Interest on investment securities-				
Tax-exempt	426	837	1,540	2,579
Taxable	1,742	3,544	6,784	11,872
Interest on balances due from banks	34	30	100	57
Total interest income	13,789	17,640	43,602	54,502
Interest Expense				
Interest on deposits	3,279	4,174	9,968	14,280
Interest on borrowed funds	1,089	2,950	5,620	9,308
Total interest expense	4,368	7,124	15,588	23,588
Net Interest Income	9,421	10,516	28,014	30,914
Provision For Loan Losses	7,464	6,800	13,414	19,000
Net Interest Income After Provision For Loan Losses	1,957	3,716	14,600	11,914
Other Income				
Income from wealth management services	936	936	3,039	2,756
Service charges and other fees	1,413	1,516	3,985	4,304
Net gain on sales of securities	183	4,365	3,269	5,021
Other Than Temporary Impairments on securities	-	(2,693)	-	(9,093)
Portion of OTTI loss recognized in other comprehensive income (before taxes)	-	(1,859)	-	3,772
Net impairment losses	-	(4,552)	-	(5,321)
Origination fees on mortgage loans sold	189	119	458	350
Bank owned life insurance income	693	369	1,532	1,034
Other	967	806	2,958	2,376
Total other income	4,381	3,559	15,241	10,520
Other Expenses				
Salaries and employee benefits	4,717	5,122	14,438	15,956
Occupancy expense	686	804	2,194	2,445
Equipment expense	780	729	2,417	2,348
Marketing expense	230	277	734	798
Professional fees	549	419	1,537	1,286
Collection expenses	67	121	263	685
Net loss on other real estate owned	1,076	1,927	3,066	7,957
Other real estate owned expenses	564	399	1,916	1,165

FDIC Deposit Insurance Assessment	1,029	628	2,271	2,314
Debt prepayment penalties	-	-	2,492	-
Other	978	964	2,875	3,022
Total other expenses	10,676	11,390	34,203	37,976
Loss Before Income Taxes	(4,338)	(4,115)	(4,362)	(15,542)
Income Tax Benefit	-	(1,790)	-	(6,477)
Net Loss	$ (4,338)	$ (2,325)	$ (4,362)	$ (9,065)
Basic Loss Per Common Share	$ (0.27)	$ (0.14)	$ (0.27)	$ (0.56)
Diluted Loss Per Common Share	$ (0.27)	$ (0.14)	$ (0.27)	$ (0.56)
Common Stock Dividends Declared Per Share	$ -	$ -	$ -	$ 0.02

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

3

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

Dollars in thousands	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance - January 1, 2010	$ 593	$ 88,396	$ (7,225)	$ 81,764
Issuance of Common Stock (820,734 shares)	1,164	-	-	1,164
Equity Compensation	50	-	-	50
Comprehensive income:				
Net loss	-	(4,362)	-	(4,362)
Change in net unrealized gain on securities available for sale - Net of tax effect of $(3,889)	-	-	7,435	7,435
Reclassification adjustment for gains included in net income - Net of tax effect of $1,111	-	-	(2,125)	(2,125)
Change in postretirement benefit obligation Net of tax effect of $(80)	-	-	153	153
Total Comprehensive Income				1,101
Balance - September 30, 2010	$ 1,807	$ 84,034	$ (1,762)	$ 84,079

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

MBT FINANCIAL CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED

Dollars in thousands	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Cash Flows from Operating Activities		
Net Loss	$ (4,362)	$ (9,065)
Adjustments to reconcile net loss to net cash from operating activities		
Provision for loan losses	13,414	19,000
Depreciation	1,604	1,691
Increase in net deferred Federal income tax asset	-	(4,099)
Net amortization of investment premium and discount	938	209
Writedowns of Other Real Estate Owned	2,900	6,116
Net decrease in interest payable and other liabilities	(1,276)	(1,762)
Net increase (decrease) in interest receivable and other assets	2,210	(10,742)
Equity based compensation expense	62	106
Net gain on sale/settlement of securities	(3,269)	(5,021)
Other Than Temporary Impairment of investment securities	-	5,321
Increase in cash surrender value of life insurance	(1,531)	(1,034)
Net cash provided by operating activities	$ 10,690	$ 720
Cash Flows from Investing Activities		
Proceeds from maturities and redemptions of investment securities held to maturity	$ 12,830	$ 29,010
Proceeds from maturities and redemptions of investment securities available for sale	57,495	114,718
Proceeds from sales of investment securities held to maturity	150	-
Proceeds from sales of investment securities available for sale	143,093	201,639
Net decrease in loans	47,125	43,264
Proceeds from sales of other real estate owned	3,740	5,103
Proceeds from sales of other assets	1,294	217
Purchase of investment securities held to maturity	(1,582)	(16,817)
Purchase of Bank Owned Life Insurance	(1,222)	(1,439)
Proceeds from surrender of Bank Owned Life Insurance	455	-
Purchase of investment securities available for sale	(169,041)	(246,123)
Purchase of bank premises and equipment	(227)	(1,768)
Net cash provided by investing activities	$ 94,110	$ 127,804
Cash Flows from Financing Activities		
Net decrease in deposits	$ (9,331)	$ (88,429)
Proceeds from issuance of long term debt	35	-
Repayment of Federal Home Loan Bank borrowings	(115,000)	(18,000)
Proceeds from issuance of common stock	1,164	127
Dividends paid	-	(1,777)
Net cash used for financing activities	$ (123,132)	$ (108,079)
Net Increase (Decrease) In Cash and Cash Equivalents	$ (18,332)	$ 20,445
Cash and Cash Equivalents at Beginning Of Period	69,746	50,786

Cash And Cash Equivalents At End Of Period	$ 51,414	$ 71,231

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

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 eighteen branches in Monroe County, Michigan and seven 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, the valuation of other real estate owned, the deferred tax asset valuation allowance, and the fair value of investment securities.

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

The significant accounting policies are as follows:

PRINCIPLES OF CONSOLIDATION

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

COMPREHENSIVE INCOME

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

BUSINESS SEGMENTS

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

FAIR VALUE

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

The Corporation applied the following fair value hierarchy:

Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets. The Corporation's U.S. government agency securities, government sponsored mortgage 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 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.

ACCOUNTING PRONOUNCEMENTS

In June 2009, the FASB issued "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles." The FASB Accounting Standards Codification (the Codification) is the single source of authoritative nongovernmental GAAP. All existing accounting standard documents, such as FASB, American Institute of Certified Public Accountants, Emerging Issues Task Force and other related literature, excluding guidance from the Securities and Exchange Commission, have been superseded by the Codification. All other non-grandfathered, non-SEC accounting literature not included in the Codification has become nonauthoritative. The Codification is effective for interim or annual periods ending after September 15, 2009. There have been no changes to the content of our financial statements or disclosures as a result of implementing the Codification. However, as a result of implementation of the Codification, previous references to new accounting standards and literature are no longer applicable. All future references to authoritative accounting literature in our consolidated financial statements will be referenced in accordance with the Codification.

During the first quarter of 2010, the FASB issued Accounting Standards Update No. 2010-06, Improving Disclosures about Fair Value Measurements. This update requires reporting entities to make new disclosures about recurring or nonrecurring fair-value measurements including significant transfers into and out of Level 1 and Level 2 fair-value measurements and information about purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair-value measurements. This guidance was effective for interim and annual reporting periods beginning after December 15, 2009.

In July 2010, the FASB issued Accounting Standards Update No. 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. This ASU requires new disclosures about an entity's allowance for credit losses and the credit quality of its financing receivables. The required disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010 and will be included in our annual financial statements for the year ended December 31, 2010. The required disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010 and will be included in our financial statements for the interim period ending March 31, 2011. The adoption of this ASU will result in increased financial statement disclosures, but it is not expected to have a material effect on our financial condition, results of operations, or cash flows.

2. EARNINGS PER SHARE

The calculations of loss per common share are as follows:

	For the three months ended Sept. 30,		For the nine months ended Sept. 30,	
	2010	2009	2010	2009
Basic and Diluted				
Net loss	$ (4,338,000)	$ (2,325,000)	$ (4,362,000)	$ (9,065,000)
Net loss applicable to common stock	$ (4,338,000)	$ (2,325,000)	$ (4,362,000)	$ (9,065,000)
Average common shares outstanding	16,329,549	16,192,914	16,257,433	16,180,527
Loss per common share - basic	$ (0.27)	$ (0.14)	$ (0.27)	$ (0.56)

3. STOCK BASED COMPENSATION

Stock Options - 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 Annual Meeting of Shareholders on April 6, 2000.

	Shares	Weighted Average Exercise Price
Options Outstanding, January 1, 2010	489,075	$ 17.35
Granted	-	-
Exercised	-	-
Forfeited	44,500	18.03
Options Outstanding, September 30, 2010	444,575	$ 17.28
Options Exercisable, September 30, 2010	444,575	$ 17.28

On January 4, 2010, Stock Only Stock Appreciation Rights (SOSARs) were awarded to certain directors in exchange for a portion of their retainer 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 on December 31, 2010. SOSARs granted under the plan are structured as fixed grants with the exercise price equal to the market value of the underlying stock on the date of the grant.

The fair value of $0.45 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 35.7%, a risk free rate of 3.36% and dividend yield of 3.00%. The following table summarizes the SOSARs that have been granted:

	Shares	Weighted Average Exercise Price
SOSARs Outstanding, January 1, 2010	221,500	$ 5.23
Granted	16,000	1.52
Exercised	-	-
Forfeited	13,500	2.58
SOSARs Outstanding, September 30, 2010	224,000	$ 5.12
SOSARs Exercisable, September 30, 2010	116,182	$ 5.82

The total expense for equity based compensation was $17,000 in the third quarter of 2010 and $38,000 in the third quarter of 2009. The total expense for equity based compensation was $62,000 in the first nine months of 2010 and $118,000 in the first nine months of 2009.

4. LOANS

The Bank makes 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.

Loans consist of the following (000s omitted):

	September 30, 2010	December 31, 2009
Residential real estate loans	$ 341,947	$ 374,970
Non-farm, non-residential real estate loans	334,030	351,256
Loans to finance agricultural production and other loans to farmers	10,686	7,113
Commercial and industrial loans	80,848	93,786
Loans to individuals for household, family, and other personal expenditures	17,614	22,071
All other loans (including overdrafts)	487	574
Total loans, gross	785,612	849,770
Less: Deferred loan fees	739	791
Total loans, net of deferred loan fees	784,873	848,979
Less: Allowance for loan losses	20,746	24,063
	$ 764,127	$ 824,916

Loans are placed in a nonaccrual status when, in the opinion of Management, the collection of additional interest is doubtful. All loan relationships over $250,000 that are classified by Management as nonperforming as well as selected performing accounts and all renegotiated loans are reviewed for impairment each quarter. Allowances for loans determined to be impaired are included in the allowance for loan losses. All cash received on nonaccrual loans is applied to the principal balance. Nonperforming assets consist of nonaccrual loans, loans 90 days or more past due, restructured loans, nonaccrual investment securities, and other real estate owned. Other real estate owned includes real

estate that has been acquired in full or partial satisfaction of loan obligations or upon foreclosure and real estate that the bank has purchased but no longer intends to use for bank premises.

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

	September 30, 2010	December 31, 2009
Nonaccrual loans	$ 64,192	$ 56,992
Loans 90 days past due	117	20
Restructured loans	15,290	29,102
Total nonperforming loans	$ 79,599	$ 86,114
Other real estate owned	18,878	17,502
Other assets	164	1,330
Nonperforming investment securities	4,740	4,740
Total nonperforming assets	$ 103,381	$ 109,686
Nonperforming assets to total assets	8.21%	7.93%
Allowance for loan losses to nonperforming loans	26.06%	27.94%

5. ALLOWANCE FOR LOAN LOSSES

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

	Quarter ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Balance beginning of period	$ 24,026	$ 23,875	$ 24,063	$ 18,528
Provision for loan losses	7,464	6,800	13,414	19,000
Loans charged off	(11,010)	(12,364)	(17,339)	(20,273)
Recoveries	266	262	608	1,318
Balance end of period	$ 20,746	$ 18,573	$ 20,746	$ 18,573

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 to its net realizable value, 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, 2010 and December 31, 2009 (000’s omitted):

Held to Maturity September 30, 2010	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Obligations of U.S. Government				
Agencies	$ 6	$ -	$ -	$ 6
Obligations of States and Political				
Subdivisions	25,038	510	(19)	25,529
	$ 25,044	$ 510	$ (19)	$ 25,535

Available for Sale September 30, 2010	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Obligations of U.S. Government				
Agencies	$ 258,180	$ 5,428	$ (58)	$ 263,550
Obligations of States and Political				
Subdivisions	16,487	402	(18)	16,871
Trust Preferred CDO Securities	9,564	-	(6,188)	3,376
Other Securities	2,553	146	(216)	2,483
	$ 286,784	$ 5,976	$ (6,480)	$ 286,280

Held to Maturity December 31, 2009	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Obligations of U.S. Government				
Agencies	$ 6	$ -	$ -	$ 6
Obligations of States and Political				
Subdivisions	36,427	336	(352)	36,411
	$ 36,433	$ 336	$ (352)	$ 36,417

Available for Sale December 31, 2009	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Obligations of U.S. Government				
Agencies	$ 256,483	$ 602	$ (2,457)	$ 254,628
Obligations of States and Political				
Subdivisions	35,117	667	(147)	35,637

Trust Preferred CDO Securities		13,485		-		(6,270)		7,215
Corporate Debt Securities		8,383		-		(874)		7,509
Other Securities		2,553		74		(270)		2,357
	$	316,021	$	1,343	$	(10,018)	$	307,346

The investment securities portfolio is evaluated for impairment throughout the year. Impairment is recorded against individual securities, unless the decrease in fair value is attributable to interest rates or the lack of an active market, and Management determines that the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before a recovery of their amortized costs bases, which may be maturity. The following table shows the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other than temporarily impaired (in thousands), aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2010 and December 31, 2009.

	September 30, 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	$ 34,863	$ 58	$ -	$ -	$ 34,863	$ 58
Obligations of States and Political Subdivisions	1,188	14	1,319	23	2,507	37
Trust Preferred CDO Securities	-	-	1,625	3,115	1,625	3,115
Equity Securities	-	-	324	216	324	216
	$ 36,051	$ 72	$ 3,268	$ 3,354	$ 39,319	$ 3,426

	December 31, 2009					
	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	$ 170,584	$ 2,457	$ -	$ -	$ 170,584	$ 2,457
Obligations of States and Political Subdivisions	14,616	299	5,058	200	19,674	499
Trust Preferred CDO Securities	-	-	1,662	3,078	1,662	3,078
Corporate Debt Securities	-	-	7,509	874	7,509	874
Equity Securities	270	270	-	-	270	270
	$ 185,470	$ 3,026	$ 14,229	$ 4,152	$ 199,699	$ 7,178

The amount of investment securities issued by government agencies, states, and political subdivisions with unrealized losses and the amount of unrealized losses on those investment securities are primarily the result of market interest rates and not the result of the credit quality of the issuers of the securities. Because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other than temporarily impaired at September 30, 2010.

The Trust Preferred CDO Securities are issued by companies in the financial services industry, including banks, thrifts, and insurance companies. Each of the three securities owned by the Company is in an unrealized loss position. The main reasons for the impairment are the overall decline in market values for financial industry securities and the lack of an active market for these types of securities in particular. In determining whether the impairment is not other-than-temporary, the Company analyzed each security's expected cash flows. The assumptions used in the cash flow analysis were developed following a review of the financial condition of the individual obligors in the pools. The analysis concluded that disruption of our cash flows due to defaults by issuers was currently not expected to occur in one of the three securities owned. As a result of uncertainties in the market place affecting companies in the financial services industry, it is at least reasonably possible that a change in the estimate will occur in the near term. Because the Company does not intend to sell the investment and it is not more likely than not that the Company will be required to sell the investment before recovery of its amortized cost basis, which may be maturity, the Company does not consider this investment to be other than temporarily impaired at September 30, 2010.

The Other Than Temporary Impairment (OTTI) analysis of two of the three Trust Preferred CDO securities indicated that their 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). The CDOs that have OTTI have an amortized cost of $4.824 million and a fair value of $1.751 million. The impairment of $3.073 million includes $1.41 million of other impairment that was charged to OCI. Credit losses of $1.663 million were charged to earnings in 2009.

7. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

Certain of the Bank's assets and liabilities are financial instruments that have fair values that differ from their carrying values in the accompanying consolidated balance sheets. These fair values, along with the methods and assumptions used to estimate such fair values, are discussed below. The fair values of all financial instruments not discussed below (Cash and cash equivalents, Federal funds sold, Federal Home Loan Bank stock, Accrued interest receivable and other assets, Bank Owned Life Insurance, Demand deposits, NOW deposits, Savings deposits, Money market deposits, Federal funds purchased, and Interest payable and other liabilities) are estimated to be equal to their carrying amounts as of September 30, 2010 and December 31, 2009.

INVESTMENT SECURITIES

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

LOANS, NET

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

OTHER TIME DEPOSITS

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

FHLB ADVANCES AND SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

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

OFF-BALANCE-SHEET FINANCIAL INSTRUMENTS

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

The carrying amounts and approximate fair values as of September 30, 2010 and December 31, 2009 are as follows (000's omitted):

	September 30, 2010		December 31, 2009	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial Assets:				
Cash and due from banks	$ 51,414	$ 51,414	$ 69,746	$ 69,746
Securities - Held to Maturity	25,044	25,535	36,433	36,417
Securities - Available for Sale	286,280	286,280	307,346	307,346
Federal Home Loan Bank Stock	13,086	13,086	13,086	13,086
Loans, net	765,308	780,504	825,847	838,965
Accrued Interest Receivable and Other Assets	37,492	37,492	50,580	50,580
Financial Liabilities:				
Demand, NOW, savings and money market savings deposits	621,199	621,199	630,065	630,065
Other time deposits	401,261	408,069	401,726	408,516
Borrowed funds				
Variable Rate FHLB Advances	110,000	115,577	110,000	116,938
Fixed Rate FHLB Advances	3,500	3,605	3,500	3,688
Putable FHLB Advances	-	-	115,000	119,700
Repurchase Agreements	30,000	34,149	30,000	34,896
Notes Payable	35	35	-	-

8. FAIR VALUE MEASUREMENTS

The following tables present information about the Company's assets measured at fair value on a recurring basis at September 30, 2010 and 2009, 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)	Significant Unobservable Inputs (Level 3)	Balance at Sept. 30, 2010
Investment Securities - Available for Sale				
Obligations of U.S. Government Agencies	$ 263,550	$ -	$ -	$ 263,550
Obligations of States and Political Subdivisions	-	16,871	-	16,871
Trust Preferred CDO Securities	-	-	3,376	3,376
Other Secruities	-	2,483	-	2,483
	$ 263,550	$ 19,354	$ 3,376	$ 286,280

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at Sept. 30, 2009
Investment Securities - Available for Sale				
Obligations of U.S. Government Agencies	$ 263,904	$ -	$ -	$ 263,904
Obligations of States and Political Subdivisions	-	46,598	-	46,598
Trust Preferred CDO Securities	-	-	12,094	12,094
Corporate Debt Securities	6,963	-	-	6,963
Other Secruities	2,386	-	-	2,386
	$ 273,253	$ 46,598	$ 12,094	$ 331,945

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

	Investment Securities - Available for Sale	
	2010	2009
Balance at prior year end	$ 7,215	$ 19,746
Total realized and unrealized gains (losses) included in income	-	(5,316)
Total unrealized gains (losses) included in other comprehensive income	81	(2,336)
Net purchases, sales, calls and maturities	(3,920)	-
Net transfers in/out of Level 3	-	-
Balance at September 30	$ 3,376	$ 12,094

Of the Level 3 assets that were held by the Company at September 30, 2010, the unrealized loss for the three months ended September 30, 2010 was $205,000, which is recognized in other comprehensive income in the consolidated statements of financial condition. The Company did not have any sales or purchases of Level 3 available for sale securities during the period.

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

The Company owns pooled Trust Preferred Securities (“TRUPs”) with a fair value of $3,376,000 as of September 30, 2010. Trading of these types of securities has increased recently but is primarily conducted on a distress sale or forced liquidation basis. As a result, the Company measures the fair values of these assets using Level 3 inputs, specifically discounted cash flow projections.

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

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

	Balance at September 30, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Losses for the three months ended Sept. 30, 2010	Total Losses for the nine months ended Sept. 30, 2010
Impaired loans	$ 89,102	$ -	$ -	$ 89,102	$ 10,744	$ 16,731
Other Real Estate Owned	$ 18,878	$ -	$ -	$ 18,878	$ 1,076	$ 3,066

	Balance at September 30, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Losses for the three months ended Sept. 30, 2009	Total Losses for the nine months ended Sept. 30, 2009
Impaired loans	$ 66,550	$ -	$ -	$ 66,550	$ 3,799	$ 10,447
Other Real Estate Owned	$ 19,416	$ -	$ -	$ 19,416	$ 1,927	$ 7,957

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

9. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

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

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

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

	Contractual Amount	
	September 30, 2010	December 31, 2009
Commitments to extend credit:		

Unused portion of commercial lines of credit	$	60,213	$	64,096
Unused portion of credit card lines of credit		3,036		4,286
Unused portion of home equity lines of credit		15,904		16,034
Standby letters of credit and financial guarantees written		4,753		5,008
All other off-balance sheet commitments		-		2,986

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

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

Other off balance sheet commitments consisted of commitments to fund loans to municipalities of $2,986,000 as of December 31, 2009.

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 18 branch offices in Monroe County, Michigan and 7 offices in Wayne County, Michigan. The Bank's primary source of income is interest income on its loans and investments and its primary expense is interest expense on its deposits and borrowings.

The national economic recovery is continuing slowly, and conditions in southeast Michigan have stabilized. Local unemployment rates remain higher than the national average and commercial and residential development property values are still declining slightly while residential property values have shown some improvement. The stability in each of these indicators that began in the second half of 2009 continued through the third quarter of 2010. Our total problem assets, which include non performing loans, other real estate owned, non accrual investments, and performing loans that are internally classified as potential problems, decreased $2.1 million, or 1.4% during the third quarter of 2010, the second consecutive quarterly decrease, allowing us to decrease our Allowance for Loan and Lease Losses (ALLL) from $24.1 million to $20.7 million. The loan portfolio decreased $21.7 million during the quarter, so the ALLL as a percent of loans only decreased from 2.97% at June 30, 2010 to 2.64% at September 30, 2010. Although local property values and the unemployment rate have improved slightly over the past five quarters, we do not anticipate a significant recovery in our local markets in 2010. We will continue to focus our efforts on improving asset quality, maintaining liquidity, strengthening capital, and controlling expenses.

Net Interest Income decreased $1,095,000 compared to the third quarter of 2009 even though the net interest margin increased from 3.24% to 3.32% as the average earning assets decreased $182.6 million, or 13.7%. The provision for loan losses increased from $6.8 million in the third quarter of 2009 to $7.5 million in 2010. Recent stability in the local economic conditions and loan quality, and the decrease in the size of the loan portfolio, decreased the amount of ALLL required. As a result, we were able to record a provision that was less than the net charge offs for the quarter. Non interest income increased $822,000 compared to last year, primarily due to an increase in earnings on Bank Owned Life Insurance (BOLI) policies. Origination fees on mortgage loans sold, ATM and debit card fees, and rental income from Other Real Estate Owned (OREO) all increased compared to 2009. Our ongoing efforts to control costs continue to produce results, and our non interest expenses, excluding OREO costs and FDIC deposit insurance assessments decreased $429,000, or 5.1% compared to the third quarter of 2009. We expect credit related expenses, including the costs of carrying a high level of Other Real Estate Owned (OREO), to remain high, but we should continue to see meaningful expense improvement in most other areas.

In May, 2009 the Bank agreed to an informal memorandum of understanding with its regulators to establish, among other things, reporting regularly to the regulators about our operations, financial condition, and efforts to mitigate risks. As a part of this informal program the Bank undertook certain actions to improve the Bank's credit administration and developed a written plan to attain a minimum Tier 1 Leverage Capital ratio of 8% that was approved by the Company's Board and timely submitted to its regulatory agencies. The Bank has not achieved the capital target and on July 12, 2010 the Bank entered into a formal regulatory agreement in the form of a Consent Order. While under the Consent Order, the Bank will be classified as “adequately capitalized” even though its ratios remain above the “well capitalized” minimums. The Bank’s Tier 1 Leverage Capital ratio decreased from 6.50% at June 30, 2010 to 6.42% at September 30, 2010. In addition to the net loss, the decrease in this ratio in the third quarter was due to the increase in the amount of the disallowance, solely for purposes of computation of the Bank’s Tier 1 Leverage Capital ratio, of deferred tax assets from $1.8 million as of June 30, 2010 to $3.2 million as of September 30, 2010. Bank capital regulations limit the amount of deferred tax assets that banks may include in equity capital when determining compliance with bank capital requirements. Although the disallowance of $3.2 million in deferred tax assets adversely impacted our regulatory capital ratios at September 30, 2010, we anticipate that we will be able to utilize the deferred tax asset and did not increase the valuation allowance for the deferred tax assets that we established in the fourth quarter of 2009. The Bank does not expect to reach the Tier 1 Leverage Ratio and Total Risk Based Capital ratio targets set forth in our Consent Order during 2010 without raising capital externally. This expectation could be impacted positively or negatively due to current uncertainties, which include, but are not limited to, recovery of, or increases in, the deferred tax asset valuation allowance, changing economic conditions, asset quality, property values, and potential increased impairment of investment securities.

Critical Accounting Policies

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

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

To determine the Deferred Tax Asset Valuation Allowance, the Company prepares a forecast of its earnings for the next four years. The projected earnings are assigned a probability discount and multiplied by the Company’s marginal tax rate to determine the amount of deferred tax assets that are expected to be utilized. The valuation allowance is maintained at a level that makes the net deferred tax asset equal to the amount expected to be utilized.

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

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

Financial Condition
National economic conditions began to recover in the second half of 2009. Local unemployment and property values have stabilized; however, the economic environment remains weak in southeast Michigan. Our nonperforming assets decreased 8.8% during the quarter, from $113.4 million to $103.4 million, and total problem assets decreased from $155.1 million to $153.0 million. Total loans decreased due to low loan demand, payments received in the ordinary course of business, and charge offs of existing loans. We continued to manage toward a decreased use of high cost wholesale funding, which has helped improve our net interest margin. While some lending opportunities exist, the economy is expected to remain weak in our market area throughout the first half of 2011. The Company expects low or slightly negative deposit growth and a significant reduction in total assets in 2010, and intends to continue to focus efforts on improved credit quality, capital management, and enterprise risk mitigation.

Since December 31, 2009, total loans decreased $63.9 million (7.5%) due to the weak loan demand. In the second quarter of 2010, the Bank used cash and the proceeds from approximately $94 million in securities sales to fund the prepayment of $115.0 million of Federal Home Loan Bank borrowings. These reductions in loans and investments resulted in a decrease of $123.5 million (8.9%) in total assets since the end of 2009. Total capital increased $2.3 million or 2.8%, resulting from an increase of $1.2 million in common stock due to the sale of additional stock, the decrease of $5.5 million in the accumulated other comprehensive loss (AOCL) due to an increase in the value of our securities available for sale, and the decrease of $4.4 million in retained earnings due to the year to date loss. The increase in total capital and the decrease in total assets caused the capital to assets ratio to increase from 5.91% at December 31, 2009 to 6.67% at September 30, 2010.

The amount of nonperforming assets ("NPAs") decreased $6.3 million or 5.7% since year end. NPAs include non performing loans, which decreased 7.6% from $86.1 million to $79.6 million, and Other Real Estate Owned and Other Assets ("OREO"), which increased 1.1% from $18.8 million to $19.0 million. Total problem assets, which includes all NPAs and performing loans that are internally classified as substandard, decreased $3.0 million, or 1.9%. As of September 30, 2010, the largest concentrations in the NPA category are commercial real estate investment properties at approximately $19 million, residential mortgage loans at $16 million, and residential development loans at $14 million. The Company's Allowance for Loan and Lease Losses ("ALLL") decreased $3.3 million since December 31, 2009, resulting from an increase in our FAS 114 allocation from $6.5 million to $9.5 million, and a decrease from $17.6 million to $11.2 million in our FAS 5 general allocation due to the overall decrease in the size of the loan portfolio and the amount of the portfolio that is subject to the FAS 5 allocation. The loss factors utilized in the general allocation include loss averages for the most recent eight quarters and adjustments for various current factors, such as recent delinquency trends and national and local economic conditions. The ALLL is now 2.64% of loans, compared to 2.83% at December 31, 2009 and 2.11% at September 30, 2009. The ALLL is 26.06% of NPLs, compared to 27.94% at year end and 24.25% at September 30, 2009. In light of current economic conditions, we believe that at this level the ALLL adequately estimates the potential losses in the loan portfolio.

Deposit funding remained stable throughout the first nine months of 2010. The total deposit decrease of $9.3 million included a reduction of $15.5 million in the amount of brokered certificates of deposit. The Company has been actively reducing the amount of its total assets as part of its effort to strengthen its capital position, and it has not been replacing its brokered CDs as they mature. Due to its stable deposit funding, the Company has also been reducing its use of non deposit funding sources, and its borrowings from the Federal Home Loan Bank of Indianapolis decreased $115.0 million, or 50.3% during the first nine month of 2010.

Results of Operations – Third Quarter 2010 vs. Third Quarter 2009

Net Interest Income - A comparison of the income statements for the three months ended September 30, 2009 and 2010 shows a decrease of $1,095,000, or 10.4%, in Net Interest Income. Interest income on loans decreased $1.6 million or 12.4% as the average loans outstanding decreased $98.5 million and the average yield on loans decreased from 5.83% to 5.74%. The interest income on investments, fed funds sold, and interest bearing balances due from banks decreased $2.2 million as the average amount of investments, fed funds sold, and interest bearing balances due from banks decreased $84.0 million and the yield decreased from 4.05% to 2.51%. An improvement in the term structure of interest rates, a decrease in the overall level of interest rates, and the maturity and prepayment of some high cost borrowings and brokered certificates of deposit allowed funding costs to decrease faster than asset yields. The interest expense on deposits decreased $895,000 or 21.4% as the average deposits decreased $26.6 million and the average cost of those deposits decreased from 1.57% to 1.27%. The cost of borrowed funds decreased $1.9 million as the average amount of borrowed funds decreased $133.1 million and the average cost of the borrowings decreased from 4.23% to 3.01%.

Provision for Loan Losses - The Provision for Loan Losses increased from $6.8 million in the third quarter of 2009 to $7.5 million in the third quarter of 2010. Net charge offs were $10.7 million during the third quarter of 2010, compared to $12.1 million in the third quarter of 2009. Each quarter, the Company conducts a review and analysis of its ALLL to determine its adequacy. This analysis involves specific allocations for impaired credits and a general allocation for losses expected based on historical experience adjusted for current conditions. Due to the stabilization of economic conditions, especially local real estate values, we were able to maintain an adequate ALLL while recording a provision expense that was less the net charge offs in the third quarter of 2010. The ALLL is 2.64% of loans as of September 30, 2010, and, in light of current economic conditions, we believe that at this level the ALLL adequately estimates the potential losses in our loan portfolio.

Other Income – Non interest income increased $822,000, or 23.1% compared to the third quarter of 2009. Service charges and other fees decreased $103,000, or 6.8%, primarily due to a decrease in overdraft fees on checking accounts. In the third quarter of 2009, the Bank recognized an Other than Temporary Impairment charge of $4.6 million on its holdings of pooled trust preferred collateralized debt obligations. This loss was nearly offset by $4.4 million in gains on the sale of federal agency debt and mortgage backed securities. These sales were conducted in a portfolio restructuring that reduced the risk weighting of the Bank's assets by selling 20% risk weighted securities issued by FNMA and FHLMC and reinvesting the proceeds in GNMA securities at a 0% risk weight. Mortgage loan activity increased in the third quarter of 2010, and the origination fees on mortgage loans sold increased $70,000, or 58.8%. Bank Owned Life Insurance income increased $324,000 in the third quarter of 2010 compared to the third quarter of 2009 due to higher yields on the life insurance policies and because a change in the death benefit obligation calculation increased the amount of cash surrender value increase that the Bank could recognize as income. Other non interest income increased $161,000 due to higher rental income on foreclosed properties and increased fees from ATM and debit card usage.

Other Expenses – Total non interest expenses decreased $714,000 or 6.3% compared to the third quarter of 2009. Most expense categories were flat or decreased due to cost containment initiatives implemented throughout the last year. Salaries and Employee Benefits decreased $405,000, or 7.9%, due to a decrease in staff, elimination of the 401(k) matching contribution and the elimination of the incentive pay accrual. Occupancy expense decreased $118,000 due to lower maintenance costs mainly due to a reduction in the use of outside janitorial services. Professional fees increased $130,000 primarily due to increases in legal and other professional fees paid for collection activities. Losses on Other Real Estate Owned (OREO) properties decreased $851,000 due to larger writedowns of foreclosed property values in 2009. The OREO losses of $1.1 million in the third quarter of 2010 included writedowns of $299,000 on properties sold at an auction on September 30. The closings of these sales will result in a reduction of $1.2 million in OREO in the fourth quarter of 2010. FDIC deposit insurance premium expense increased $401,000 due to an increase in our assessment rate that was effective in the second quarter of 2010. This expense is expected to go down to approximately $850,000 in the fourth quarter of 2010.

As a result of the above activity, the Loss Before Income Taxes increased $0.2 million from a loss of $4.1 million in the third quarter of 2009 to a loss of $4.3 million in the third quarter of 2010. An income tax benefit of $1.8 million was recorded in the third quarter of 2009, but the income tax benefit of $1.8 million for the third quarter of 2010 was not recorded due to the uncertainty of our expected ability to utilize our existing deferred tax assets. Our third quarter net loss of $4.3 million is an increase of $2.0 million from the loss of $2.3 million in the third quarter of 2009.

Results of Operations – Nine Months Ended September 30, 2010 vs. September 30, 2009

Net Interest Income - A comparison of the income statements for the nine months ended September 30, 2009 and 2010 shows a decrease of $2.9 million, or 9.4%, in Net Interest Income. Interest income on loans decreased $4.8 million or 12.0% as the average loans outstanding decreased $99.7 million and the average yield on loans decreased from 5.83% to 5.75%. The interest income on investments, fed funds sold, and interest bearing balances due from banks decreased $6.1 million as the average amount of investments, fed funds sold, and interest bearing balances due from banks decreased $58.8 million and the yield decreased from 4.38% to 2.93%. An improvement in the term structure of interest rates, a decrease in the overall level of interest rates, and the maturity and prepayment of some high cost borrowings and brokered certificates of deposit allowed funding costs to decrease faster than asset yields. The interest expense on deposits decreased $4.3 million or 30.2% as the average deposits decreased $46.4 million and the average cost of those deposits decreased from 1.79% to 1.30%. The cost of borrowed funds decreased $3.7 million as the average amount of borrowed funds decreased $80.0 million and the average cost of the borrowings decreased from 4.37% to 3.67%.

Provision for Loan Losses - The Provision for Loan Losses decreased from $19.0 million in the first nine months of 2009 to $13.4 million in the first nine months of 2010 primarily due to stabilization of economic conditions, especially local real estate values. Net charge offs were $16.7 million during the first nine months of 2010, compared to $19.0 million in the first nine months of 2009. The provision was less than the net charge offs for the first nine months of 2010 as the Bank ALLL requirement decreased due to improving loan quality and decreasing portfolio size. In the current environment we believe that we can maintain an adequate ALLL with a provision expense slightly less than the net charge offs.

Other Income – Non interest income increased $4.7 million, or 44.9% compared to the first nine months of 2009. Wealth Management Group income increased $283,000, or 10.3%. The increase in Wealth Management income was primarily due to increased market values of investments and the collection of non recurring fees. Service charges and other fees decreased $319,000, or 7.4%, primarily due to a decrease in overdraft fees on checking accounts. Gains on sales of investment securities decreased $1.8 million, or 34.9% due to gains taken during a portfolio restructuring in 2009. Net impairment losses decreased $5.3 million due to OTTI charges of that amount recorded in 2009. Bank Owned Life Insurance income increased $498,000 in the first nine months of 2010 compared to the first nine months of 2009 due to higher yields on the policies and a change in the death benefit obligation calculation that increased the amount of cash surrender value increase that could be recorded as income. Other non interest income increased $582,000 due to higher rental income on foreclosed properties and increased fees from ATM and debit card usage.

Other Expenses – Total non interest expenses decreased $3.8 million or 9.9% compared to the first nine months of 2009. Salaries and Employee Benefits decreased $1.5 million, or 9.5%, due to a decrease in staff, elimination of the 401(k) matching contribution in the second quarter of 2010, and the elimination of the incentive pay accrual. Occupancy expense decreased $251,000, or 10.3% due to lower maintenance costs. Professional fees increased $251,000, or 19.5% due to higher collection related legal fees. Collection expense decreased $422,000 primarily due to a large expense in 2009 to secure our lien on a property that collateralized a loan. Losses on Other Real Estate Owned (OREO) properties decreased $4.9 million due to significant writedowns in 2009 due to the rapid decline in property values and losses from a large auction of foreclosed properties in the second quarter of 2009. Other real estate expenses increased $751,000 due to increased property tax, maintenance, and insurance costs on properties held in OREO. In 2010 the Bank incurred a prepayment penalty of $2.5 million to prepay $115.0 million in borrowings from the Federal Home Loan Bank of Indianapolis.

As a result of the above activity, the Loss Before Income Taxes decreased $11,180,000 from a loss of $15,542,000 in the first nine months of 2009 to a loss of $4,362,000 in the first nine months of 2010. An income tax benefit of $6.5 million was recorded in the first nine months of 2009, but the income tax benefit of $2.5 million for the first nine months of 2010 was not recorded due to the uncertainty of our expected ability to utilize our existing deferred tax assets. Our net loss of $4.4 million for the first nine months of 2010 is an improvement of $4,703,000 from the loss of $9,065,000 in the first nine months of 2009.

Cash Flows

Cash flows provided by operating activities increased from $0.7 million in the first nine months of 2009 to $10.7 million in the first nine months of 2010 primarily due to the smaller loss and the larger decrease in interest receivable and other assets due to the lower interest rates and smaller loan portfolio, partially offset by smaller non cash charges for the provision for loan losses and OTTI of investment securities. Cash flows provided by investing activities decreased from $127.8 million in the first nine months of 2009 to $94.1 million in the first nine months of 2010 primarily due to a decrease in the sales, maturities, and redemptions of investment securities. The decrease in the sales of investment securities was due to the sales of federal agency debt and mortgage backed securities in 2009 related to the restructuring of the portfolio in order to reduce the risk weighted assets. The amount of cash used for financing activities increased from $108.1 million in the first nine months of 2009 to $123.1 million in the first nine months of 2010 primarily due to the repayment of FHLB borrowings in 2010. Also, dividends paid decreased from $1.8 million in the first nine months of 2009 to zero in the first nine months of 2010 as the dividend was eliminated in the third quarter of 2009.

Liquidity and Capital

The Company believes it has sufficient liquidity to fund its lending activity and allow for fluctuations in deposit levels. Internal sources of liquidity include the maturities of loans and securities in the ordinary course of business as well as our available for sale securities portfolio. External sources of liquidity include a line of credit with the Federal Home Loan Bank of Indianapolis, the Federal funds line that has been established with our correspondent bank, Repurchase Agreements with money center banks that allow us to pledge securities as collateral for borrowings and secondary credit at the Federal Reserve Discount Window, which allows us to pledge loans and investments as collateral. As of September 30, 2010, the Bank utilized $113.5 million of its authorized limit of $265 million with the Federal Home Loan Bank of Indianapolis, none of its $10 million overdraft line of credit with the Federal Home Loan Bank of Indianapolis, and none of its $25 million of federal funds line with a correspondent bank.

The Company’s Funds Management Policy includes guidelines for desired amounts of liquidity and capital. The Funds Management Policy also includes contingency plans for liquidity and capital that specify actions to take if liquidity and capital ratios fall below the levels contained in the policy. Throughout the first nine months of 2010 the Company was in compliance with its Funds Management Policy regarding liquidity and capital.

Total stockholders’ equity of the Company was $84.1 million at September 30, 2010 and $81.8 million at December 31, 2009. The ratio of equity to assets was 6.67% at September 30, 2010 and 5.91% at December 31, 2009. Federal bank regulatory agencies have set capital adequacy standards for Total Risk Based Capital, Tier 1 Risk Based Capital, and Leverage Capital. These standards require banks to maintain Leverage and Tier 1 ratios of at least 4% and a Total Capital ratio of at least 8% to be adequately capitalized. The regulatory agencies consider a bank to be well capitalized if its Total Risk Based Capital is at least 10% of Risk Weighted Assets, Tier 1 Capital is at least 6% of Risk Weighted Assets, and the Leverage Capital Ratio is at least 5%.

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

	Actual		Minimum to Qualify as Well Capitalized	
	Amount	Ratio	Amount	Ratio
As of September 30, 2010:				
Total Capital to Risk-Weighted Assets				
Consolidated	$ 93,858	10.41%	$ 90,202	10%
Monroe Bank & Trust	92,511	10.26%	90,132	10%
Tier 1 Capital to Risk-Weighted Assets				
Consolidated	82,462	9.14%	54,121	6%
Monroe Bank & Trust	81,058	8.99%	54,079	6%
Tier 1 Capital to Average Assets				
Consolidated	82,462	6.52%	63,190	5%
Monroe Bank & Trust	81,058	6.42%	63,177	5%

	Actual		Minimum to Qualify as Well Capitalized	
	Amount	Ratio	Amount	Ratio
As of December 31, 2009:				
Total Capital to Risk-Weighted Assets				
Consolidated	$ 101,158	10.21%	$ 99,065	10%
Monroe Bank & Trust	100,329	10.14%	98,984	10%
Tier 1 Capital to Risk-Weighted Assets				
Consolidated	88,627	8.95%	59,439	6%
Monroe Bank & Trust	87,775	8.87%	59,390	6%
Tier 1 Capital to Average Assets				
Consolidated	88,627	6.27%	70,681	5%
Monroe Bank & Trust	87,775	6.21%	70,643	5%

At December 31, 2009, the Bank was in compliance with the capital guidelines and qualified as “well capitalized” under regulatory standards. On July 12, 2010, the Bank entered into a Consent Order with its state and federal regulators. While the Bank is under the Consent Order, it is classified as “adequately capitalized” even though its ratios meet the “well capitalized” guidelines.

Market risk for the Bank, as is typical for most banks, consists mainly of interest rate risk and market price risk. The Bank’s earnings and the economic value of its equity are exposed to interest rate risk and market price risk, and monitoring this risk is the responsibility of the Asset/Liability Management Committee (ALCO) of the Bank. The Bank’s market risk is monitored monthly and it has not changed significantly since year-end 2009.

Forward-Looking Statements

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

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Bank faces market risk to the extent that the fair values of its financial instruments are affected by changes in interest rates. The Bank does not face market risk due to changes in foreign currency exchange rates, commodity prices, or equity prices. The asset and liability management process of the Bank seeks to monitor and manage the

amount of interest rate risk. This is accomplished by analyzing the differences in repricing opportunities for assets and liabilities, by simulating operating results under varying interest rate scenarios, and by estimating the change in the net present value of the Bank's assets and liabilities due to interest rate changes.

Each month, the Asset and Liability Committee (ALCO), which includes the senior management of the Bank, estimates the effect of interest rate changes on the projected net interest income of the Bank. The sensitivity of the Bank’s net interest income to changes in interest rates is measured by using a computer based simulation model to estimate the impact on earnings of 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 risk, as measured by the change in the Bank’s projected net interest income, in its policy. At the end of 2009, the estimated variability of the net interest income exceeded the Bank’s established policy limits for the minus 200 and minus 300 basis point rate scenarios. At the end of the first nine months of 2010, the estimated variability of the net interest income exceeded the Bank’s established policy limit for the minus 200 and minus 300 basis point rate scenario. However, because current interest rates are at historically low levels, it is not probable that rates would decrease 200 basis points, and the ALCO determined that no corrective action is required.

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

The Bank’s interest rate risk, as measured by the net interest income and economic value of equity simulations, has not changed significantly from December 31, 2009.

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, 2010, 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, 2010, 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, 2010, 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

The Company disclosed as a risk factor in its Report on Form 10-K for the fiscal year ended December 31, 2009 that it was operating under a Memorandum of Understanding with its governmental regulators and may be subject to further enforcement actions. On July 13, 2010, the Company reported on From 8-K that it entered into a stipulation and consent to the issuance of a Consent Order with the Federal Deposit Insurance Corporation (FDIC) and the Office of Financial and Insurance Regulation (OFIR) of the state of Michigan. The Consent Order, which was filed as an exhibit to the Form 8-K filed by the Company, lowers the Bank's regulatory capital classification to "Adequately Capitalized" as defined by the federal banking regulatory agencies. As an "Adequately Capitalized" institution, the Bank may not issue or renew brokered certificates of deposit without a waiver from the FDIC. This increases the risk that the Bank may not be able to obtain needed liquidity.

Except as otherwise described in this item, there have been no material changes from the risk factors previously disclosed in Part I Item 1A of the Company's annual report on Form 10-K for its fiscal year ended December 31, 2009.

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

On September 8, 2010 the Company commenced a private placement offering of up to 2,500,000 shares of its common stock, without par value. The shares of common stock being offered pursuant to the private placement have not been, and shall not be, registered under the Securities Act of 1933 (the "Act") in reliance upon the exemption from registration provided by Section 4(2) of the Act and Rule 506 of SEC Regulation D.

During the quarterly period ended September 30, 2010, the Company had sold 673,918 shares of common stock pursuant to the private placement for the aggregate cash consideration of $928,834.20. The Company plans to use the proceeds of the private placement to increase the capital of the Bank.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Other Information

No matters to be reported.

Item 5. 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.
10.0	Consent Order dated July 12, 2010 by and among Monroe Bank & Trust, the Federal Deposit Insurance Corporation, and the Michigan Office of Financial and Insurance Regulation (incorporated by reference to the Current Report on Form 8-K filed by the Company with the SEC on July 13, 2010).
31.1	Certification by Chief Executive Officer required by Securities and Exchange Commission Rule 13a-14.
31.2	Certification by Chief Financial Officer required by Securities and Exchange Commission Rule 13a-14.
32.1	Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as enacted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as enacted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Signatures

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

	MBT Financial Corp. (Registrant)	
November 15, 2010 Date	By:	/s/ H. Douglas Chaffin H. Douglas Chaffin President & Chief Executive Officer
November 15, 2010 Date	By:	/s/ John L. Skibski John L. Skibski Executive Vice President and Chief Financial Officer

Exhibit Index

Exhibit Number	Description of Exhibits
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.