MBT FINANCIAL CORP
Form 10-K
March 18, 2011

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

FORM 10-K

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

For the fiscal year ended December 31, 2010

Commission File Number: 000-30973

MBT FINANCIAL CORP.
(Exact Name of Registrant as Specified in its Charter)

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

(734) 241-3431
(Registrant's Telephone Number, Including Area Code)

None
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§

232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ¨ NO ¨

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

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

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

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

As of June 30, 2010, the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $36.8 million based on the closing sale price as reported on the National Association of Securities Dealers Automated Quotation System National Market System.

As of March 18, 2011, there were 17,259,356 shares of the registrant's common stock, no par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2011 Annual Meeting of Shareholders of MBT Financial Corp. to be held on May 5, 2011 are incorporated by reference in this Form 10-K in response to Part III, Items 10, 11, 12, 13, and 14.

Special Note regarding Forward Looking Information

This document, including the documents that are incorporated by reference, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Exchange Act (the “Exchange Act”). You can identify forward-looking statements by words such as “may,” “hope,” “will,” “should,” “expect,” “plan,” “anticipate,” “intend,” “believe,” “estimate,” “predict,” “potential,” “continue,” “could,” “future,” those terms or other words of similar meaning. You should read statements that contain these words carefully because they discuss our future expectations or state other “forward-looking” information. We believe that it is important to communicate our future expectations to our investors. Such forward-looking statements may relate to our financial condition, results of operations, plans, objectives, future performance, or business and are based upon the beliefs and assumptions of our management and the information available to our management at the time these disclosures are prepared. These forward-looking statements involve risks and uncertainties that we may not be able to accurately predict or control and our actual results may differ materially from the expectations we describe in our forward-looking statements. Shareholders should be aware that the occurrence of the events discussed under the heading “Item 1.A. Risk Factors” in this document and in the information incorporated by reference herein, could have an adverse effect on our business, results of operations, and financial condition. These factors, many of which are beyond our control, include the following:

- operating, legal, and regulatory risks, including risks relating to further deteriorations in credit quality, our allowance for loan losses, potential losses on dispositions of non-performing assets, and impairment of goodwill;

- the use of estimates in determining fair value of certain of our assets, which estimates may prove to be incorrect and result in significant declines in valuation;

- legislative or regulatory changes that adversely affect our business including changes in regulatory policies and principles, including the interpretation of regulatory capital or other rules;

- the results of examinations of us by the Federal Reserve and our bank subsidiary by the Federal Deposit Insurance Corporation, or other regulatory authorities, who could require us to increase our reserve for loan losses, write-down assets, change our regulatory capital position or affect our ability to borrow funds or maintain or increase deposits, which could adversely affect our liquidity and earnings;

- compliance with regulatory enforcement actions, including the Consent Order, legislative or regulatory changes that adversely affect our business, including changes in regulatory policies and principles, or the interpretation of regulatory capital or other rules;

- the availability of resources to address changes in laws, rules, or regulations or to respond to regulatory actions; adverse changes in the securities markets;

- economic, political, and competitive forces affecting our banking, securities, asset management, insurance, and credit services businesses;

- the impact on net interest income from changes in monetary policy and general economic conditions; and

- the risk that our analyses of these risks and forces could be incorrect and/or that the strategies developed to address them could be unsuccessful.

For a discussion of these and other risks that may cause actual results to differ from expectations, refer to “Item 1.A. Risk Factors” in this document. The forward-looking statements contained or incorporated by reference in this document relate only to circumstances as of the date on which the statements are made. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Part I

Item 1. Business

General

MBT Financial Corp. (the “Corporation” or the “Company”) operates as a bank holding company headquartered in Monroe, Michigan. The Corporation was incorporated under the laws of the State of Michigan in January 2000, at the direction of the management of Monroe Bank & Trust (the “Bank”), for the purpose of becoming a bank holding company by acquiring all the outstanding shares of Monroe Bank & Trust. At the April 6, 2000 Annual Meeting of Shareholders of Monroe Bank & Trust, shareholders approved a proposal that resulted in the Bank merging with Monroe Interim Bank, a state chartered bank, which was a subsidiary of the Corporation. On July 1, 2000, the merger of Monroe Bank & Trust and Monroe Interim Bank was completed, with Monroe Bank & Trust becoming the wholly owned subsidiary of MBT Financial Corp.

Monroe Bank & Trust was incorporated and chartered as Monroe State Savings Bank under the laws of the State of Michigan in 1905. In 1940, Monroe Bank & Trust consolidated with Dansard Bank and moved to the present address of its main office. Monroe Bank & Trust operated as a unit bank until 1950 when it opened its first branch office in Ida, Michigan. It then continued its expansion to its present total of 25 branch offices, including its main office. Monroe Bank & Trust changed its name from "Monroe State Savings Bank" to "Monroe Bank & Trust" in 1968.

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

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

Competition

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

The Bank’s primary market area is Monroe County, Michigan. According to the most recent market data, there are ten other deposit taking/lending institutions competing in the Bank’s market. According to the most recent FDIC Summary of Deposits, the Bank ranks first in market share in Monroe County with 50.20% of the market. In 2001, the Bank began expanding into Wayne County, Michigan, and currently ranks thirteenth out of twenty-seven institutions operating in Wayne County with a market share of 0.41%. For the combined Monroe and Wayne County market, the Bank ranks sixth of twenty-eight institutions with a market share of 3.07%.

Supervision and Regulation

General

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

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

Recent Regulatory Enforcement Actions

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

- The Bank must increase its Tier 1 Leverage ratio to a minimum of 8.0 percent and its Total Risk Based Capital ratio to a minimum of 11 percent within 90 days of the effective date of the Consent Order.
- The Bank must increase its Tier 1 Leverage ratio to a minimum of 9.0 percent and its Total Risk Based Capital ratio to a minimum of 12 percent within 180 days of the effective date of the Consent Order.
- The Bank must charge off any loans classified as “Loss” in the Report of Examination (“ROE”) dated October 26, 2009. The Bank completed this prior to December 31, 2009.
- The Bank may not extend additional credit to any borrower who has uncollected debt to the Bank that has been charged off or is classified as “Loss” in the ROE.
- The Bank may not extend additional credit to any borrower who has uncollected debt to the Bank that is classified as “Substandard” or “Doubtful” in the ROE without prior approval of the Bank’s board of directors.
- The Bank is required to adopt a written plan to reduce the Bank’s risk position in each asset in excess of $1,000,000 which is more than 90 days delinquent or classified “Substandard” or “Doubtful” in the ROE.
- The Bank may not declare or pay any dividend without the prior written consent of the Regional Director of the FDIC and the Chief Deputy Commissioner of OFIR.
- Prior to the submission of all Reports of Condition and Income required by the FDIC, the Bank’s board must review the adequacy of the allowance for loan and lease losses.
- Within 60 days of the effective date of the Consent Order, the Bank is to adopt a written profit plan and comprehensive budget for 2010 and 2011.
- The Bank is required to provide its shareholder with a copy of the Consent Order. The Bank’s sole shareholder is the Registrant.
- Within 30 days of the effective date of the Consent Order, the Bank’s board of directors shall have in place a program for monitoring compliance with the Consent Order.
- While the Consent Order is in effect, the Bank shall furnish quarterly progress reports detailing the actions taken to secure compliance with the Consent Order and the results thereof to the FDIC and OFIR.

A failure to achieve and maintain the capital ratio targets referred to in the Consent Order may result in further adverse regulatory actions, including the imposition of additional restrictions under the FDIC’s Prompt Corrective Action regulations. See Item 1.A. Risk Factors in this Form 10-K.

Recent Regulatory Developments

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

4

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

EESA also temporarily increased FDIC deposit insurance on most accounts from $100,000 to $250,000. This increase became permanent at the end of 2010 under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank Act"). Following a systemic risk determination, on October 14, 2008, the FDIC established a Temporary Liquidity Guarantee Program ("TLGP"). Under the Transaction Account Guarantee Program of the TLGP, the FDIC temporarily provides a 100% guarantee of the deposits in non-interest-bearing transaction deposit accounts in participating financial institutions. The Bank participated in this program. Consequently, all funds held in non-interest-bearing transaction accounts (demand deposit accounts), Interest on Lawyers Trust Accounts (IOLTAs), and low-interest NOW accounts (defined as NOW accounts with interest rates no higher than 0.50%) with the Bank were covered under this program. This program was extended until December 31, 2010. The Dodd-Frank Act extended unlimited FDIC insurance coverage on non-interest bearing transaction accounts through December 31, 2012. Under the Dodd-Frank Act, low-interest NOW accounts are excluded from the definition of non-interest bearing transaction accounts.

The Dodd-Frank Act is a comprehensive overhaul of the financial services industry legislation and it created the new Bureau of Consumer Financial Protections ("BCFP"). The BCFP and other federal agencies are required to implement new rules and regulations on banks and financial institutions. Compliance with these new rules and regulations may be disruptive to the Corporation's business and could have a material adverse effect on its business, financial condition, and results of operations.

Bank Regulation

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

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

Loans to One Borrower. Michigan law provides that a Michigan commercial bank may not provide loans or extensions of credit to a person in excess of 15% of the capital and surplus of the bank. The limit, however, may be increased to 25% of capital and surplus if approval of two-thirds of the Bank's board of directors is granted. At December 31, 2010, the Bank's regulatory limit on loans to one borrower was $12.0 million or $20.0 million for loans approved by two-thirds of the Board of Directors. If the Michigan OFIR determines that the interests of a group of more than one person, co-partnership, association or corporation are so interrelated that they should be considered as a unit for the purpose of extending credit, the total loans and extensions of credit to that group are combined. At December 31, 2010, the Bank did not have any loans with one borrower that exceeded its regulatory limit.

5

At December 31, 2010, loans that had high loan to value ratios at origination were quantified by management and represented less than 10% of total outstanding loans as of the balance sheet date. Additionally, management quantified all loans (mortgage, consumer and commercial) that required interest only payments as of the balance sheet date and determined that these types of loans were less than 10% of total loans outstanding at December 31, 2010. Based on these facts, management concluded no concentrations of credit risk existed at December 31, 2010.

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

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

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

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

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

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

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

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

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

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") established a system of prompt corrective action to resolve the problems of undercapitalized financial institutions. Under this system, the federal banking regulators have established five capital categories ("well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized"), and all institutions are assigned one such category. Federal banking regulators are required to take various mandatory supervisory actions and are authorized to take other discretionary actions with respect to institutions in the three undercapitalized categories. The severity of the action depends upon the capital category in which the institution is placed. At December 31, 2010, the Bank's regulatory capital classification was "adequately capitalized." Although the Bank's nominal capital ratios are above those required to be considered "well capitalized", the existence of a written agreement with the FDIC limits the Bank's capital classification to "adequately capitalized."

For further discussion regarding the Corporation's regulatory capital requirements, see Note 13 to the 2010 Consolidated Financial Statements.

FDIC Insurance. All of the Bank's deposits are insured under the Federal Deposit Insurance Act by the FDIC to the fullest extent permitted by law. As an FDIC-insured institution, the Bank is required to pay deposit insurance premium assessments to the FDIC. The federal deposit insurance system was overhauled in 2006 as a result of the enactment of The Federal Deposit Insurance Reform Act of 2005 (the "Reform Act"), which was signed into law in February of 2006. Pursuant to the Reform Act, the FDIC has modified its risk-based assessment system for deposit insurance premiums. Under the new system, all insured depository institutions are placed into one of four categories and assessed insurance premiums based primarily on their level of capital and supervisory evaluations.

7

For the quarter beginning January 1, 2009, the FDIC raised the base annual assessment rate for institutions in Risk Category I to between 12 and 14 basis points while the base annual assessment rates for institutions in Risk Categories II, III and IV were increased to 17, 35, and 50 basis points, respectively. For the quarter beginning April 1, 2009 the FDIC set the base annual assessment rate for institutions in Risk Category I to between 12 and 16 basis points and the base annual assessment rates for institutions in Risk Categories II, III and IV at 22, 32, and 45 basis points, respectively. An institution's assessment rate could be lowered by as much as five basis points based on the ratio of its long-term unsecured debt to deposits or, for smaller institutions, based on the ratio of certain amounts of Tier 1 capital to deposits. The assessment rate may be adjusted for Risk Category I institutions that have a high level of brokered deposits and have experienced higher levels of asset growth (other than through acquisitions) and could be increased by as much as ten basis points for institutions in Risk Categories II, III, and IV whose ratio of brokered deposits to deposits exceeds 10%. Reciprocal deposit arrangements like CDARS were treated as brokered deposits for Risk Category II, III, and IV institutions but not for institutions in Risk Category I. An institution's base assessment rate would also be increased if an institution's ratio of secured liabilities (including FHLB advances and repurchase agreements) to deposits exceeds 25%. The maximum adjustment for secured liabilities for institutions in Risk Categories I, II, III and IV would be 8, 11, 16, and 22.5 basis points, respectively, provided that the adjustment may not increase an institution's base assessment rate by more than 50%.

The FDIC imposed a special assessment equal to five basis points of assets less Tier 1 capital as of June 30, 2009 payable on September 30, 2009 and reserved the right to impose additional special assessments. In lieu of further special assessments, on November 12, 2009 the FDIC approved a final rule to require all insured depository institutions to prepay their estimated risk-based assessments for the fourth quarter of 2009, and for all of 2010, 2011, and 2012 on December 30, 2009. For purposes of estimating future assessments, an institution would assume 5% annual growth in the assessment base and a three basis point increase in the current assessment rate for 2011 and 2012. The prepaid assessment would be applied against the actual assessment until exhausted. Any funds remaining after June 30, 2013 would be returned to the institution. If the prepayment would impair an institution's liquidity or otherwise create significant hardship, it could apply for an exemption.

On February 7, 2011, the FDIC adopted a final rule on deposit insurance assessments, implementing a change in the deposit insurance assessment base, as required by the Dodd-Frank Act. The final rule also changed the assessment rates. Under the new rule, deposit insurance assessments are based on average total assets, less average tangible equity capital instead of average total deposits. Base assessment rates were reduced to between 5 and 9 basis points for institutions in Risk Category I, 14 basis points for institutions in Risk Category II, 23 basis points for institutions in Risk Category III, and 35 basis points for institutions in Risk Category IV. The changes to the assessment base and the base rates become effective April 1, 2011.

In addition, all FDIC-insured institutions are required to pay assessments to the FDIC to fund interest payments on bonds issued by the Financing Corporation ("FICO"), an agency of the Federal government established to recapitalize the Federal Savings and Loan Insurance Corporation. The FICO assessment rates, which are determined quarterly, averaged .0102 % of insured deposits on an annualized basis in fiscal year 2010. These assessments will continue until the FICO bonds mature in 2017.

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

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

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

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

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

Interstate Branching. Beginning June 1, 1997, federal law permitted the responsible federal banking agencies to approve merger transactions between banks located in different states, regardless of whether the merger would be prohibited under the law of the two states. The law also permitted a state to “opt in” to the provisions of the Interstate Banking Act before June 1, 1997, and permitted a state to “opt out” of the provisions of the Interstate Banking Act by adopting appropriate legislation before that date. Michigan did not “opt out” of the provisions of the Interstate Banking Act. Accordingly, beginning June 1, 1997, a Michigan commercial bank could acquire an institution by merger in a state other than Michigan unless the other state had opted out. The Interstate Banking Act also authorizes de novo branching into another state if the host state enacts a law expressly permitting out of state banks to establish such branches within its borders.

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

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

Federal Home Loan Bank. The Bank is a member of the Federal Home Loan Bank of Indianapolis ("FHLBI"), one of the 12 regional Federal Home Loan Banks. The FHLBI provides a central credit facility primarily for member institutions. The Bank, as a member of the FHLBI, is required to acquire and hold shares of capital stock in the FHLBI in an amount equal to at least 1.0% of the aggregate principal amount of its unpaid residential mortgage loans and similar obligations at the beginning of each year, or 1/20 of its advances (borrowings) from the FHLBI, whichever is greater. The Bank was in compliance with this requirement and its investment in FHLBI stock at December 31, 2010 was $11.8 million. The FHLB Banks function as a central reserve bank by providing credit for financial institutions throughout the United States. Advances are generally secured by eligible assets of a member, which include principally mortgage loans and obligations of, or guaranteed by, the U.S. government or its agencies. Advances can be made to the Bank under several different credit programs of the FHLBI. Each credit program has its own interest rate, range of maturities and limitations on the amount of advances permitted based on the financial condition of the member institution and the adequacy of collateral pledged to secure the credit.

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

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

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

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

The deposit operations of the Bank are subject to:

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

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

Holding Company Regulation

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

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

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

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

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

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

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

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

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

Employees

MBT Financial Corp. has no employees other than its three officers, each of whom is also an employee and officer of Monroe Bank & Trust and who serve in their capacity as officers of MBT Financial Corp. without compensation. As of December 31, 2010, Monroe Bank & Trust had 334 full-time employees and 14 part-time employees. Monroe Bank & Trust provides a number of benefits for its full-time employees, including health and life insurance, workers' compensation, social security, paid vacations, numerous bank services, and a 401(k) plan.

Executive Officers of the Registrant

NAME	AGE	POSITION
H. Douglas Chaffin	55	President & Chief Executive Officer
Donald M. Lieto	55	Executive Vice President, Senior Administration Manager, Monroe Bank & Trust
Scott E. McKelvey	51	Executive Vice President, Senior Wealth Management Officer, Monroe Bank & Trust
James E. Morr	64	Executive Vice President, General Counsel, and Chief Risk Officer, Monroe Bank & Trust; Secretary, MBT Financial Corp.
Thomas G. Myers	54	Executive Vice President & Chief Lending Manager, Monroe Bank & Trust
John L. Skibski	46	Executive Vice President & Chief Financial Officer, Monroe Bank & Trust; Treasurer, MBT Financial Corp.

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

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

H. Douglas Chaffin was President & Chief Executive Officer in each of the last five years. Donald M. Lieto was Executive Vice President, Senior Administration Manager in each of the last five years. Scott E. McKelvey was Executive Vice President, Senior Wealth Management Officer in 2010, 2009, 2008, and 2007, and Senior Vice President – Downriver Community President in 2007 and 2006. James E. Morr was Executive Vice President, General Counsel and Chief Risk Officer in 2010, 2009, 2008, and 2007 and Executive Vice President, Senior Wealth Management Officer and General Counsel in 2007 and 2006. Thomas G. Myers was Executive Vice President & Chief Lending Manager in each of the last five years. John L. Skibski was Executive Vice President & Chief Financial Officer in each of the last five years.

Available Information

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

Item 1A. Risk Factors

This section highlights some of the specific risks that could affect us. Although this section attempts to highlight some of the key factors, please be aware that these risks are not the only risks we face; other risks may prove to be important in the future. New risks may emerge at any time, and we cannot predict such risks or estimate the extent to which they may affect our business, financial condition, results of operations or the trading price of our securities. The current and further deterioration in the residential construction and commercial development real estate markets may lead to increased non-performing assets in our loan portfolio and increased provision expense for losses on loans, which could have a material adverse effect on our capital, financial condition and results of operations.

Risks Related to the Corporation's Business

The Corporation's Business may be Adversely Affected by Conditions in the Financial Markets and Economic Conditions Generally

The Corporation's success depends significantly on the general economic conditions of the State of Michigan. Unlike larger regional or national banks that are more geographically diversified, the Bank provides banking and financial services to customers primarily in Southeast Michigan and Northwest Ohio. The local economic conditions in these areas have a significant impact on the demand for the Bank's products and services as well as the ability of the Bank's customers to repay loans, the value of the collateral securing loans, and the stability of the Bank's deposit funding sources. A significant decline in general economic conditions caused by inflation, recession, acts of terrorism, unemployment, changes in securities markets or other factors could impact these local economic conditions and, in turn, have a material adverse effect on the Bank's and the Corporation's financial condition and results of operations. In particular, the current environment impacts the ability of borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans. A favorable business environment is generally characterized by economic growth, efficient capital markets, low inflation, high business and investor confidence, strong business earnings, and other factors. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity, or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation or interest rates; natural disasters; or a combination of these or other factors.

Southeast Michigan and the United States as a whole have gone through a prolonged downward economic cycle from 2007 through 2010. Significant weakness in market conditions adversely impacted all aspects of the economy including the Corporation's business. In particular, dramatic declines in the housing market, with decreasing home prices and increasing delinquencies and foreclosures, negatively impacted the credit performance of construction loans, which resulted in significant write-downs of assets by many financial institutions. Business activity across a wide range of industries and regions was greatly reduced, and local governments and many businesses experienced serious difficulty due to the lack of consumer spending and the lack of liquidity in the credit markets. In addition, unemployment has been high throughout this period. The business environment was adverse for many households and businesses in the Southeast Michigan market, United States, and worldwide.

Overall, during the past three years, the general business environment has had an adverse effect on the Corporation's business, and there can be no assurance that the environment will improve significantly in the near term. Unemployment levels remain elevated, housing prices remain depressed, and demand for housing remains weak due to distressed sales and tightened lending standards. Consequently, particularly in the Michigan economy which has been one of the most adversely impacted states in the United States by the current recession, there can be no assurance that the economic conditions will continue to improve in the near term. Furthermore, a worsening of economic conditions would likely exacerbate the adverse effects of these difficult market conditions on the Corporation and others in the financial institutions industry. Continued market stress could have a material adverse effect on the credit quality of the Corporation's loans, and therefore, its financial condition and results of operations.

The Bank is operating under a Consent Order with its governmental regulators and may be subject to further regulatory enforcement actions.

On July 12, 2010, the Bank agreed to the issuance of a consent order (the "Consent Order") with the FDIC and the Michigan OFIR requiring the following:

- The Bank must increase its Tier 1 Leverage ratio to a minimum of 8.0 percent and its Total Risk Based Capital ratio to a minimum of 11 percent within 90 days of the effective date of the Consent Order.
- The Bank must increase its Tier 1 Leverage ratio to a minimum of 9.0 percent and its Total Risk Based Capital ratio to a minimum of 12 percent within 180 days of the effective date of the Consent Order.
- The Bank must charge off any loans classified as "Loss" in the Report of Examination ("ROE") dated October 26, 2009. The Bank completed this prior to December 31, 2009.
- The Bank may not extend additional credit to any borrower who has uncollected debt to the Bank that has been charged off or is classified as "Loss" in the ROE.
- The Bank may not extend additional credit to any borrower who has uncollected debt to the Bank that is classified as "Substandard" or "Doubtful" in the ROE without prior approval of the Bank's board of directors.
- The Bank is required to adopt a written plan to reduce the Bank's risk position in each asset in excess of $1,000,000 which is more than 90 days delinquent or classified "Substandard" or "Doubtful" in the ROE.
- The Bank may not declare or pay any dividend without the prior written consent of the Regional Director of the FDIC and the Chief Deputy Commissioner of OFIR.
- Prior to the submission of all Reports of Condition and Income required by the FDIC, the Bank's board must review the adequacy of the allowance for loan and lease losses.
- Within 60 days of the effective date of the Consent Order, the Bank is to adopt a written profit plan and comprehensive budget for 2010 and 2011.
- The Bank is required to provide its shareholder with a copy of the Consent Order. The Bank's sole shareholder is the Registrant.
- Within 30 days of the effective date of the Consent Order, the Bank's board of directors shall have in place a program for monitoring compliance with the Consent Order.
- While the Consent Order is in effect, the Bank shall furnish quarterly progress reports detailing the actions taken to secure compliance with the Consent Order and the results thereof to the FDIC and OFIR.

14

As of December 31, 2010, the Bank's Tier I Leverage Capital and Total Risk Based Capital ratios were 6.17% and 10.15%, respectively, and therefore the Bank had not yet achieved the capital ratio targets set in the Consent Order. As a result of this, the FDIC and/or the Michigan OFIR may take additional regulatory action against the Bank.

Our Business is Subject to Credit Risk and the Impact of Nonperforming Loans

We face the risk that loan losses, including unanticipated loan losses due to changes in loan portfolios, fraud and economic factors, could require additional increases in the allowance for loan losses. Additions to the allowance for loan losses would cause our net income to decline and could have a material adverse impact on our financial condition and results of operations.

Making loans is an essential element of our business, and there is a risk that customer loans will not be repaid. The risk of nonpayment is affected by a number of factors, including:

- The duration of the loan;
- Credit risks of a particular borrower;
- Changes in unemployment, economic and industry conditions; and
- in the case of a collateralized loan, the potential inadequacy of the value of the collateral in the event of default, such as has resulted from the deterioration in commercial and residential real estate values.

We attempt to maintain an appropriate allowance for loan losses to provide for potential losses in our loan portfolio. We periodically determine the amount of the allowance based on consideration of several factors including, among others, the ongoing review and grading of the loan portfolio, consideration of our past loan loss experience as well as that of the banking industry, trends in past due and nonperforming loans, risk characteristics of the various classifications of loans, existing economic conditions, the fair value of underlying collateral, the size and diversity of individual credits, and other qualitative and quantitative factors which could affect probable credit losses. We determine the amount of the allowance for loan losses by considering these factors and by using estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on our historical loss experience with additional qualitative factors for various issues, and allocation of specific reserves for special situations that are unique to the measurement period with consideration of current economic trends and conditions, all of which are susceptible to significant change. As an integral part of their examination process, various federal and state regulatory agencies also review the allowance for loan losses. These agencies may require that certain loan balances be classified differently or charged off when their credit evaluations differ from those of management, based on their judgments about information available to them at the time of their examination. Although we believe the level of the allowance for loan losses is appropriate as recorded in the consolidated financial statements, because current economic conditions could continue to deteriorate and future events are inherently difficult to predict, the anticipated amount of estimated loan losses, and therefore the adequacy of the allowance, could change significantly. At December 31, 2010 our allowance for loan losses was $21.2 million, or 2.82% of total loans and 25.98% of non-performing loans, a decrease of $2.9 million compared to our allowance for loan losses of $24.1 million, or 2.83% of total loans and 27.94% of nonperforming loans as of December 31, 2009.

A substantial portion of our loan portfolio is sensitive to real estate values, and declining real estate prices in our markets have resulted in increases in delinquencies and losses on certain segments of our portfolio. As of December 31, 2010, more than 85% of the Bank's loan portfolio was secured by real estate. Taken together with the general economic downturn in our key markets, the effects of ongoing mortgage market turbulence, combined with the ongoing correction in residential real estate market prices and reduced levels of home sales, could result in further reductions in real estate values, which may adversely affect the value of collateral securing mortgage loans that we hold, mortgage loan originations, and profits on sale of mortgage loans. Continued declines in real estate values and home sales volumes and financial stress on borrowers resulting from job losses, interest rate resets on adjustable rate mortgage loans or other factors could have further adverse effects on borrowers and their ability to repay loans from us. A continued sustained economic downturn could adversely affect other portions of our loan portfolio.

At December 31, 2010, $76.7 million or 10.2% of our loans were categorized as commercial loans. These loans are generally business lines of credit, equipment loans and other business related extensions of credit. These loans are subject to business risks associated with the specific risks of the borrower as well as the southeast Michigan economy. Repayment of these loans relies substantially on the profitability and cash flow capacity of the borrower. Consumer loans totaling $16.4 million, or 2.2% of our total loans at December 31, 2010, are comprised principally of secured and unsecured personal loans such as vehicle loans and unsecured personal lines of credit. These loans are principally dependent upon the personal income of the borrower as the source of repayment. Risk of default and nonpayment of these loans rises substantially when there is a general downturn in the economy and borrowers lose their jobs.

There is no precise method of predicting loan losses, and therefore we always face the risk that charge-offs in future periods will exceed our allowance for loan losses or that additional increases in the allowance for loan losses will otherwise be required. Additions to the allowance for loan losses would cause net income to decline in the period(s) in which such additions occur and could also have a material adverse impact on our capital and financial position.

In addition to the risk of loss of principal associated with our loan portfolio, our profitability is adversely affected by non-performing loans. Non-performing loans include loans past due 90 days or more, restructured loans, and non-accrual loans.

The Bank has a Current Need for Additional Equity

We lost $11.9 million during the year ended December 31, 2010. While we believe we may be able to generate profits during 2011, we cannot be certain that we will return to profitability. Given our recent losses, asset quality issues, and overall financial condition, we must raise additional capital to provide the Corporation and the Bank sufficient capital resources to meet their commitments and business needs. In addition, the Bank is party to a consent order that was issued by the FDIC and the Michigan OFIR in July, 2010. In connection with the Consent Order, the Bank is required to achieve a Tier 1 leverage ratio of 9% and a Total Risk Based Capital ratio of 12%. At December 31, 2010, the Bank’s Tier 1 leverage ratio was 6.17%, its Tier 1 risk-based ratio was 8.88% and its total risk-based capital ratio was 10.15%. In order to achieve the required Tier 1 Leverage ratio of 9%, the Bank would have needed approximately $35.4 million in additional Tier 1 equity capital as of December 31, 2010. While the Corporation, on behalf of the Bank, is attempting to raise the required additional capital, we may not be able to raise the necessary capital on favorable terms, or at all. An inability to raise additional capital on acceptable terms could have a materially adverse effect on our business, financial condition and results of operations. It also could result in the FDIC and/or the Michigan OFIR taking additional regulatory enforcement action against the Bank.

The Corporation is Subject to Interest Rate Risk

The Corporation’s earnings and cash flows are largely dependent upon its net interest income. Net interest income is the difference between interest earned on interest earning assets such as loans and securities and interest paid on interest bearing liabilities such as deposits and borrowings. Interest rates are highly sensitive to many factors that are beyond the Corporation’s control, including general economic and market conditions and policies of various governmental and regulatory agencies and, in particular, the Board of Governors of the Federal Reserve System. Changes in monetary policy, including changes in interest rates, could influence not only the interest the Corporation receives on loans and investment securities and the amount of interest it pays on deposits and borrowings, but such changes could also affect the Corporation’s ability to originate loans and obtain deposits and the fair values of the Corporation’s financial assets and liabilities. If the interest rates paid on deposits and other borrowings increase at a faster rate or decrease at a slower rate than the interest rates received on loans and investments, the Corporation’s net interest income, and therefore earnings, could be adversely affected.

Although Management believes it has implemented effective asset and liability management strategies to reduce the potential effects of changes in interest rates on the Corporation's results of operations, any substantial, unexpected, or prolonged change in market interest rates or in the term structure of interest rates could have a material adverse effect on the Corporation's financial condition and results of operations. See Item 6A. Quantitative and Qualitative Disclosures about Market Risk in this report for further discussion related to the Corporation's management of interest rate risk.

Our Allowance for Loan Losses may not be adequate
The Corporation maintains an Allowance for Loan Losses, which is a reserve established through a provision for loan losses charged to expense, that represents Management's best estimate of probable loan losses that have been incurred within the existing portfolio of loans. The Allowance, in the judgment of Management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The level of the Allowance reflects Management's continuing evaluation of loan loss experience, current loan portfolio quality, present economic, political, and regulatory conditions, and unidentified losses inherent in the current loan portfolio. The determination of the appropriate level of the Allowance inherently involves a high degree of subjectivity and requires the Corporation to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans, and other factors, both within and outside of the Corporation's control, may require an increase in the Allowance. In addition, bank regulatory agencies periodically review the Corporation's Allowance and may require an increase in the provision for loan losses or the recognition of further loan charge-offs, based on judgments different from those of Management.

Real Estate Market Volatility and Future Changes in Disposition Strategies Could Result in Net Proceeds that Differ Significantly from Other Real Estate Owned ("OREO") Fair Value Appraisals
The Corporation's OREO portfolio consists of properties that it obtained through foreclosure or other collection actions in satisfaction of loans. OREO properties are recorded at the lower of the recorded investment in the loans for which the properties served as collateral or estimated fair value, less estimated selling costs. Generally, in determining fair value an orderly disposition of the property is assumed, except where a different disposition strategy is expected. Significant judgment is required in estimating the fair value of OREO property, and the period of time within which such estimates can be considered current is significantly shortened during periods of market volatility, as experienced during 2008 and 2009.

In response to market conditions and other economic factors, the Corporation may utilize alternative sale strategies other than orderly dispositions as part of its OREO disposition strategy, such as immediate liquidation sales. In this event, as a result of the significant judgments required in estimating fair value and the variables involved in different methods of disposition, the net proceeds realized from such sales transactions could differ significantly from estimates used to determine the fair value of the Corporation's OREO properties.

Turmoil in the Financial Markets Could Result in Lower Fair Values for the Corporation's Investment Securities
Major disruptions in the capital markets experienced in the past year have adversely affected investor demand for all classes of securities and resulted in volatility in the fair values of the Corporation's investment securities. Significant prolonged reduced investor demand could manifest itself in lower fair values for these securities and may result in recognition of an other-than-temporary impairment. Such impairment could have a material adverse effect on the Corporation's financial condition and results of operations.

The Corporation Is Subject To Environmental Liability Risk Associated With Lending Activities
A significant portion of the Corporation's loan portfolio is secured by real property. During the ordinary course of business, the Corporation may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found,

the Corporation may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require the Corporation to incur substantial expenses and could materially reduce the affected property's value or limit the Corporation's ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase the Corporation's exposure to environmental liability. Although the Corporation has policies and procedures to perform an environmental review before initiating any foreclosure action on real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on the Corporation's financial condition and results of operations.

The Corporation May Be Adversely Affected by the Soundness of Other Financial Institutions

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. The Corporation has exposure to many different industries and counterparties and routinely executes transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks, and other institutional clients. Many of these transactions expose the Corporation to credit risk in the event of a default by a counterparty or client. Any such losses could have a material adverse effect on the Corporation's financial condition and results of operations.

The Corporation Operates in a Highly Competitive Industry

The Corporation faces substantial competition in all areas of its operations from a variety of different competitors, many of which are larger and may have more financial resources. Such competitors primarily include regional and national banks within the Corporation's market. The Corporation also faces competition from many other types of financial institutions, including savings and loan institutions, credit unions, finance companies, brokerage firms, insurance companies, and other financial intermediaries. The financial services industry could become even more competitive as a result of legislative, regulatory, and technological changes and continued consolidation. Banks, securities firms, and insurance companies can merge under the umbrella of a financial holding company, which can offer virtually any type of financial service, including banking, securities underwriting, and insurance. Also, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. Many of the Corporation's competitors have fewer regulatory constraints, and may have lower cost structures. Additionally, many competitors may be able to achieve economies of scale, and as a result, may offer a broader range of products and services as well as better pricing for those products and services than the Corporation can. Increased competition could adversely affect the Corporation's growth and profitability, which, in turn, could have a material adverse effect on the Corporation's financial condition and results of operations.

The Corporation is Subject to Extensive Government Regulation and Supervision

The Corporation is subject to extensive federal and state regulation and supervision. Banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds, and the banking system as a whole, not shareholders. These regulations affect the Corporation's lending practices, capital structure, investment practices, dividend policy, and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations, and policies for possible changes. Changes to statutes, regulations, or regulatory policies, including changes in interpretation or implementation of statutes, regulations, or policies, could affect the Corporation in substantial and unpredictable ways. Such changes could subject the Corporation to additional costs, limit the types of financial services and products the Corporation may offer and/or increase the ability of non-banks to offer competing financial products and services, among other things. Failure to comply with laws, regulations, or policies could result in sanctions by regulatory agencies, civil money penalties, and/or reputation damage, which could have a material adverse effect on the Corporation's business, financial condition, and results of operations. While the Corporation has policies and procedures designed to prevent any such violations, there can be no assurance that such violations will not occur.

Recent events in the U.S. and global financial markets, including the deterioration of the worldwide credit markets, have created significant challenges for financial institutions both in the United States and around the world. Dramatic declines in the housing market in recent years, marked by falling home prices and increasing levels of mortgage foreclosures, have resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities and major commercial and investment banks. In light of these current economic conditions, regulatory authorities have been taking actions with respect to the banking industry as a whole, and individual financial institutions in particular, including institutions that are considered well capitalized under applicable regulatory standards. These actions are intended to stabilize and improve the financial condition, risk profile, and capital adequacy of the industry and such financial institutions. Such actions may take the form of an informal understanding or a formal written agreement between the regulatory authority and a financial institution that imposes various requirements on the financial institution. These requirements could include the development of goals, strategies, and plans for improving lending procedures, lowering risk profiles, maintaining specific capital levels, raising capital, and restrictions on dividends, transactions with affiliates, redemption of equity securities, and incurring or refinancing debt.

Under applicable laws, the Federal Reserve Board, the FDIC and the Michigan OFIR have the ability to impose substantial sanctions, restrictions, and requirements on the Bank or the Corporation, if they determine, during an examination or otherwise, that the Bank or the Corporation violated laws or has weaknesses with respect to general standards of safety and soundness. Applicable law prohibits disclosure of specific examination findings by the institution, although formal enforcement actions are routinely disclosed by the regulatory authorities. In July 2010, the Bank agreed to the issuance of a Consent Order requiring the Bank to improve its capital ratios, among other things. Failure to adhere to the requirements could result in more severe restrictions. Generally these enforcement actions can be lifted only after subsequent examinations substantiate complete correction of the underlying issues.

The US Government has instituted a number of programs designed to increase credit availability, provide liquidity during the crisis and stabilize the banking system, and there may be additional sweeping governmental reform legislation enacted to provide even greater supervision and regulation of the banking and financial service industry over the coming years. It is impossible to predict how these possible reforms may affect our ability to implement our business plans.

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

The Bank cannot accept or renew brokered certificates of deposit without a waiver from the FDIC, which could affect the Bank's liquidity.
While the Bank is subject to its Consent Order with the FDIC and the Michigan OFIR, it cannot be categorized as "well capitalized" regardless of its actual capital ratios. As of December 31, 2010, the Bank is categorized as "adequately capitalized" and cannot renew or accept new brokered deposits without being granted a waiver from the FDIC. It is not likely that the Bank will be granted a waiver. As of December 31, 2010, the Bank had $47.0 million in brokered certificates of deposit, including $22.9 million that mature in 2011. If the Bank is not able to replace the funding provided by the maturing brokered deposits, the Bank's liquidity position could be materially adversely affected.

The Impact of the New Basel III Capital Standards is Uncertain
In December 2010, the Basel Committee on Banking Supervision published the Basel III global regulatory standards on bank capital adequacy and liquidity. The Basel III accord was developed in response to the global financial crisis. The Basel III rules are intended to be implemented by participating countries for large banks with international activities, and would not apply directly to the Corporation. It is unclear what the impact of the implementation of Basel III may be or what impact a pending alternative approach for non-Basel III U.S. banks may have on the cost and availability of different types of credit and the potential compliance costs of implementing the new capital standards.

The Level of the Commercial Real Estate Loan Portfolio May Subject the Bank to Additional Regulatory Scrutiny
The FDIC, the Federal Reserve Board, and the Office of the Comptroller of the Currency have promulgated joint guidance on sound risk management practices for financial institutions with concentrations in commercial real estate lending. Under the guidance, a financial institution that is actively involved in commercial real estate lending should perform a risk assessment to identify concentrations. A financial institution may have a concentration in commercial real estate lending if, among other factors, (i) total reported loans for construction, land development, and other land represent 100% or more of total capital or (ii) total reported loans secured by multifamily and non-farm non-residential properties, loans for construction, land development, and other land loans otherwise sensitive to the general commercial real estate market, including loans to commercial real estate related entities, represent 300% or more of total capital and increased by 50% or more during the prior 36 months. The joint guidance requires heightened risk management practices including board and management oversight and strategic planning, development of underwriting standards, risk assessment, and monitoring through market analysis and stress testing. As of December 31, 2010, the Bank did not meet the level of concentration in commercial real estate lending activity that would indicate a need under the regulatory guidance for increased risk assessment.

The Corporation's Information Systems May Experience an Interruption or Breach in Security
The Corporation relies heavily on communications and information systems to conduct its business. Any failure, interruption, or breach in security of these systems could result in failures or disruptions in the Corporation's customer relationship management, general ledger, deposit, loan, or other systems. The Corporation has policies and procedures expressly designed to prevent or limit the effect of a failure, interruption, or security breach of its systems. However, there can be no assurance that any such failures, interruptions, or security breaches will not occur or, if they do occur, that the impact will not be substantial. The occurrence of any failures, interruptions, or security breaches of the Corporation's systems could damage the Corporation's reputation, result in a loss of customer business, subject the Corporation to additional regulatory scrutiny, or expose the Corporation to civil litigation and possible financial liability, any of which could have a material adverse effect on the Corporation's financial condition and results of operations.

The Corporation Is Dependent Upon Outside Third Parties for Processing and Handling of Corporation Records and Data
The Corporation relies on software developed by third party vendors to process various Corporation transactions. In some cases, the Corporation has contracted with third parties to run its proprietary software on behalf of the Corporation. These systems include, but are not limited to, general ledger, payroll, employee benefits, trust record keeping, loan and deposit processing, merchant processing, and securities portfolio management. While the Corporation performs a review of controls instituted by the vendor over these programs in accordance with industry standards and performs its own testing of user controls, the Corporation must rely on the continued maintenance of these controls by the outside party, including safeguards over the security of customer data. In addition, the Corporation maintains backups of key processing output daily in the event of a failure on the part of any of these systems. Nonetheless, the Corporation may incur a temporary disruption in its ability to conduct its business or process its transactions, or incur damage to its reputation if the third party vendor fails to adequately maintain internal controls or institute necessary changes to systems. Such disruption or breach of security may have a material adverse effect on the Corporation's financial condition and results of operations.

The Corporation Continually Encounters Technological Change
The banking and financial services industry continually undergoes technological changes, with frequent introductions of new technology-driven products and services. In addition to serving customers better, the effective use of technology increases efficiency and enables financial institutions to reduce costs. The Corporation's future success will depend, in part, on its ability to address the needs of its customers by using technology to provide products and services that enhance customer convenience and that create additional efficiencies in the Corporation's operations. Many of the Corporation's competitors have greater resources to invest in technological improvements, and the

Corporation may not effectively implement new technology-driven products and services or do so as quickly, which could reduce its ability to effectively compete. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse effect on the Corporation's business and, in turn, its financial condition and results of operations.

The Corporation Is Subject To Claims and Litigation Pertaining to Fiduciary Responsibility and other Legal Risks

From time to time, customers and others make claims and take legal action pertaining to our performance of fiduciary responsibilities. If such claims and legal actions are not resolved in our favor, they may result in significant financial liability and/or adversely affect the market perception of us and our products and services as well as customer demand for those products and services. Any financial liability or reputation damage could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition and results of operations.

Consumers and Businesses May Decide Not to Use Banks to Complete Their Financial Transactions

Technology and other changes are allowing parties to complete financial transactions that historically have involved banks at one or both ends of the transaction. For example, consumers can now pay bills and transfer funds directly without banks. This could result in the loss of fee income as well as the loss of customer deposits and income generated from those deposits and could have a material adverse effect on the Corporation’s financial condition and results of operations.

The Corporation’s Controls and Procedures May Fail or Be Circumvented

Management regularly reviews and updates the Corporation’s internal controls, disclosure controls, and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of the Corporation’s controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Corporation’s business, results of operations, and financial condition.

Financial Services Companies Depend Upon the Accuracy and Completeness of Information about Customers and Counterparties

In deciding whether to extend credit or enter into other transactions, the Corporation may rely on information furnished by or on behalf of customers and counterparties, including financial statements, credit reports and other financial information. The Corporation may also rely on representations of those customers, counterparties or other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate or misleading financial statements, credit reports or other financial information could have a material adverse effect on the Corporation’s business and, in turn, the Corporation’s financial condition and results of operations.

The Corporation and Its Subsidiaries May Not Be Able To Realize the Benefit of Deferred Tax Assets

The Corporation records deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in years in which those temporary differences are expected to be recovered or settled. The deferred tax assets can be recognized in future periods dependent upon a number of factors, including the ability to realize the asset through carry back or carry forward to taxable income in prior or future years, the future reversal of existing taxable temporary differences, future taxable income, and the possible application of future tax planning strategies. If the Corporation is not able to recognize deferred tax assets in future periods, it could have a material adverse effect on the Corporation’s financial condition and results of operations. As of December 31, 2010, the Corporation’s valuation allowance offset all of its deferred tax assets with the exception of $2.3 million which is primarily related to unrealized losses on investment securities and does not require future taxable income for recovery or settlement.

The Corporation and Its Subsidiaries Are Subject To Changes in Federal and State Tax Laws and Changes in Interpretation of Existing Laws

The Corporation's financial performance is impacted by federal and state tax laws. Given the current economic and political environment, and ongoing state budgetary pressures, the enactment of new federal or state tax legislation may occur. The enactment of such legislation, or changes in the interpretation of existing law, including provisions impacting tax rates, apportionment, consolidation or combination, income, expenses, and credits, may have a material adverse effect on the Corporation's financial condition and results of operations.

The Corporation and Its Subsidiaries Are Subject To Changes in Accounting Principles, Policies, or Guidelines

The Corporation's financial performance is impacted by accounting principles, policies, and guidelines. Changes in these are continuously occurring, and given the current economic environment, more drastic changes may occur. The implementation of such changes could have a material adverse effect on the Corporation's financial condition and results of operations.

The Corporation May Not Be Able to Attract and Retain Skilled People

The successful operation of the Corporation and the Bank will be greatly influenced by the Corporation's and the Bank's ability to retain the services of their existing senior management and, to attract and retain qualified additional senior and middle management. The unexpected loss of the services of any of the key management personnel, or the inability to recruit and retain qualified personnel in the future, could have an adverse effect on the Corporation's and the Bank's business and financial results.

The Corporation Is a Bank Holding Company and Its Sources of Funds Are Limited

The Corporation is a bank holding company, and its operations are primarily conducted by the Bank, which is subject to significant federal and state regulation. Cash available to pay dividends to stockholders of the Corporation is derived primarily from dividends received from the Bank. The Corporation's ability to receive dividends or loans from its subsidiaries is restricted. Dividend payments by the Bank to the Corporation in the future will require generation of future earnings by the Bank and could require regulatory approval if the proposed dividend is in excess of prescribed guidelines. Further, the Corporation's right to participate in the assets of the Bank upon its liquidation, reorganization, or otherwise will be subject to the claims of the Bank's creditors, including depositors, which will take priority. Under the terms of the Bank's Consent Order with the FDIC and the Michigan OFIR the Bank is presently prohibited from the payment of dividends without the consent of the FDIC and the Michigan OFIR.

The Corporation Could Experience an Unexpected Inability to Obtain Needed Liquidity

The Corporation and the Bank may be unable to continue to obtain adequate sources of funding and liquidity at current rates, which would adversely affect the spread between interest earned on assets and interest paid on liabilities. The Bank's profitability depends in large part upon the amount of the spread between interest earned on assets and interest paid on liabilities, including deposits. A decrease in this spread will result in a decrease in profitability and, eventually, losses. A decrease in the Bank's profitability likely would impair the ability of the Bank to pay dividends to the Corporation. The unavailability of adequate funding sources harms the Corporation and the Bank in other ways as well. The Corporation and the Bank must maintain adequate funding sources in the normal course of business to support their operations and to fund outstanding liabilities. The Bank derives liquidity through, among other things, deposit growth and maturity and sale of investment securities and loans. If these funding sources are not sufficient, the Corporation and the Bank may have to acquire funds through higher-cost sources or may not be able to access funding at all.

Severe Weather, Natural Disasters, Acts of War or Terrorism and Other External Events Could Significantly Impact the Corporation's Business

Severe weather, natural disasters, acts of war or terrorism and other adverse external events could have a significant impact on the Corporation's ability to conduct business. Such events could affect the stability of the Corporation's deposit base, impair the ability of borrowers to repay outstanding loans, reduce the value of collateral securing loans, cause significant property damage, result in loss of revenue and/or cause the Corporation to incur additional expenses. Although management has established disaster recovery policies and procedures, the occurrence of any such event could have a material adverse effect on the Corporation's business, which, in turn, could have a material adverse effect on its financial condition and results of operations.

Managing Reputational Risk Is Important To Attracting and Maintaining Customers, Investors, and Employees
Threats to the Corporation's reputation can come from many sources, including adverse sentiment about financial institutions generally, unethical practices, employee misconduct, failure to deliver minimum standards of service or quality, compliance deficiencies, and questionable or fraudulent activities of our customers. The Corporation has policies and procedures in place that seek to protect our reputation and promote ethical conduct. Nonetheless, negative publicity may arise regarding the Corporation's business, employees, or customers, with or without merit, and could result in the loss of customers, investors, and employees; costly litigation; a decline in revenues; and increased governmental regulation.

Risks Associated With the Corporation's Common Stock

The Corporation's Stock Price Can Be Volatile
Stock price volatility may make it more difficult for you to resell your common stock when you want and at prices you find attractive. The Corporation's stock price can fluctuate significantly in response to a variety of factors including:

- Actual or anticipated variations in quarterly results of operations;
- Recommendations by securities analysts;
- Operating and stock price performance of other companies that investors deem comparable to the Corporation;
- News reports relating to trends, concerns, and other issues in the financial services industry;
- Perceptions in the marketplace regarding the Corporation and/or its competitors;
- New technology used or services offered by competitors;
- Significant acquisitions or business combinations, strategic partnerships, joint venture, or capital commitments by or involving the Corporation or its competitors;
- Failure to integrate acquisitions or realize anticipated benefits from acquisitions;
- Changes in government regulations; and
- Geopolitical conditions such as acts or threats of terrorism or military conflicts.

General market fluctuations, industry factors, and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes, or credit loss trends, could also cause the Corporation's stock price to decrease regardless of operating results.

The Trading Volume In the Corporation's Common Stock Is Less Than That Of Other Larger Financial Services Institutions
Although the Corporation's common stock is listed for trading on the Nasdaq Global Select stock market, the trading volume in its common stock is less than that of other, larger financial services companies. A public trading market having the desired characteristics of depth, liquidity, and orderliness depends on the presence in the marketplace of willing buyers and sellers of the Corporation's common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which the Corporation has no control. Given the low trading volume of the Corporation's common stock, significant sales of the Corporation's common stock, or the expectation of these sales could cause the Corporation's common stock price to fall.

An Investment In the Corporation's Common Stock Is Not An Insured Deposit
The Corporation's common stock is not a bank deposit and, therefore, is not insured against loss by the FDIC, any other deposit insurance fund, or by any other public or private entity. Investment in the Corporation's common stock is inherently risky for the reasons described in this "Risk Factors" section and elsewhere in this report and is subject to the same market forces that affect the price of common stock in any company. As a result, if you acquire the Corporation's common stock, you could lose some or all of your investment.

23

The Corporation's Articles of Incorporation, By-Laws, As Well As Certain Banking Laws May Have an Anti-Takeover Effect

Provisions of the Corporation's Articles of Incorporation and By-laws, and federal banking laws, including regulatory approval requirements, could make it more difficult for a third party to acquire the Corporation, even if doing so would be perceived to be beneficial by the Corporation's stockholders. The combination of these provisions may inhibit a non-negotiated merger or other business combination, which, in turn, could adversely affect the market price of the Corporation's common stock.

The Corporation May Issue Additional Securities, Which Could Dilute the Ownership Percentage of Holders of the Corporation's Common Stock

The Corporation may issue additional securities to raise additional capital or finance acquisitions or upon the exercise or conversion of outstanding options, and, if it does, the ownership percentage of holders of the Corporation's common stock could be diluted.

The Corporation Cannot Assure You of Its Ability to Pay Dividends in the Future

The Corporation suspended the payment of dividends on August 27, 2009. The Corporation does not have any plans to reintroduce its quarterly dividend in the near future. The Corporation relies on dividends from the Bank to pay dividends to shareholders and the Bank is presently prohibited under the terms of its Consent Order with the FDIC and the Michigan OFIR from paying any dividends without regulatory permission.

In addition, the Federal Reserve has issued Federal Reserve Supervision and Regulation Letter SR-09-4, which requires bank holding companies to inform and consult with Federal Reserve supervisory staff prior to declaring and paying a dividend that exceeds earnings for the period for which the dividend is being paid. Under this regulation, if the Corporation experiences losses in a series of consecutive quarters, it may be required to inform and consult with the Federal Reserve supervisory staff prior to declaring or paying any dividends. In this event, there can be no assurance that the Corporation's regulators will approve the payment of such dividends.

Any Corporation Debt Obligations and any Senior Equity Securities will have Priority over the Corporation's Common Stock with Respect to Payment in the Event of Liquidation, Dissolution, or Winding-Up and with Respect to the Payment of Dividends

In any liquidation, dissolution, or winding up of the Corporation, the Corporation's common stock would rank below all debt claims against the Corporation and claims of any other senior equity securities. As a result, holders of the Corporation's common stock will not be entitled to receive any payment or other distribution of assets upon the liquidation, dissolution, or winding-up of the Corporation until after all of the Corporation's obligations to the Corporation's debt holders have been satisfied and holders of senior equity securities have received any payment or distribution due to them.

Offerings of Debt, Which Would be Senior to the Corporation's Common Stock upon Liquidation, and/or Preferred Equity Securities, Which may be Senior to the Corporation's Common Stock for Purposes of Dividend Distributions or upon Liquidation, may Adversely Affect the Market Price of the Corporation's Common Stock

The Corporation may attempt to increase the Corporation's capital, or the Bank could be forced to raise additional capital by making additional offerings of debt or preferred equity securities, including trust preferred securities, senior or subordinated notes, and preferred stock. The Corporation may also decide to raise additional capital by issuing debt or preferred equity securities for other reasons. Upon liquidation, holders of the Corporation's debt securities and shares of preferred stock and lenders with respect to other borrowings will receive distributions of the Corporation's available assets prior to the holders of the Corporation's common stock. Additional equity offerings may dilute the holdings of the Corporation's existing stockholders or reduce the market price of the Corporation's common stock, or both. Holders of the Corporation's common stock are not entitled to preemptive rights or other protections against dilution.

24

Item 1B. Unresolved Staff Comments
None.

Item 2. Properties

MBT Financial Corp. does not conduct any business other than its ownership of Monroe Bank & Trust’s stock. MBT Financial Corp. operates its business from Monroe Bank & Trust’s headquarters facility. Monroe Bank & Trust operates its business from its main office complex, 24 full service branches in the counties of Monroe and Wayne, Michigan, and a mortgage loan origination office in Monroe, Michigan. The Bank owns its main office complex and 23 of its branches. The mortgage loan origination office and one of the Bank’s branches are leased.

Item 3. Legal Proceedings

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

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

Item 4. Removed and Reserved

Part II

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

On September 8, 2010, the Corporation commenced a private placement offering (the "Private Placement") of up to 2,500,000 shares of its common stock. During the fourth quarter of 2010, the Corporation sold 213,720 shares of Common Stock pursuant to the Private Placement for total cash consideration of $312,898.

Common stock consists of 17,252,329 shares with a book value of $4.29. No dividends were declared on common stock during 2010. The common stock is traded on the NASDAQ Global Select Market under the symbol MBTF. Below is a schedule of the high and low trading price for the past two years by quarter. These prices represent those known to Management, but do not necessarily represent all transactions that occurred.

	2010		2009	
	High	Low	High	Low
1st quarter	$ 2.15	$ 1.35	$ 3.15	$ 1.32
2nd quarter	$ 4.30	$ 1.24	$ 3.05	$ 1.83
3rd quarter	$ 2.33	$ 1.26	$ 2.40	$ 2.00
4th quarter	$ 2.10	$ 1.42	$ 2.11	$ 1.25

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

	2010	2009	2008
1st quarter	$ -	$ 0.01	$ 0.18
2nd quarter	$ -	$ 0.01	$ 0.18
3rd quarter	$ -	$ -	$ 0.09
4th quarter	$ -	$ -	$ 0.09

As of December 31, 2010, the number of holders of record of the Corporation's common shares was 1,220. The payment of future cash dividends is at the discretion of the Board of Directors and is subject to a number of factors, including results of operations, general business conditions, growth, financial condition, and other factors deemed relevant. Further, the Corporation's ability to pay future cash dividends is subject to certain regulatory requirements and restrictions discussed in the sections captioned "Recent Regulatory Enforcement Actions" and "Bank Regulation-Dividends" in Item 1 above. Given the Corporation's operating results and need to raise additional capital, Management's expectation is that the payment of dividends will continue to be suspended for the foreseeable future.

Item 6. Selected Financial Data

The selected financial data for the five years ended December 31, 2010 are derived from the audited Consolidated Financial Statements of the Corporation. The financial data set forth below contains only a portion of our financial statements and should be read in conjunction with the Consolidated Financial Statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this Form 10-K.

Selected Consolidated Financial Data

Dollar amounts are in thousands, except per share data	2010	2009	2008	2007	2006
Consolidated Statements of Income					
Interest Income	$56,586	$71,004	$84,903	$93,551	$95,923
Interest Expense	19,758	29,989	42,514	50,782	49,288
Net Interest Income	36,828	41,015	42,389	42,769	46,635
Provision for Loan Losses	20,500	36,000	18,000	11,407	16,475
Net Interest Income after Provision for Loan Losses	16,328	5,015	24,389	31,362	30,160
Other Income	19,436	10,480	15,985	15,634	9,542
Other Expenses	44,480	49,774	39,999	37,234	36,308
Income before Provision for Income Taxes	(8,716)	(34,279)	375	9,762	3,394
Provision for Income Taxes	3,183	(102)	(1,317)	2,049	(379)
Net Income	$(11,899)	$(34,177)	$1,692	$7,713	$3,773
Net Income available to Common Shareholders	$(11,899)	$(34,177)	$1,692	$7,713	$3,773
Per Common Share					
Basic Net Income	$(0.72)	$(2.11)	$0.10	$0.47	$0.22
Diluted Net Income	(0.72)	(2.11)	0.10	0.47	0.22
Cash Dividends Declared	-	0.02	0.54	0.72	0.70
Book Value at Year End	4.29	5.04	7.49	7.90	8.14
Average Common Shares Outstanding	16,498,734	16,186,478	16,134,570	16,415,425	16,941,432
Consolidated Balance Sheets (Year End)					
Total Assets	$1,259,377	$1,383,369	$1,562,401	$1,556,806	$1,566,819
Total Securities	325,000	356,865	466,043	438,058	439,025
Loans, Net of Deferred Loan Fees	753,860	849,910	941,732	1,002,259	998,998
Allowance for Loan Losses	21,223	24,063	18,528	20,222	13,764
Deposits	1,031,893	1,031,791	1,136,078	1,109,980	1,116,057
Borrowings	143,635	258,500	291,500	304,800	300,000
Total Shareholders' Equity	73,998	81,764	120,977	127,447	136,062
Selected Financial Ratios					
Return on Average Assets	-0.92 %	-2.36 %	0.11 %	0.50 %	0.24 %

Return on Average Equity	-14.06	%	-29.53	%	1.36	%	5.77	%	2.60	%
Net Interest Margin	3.10	%	3.06	%	2.96	%	2.99	%	3.12	%
Dividend Payout Ratio	0.00	%	-0.95	%	514.78	%	152.40	%	313.16	%
Allowance for Loan Losses to Period End Loans	2.82	%	2.83	%	1.97	%	2.02	%	1.38	%
Allowance for Loan Losses to Non Performing Loans	25.98	%	27.94	%	34.45	%	59.60	%	61.06	%
Non Performing Loans to Period End Loans	10.84	%	10.13	%	5.71	%	3.39	%	2.26	%
Net Charge Offs to Average Loans	2.89	%	3.36	%	2.00	%	0.49	%	1.62	%

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

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 Corporation'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, the financial and securities markets and the availability of and costs associated with sources of liquidity. For a discussion of these and other risks that may cause actual results to differ from expectations, refer to “Item 1.A. Risk Factors” in this document. The forward-looking statements contained or incorporated by reference in this document relate only to circumstances as of the date on which the statements are made. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Critical Accounting Policies - The Bank’s Allowance for Loan Losses is a “critical accounting estimate” because it is an estimate that is based on assumptions that are highly uncertain, and if different assumptions were used or if any of the assumptions used were to change, there could be a material impact on the presentation of the Corporation’s financial condition. These assumptions include, but are not limited to, collateral values and the effect of economic conditions on the financial condition of the Bank’s borrowers. To determine the Allowance for Loan Losses, the Bank estimates losses on all loans that are not classified as non-accrual or renegotiated by applying historical loss rates, adjusted for environmental factors, to those loans. This portion of the analysis utilizes the loss history for the most recent eight quarters, adjusted for qualitative factors including recent delinquency rates, real estate values, and economic conditions. In addition, all loans over $250,000 that are nonaccrual and all loans that are renegotiated are individually tested for impairment. Impairment exists when the carrying value of a loan is greater than the realizable value of the collateral pledged to secure the loan or the presented value of the cash flow of the loan. Any amount of monetary impairment is included in the Allowance for Loan Losses. Management is of the opinion that the Allowance for Loan Losses of $21,223,000 as of December 31, 2010 was adequate.

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

Income tax accounting standards require companies to assess whether a valuation allowance should be established against deferred tax assets based on the consideration of all evidence using a “more likely than not” standard. We reviewed our deferred tax asset, considering both positive and negative evidence and analyzing changes in near term market conditions as well as other factors that may impact future operating results. Significant negative evidence is our net operating losses for 2008 and 2009, combined with a difficult economic environment and uncertainty in the timing of a meaningful economic recovery in southeast Michigan. Positive evidence includes our history of strong earnings prior to 2008, our strong capital position, our improving net interest margin, and our non interest expense control initiatives. Based on our analysis of the evidence, we believed that it was appropriate to establish a valuation allowance in the amount of $13.8 million against our deferred tax asset of $17 million as of December 31, 2009. Following our third consecutive net operating loss in 2010, we decided to record an expense of $3.2 million to increase the valuation allowance to the full amount of the deferred tax asset as of December 31, 2010.

28

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

Recent Accounting Pronouncements – No recent accounting pronouncements are expected to have a significant impact on the Corporation’s financial statements. Accounting Standards Update 2010-20 (ASU 2010-20), “Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses” was issued by the Financial Accounting Standards Board (FASB) in July 2010. ASU 2010-20 provides new authoritative accounting guidance under ASC Topic 310, “Receivables,” amending prior guidance to provide expanded disclosures focused around segments and classes of financing receivables (loans). The additional disclosures will include details on our past due loans and credit quality indicators. For public entities, ASU 2010-20 disclosures of period-end balances are effective for interim and annual reporting periods on or after December 15, 2010. The new guidance did not have a material impact on the Company’s statements of income and financial condition. The expanded disclosures required under ASU 2010-20 are included in the Note 5 to the Company’s consolidated financial statements. Disclosures related to activity that occurs during the reporting period are required for interim and annual reporting periods beginning on or after December 15, 2010. The Corporation will adopt the disclosures related to the activity that occurs during the reporting period beginning with out March 31, 2011 consolidated financial statements.

In January 2010, the FASB issued ASU No. 2010-06 “Fair Value Measurements and Disclosures (Topic 820) — Improving Disclosures about Fair Value Measurements.” ASU 2010-06 amends the fair value disclosure guidance. The amendments include new disclosures and changes to clarify existing disclosure requirements. ASU 2010-06 was effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements of Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The impact of ASU 2010-06 on the Company’s disclosures is reflected in Note 19 (Fair Value Disclosures) of the consolidated financial statements.

Results of Operations

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

The provision for loan loss expense decreased 43.1%, from $36.0 million in 2009 to $20.5 million in 2010. The decrease in the provision expense was possible because the credit quality of the loan portfolio stabilized and the amount of net charge offs decreased from $30.5 million in 2009 to $23.3 million in 2010. Although the net charge offs exceeded the provision by $2.8 million, causing a reduction of that amount in the Allowance for Loan Losses, the Allowance as a percent of loans only decreased from 2.83% as of December 31, 2009 to 2.82% as of December 31, 2010.

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

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

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

Comparison of 2009 to 2008 - Net Income decreased from a profit of $1.7 million in 2008 to a loss of $34.2 million in 2009 due to significant increases in the Provision for Loan Losses, increases in deposit insurance assessments by the FDIC, losses on the sales and write downs of other real estate due to the overall decline in real estate values, and other expenses related to the decline in asset quality. In addition, the Corporation experienced Other Than Temporary Impairment charges in its investment portfolio. The primary source of earnings for the Bank is its net interest income, which decreased $1.4 million, or 3.2% compared to 2008. Net interest income decreased even though the net interest margin improved from 2.96% to 3.06% because the average earning assets decreased $89.3 million, or 6.1%. Economic conditions remained weak throughout southeast Michigan even though the rest of the country began to see some improvement in 2009, and loan demand decreased. As a result of the low loan demand and the low interest rate environment, we were able to decrease the amount of the Bank’s funding from higher cost certificates of deposit and non deposit borrowings. This change in our funding structure enabled us to decrease our cost of funds more than our yield on earning assets, resulting in the increase in the net interest margin. Interest income decreased $13.9 million during 2009 as the yield on earnings assets decreased from 5.94% to 5.30%, while the amount of earning assets was decreased from $1.43 billion to $1.34 billion. Interest expense decreased $12.5 million compared to 2008 as the amount of interest bearing liabilities decreased $67.4 million and the cost of the interest bearing liabilities decreased from 3.33% in 2008 to 2.48% in 2009. The decrease in the average cost of funds was due to the historically low level of market interest rates throughout the year and because most of the reduction in the outstanding balances of interest bearing liabilities occurred in reduction in the balances of higher cost certificates of deposit and borrowed funds.

The provision for loan loss expense increased 100%, from $18.0 million in 2008 to $36.0 million in 2009. The increase in the provision expense was required due to the continued deterioration of regional and national economic conditions. Net charge offs increased from $19.7 million in 2008 to $30.5 million in 2009. The $5.5 million loan loss provision expense that was in excess of the net charge offs funded an increase in the Allowance for Loan Losses that was necessitated by the declining quality of the loan portfolio.

Other income decreased to $10.5 million in 2009 from $16.0 million in 2008. The amount of wealth management assets under management declined due to lower market values of investments and a decrease in account balances. This caused the wealth management fee income to decrease 13.1% from $4.3 million in 2008 to $3.8 million in 2009. Service charges and other fees on deposit accounts decreased $0.6 million, or 9.2% due to a significant decrease in the amount of NSF activity. The Bank restructured its investment portfolio in 2009, selling debt and mortgage backed securities issued by Fannie Mae and Freddie Mac and reinvesting most of the proceeds in mortgage backed securities issued by Ginnie Mae. This activity reduced the regulatory risk weighting of these assets from 20% to 0%, and produced net gains on sales of $7.4 million, an increase of $7.0 million over the net gains realized in 2008. The Corporation also recorded a charge to earnings of $11.8 million to recognize the OTTI of TruP CDOs held in the Bank’s investment portfolio. Income on Bank Owned Life Insurance policies increased $103,000, or 7.4% due to improved policy yields and lower policy costs resulting from changing carriers on some of the policies. Other non interest income increased $257,000, or 8.4% primarily due to higher ATM and debit card interchange income.

Other expenses increased $9.8 million, or 24.4% compared to 2008 as the weak economic environment and declining real estate values resulted in a substantial increase in problem assets and therefore a corresponding increase in expenses associated with the monitoring, management, collection, and disposition of those problem assets. Salaries and benefits increased $126,000 or 0.6% even though the average number of full time equivalent employees decreased from 378 in 2008 to 369 in 2009. The cost savings from the staff reduction was offset by lower loan origination expense deferral and higher benefit costs. Occupancy expense decreased $331,000, or 9.2% due to branch closings and a reduction in rent expense. Marketing expense decreased $219,000, or 17.5% due to reductions in advertising, customer calling, and sponsorship programs. Professional fees and Collection expense, combined, increased $77,000 as a significant reduction in accounting and consulting fees was offset by higher legal and other credit related collection expenses. Losses on Other Real Estate Owned (OREO) increased from $2.7 million in 2008 to $10.5 million in 2009 as the Bank wrote down the values of several foreclosed properties and realized losses by selling a large number of properties at auctions in 2009. FDIC deposit insurance assessments increased $2.3 million, or 364.6% due to a special assessment of $663,000 to help replenish the insurance fund, an increase in our assessment rate, and because we utilized previously earned assessment credits in 2008.

The Company’s net loss for 2009, before the provision for income taxes was $34.3 million, a decrease of $34.7 million from the reported net income of $375,000 in 2008. Due to our Allowance for Loan Losses, our write downs of OREO, and our OTTI charges, our Deferred Tax Asset (DTA) was $17 million at the end of 2009. We reviewed our deferred tax asset, considering both positive and negative evidence and analyzing changes in near term market conditions as well as other factors that may impact future operating results. Significant negative evidence is our net operating losses for 2008 and 2009, combined with a difficult economic environment and uncertainty in the timing of a meaningful economic recovery in southeast Michigan. Positive evidence includes our history of strong earnings prior to 2008, our strong capital position, our improving net interest margin, and our non interest expense control initiatives. Based on our analysis of the evidence, we established a $13.8 million valuation allowance for this DTA. As a result, we recorded a total tax benefit of $102,000 in 2009, compared to our tax benefit of $1.3 million in 2008. The Company’s net loss for 2009 was $34.2 million, compared to a net income of $1.7 million in 2008.

Earnings for the Bank are usually highly reflective of the Net Interest Income. Economic conditions deteriorated rapidly in 2008, and the Federal Open Market Committee (FOMC) of the Federal Reserve lowered the fed funds rate seven times, bringing it to 0-0.25%, where it remained throughout 2009 and 2010. This caused the yield curve shape to move from inverted in 2008 to a very steep, positive slope in 2009 and through 2010. The Fed extended its quantitative easing program in 2010 in an attempt to keep longer term market rates low and encourage borrowing and fight deflation. Loan and investment yields follow long term market yields, and the yield on our loans decreased from 6.35% in 2008 to 5.84% in 2009 and 5.70% in 2010. The yields on our investment securities also decreased each year, from 5.07% in 2008 to 4.16% in 2009 and 2.78% in 2010. In the current environment of historically low interest rates, we have been reinvesting our investment portfolio cash flow into shorter maturity securities and maintaining large cash reserves, which contributed to the decline in the investment yield in 2010. The investment portfolio restructuring in 2009, which reduced the risk weighting of our assets and prevented an increase in extension risk, caused the decline in investment yields in 2009. Funding costs are more closely tied to the short term rates, and the average cost of our deposits decreased from 2.43%% in 2008 to 1.70% in 2009 and to 1.28% in 2010. Borrowed funds costs are primarily based on the 3 month LIBOR, which also decreased sharply in 2008 and 2009 before leveling off in 2010. As a result our average cost of borrowed funds decreased from 5.08% in 2008 to 4.30% in 2009 and to 3.52% in 2010. This caused our net interest margin to increase slightly from 2.96% in 2008 to 3.06% in 2009 and to 3.10% in 2010. The average cost of interest bearing deposits was 1.49%, 1.94%, and 2.78%, for 2010, 2009, and 2008, respectively. The following table shows selected financial ratios for the same three years.

	2010		2009		2008	
Return on Average Assets	-0.92	%	-2.36	%	0.11	%
Return on Average Equity	-14.06	%	-29.53	%	1.36	%
Dividend Payout Ratio	0.00	%	-0.95	%	514.78	%
Average Equity to Average Assets	6.54	%	8.00	%	8.07	%

Balance Sheet Activity – Due to the poor asset quality and the losses recorded in 2009 and 2010, the Bank has faced increased regulatory scrutiny. In 2009, the Corporation began to focus its balance sheet strategy on restricting asset growth and actively managing capital. During the year, assets decreased $179.0 million, or 11.5% as the Bank used loan and investment maturities to fund decreases in deposits and borrowings. This continued throughout 2010, with assets decreasing another $124.0 million, or 9.0%, and total borrowed funds decreasing 44.4% from $258.5 million to $143.6 million. Typically excess funds are invested overnight in federal funds sold through our correspondent banks, but the current effective yield on those transactions is below the FOMC target of 0.25%, and the Federal Reserve is paying the target rate on deposits; therefore we increased our deposit balances with the Federal Reserve Bank, which is reflected in the increase of $21.2 million, or 41.4%, in the Bank’s balances in interest bearing accounts due from banks. The investment portfolio primarily consists of mortgage backed securities issued by GNMA, and debt securities issued by U.S government agencies and states and political subdivisions. During 2010 the remaining corporate debt issued by regional banking companies that was held in our portfolio either matured or was sold. We also hold some pooled trust preferred securities issued by banks and insurance companies. Due to the lack of an active market for pooled trust preferred collateralized debt obligations (TruP CDOs), we utilize an independent third party to value that portion of our investment portfolio. Based on these third party valuations, the values of these securities are significantly below our cost, and in 2009 we recognized OTTI on two of the four bonds we owned. In 2010 we sold one of the impaired bonds for the value that we had written it down to in 2009, and the fair values of each of the three remaining trust preferred CDOs improved during 2010, and no additional impairment was recognized. Our loan portfolio decreased $96.1 million as the slowly recovering economic conditions hampered local loan demand. We expect the loan portfolio to continue to decrease in the first half of 2011 before stabilizing. Deposits were unchanged at $1.032 billion in 2010. We continued to allow our brokered certificates of deposit to mature without being renewed and replaced that funding with in market deposit growth. We reduced our total brokered CDs from $63.2 million at December 31, 2009 to $47.0 million at December 31, 2010. We also did not replace our maturing FHLB advances, bringing the total amount of this funding down from $228.5 million at December 31, 2009 to $113.5 million at December 31, 2010. This change in the funding structure, along with the decrease in interest rates, contributed to the decrease in interest expense in 2010.

Asset Quality - The Corporation uses an internal loan classification system as a means of tracking and reporting problem and potential problem credit assets. Loans that are rated one to four are considered “pass” or high quality credits, loans rated five are “watch” credits, and loans rated six and higher are “problem assets”, which includes non performing loans. Non performing assets include all loans that are 90 days or more past due, non accrual loans, Other Real Estate Owned (OREO), and renegotiated debt. Asset quality began to weaken in 2007 and problem assets increased from $136.9 million, or 8.8% of total assets at December 31, 2008 to $156.0 million, or 11.3% of total assets at December 31, 2009. Throughout 2010, economic conditions in southeast Michigan improved slightly, but lagged the slow national recovery, with above average unemployment, still decreasing commercial property values, and high foreclosure rates. As a result problem assets increased slightly to $160.0 million, or 12.7% of total assets at December 31, 2010.

The Corporation monitors the Allowance for Loan and Lease Losses (ALLL) and the values of the OREO each quarter, making adjustments when necessary. We believe that the ALLL adequately provides for the losses in the portfolio and that the reported OREO value is accurate as of December 31, 2010. We expect the recovery of the local economic environment to continue to lag the recovery experienced by the rest of the country in 2011. This may result in continued high unemployment and low property values in our market area. However, loans that are 30-89 days past due and still accruing interest decreased from $25.0 million, or 2.94% of loans, as of December 31, 2009 to $18.8 million, or 2.50% of loans as of December 31, 2010. Delinquency is one of the indications of potential problems with a loan, and this decrease in early delinquencies may be an indication that problem asset growth may end and we may see some improvement in problem assets in 2011. We also expect the provision for loan losses to improve again in 2011, but still remain above our normal levels.

Cash Flow – Cash flows provided by operations increased compared to 2009 due to the smaller loss and the smaller increase in interest receivable. The increase in the interest receivable was smaller due to the smaller loan portfolio and the lower interest rates on loans and other interest earning assets. Cash flows provided by investing activities decreased from $163.4 million in 2009 to $117.7 million in 2010 because less securities portfolio maturities and sales were used to offset deposit outflow. Cash used for financing activity decreased from $138.9 million in 2009 to $113.5 million in 2010 because deposits grew slightly in 2010, compared to the decrease of $104.3 million in 2010. In 2010, $115.0 million was used to pay off advances from the Federal Home Loan Bank of Indianapolis. Total cash and cash equivalents increased $16.7 million in 2010 as the Corporation continued to maintain a high level of liquidity due to the current economic and interest rate environment.

Liquidity and Capital - The Corporation has maintained sufficient liquidity to allow for fluctuations in deposit levels. Internal sources of liquidity are provided by the maturities of loans and securities as well as holdings of securities Available for Sale. External sources of liquidity include a line of credit with the Federal Home Loan Bank of Indianapolis, a Federal funds line that has been established with a correspondent bank, and Repurchase Agreements with money center banks that allow us to pledge securities as collateral for borrowings. The Federal Reserve Bank discount window, which also allows us to pledge securities and loans as collateral for borrowings, is only available to us under the secondary credit program, and therefore is no longer part of our liquidity planning process. As of December 31, 2010, the Bank utilized $113.5 million of its authorized limit of $275 million with the Federal Home Loan Bank of Indianapolis and none of its $25 million federal funds line with its correspondent bank.

Total stockholders’ equity of the Corporation was $74.0 million at December 31, 2010 and $81.8 million at December 31, 2009. Although the stockholders’ equity decreased $7.8 million during the year, the ratio of equity to assets was unchanged at 5.9% as of December 31, 2009 and 2010. Federal bank regulatory agencies have set capital adequacy standards for Total Risk Based Capital, Tier 1 Risk Based Capital, and Leverage Capital. These regulatory standards require banks to maintain Leverage and Tier 1 ratios of at least 4% and a Total Capital ratio of at least 8% to be adequately capitalized. The regulatory agencies consider a bank to be “well capitalized” if its Total Risk Based Capital is at least 10% of Risk Weighted Assets, Tier 1 Capital is at least 6% of Risk Weighted Assets, the Leverage Capital

Ratio is at least 5%, and the Bank is not subject to any written agreements or order issued by the FDIC pursuant to Section 8 of the Federal Deposit Insurance Act.

The following table summarizes the capital ratios of the Corporation:

	December 31, 2010		December 31, 2009		Minimum to be Well Capitalized	
Tier 1 Leverage Ratio	6.24	%	6.27	%	5	%
Tier 1 Risk based Capital	8.97	%	8.95	%	6	%
Total Risk Based Capital	10.24	%	10.21	%	10	%

At December 31, 2010 and December 31, 2009, the Bank exceeded the minimum ratios to be considered “well capitalized”. However, since July 22, 2010 the Bank has been operating under a Consent Order with the FDIC, and as of December 31, 2010, the Bank is considered to be “Adequately Capitalized” under the regulatory standards. The Consent Order from the FDIC is a written agreement the Bank has with its regulators requiring, among other things, improvement in our capital ratios and asset quality. As a part of this written agreement, the Bank agreed to take certain actions to improve the Bank's credit administration and developed a written plan to target a minimum Tier 1 Leverage Capital ratio of 9% and a Total Risked Based Capital ratio of 12%. The Bank’s Tier 1 Leverage Capital ratio decreased from 6.21% at December 31, 2009 to 6.17% at December 31, 2010. The Total Risk Based Capital ratio increased from 10.14% at December 31, 2009 to 10.15% at December 31, 2010. In response to the Consent Order, the Company commenced a Private Placement Memorandum (PPM) offering of debt and equity securities in the third quarter of 2010. The offering, which was scheduled to terminate on December 31, 2010, was extended by the Company until March 31, 2011. The PPM offering raised $1.4 million in 2010, of which $1.2 million was invested in the stock of the Bank. The Company does not expect to attain the 9% Tier 1 Leverage Ratio or the 12% Total Risk Based capital ratio targets set forth in the Consent Order during 2011 without additional new capital. The Board of Directors is seeking shareholder approval to amend the Articles of Incorporation to increase the number of common shares authorized and to authorize preferred shares.

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

	Held to Maturity					
	December 31, 2010		December 31, 2009		December 31, 2008	
	Amortized Cost	Estimated Market Value	Amortized Cost	Estimated Market Value	Amortized Cost	Estimated Market Value
U.S. Government agency and corporation obligations	$ 6	$ 6	$ 6	$ 6	$ 7	$ 7
Securities issued by states and political subdivisions in the U.S.	23,798	23,836	36,427	36,411	46,833	46,036
Total	$ 23,804	$ 23,842	$ 36,433	$ 36,417	$ 46,840	$ 46,043
Pledged securities	$ 4,502	$ 4,544	$ 5,089	$ 5,129	$ 6,406	$ 6,405

	Available for Sale					
	December 31, 2010		December 31, 2009		December 31, 2008	
	Amortized	Estimated Market	Amortized	Estimated Market	Amortized	Estimated Market

	Cost	Value	Cost	Value	Cost	Value
U.S. Government agency and corporation obligations (excluding mortgage-backed securities)	$ 266,773	$ 267,035	$ 256,483	$ 254,628	$ 322,767	$ 329,671
Securities issued by states and political subdivisions in the U.S.	14,881	14,725	35,117	35,637	40,999	41,114
Trust Preferred CDO Securities	9,563	5,188	13,485	7,215	25,132	19,371
Corporate Debt Securities	-	-	8,383	7,509	15,170	13,516
Other domestic securities (debt and equity)	2,553	2,417	2,553	2,357	2,386	2,445
Total	$ 293,770	$ 289,365	$ 316,021	$ 307,346	$ 406,454	$ 406,117
Pledged securities	$ 139,278	$ 140,032	$ 232,220	$ 231,182	$ 251,525	$ 257,054

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

	Years Ended December 31,								
	2010			2009			2008		
(Dollars in Thousands)	Average Daily Balance	Interest Earned or Paid	Average Yield	Average Daily Balance	Interest Earned or Paid	Average Yield	Average Daily Balance	Interest Earned or Paid	Average Yield
Investments									
Interest Bearing Balances Due From Banks	$49,972	$131	0.26%	$30,161	$89	0.30%	$3,368	$29	0.86%
Obligations of US Government Agencies	258,859	7,888	3.05%	283,030	12,572	4.44%	313,283	16,073	5.13%
Obligations of States & Political Subdivisions1	48,614	1,955	4.02%	82,523	3,358	4.07%	76,862	3,390	4.41%
Other Securities	22,405	602	2.69%	39,549	2,076	5.25%	48,459	2,903	5.99%
Total Investments	379,850	10,576	2.78%	435,263	18,095	4.16%	441,972	22,395	5.07%
Loans									
Commercial	554,474	31,384	5.66%	619,198	35,217	5.69%	670,473	41,757	6.23%
Mortgage	171,417	9,021	5.26%	192,881	10,944	5.67%	210,427	12,679	6.03%
Consumer	80,702	5,605	6.95%	93,274	6,748	7.23%	102,682	8,036	7.83%
Total Loans2	806,593	46,010	5.70%	905,353	52,909	5.84%	983,582	62,472	6.35%
Federal Funds Sold	-	-	n/a	-	-	n/a	4,333	36	0.83%
Total Interest Earning Assets	1,186,443	56,586	4.77%	1,340,616	71,004	5.30%	1,429,887	84,903	5.94%
Cash & Non Interest Bearing Due From Banks	17,239			17,748			20,420		
Interest Receivable and Other Assets	100,620			105,067			97,412		
Total Assets	$1,304,302			$1,463,431			$1,547,719		
Savings Accounts	$114,657	$300	0.26%	$106,446	$343	0.32%	$95,546	$183	0.19%
NOW Accounts	103,236	545	0.53%	92,544	637	0.69%	82,031	668	0.81%
Money Market Deposits	266,139	983	0.37%	279,329	1,962	0.70%	293,797	6,115	2.08%
Certificates of Deposit	395,887	11,266	2.85%	450,056	15,044	3.34%	494,962	19,870	4.01%
Federal Funds Purchased	3	-	0.00%	381	1	0.26%	18,364	466	2.54%
Repurchase Agreements	30,000	1,388	4.63%	30,000	1,388	4.63%	32,008	1,474	4.61%
FHLB Advances	159,185	5,276	3.31%	248,837	10,614	4.27%	258,303	13,738	5.32%
	1,069,107	19,758	1.85%	1,207,593	29,989	2.48%	1,275,011	42,514	3.33%

Total Interest Bearing Liabilities						
Non-interest Bearing Deposits	141,409		129,789		136,918	
Other Liabilities	9,998		11,490		10,921	
Total Liabilities	1,220,514		1,348,872		1,422,850	
Stockholders' Equity	83,788		114,559		124,869	
Total Liabilities & Stockholders' Equity	$1,304,302		$1,463,431		$1,547,719	
Net Interest Income		$36,828		$41,015		$42,389
Interest Rate Spread		2.92%		2.82%		2.61%
Net Interest Income as a percent of average earning assets		3.10%		3.06%		2.96%

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

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

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

(Dollars in Thousands)	Years Ended December 31, 2010 versus 2009 Changes due to increased (decreased) Rate	Volume	Net	2009 versus 2008 Changes due to increased (decreased) Rate	Volume	Net	2008 versus 2007 Changes due to increased (decreased) Rate	Volume	Net
Interest Income									
Investments									
Interest Bearing Balances Due From Banks	$ (16)	$ 59	$ 43	$ (169)	$ 229	$ 60	$ (141)	$ 161	$ 20
Obligations of US Government Agencies	(3,610)	(1,074)	(4,684)	(1,949)	(1,552)	(3,501)	(735)	(110)	(845)
Obligations of States & Political Subdivisions	(23)	(1,380)	(1,403)	(282)	250	(32)	235	(22)	213
Other Securities	(574)	(901)	(1,475)	(293)	(534)	(827)	(34)	879	845
Total Investments	(4,223)	(3,296)	(7,519)	(2,693)	(1,607)	(4,300)	(675)	908	233
Loans									
Commercial	(153)	(3,680)	(3,833)	(3,355)	(3,185)	(6,540)	(6,928)	602	(6,326)
Mortgage	(705)	(1,218)	(1,923)	(678)	(1,057)	(1,735)	(27)	(674)	(701)
Consumer	(233)	(910)	(1,143)	(552)	(736)	(1,288)	(580)	(1,166)	(1,746)
Total Loans	(1,091)	(5,808)	(6,899)	(4,585)	(4,978)	(9,563)	(7,535)	(1,238)	(8,773)
Federal Funds Sold	-	-	-	-	(36)	(36)	(189)	81	(108)
Total Interest Income	(5,314)	(9,104)	(14,418)	(7,278)	(6,621)	(13,899)	(8,399)	(249)	(8,648)
Interest Expense									
Savings Accounts	(69)	26	(43)	139	21	160	(30)	0	(30)
NOW Accounts	(166)	74	(92)	(117)	86	(31)	366	49	415
Money Market Deposits	(886)	(93)	(979)	(3,852)	(301)	(4,153)	(3,960)	245	(3,715)
Certificates of Deposit	(1,967)	(1,811)	(3,778)	(3,023)	(1,803)	(4,826)	(2,080)	(177)	(2,257)
Federal Funds Purchased	1	(1)	-	(8)	(457)	(465)	(483)	431	(52)
Repurchase agreements	-	-	-	6	(92)	(86)	50	(220)	(170)
FHLB Advances	(1,515)	(3,824)	(5,339)	(2,621)	(503)	(3,124)	(2,573)	114	(2,459)

Total Interest Expense	(4,602)	(5,629)	(10,231)	(9,476)	(3,049)	(12,525)	(8,710)	442	(8,268)
Net Interest Income	$ (712)	$ (3,475)	$ (4,187)	$ 2,198	$ (3,572)	$ (1,374)	$ 311	$ (691)	$ (380)

For a variety of reasons, including volatile economic conditions, fluctuating interest rates, and large amounts of local municipal deposits, we have attempted, for the last several years, to maintain a liquid investment position. The percentage of securities held as Available for Sale was 92.4% as of December 31, 2010 and 89.4% as of December 31, 2009. The percentage of securities that mature within five years was 23.3% as of December 31, 2010 and 15.0% as of December 31, 2009. The following table presents the scheduled maturities for each of the investment categories, and the average yield on the amounts maturing. The yields presented for the Obligations of States and Political Subdivisions are not tax equivalent yields. The interest income on these securities is exempt from federal income tax. The Corporation's statutory federal income tax rate was thirty-four percent in 2010.

	Maturing									
	Within 1 year		1 - 5 years		5 - 10 Years		Over 10 Years		Total	
(Dollars in Thousands)	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Obligations of US Government Agencies	$-	0.00 %	$55,721	1.34 %	$51,616	3.00 %	$159,704	3.46 %	$267,041	2.93 %
Obligations of States & Political Subdivisions	4,591	4.02 %	12,714	4.12 %	12,560	4.27 %	8,658	3.59 %	38,523	4.04 %
Trust Preferred CDO Securities	-	0.00 %	-	0.00 %	-	0.00 %	5,188	1.25 %	5,188	1.25 %
Other Securities	-	0.00 %	-	0.00 %	-	0.00 %	2,417	0.00 %	2,417	0.00 %
Total	$4,591	4.02 %	$68,435	1.86 %	$64,176	3.25 %	$175,967	3.35 %	$313,169	3.01 %

Our loan policies also reflect our awareness of the need for liquidity. We have short average terms for most of our loan portfolios, in particular real estate mortgages, the majority of which are normally written for five years or less. The following table shows the maturities or repricing opportunities (whichever is earlier) for the Bank's interest earning assets and interest bearing liabilities at December 31, 2010. The repricing assumptions shown are consistent with those established by the Bank's Asset and Liability Management Committee (ALCO). Savings accounts and interest bearing demand deposit accounts are non-maturing, variable rate deposits, which may reprice as often as daily, but are not included in the zero to six month category because in actual practice, these deposits are only repriced if there is a large change in market interest rates. The effect of including these accounts in the zero to six-month category is depicted in a subsequent table. Money Market deposits are also non-maturing, variable rate deposits; however, these accounts are included in the zero to six-month category because they may get repriced following smaller changes in market rates.

	Assets/Liabilities at December 31, 2010, Maturing or Repricing in:					
(Dollars in Thousands)	0 - 6 Months	6 - 12 Months	1 - 2 Years	2 - 5 Years	Over 5 Years	Total Amount
Interest Earning Assets						
US Treas Secs & Obligations of US Gov't Agencies	$98,371	$31,225	$38,166	$33,635	$65,644	$267,041
Obligations of States & Political Subdivisions	10,560	2,288	4,986	8,288	12,401	38,523
Other Securities	2,620	-	2,568	-	2,417	7,605
Commercial Loans	168,626	31,307	79,116	180,011	7,837	466,897
Mortgage Loans	25,830	34,726	23,623	45,987	85,611	215,777
Consumer Loans	34,830	6,856	10,736	15,267	3,497	71,186
Intereset Bearing DFB	72,511	-	-	-	-	72,511
Total Interest Earning Assets	$413,348	$106,402	$159,195	$283,188	$177,407	$1,139,540
Interest Bearing Liabilities						
Savings Deposits	$264,369	$-	$-	$-	$-	$264,369
Other Time Deposits	86,323	118,290	93,350	93,205	8,728	399,896
FHLB Advances	113,500	-	-	-	-	113,500
Repurchase Agreements	10,000	-	5,000	-	15,000	30,000
Notes Payable	-	-	-	135	-	135

Total Interest Bearing Liabilities	$474,192	$118,290	$98,350	$93,340	$23,728	$807,900
Gap	$(60,844)	$(11,888)	$60,845	$189,848	$153,679	$331,640
Cumulative Gap	$(60,844)	$(72,732)	$(11,887)	$177,961	$331,640	$331,640
Sensitivity Ratio	0.87	0.90	1.62	3.03	7.48	1.41
Cumulative Sensitivity Ratio	0.87	0.88	0.98	1.23	1.41	1.41

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

	Assets/Liabilities at December 31, 2010, Maturing or Repricing in:					
	0-6 Months	6-12 Months	1-2 Years	2-5 Years	Over 5 Years	Total
Total Interest Earning Assets	$413,348	$106,402	$159,195	$283,188	$177,407	$1,139,540
Total Interest Bearing Liabilities	$693,612	$118,290	$98,350	$93,340	$23,728	$1,027,320
Gap	$(280,264)	$(11,888)	$60,845	$189,848	$153,679	$112,220
Cumulative Gap	$(280,264)	$(292,152)	$(231,307)	$(41,459)	$112,220	$112,220
Sensitivity Ratio	0.60	0.90	1.62	3.03	7.48	1.11
Cumulative Sensitivity Ratio	0.60	0.64	0.75	0.96	1.11	1.11

The amount of loans due after one year with floating interest rates is $211,320,000.

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

	Years Ended December 31,		
(Dollars in Thousands)	2010	2009	2008
Maturing Within			
3 Months	$ 20,057	$ 31,376	$ 50,991
3 - 6 Months	8,695	12,039	18,888
6 - 12 Months	35,719	13,637	24,775
Over 12 Months	59,266	60,507	38,595
Total	$ 123,737	$ 117,559	$ 133,249

For 2011, we expect the FOMC to keep the fed funds target rate between zero and one-quarter percent until at least the third quarter. Other factors in the economic environment, such as high unemployment and low real estate values, will continue to restrict the opportunities for lending activity in 2011. In the near term, our focus will be on controlling our asset quality, improving our capital position, and maintaining a high level of liquidity while the economic recovery develops. Both the Consent Order entered into by the Bank with the FDIC in July, 2010, and the Bank's internal capital policy require maintaining higher levels of capital than the federal banking regulators require in order to have a regulatory capital classification of "well capitalized." Based on our earnings expectations and our current capital levels, we will need to raise capital from external sources in order to reach our desired level of capital. We expect assets to continue to shrink in 2011, but at a lower rate than in 2010, and we plan to continue to reduce our use of non core funding as brokered CDs, FHLB borrowings, and repurchase agreements mature. Due to the decrease in assets and the stable interest rate environment, we expect a small decrease in our net interest income in 2011.

In 2010 our provision for loan losses was significantly less than in 2009, due to a decrease in actual losses recognized and a decrease in the amount of Allowance for Loan Losses required. We believe that our Allowance for Loan Losses provides adequate coverage for the losses in our portfolio, and because we expect asset quality to begin to improve in 2011, we expect that we will be able to maintain the adequacy of the allowance while decreasing our provision for loan losses expense in 2011.

We anticipate that non interest income will decrease significantly due to a reduction in the gains on sales of investment securities. We also may experience a significant decrease in non interest income due to the implementation of some of the provisions of the Dodd Frank Act. We expect non-interest expenses to decrease due to lower losses on OREO sales and write downs and lower OREO holding costs. Non interest expenses will also decrease due to debt prepayment penalties paid in 2010.

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

	2010 (a)	2009 (a)	2008 (a)	2007 (a)	2006 (a)
Loans secured by real estate:					
Construction and land development	$46,311	$64,520	$98,104	$149,271	$160,566
Secured by farmland (including farm residential and other improvements)	14,084	10,349	10,459	9,792	10,057
Secured by 1-4 family residential properties	246,070	275,557	304,834	317,327	331,775
Secured by multifamily (5 or more) residential properties	23,084	23,730	25,002	11,953	10,124
Secured by nonfarm nonresidential properties	323,351	351,027	352,934	357,622	328,145
Loans to finance agricultural production and other loans to farmers	6,369	7,121	9,763	5,981	3,738
Commercial and industrial loans to U.S. addresses (domicile)	76,782	93,865	109,337	107,156	97,512
Loans to individuals for household, family, and other personal expenditures (includes purchased paper):					
Credit cards and related plans	311	362	403	374	377
Other	16,195	21,873	29,728	40,620	55,510
Nonrated industrial development obligations (other than securities) of states and political subdivisions in the U.S.	-	-	-	-	-
Other loans:					
Loans for purchasing or carrying securities (secured and unsecured)	-	-	-	25	-
All other loans	330	575	384	707	473
Less: Any unearned income on loans	-	-	-	-	-
Total loans and leases, net of unearned income	$752,887	$848,979	$940,948	$1,000,828	$998,277
Nonaccrual loans	$67,581	$56,992	$47,872	$30,459	$19,152
Loans 90 days or more past due and accruing	$4	$20	$93	$102	$69
Troubled debt restructurings	$14,098	$29,102	$5,811	$3,367	$888

(a) Loan categories are presented net of deferred loan fees. The presentation in Note 4 to the consolidated financial statements differs from this schedule's presentation by presenting the loan categories, gross, before deferred loan fees have been subtracted.

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in the process of collection. In all cases, loans are placed on nonaccrual or charged off at an earlier date if principal or interest is considered doubtful. Interest paid on nonaccrual loans is applied to the principal balance outstanding, so no interest income was recognized on nonaccrual loans in 2010. If the nonaccrual loans outstanding as of December 31, 2010 had been current in accordance with their original terms, the Bank would have recorded $4,691,000 in gross interest income on those loans during 2010.

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

	Years Ended December 31,				
(Dollars in Thousands)	2010	2009	2008	2007	2006
Balance Beginning of Period	$24,063	$18,528	$20,222	$13,764	$13,625
Loans Charged Off (Domestic)					
Commercial, Financial, and Agricultural	2,907	7,093	7,591	1,052	1,600
Secured by Real Estate	20,698	24,266	12,036	4,284	14,910
Loans to Individuals	951	635	1,021	1,050	1,867
Recoveries (Domestic)					
Commercial, Financial, and Agricultural	220	607	201	730	815
Secured by Real Estate	437	594	250	48	421
Loans to Individuals	559	328	503	659	805
Net Loans Charged Off	23,340	30,465	19,694	4,949	16,336
Provision Charged to Operations	20,500	36,000	18,000	11,407	16,475
Balance End of Period	$21,223	$24,063	$18,528	$20,222	$13,764
Ratio of Net Loans Charged Off to Average Total Loans Outstanding	2.89 %	3.36 %	2.00 %	0.49 %	1.62 %

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

	Years Ended December 31,									
	2010		2009		2008		2007		2006	
(Dollars in Thousands)	$ Amount	% of loans to total loans	$ Amount	% of loans to total loans	$ Amount	% of loans to total loans	$ Amount	% of loans to total loans	$ Amount	% of loans to total loans
Balance at end of period applicable to:										
Domestic										
Commercial, Financial, and Agricultural	$4,573	12.9 %	$6,502	13.1 %	$3,586	13.8 %	$2,436	12.3 %	$1,524	11.1 %
Real Estate - Construction	3,729	6.1 %	2,351	7.6 %	2,915	10.4 %	3,610	14.9 %	2,181	16.1 %
Real Estate - Mortgage	12,551	78.8 %	14,888	76.6 %	11,673	72.6 %	13,618	68.7 %	9,056	67.1 %
Loans to Individuals	370	2.2 %	322	2.7 %	354	3.2 %	558	4.1 %	1,003	5.7 %
Foreign	-	0.0 %	-	0.0 %	-	0.0 %	-	0.0 %	-	0.0 %
Total	$21,223	100.0%	$24,063	100.0%	$18,528	100.0%	$20,222	100.0%	$13,764	100.0%

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

To serve as a basis for making this provision, the Bank maintains an extensive credit risk monitoring process that considers several factors including: current economic conditions affecting the Bank's customers, the payment performance of individual loans and pools of homogeneous loans, portfolio seasoning, changes in collateral values, and detailed reviews of specific loan relationships. For loans deemed to be impaired due to an expectation that all contractual payments will probably not be received, impairment is measured by comparing the Bank's recorded investment in the loan to the present value of expected cash flows discounted at the loan's effective interest rate, the fair value of the collateral, or the loan's observable market price. Year-end nonperforming assets, which include nonaccrual loans, loans ninety days or more past due, renegotiated debt, nonaccrual securities, and other real estate owned, decreased $3.4 million, or 3.1%, from 2009 to 2010. Nonperforming assets as a percent of total assets at year-end increased from 7.9% in 2009 to 8.4% in 2010. The Allowance for Loan Losses as a percent of nonperforming loans at year-end decreased from 27.9% in 2009 to 26.0% in 2010.

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

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

		Payment Due by Period			
(Dollars in Thousands)	Total	Less than 1 year	1 - 3 Years	3 - 5 Years	Over 5 Years
Long Term Debt Obligations	$ 143,500	$ 16,500	$ 100,000	$ 12,000	$ 15,000
Operating Lease Obligations	509	241	210	44	14
Salary Continuation Obligations	987	58	116	116	697

Total Contractual Obligations	$ 144,996	$ 16,799	$ 100,326	$ 12,160	$ 15,711

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

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Market risk for the Bank, as is typical for most banks, consists mainly of interest rate risk and market price risk. The Bank's earnings and the economic value of its equity are exposed to interest rate risk and market price risk, and monitoring this risk is the responsibility of the Asset/Liability Management Committee (ALCO) of the Bank, which committee monitors such risk on a monthly basis.

The Bank faces market risk to the extent that the fair values of its financial instruments are affected by changes in interest rates. The Bank does not face market risk due to changes in foreign currency exchange rates, commodity prices, or equity prices. The asset and liability management process of the Bank seeks to monitor and manage the amount of interest rate risk. This is accomplished by analyzing the differences in repricing opportunities for assets and liabilities (gap analysis, as shown in Item 6), by simulating operating results under varying interest rate scenarios, and by estimating the change in the net present value of the Bank's assets and liabilities due to interest rate changes.

Each month, ALCO, which includes the senior management of the Bank, estimates the effect of interest rate changes on the projected net interest income of the Bank. The sensitivity of the Bank's net interest income to changes in interest rates is measured by using a computer based simulation model to estimate the impact on earnings of gradual increases or decreases of 100, 200, and 300 basis points in the prime rate. The net interest income projections are compared to a base case projection, which assumes no changes in interest rates. The table below summarizes the net interest income sensitivity as of December 31, 2010 and 2009.

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

(Dollars in Thousands)	Base Projection	Rates Up 1%	Rates Up 2%	Rates Up 3%	Rates Down 1%	Rates Down 2%	Rates Down 3%
Year-End 2009 12 Month Projection							
Interest Income	$63,190	$64,713	$66,324	$68,025	$62,290	$60,970	$59,610
Interest Expense	23,254	23,998	24,749	25,494	23,027	22,970	22,939
Net Interest Income	$39,936	$40,715	$41,575	$42,531	$39,263	$38,000	$36,671
Percent Change From Base Projection		2.0 %	4.1 %	6.5 %	-1.7 %	-4.8 %	-8.2 %
ALCO Policy Limit (+/-)		5.0 %	7.5 %	10.0 %	5.0 %	7.5 %	10.0 %

The Bank's ALCO has established limits in the acceptable amount of interest rate risk, as measured by the change in the Bank's projected net interest income, in its policy. At December 31, 2010, the estimated variability of the net interest income under all rate scenarios was within the policy guidelines. At various times during 2010, the estimated variability of the net interest income exceeded the Bank's established policy limits in the minus 200 and minus 300 basis point rate scenarios. Because current interest rates are at historically low levels, it is not probable that rates would decrease that much, and the ALCO determined that no corrective action was 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 actual economic value of the Bank's equity is first determined by subtracting the fair value of the Bank's liabilities from the fair value of the Bank's assets. The fair values are determined in accordance with Fair Value Measurement. The Bank estimates the interest rate risk by calculating the effect of market interest rate shocks on the economic value of its equity. For this analysis, the Bank assumes immediate increases or decreases of 100, 200, and 300 basis points in the prime lending rate. The discount rates used to determine the present values of the loans and deposits, as well as the prepayment rates for the loans, are based on Management's expectations of the effect of the rate shock on the market for loans and deposits. The table below summarizes the amount of interest rate risk to the fair value of the Bank's assets and liabilities and to the economic value of the Bank's equity.

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

	Fair Value at December 31, 2009						
	Rates						
(Dollars in Millions)	Base	Up 1%	Up 2%	Up 3%	Down 1%	Down 2%	Down 3%
Assets	$1,421,652	$1,396,696	$1,369,958	$1,343,551	$1,438,458	$1,452,525	$1,468,502
Liabilities	1,276,781	1,251,611	1,227,288	1,203,769	1,298,803	1,317,834	1,327,323
Stockholders' Equity	$144,871	$145,085	$142,670	$139,782	$139,655	$134,691	$141,179
Change in Equity		0.1 %	-1.5 %	-3.5 %	-3.6 %	-7.0 %	-2.5 %
ALCO Policy Limit (+/-)		10.0 %	20.0 %	30.0 %	10.0 %	20.0 %	30.0 %

The Bank's ALCO has established limits in the acceptable amount of interest rate risk, as measured by the change in economic value of the Bank's equity, in its policy. Throughout 2010, the estimated variability of the economic value of equity was within the Bank's established policy limits.

Item 8. Financial Statements and Supplementary Data

Financial Statements and Supplementary Data

See Pages 43 – 72.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
MBT Financial Corp. and Subsidiaries
Monroe, Michigan

We have audited the accompanying consolidated balance sheets of MBT Financial Corp. and Subsidiaries as of December 31, 2010 and December 31, 2009 and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2010. We have also audited the company's internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying financial statements. Our responsibility is to express an opinion on these financial statements and an opinion on the company's internal control over financial reporting based on our audits.

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

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of MBT Financial Corp. and Subsidiaries as of December 31, 2010 and 2009, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, MBT Financial Corp. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control - Integrated Framework issued by the committee of Sponsoring Organizations of the Treadway Commission (COSO).

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

/s/ Plante & Moran, PLLC
Auburn Hills, Michigan
March 18, 2011

Consolidated Balance Sheets

Dollars in thousands	December 31, 2010	2009
Assets		
Cash and Cash Equivalents (Note 2)		
Cash and due from banks		
Non-interest bearing	$13,789	$18,448
Interest bearing	72,511	51,298
Total cash and cash equivalents	86,300	69,746
Securities - Held to Maturity (Note 3)	23,804	36,433
Securities - Available for Sale (Note 3)	289,365	307,346
Federal Home Loan Bank stock - at cost	11,831	13,086
Loans held for sale	973	931
Loans - Net (Notes 4 and 5)	731,664	824,916
Accrued interest receivable and other assets (Note 12)	34,207	50,580
Bank Owned Life Insurance (Note 9)	50,664	47,953
Premises and Equipment - Net (Note 6)	30,569	32,378
Total assets	$1,259,377	$1,383,369
Liabilities		
Deposits:		
Non-interest bearing	$148,208	$135,038
Interest-bearing (Note 7)	883,685	896,753
Total deposits	1,031,893	1,031,791
Federal Home Loan Bank advances (Note 8)	113,500	228,500
Securities sold under repurchase agreements (Note 8)	30,000	30,000
Notes Payable	135	-
Interest payable and other liabilities (Note 9)	9,851	11,314
Total liabilities	1,185,379	1,301,605
Stockholders' Equity (Notes 10, 13 and 15)		
Common stock (no par value; 30,000,000 shares authorized, 17,252,329 and 16,210,110 shares issued and outstanding)	2,146	593
Retained Earnings	76,497	88,396
Unearned Compensation	(187)	-
Accumulated other comprehensive loss	(4,458)	(7,225)
Total stockholders' equity	73,998	81,764
Total liabilities and stockholders' equity	$1,259,377	$1,383,369

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income

	Years Ended December 31,		
Dollars in thousands	2010	2009	2008
Interest Income			
Interest and fees on loans	$46,010	$52,909	$62,472
Interest on investment securities-			
Tax-exempt	1,936	3,358	3,390
Taxable	8,508	14,648	18,976
Interest on balances due from banks	132	89	29
Interest on federal funds sold	-	-	36
Total interest income	56,586	71,004	84,903
Interest Expense			
Interest on deposits (Note 7)	13,094	17,986	26,835
Interest on borrowed funds	6,664	12,003	15,679
Total interest expense	19,758	29,989	42,514
Net Interest Income	36,828	41,015	42,389
Provision For Loan Losses (Note 5)	20,500	36,000	18,000
Net Interest Income After			
Provision For Loan Losses	16,328	5,015	24,389
Other Income			
Wealth management income	4,049	3,762	4,329
Service charges and other fees	5,297	5,788	6,371
Net gain on sales of securities	3,260	7,421	422
Other Than Temporary Impairment losses on securities	-	(14,952)	-
Non credit related losses on securities not expected to be sold (recognized in other comprehensive income)	-	3,191	-
Net impairment losses	-	(11,761)	-
Origination fees on mortgage loans sold	718	473	426
Bank owned life insurance income	1,944	1,493	1,390
Other	4,168	3,304	3,047
Total other income	19,436	10,480	15,985
Other Expenses			
Salaries and employee benefits (Notes 9 and 15)	19,106	20,740	20,614
Occupancy expense (Note 6)	2,867	3,260	3,591
Equipment expense	3,170	3,069	3,290
Marketing expense	991	1,034	1,253
Professional fees	2,155	1,563	1,635
Collection expense	377	750	601
Net loss on other real estate owned	3,699	10,533	2,737
Other real estate owned expense	2,630	1,437	1,380
FDIC deposit insurance assessment	3,130	2,876	619

Debt prepayment penalties	2,492	-	-
Other	3,863	4,512	4,279
Total other expenses	44,480	49,774	39,999
Income (Loss) Before Provision For Income Taxes	(8,716)	(34,279)	375
Provision For (Benefit From) Income Taxes (Note 12)	3,183	(102)	(1,317)
Net Income (Loss)	$(11,899)	$(34,177)	$1,692
Basic Earnings (Loss) Per Common Share (Note 14)	$(0.72)	$(2.11)	$0.10
Diluted Earnings (Loss) Per Common Share (Note 14)	$(0.72)	$(2.11)	$0.10

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Stockholders' Equity

Dollars in thousands	Common Stock	Retained Earnings	Unearned Compensation	Accumulated Other Comprehensive Income (Loss)	Total
Balance - January 1, 2008	$-	$129,917	$ -	$ (2,470)	$127,447
Issuance of Common Stock (23,485 shares)	131	-	-	-	131
Equity Compensation	190	-	-	-	190
Dividends declared ($0.54 per share)	-	(8,713)	-	-	(8,713)
Comprehensive income:					
Net income	-	1,692	-	-	1,692
Change in net unrealized loss on securities available for sale - Net of tax effect of $(168)	-	-	-	312	312
Reclassification adjustment for gains included in net income - Net of tax effect of $148	-	-	-	(274)	(274)
Change in postretirement liability - Net of tax effect of $(103)	-	-	-	192	192
Total Comprehensive Income					1,922
Balance - December 31, 2008	$321	$122,896	$ -	$ (2,240)	$120,977
Issuance of Common Stock (61,628 shares)					
Restricted stock awards (15,000 shares)	45	-	-	-	45
Other stock issued (46,628 shares)	102	-	-	-	102
Equity Compensation	125	-	-	-	125
Dividends declared ($0.02 per share)	-	(323)	-	-	(323)
Comprehensive income:					
Net loss	-	(34,177)	-	-	(34,177)
Change in net unrealized loss on securities available for sale - Net of tax effect of $4,437	-	-	-	(8,240)	(8,240)
Reclassification adjustment for losses included in net income - Net of tax effect of $(1,519)	-	-	-	2,821	2,821
Change in postretirement liability - Net of tax effect of $(234)	-	-	-	434	434
Total Comprehensive Income					(39,162)
Balance - December 31, 2009	$593	$88,396	$ -	$ (7,225)	$81,764

Issuance of Common Stock (1,042,219 shares)					
Restricted stock awards (120,000 shares)	186	-	(216)	-	(30)
Other stock issued (922,219 shares)	1,303	-	-	-	1,303
Equity compensation	64	-	29	-	93
Comprehensive income:					
Net loss	-	(11,899)	-	-	(11,899)
Change in net unrealized loss on securities available for sale - Net of tax effect of $(2,669)	-	-	-	4,860	4,860
Reclassification adjustment for losses included in net income - Net of tax effect of $1,109	-	-	-	(2,151)	(2,151)
Change in postretirement liability - Net of tax effect of $(30)	-	-	-	58	58
Total Comprehensive Income					(9,132)
Balance - December 31, 2010	$2,146	$76,497	$ (187)	$ (4,458)	$73,998

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

	Years Ended December 31,		
Dollars in thousands	2010	2009	2008
Cash Flows from Operating Activities			
Net Income (Loss)	$(11,899)	$(34,177)	$1,692
Adjustments to reconcile net income (loss) to net cash from operating activities			
Provision for loan losses	20,500	36,000	18,000
Depreciation	2,122	2,228	2,586
(Increase) decrease in net deferred federal income tax asset	3,183	7,087	(1,394)
Net (accretion) amortization of investment premium and discount	1,300	555	(94)
Writedowns on other real estate owned	3,729	7,917	2,545
Net decrease in interest payable and other liabilities	(1,375)	(1,863)	(439)
Net increase in interest receivable and other assets	(67)	(26,101)	(11,742)
Equity based compensation expense	93	125	190
Net (gain) loss on sales of securities	(3,260)	(7,421)	(422)
Other Than Temporary Impairment of investment securities	-	11,761	-
Increase in cash surrender value of life insurance	(1,944)	(1,593)	(1,390)
Net cash provided by (used for) operating activities	$12,382	$(5,482)	$9,532
Cash Flows from Investing Activities			
Proceeds from maturities and redemptions of investment securities held to maturity	$14,070	$31,583	$12,613
Proceeds from maturities and redemptions of investment securities available for sale	69,302	150,050	207,676
Proceeds from sales of investment securities held to maturity	150	-	-
Proceeds from sales of investment securities available for sale	162,252	289,274	65,762
Net (increase) decrease in loans	72,710	61,357	40,833
Proceeds from sales of other real estate owned	6,653	8,211	4,133
Proceeds from sales of other assets	1,300	215	187
Purchase of investment securities held to maturity	(1,582)	(21,170)	(14,715)
Purchase of bank owned life insurance	(1,222)	(1,439)	(1,589)
Proceeds from surrender of bank owned life insurance	455	568	-
Purchase of investment securities available for sale	(206,108)	(353,471)	(298,747)
Purchase of bank premises and equipment	(318)	(1,819)	(2,779)
Net cash provided by investing activities	$117,662	$163,359	$13,374
Cash Flows from Financing Activities			
Net increase (decrease) in deposits	$102	$(104,287)	$26,098
Net decrease in short term borrowings	-	-	(13,300)
Proceeds from issuance of long term debt	135	-	-
Net increase in Federal Home Loan Bank borrowings	-	-	5,000
Repayment of Federal Home Loan Bank borrowings	(115,000)	(33,000)	-
Net decrease in securities sold under repurchase agreements	-	-	(5,000)
Issuance of common stock	1,273	147	131
Dividends paid	-	(1,777)	(10,162)
Net cash provided by (used for) financing activities	$(113,490)	$(138,917)	$2,767

Net Increase (Decrease) in Cash and Cash Equivalents	$16,554	$18,960	$25,673
Cash and Cash Equivalents at Beginning of Year (Note 1)	69,746	50,786	25,113
Cash and Cash Equivalents at End of Year (Note 1)	$86,300	$69,746	$50,786
Supplemental Cash Flow Information			
Cash paid for interest	$20,135	$30,829	$42,336
Cash paid (refunded) for federal income taxes	$(7,385)	$240	$1,459
Supplemental Schedule of Non Cash Investing Activities			
Transfer of loans to other real estate owned	$12,185	$18,296	$13,306
Transfer of loans to other assets	$446	$264	$393

The accompanying notes are an integral part of these statements.

Notes To Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

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

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

The significant accounting policies are as follows:

PRINCIPLES OF CONSOLIDATION

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

SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK

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

INVESTMENT SECURITIES

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

LOANS

The Bank grants mortgage, commercial, and consumer loans to customers. Loans are reported at their outstanding unpaid principal balances, adjusted for charge offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees and certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

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

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

LOANS HELD FOR SALE

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

ALLOWANCE FOR LOAN LOSSES

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

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

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

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

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

FORECLOSED ASSETS (INCLUDES OTHER REAL ESTATE OWNED)

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

BANK PREMISES AND EQUIPMENT

Bank premises and equipment are stated at cost, less accumulated depreciation of $34,971,000 in 2010 and $33,336,000 in 2009. The Bank uses the straight-line method to provide for depreciation, which is charged to operations over the estimated useful lives of the assets. Depreciation expense amounted to $2,122,000 in 2010, $2,228,000 in 2009, and $2,586,000 in 2008.

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

BANK OWNED LIFE INSURANCE

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

COMPREHENSIVE INCOME

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

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

Dollars in thousands	2010	2009	2008
Unrealized gains (losses) on securities available for sale	$ (1,145)	$ (13,014)	$ 85
Reclassification adjustment for losses (gains) realized in income	(3,260)	4,340	(422)
Net unrealized losses	$ (4,405)	$ (8,674)	$ (337)
Post retirement benefit obligations	(2,353)	(2,441)	(3,109)
Tax effect	2,300	3,890	1,206
Accumulated other comprehensive loss	$ (4,458)	$ (7,225)	$ (2,240)

CASH AND CASH EQUIVALENTS
Cash and Cash Equivalents include cash and due from banks and Federal funds sold. Generally, cash equivalents have daily maturities.

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

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

The weighted average fair value of options granted was $0.45, $0.52, and $1.39, in 2010, 2009, and 2008, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions used for grants in 2010, 2009, and 2008: expected option lives of seven years for all three; expected volatility of 35.70%, 25.80%, and 25.90%; risk-free interest rates of 3.36%, 3.38%, and 3.61%; and dividend yields of 3.00%, 4.87%, and 4.87%, respectively.

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

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

The Corporation applied the following fair value hierarchy:

Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets. The Corporation’s 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.

(2) Cash and Due from Banks

The Bank is required by regulatory agencies to maintain legal reserve requirements based on the level of balances in deposit categories. Cash balances restricted from usage due to these requirements were $4,883,000 and $4,054,000 at December 31, 2010 and 2009, respectively. Cash and due from banks includes certain deposits held at correspondent banks which are fully insured by the FDIC.

(3) Investment Securities

The following is a summary of the Bank's investment securities portfolio as of December 31, 2010 and 2009 (000s omitted):

Held to Maturity
December 31, 2010

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

Available for Sale
December 31, 2010

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Obligations of U.S. Government Agencies	$ 266,773	$ 2,526	$ (2,264)	$ 267,035
Obligations of States and Political Subdivisions	14,881	49	(205)	14,725
Trust Preferred CDO Securities	9,563	-	(4,375)	5,188
Other Securities	2,553	80	(216)	2,417
	$ 293,770	$ 2,655	$ (7,060)	$ 289,365

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 amortized cost, estimated market value, and weighted average yield of securities at December 31, 2010, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties (000s omitted).

	Held to Maturity			Available for Sale		
	Amortized Cost	Estimated Market Value	Weighted Average Yield	Amortized Cost	Estimated Market Value	Weighted Average Yield
Maturing within						
1 year	$ 3,172	$ 3,192	4.54 %	$ 1,415	$ 1,419	2.83 %
1 to 5 years	9,323	9,522	4.38 %	58,861	59,112	1.46 %
5 to 10 years	8,162	8,146	4.53 %	55,977	56,014	3.06 %
Over 10 years	3,147	2,982	4.43 %	174,964	170,403	3.33 %
Securities with no stated maturity	-	-	0.00 %	2,553	2,417	0.00 %
	$ 23,804	$ 23,842	4.46 %	$ 293,770	$ 289,365	2.87 %

The investment securities portfolio is evaluated for impairment throughout the year. Impairment is recorded against individual securities, unless the decrease in fair value is attributable to interest rates or the lack of an active market, and management determines that the Company has the intent and ability to hold the investment for a period of time sufficient to allow for an anticipated recovery in the market value. The fair values of investments with an amortized cost in excess of their fair values at December 31, 2010 and December 31, 2009 are as follows (000s omitted):

December 31, 2010

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

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. The company has the ability and intent to hold these securities until recovery, which may be until maturity.

The Trust Preferred Securities are issued by companies in the financial services industry, including banks, thrifts, and insurance companies. Each of the three securities owned by the Company 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 that the impairment is not other-than-temporary, the Company analyzed each security's expected cash flows. The assumptions used in the cash flow analysis were developed following a review of the financial condition of the banks in the pools. The analysis concluded that disruption of our cash flows due to defaults by issuers was currently not expected to occur in two of the three securities owned. Because the Company does not intend to sell these investments and it is not more likely than not that the Company will be required to sell these investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider these investments to be other than temporarily impaired at December 31, 2010. As a result of uncertainties in the market place affecting companies in the financial services industry, it is at least reasonably possible that a change in the estimate will occur in the near term.

The Other Than Temporary Impairment (OTTI) analysis of one of the three Trust Preferred CDO securities indicated that its impairment most likely is not temporary. Accounting regulations require entities to split OTTI charges between credit losses, which are charged to earnings, and other impairment, which is charged to Other Comprehensive Income (OCI). As of December 31, 2010, the CDO that has OTTI had an amortized cost of $3,477,000 and a fair value of $1,385,000. The impairment of $2,092,000 includes credit losses of $1,226,000 that were charged to earnings in 2009, and other impairment of $866,000, which was charged to OCI.

Investment securities carried at $144,533,000 and $236,271,000 were pledged or set aside to secure borrowings, public and trust deposits, and for other purposes required by law at December 31, 2010 and December 31, 2009, respectively.

At December 31, 2010, Obligations of U. S. Government Agencies included securities issued by the Federal Home Loan Bank with an estimated market value of $97,376,000 and securities issued by the Government National Mortgage Association with an estimated market value of $139,748,000. At December 31, 2009, Obligations of U. S. Government Agencies included securities issued by the Federal Home Loan Bank with an estimated market value of $69,973,000 and securities issued by the Government National Mortgage Association of $151,741,000.

For the years ended December 31, 2010, 2009, and 2008, proceeds from sales of securities amounted to $162,252,000, $289,274,000, and $65,762,000, respectively. Gross realized gains amounted to $3,378,000, $8,529,000, and $630,000, respectively. Gross realized losses amounted to $118,000, $12,869,000, and $208,000, respectively. The tax provision applicable to these net realized gains and losses amounted to $1,108,000, ($1,519,000), and $148,000, respectively.

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

(4) Loans

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

		2010		2009
Residential real estate loans	$	330,325	$	374,970
Non residential real estate loans		323,471		351,256
Loans to finance agricultural production and other loans to farmers		6,357		7,113
Commercial and industrial loans		76,701		93,786
Loans to individuals for household, family, and other personal expenditures		16,393		22,071
All other loans (including overdrafts)		330		574
Total loans, gross	$	753,577	$	849,770
Less: Deferred loan fees and costs		690		791
Total loans, net of deferred loan fees and costs	$	752,887	$	848,979
Less: Allowance for loan losses		21,223		24,063
	$	731,664	$	824,916

Non-accrual loans totaled $67,581,000 as of December 31, 2010 and $56,938,000 as of December 31, 2009. Loans ninety days or more past due and still accruing interest were $4,000 as of December 31, 2010 and $20,000 as of December 31, 2009.

Included in Loans are loans to certain officers, directors, and companies in which such officers and directors have 10 percent or more beneficial ownership in the aggregate amount of $16,869,000 and $21,922,000 at December 31, 2010 and 2009, respectively. In 2010, new loans and other additions amounted to $28,787,000, and repayments and other reductions amounted to $33,840,000. In 2009, new loans and other additions amounted to $39,030,000, and repayments and other reductions amounted to $37,791,000. In Management's judgment, these loans were made on substantially the same terms and conditions as those made to other borrowers, and do not represent more than the normal risk of collectibility or present other unfavorable features.

Loans carried at $107,544,000 and $136,720,000 at December 31, 2010 and 2009, respectively, were pledged to secure Federal Home Loan Bank advances.

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

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

Activity in the allowance for loan losses for the years ended December 31, 2010 and 2009 was as follows (000s omitted):

2010	Agriculture and Agricultural Real Estate	Commercial	Commercial Real Estate	Construction Real Estate	Residential Real Estate	Consumer and Other	Total
Allowance for loan losses:							
Beginning Balance	$ 142	$ 6,360	$ 8,331	$ 2,351	$ 6,382	$ 497	$ 24,063
Charge-offs	-	(2,907)	(10,024)	(5,303)	(5,370)	(951)	(24,555)
Recoveries	1	219	295	22	119	559	1,215
Provision	(66)	203	10,438	6,215	3,465	245	20,500
Ending balance	$ 77	$ 3,875	$ 9,040	$ 3,285	$ 4,596	$ 350	$ 21,223
Ending balance individually evaluated for impairment	$ 74	$ 2,016	$ 2,958	$ 876	$ 973	$ 49	$ 6,946
Ending balance collectively evaluated for impairment	3	1,859	6,082	2,409	3,623	301	14,277
Ending balance	$ 77	$ 3,875	$ 9,040	$ 3,285	$ 4,596	$ 350	$ 21,223
Loans:							
Ending balance individually evaluated for impairment	$ 656	$ 10,075	$ 42,326	$ 8,398	$ 16,948	$ 135	$ 78,538
Ending balance collectively evaluated for impairment	19,797	66,708	281,025	37,912	252,205	16,702	674,349
Ending balance	$ 20,453	$ 76,783	$ 323,351	$ 46,310	$ 269,153	$ 16,837	$ 752,887

2009	Agriculture and Agricultural Real Estate	Commercial	Commercial Real Estate	Construction Real Estate	Residential Real Estate	Consumer and Other	Total
Allowance for loan losses:							
Beginning Balance	$ 43	$ 3,428	$ 6,481	$ 2,915	$ 5,192	$ 469	$ 18,528
Charge-offs	(932)	(6,186)	(6,362)	(8,858)	(9,021)	(635)	(31,994)
Recoveries	-	607	241	126	227	328	1,529
Provision	1,031	8,511	7,971	8,168	9,984	335	36,000
Ending balance	$ 142	$ 6,360	$ 8,331	$ 2,351	$ 6,382	$ 497	$ 24,063
Ending balance individually evaluated for impairment	$ 25	$ 713	$ 2,432	$ 1,593	$ 1,716	$ -	$ 6,479
Ending balance collectively evaluated for impairment	117	5,647	5,899	758	4,666	497	17,584

Ending balance	$ 142	$ 6,360	$ 8,331	$ 2,351	$ 6,382	$ 497	$ 24,063
Loans:							
Ending balance individually evaluated for impairment	$ 546	$ 4,761	$ 36,398	$ 16,972	$ 18,287	$ -	$ 76,964
Ending balance collectively evaluated for impairment	16,924	89,104	314,629	47,548	281,000	22,810	772,015
Ending balance	$ 17,470	$ 93,865	$ 351,027	$ 64,520	$ 299,287	$ 22,810	$ 848,979

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

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

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

The Company utilizes an internal loan grading system to assign a risk grade to all commercial loans and each credit relationship with more than $250,000 of aggregate credit exposure. Grades 1 through 4 are considered “pass” credits and grades 5 through 9 are considered “watch” credits and are subject to greater scrutiny. Loans with grades 6 and higher are considered substandard and most are evaluated for impairment. A description of the general characteristics of each grade is as follows:

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

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

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

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

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

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

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

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

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

The portfolio segments in each credit risk grade as of December 31, 2010 and 2009 are as follows (000s omitted):

2010	Agriculture and Agricultural Real Estate	Commercial	Commercial Real Estate	Construction Real Estate	Residential Real Estate	Consumer and Other	Total

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

2009	Agriculture and Agricultural Real Estate	Commercial	Commercial Real Estate	Construction Real Estate	Residential Real Estate	Consumer and Other	Total
Not Rated	$ 73	$ 1,927	$ 49	$ 6,426	$ 230,656	$ 22,633	$ 261,764
1	-	461	-	-	-	-	461
2	853	316	7,413	205	1,500	36	10,323
3	5,708	11,703	25,024	3,272	5,534	38	51,279
4	9,050	55,308	185,054	23,276	29,264	62	302,014
5	845	9,488	69,005	13,723	6,986	-	100,047
6	941	14,662	64,482	17,618	25,347	41	123,091
7	-	-	-	-	-	-	-
8	-	-	-	-	-	-	-
9	-	-	-	-	-	-	-
Total	$ 17,470	$ 93,865	$ 351,027	$ 64,520	$ 299,287	$ 22,810	$ 848,979
Performing	$ 16,924	$ 87,839	$ 313,703	$ 49,570	$ 272,185	$ 22,644	$ 762,865
Nonperforming	546	6,026	37,324	14,950	27,102	166	86,114
Total	$ 17,470	$ 93,865	$ 351,027	$ 64,520	$ 299,287	$ 22,810	$ 848,979

Loans are considered past due when contractually required payment of interest or principal has not been received. The amount classified as past due is the entire principal balance outstanding of the loan, not just the amount of payments that are past due. The following is a summary of past due loans as of December 31, 2010 and 2009 (000s omitted):

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

2009	30-59 Days Past Due	60-89 Days Past Due	>90 Days Past Due	Total Past Due	Current	Total Loans	Recorded Investment >90 Days Past Due and Accruing

Agriculture and Agricultural Real Estate	$ 99	$ -	$ 344	$ 443	$ 17,027	$ 17,470	$ -
Commercial	1,224	2,304	3,065	6,593	87,272	93,865	16
Commercial Real Estate	8,392	4,189	14,459	27,040	323,987	351,027	-
Construction Real Estate	2,493	3,212	8,757	14,462	50,058	64,520	-
Residential Real Estate	6,421	2,938	14,194	23,553	275,734	299,287	-
Consumer and Other	802	384	293	1,479	21,331	22,810	4
Total	$ 19,431	$ 13,027	$ 41,112	$ 73,570	$ 775,409	$ 848,979	$ 20

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

The following is a summary of non-accrual loans as of December 31, 2010 and 2009 (000s omitted):

	2010	2009
Agriculture and Agricultural Real Estate	$ 386	$ 546
Commercial	7,179	5,134
Commercial Real Estate	32,033	19,416
Construction Real Estate	7,556	13,578
Residential Real Estate	20,087	18,152
Consumer and Other	340	166
Total	$ 67,581	$ 56,992

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

The following is a summary of impaired loans as of December 31, 2010 and 2009 (000s omitted):

2010	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Agriculture and Agricultural Real Estate	$ -	$ -	$ -	$ -	$ -
Commercial	1,069	2,220	-	1,845	108
Commercial Real Estate	16,968	23,585	-	19,314	819
Construction Real Estate	1,678	2,457	-	1,603	97
Residential Real Estate	14,816	12,175	-	10,033	480
Consumer and Other	337	-	-	-	-
With an allowance recorded:					
Agriculture and Agricultural Real Estate	655	656	74	656	7
Commercial	8,242	12,521	2,016	9,154	365
Commercial Real Estate	23,637	29,682	2,958	23,887	1,058
Construction Real Estate	6,827	11,171	876	7,280	190
Residential Real Estate	7,319	9,315	973	7,596	356
Consumer and Other	135	135	49	138	6
Total:					
Agriculture and Agricultural Real Estate	$ 655	$ 656	$ 74	$ 656	$ 7
Commercial	9,311	14,741	2,016	10,999	473
Commercial Real Estate	40,605	53,267	2,958	43,201	1,877
Construction Real Estate	8,505	13,628	876	8,883	287
Residential Real Estate	22,135	21,490	973	17,629	836
Consumer and Other	472	135	49	138	6

2009	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Agriculture and Agricultural Real Estate	$ 344	$ 1,206	$ -	$ 611	$ -
Commercial	4,186	6,983	-	3,272	124
Commercial Real Estate	19,149	20,737	-	19,144	684

Construction Real Estate	3,173	5,695	-	5,444	84
Residential Real Estate	10,942	2,506	-	2,436	104
Consumer and Other	166	-	-	-	-
With an allowance recorded:					
Agriculture and Agricultural Real Estate	202	227	25	227	14
Commercial	1,840	1,985	713	1,967	63
Commercial Real Estate	18,175	21,543	2,432	20,131	737
Construction Real Estate	11,777	14,847	1,593	14,945	430
Residential Real Estate	16,160	19,423	1,716	18,143	976
Consumer and Other	-	-		-	-
Total:					
Agriculture and Agricultural Real Estate	$ 546	$ 1,433	$ 25	$ 838	$ 14
Commercial	6,026	8,968	713	5,239	187
Commercial Real Estate	37,324	42,280	2,432	39,275	1,421
Construction Real Estate	14,950	20,542	1,593	20,389	514
Residential Real Estate	27,102	21,929	1,716	20,579	1,080
Consumer and Other	166	-	-	-	-

(6) Bank Premises and Equipment

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

	2010	2009
Land, buildings and improvements	$ 43,906	$ 43,839
Equipment, furniture and fixtures	21,634	21,875
Total Bank premises and equipment	$ 65,540	$ 65,714
Less accumulated depreciation	34,971	33,336
Bank premises and equipment, net	$ 30,569	$ 32,378

Bank Premises and Equipment includes Construction in Progress of $15,000 as of December 31, 2010 and $48,000 as of December 31, 2009.

The Company has entered into lease commitments for office locations. Rental expense charged to operations was $195,000, $296,000, and $352,000 for the years ended December 31, 2010, 2009, and 2008, respectively. The future minimum lease payments are as follows:

Year	Minimum Payment
2011	$ 138,000
2012	73,000
2013	57,000
Thereafter	-

(7) Deposits

Interest expense on time certificates of deposit of $100,000 or more in the year 2010 amounted to $3,294,000, as compared with $3,771,000 in 2009, and $5,779,000 in 2008. At December 31, 2010, the balance of time certificates of deposit of $100,000 or more was $123,737,000, as compared with $117,559,000 at December 31, 2009. The amount of time deposits with a remaining term of more than 1 year was $191,883,000 at December 31, 2010 and $240,391,000 at December 31, 2009. The following table shows the scheduled maturities of Certificates of Deposit as of December 31, 2010:

	Under $100,000	$100,000 and over
2011	$ 143,541,000	$ 64,471,000
2012	66,146,000	28,829,000
2013	31,563,000	12,275,000
2014	16,926,000	13,814,000
2015	14,353,000	4,348,000
Thereafter	3,629,000	-
Total	$ 276,158,000	$ 123,737,000

Time certificates of deposit under $100,000 include $46,778,000 of brokered certificates of deposit as of December 31, 2010, and $62,827,000 as of December 31, 2009.

(8) Federal Home Loan Bank Advances and Repurchase Agreements

The following is a summary of the Bank's borrowings from the Federal Home Loan Bank of Indianapolis as of December 31, 2010 and 2009 (000s omitted):

	December 31, 2010			
	Floating Rate		Fixed Rate	
Maturing in	Amount	Rate	Amount	Rate
2011	3,000	0.45 %	3,500	5.08 %
2013	95,000	2.57 %	-	-
2014	12,000	0.46 %	-	-
	$ 110,000	2.28 %	$ 3,500	5.08 %

59

December 31, 2009

Maturing in	Floating Rate Amount	Floating Rate Rate		Fixed Rate Amount	Fixed Rate Rate	
2010	$ -	-		$ 115,000	5.40	%
2011	3,000	0.40	%	3,500	5.08	%
2013	95,000	2.54	%	-	-	
2014	12,000	0.41	%	-	-	
	$ 110,000	2.25	%	$ 118,500	5.39	%

The weighted average maturity of the Federal Home Loan Bank advances was 2.4 years and 2.1 years as of December 31, 2010 and 2009, respectively. The interest rates on the floating rate advances reset quarterly based on the three month LIBOR rate plus a spread ranging from 15 to 260 basis points. The advances are subject to prepayment penalties and the provisions and conditions of the credit policy of the Federal Home Loan Bank of Indianapolis.

The following is a summary of the Bank's borrowings under repurchase agreements as of December 31, 2010 and 2009 (000s omitted):

Securities Sold Under Agreements to Repurchase
December 31, 2010 and 2009

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

Investment securities issued by U.S. Government agencies are pledged to secure the repurchase agreement borrowings. The amount of repurchase agreement borrowings outstanding was unchanged throughout 2010.

(9) Retirement Plans and Postretirement Benefit Plans

In 2000, the Bank implemented a retirement plan that included both a money purchase pension plan, as well as a voluntary profit sharing 401(k) plan for all employees who meet certain age and length of service eligibility requirements. In 2002, the Bank amended its retirement plan to freeze the money purchase plan and retain the 401(k) plan. To ensure that the plan meets the Safe Harbor provisions of the applicable sections of the Internal Revenue Code, the Bank contributes an amount equal to four percent of the employee's base salary to the 401(k) plan for all eligible employees. In addition, an employee may contribute from 1 to 75 percent of his or her base salary, up to a maximum of $22,000 in 2009. The Bank matched the employee's elective contribution up to the first six percent of the employee's annual base salary in the first six months of 2009. In the second half of 2009 and first quarter of 2010, the Bank's matching contribution was reduced to 25% of the first eight percent contributed by the employee. The Bank did not match contributions in the last three quarters of 2010. Depending on the Bank's profitability, an additional profit sharing contribution may be made by the Bank to the 401(k) plan. There were no profit sharing contributions in 2010, 2009, and 2008. The total retirement plan expense was $651,000, for the year ended December 31, 2010, $1,025,000 for the year ended December 31, 2009, and $1,270,000 for the year ended December 31, 2008.

The Bank has a postretirement benefit plan that generally provides for the continuation of medical benefits for all employees hired before January 1, 2007 who retire from the Bank at age 55 or older, upon meeting certain length of service eligibility requirements. The Bank does not fund its postretirement benefit obligation. Rather, payments are made as costs are incurred by covered retirees. The amount of benefits paid under the postretirement benefit plan was $232,000 in 2010, $247,000 in 2009, and $239,000 in 2008. The amount of insurance premium paid by the Bank for retirees is capped at 200% of the cost of the premium as of December 31, 1992.

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

	2010	2009
APBO	$ 2,277	$ 2,078
Unrecognized net transition obligation	(107)	(161)
Unrecognized prior service costs	(13)	(17)
Unrecognized net gain	264	373
Accrued benefit cost at fiscal year end	$ 2,421	$ 2,273

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

	2010	2009
APBO at beginning of year	$ 2,078	$ 2,000
Service cost	98	101
Interest cost	111	112
Actuarial loss (gain)	97	(27)
Plan participants' contributions	125	139
Benefits paid during year	(232)	(247)
APBO at end of year	$ 2,277	$ 2,078

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

	2010	2009	2008
Service cost	$ 98	$ 101	$ 102
Interest cost	111	112	116
Amortization of transition obligation	53	53	54
Prior service costs	4	4	4
Amortization of gains	(10)	(10)	(4)
Net postretirement benefit expense	$ 256	$ 260	$ 272

The APBO as of December 31, 2010 and 2009 was calculated using an assumed discount rate of 5.00% and 5.50%, respectively. Based on the provisions of the plan, the Bank's expense is capped at 200% of the 1992 expense, with all expenses above the cap incurred by the retiree. The expense reached the cap in 2004, and accordingly the impact of an increase in health care costs on the APBO was not calculated.

The Bank Owned Life Insurance policies fund a Death Benefit Only (DBO) obligation that the Bank has with 8 of its active directors, 5 retired directors, 15 active executives, and 8 retired executives. The DBO plan, which replaced previous split dollar agreements, provides a taxable death benefit. The benefit for directors is grossed up to provide a net benefit to each director's beneficiaries based on that director's length of service on the board. The directors' net death benefits are $500,000 for director service of less than 3 years, $600,000 for service up to 5 years, $750,000 for service up to 10 years, and $1,000,000 for director service of 10 years or more. The executives' beneficiaries will receive a grossed up benefit that will provide a net benefit equal to two times the executive's base salary if death occurs during employment and a postretirement benefit equal to the executive's final annual salary rate at the time of retirement if death occurs after retirement.

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

	Postretirement Death Benefit Obligations 2010	Postretirement Death Benefit Obligations 2009	Postretirement Health Care Benefits 2010	Postretirement Health Care Benefits 2009
Change in benefit obligation				
Benefit obligation at beginning of year	$ 4,437	4,414	$ 2,078	$ 2,000
Service cost	41	60	98	101
Interest cost	239	243	111	112
Plan participants' contributions	-	-	125	139
Actuarial loss (gain)	175	(280)	97	(27)
Benefits paid	-	-	(232)	(247)
Benefit obligation at end of year	$ 4,892	$ 4,437	$ 2,277	$ 2,078
Change in accrued benefit cost				
Accrued benefit cost at beginning of year	$ 1,801	$ 1,184	$ 2,273	$ 2,121
Service cost	41	60	98	101
Interest cost	239	243	111	112
Amortization	314	314	46	47
Employer contributions	-	-	(107)	(108)
Net gain	-	-	-	-
Accrued benefit cost at end of year	$ 2,395	$ 1,801	$ 2,421	$ 2,273
Change in plan assets				
Fair value of plan assets at beginning of year	$ -	$ -	$ -	$ -
Employer contributions	-	-	107	108
Plan participants' contributions	-	-	125	139
Benefits paid during year	-	-	(232)	(247)
Fair value of plan assets at end of year	$ -	$ -	$ -	$ -
Funded status at end of year	$ (2,497)	$ (2,636)	$ 144	$ 195

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

	Postretirement Death Benefit Obligations 2010	Postretirement Death Benefit Obligations 2009	Postretirement Health Care Benefits 2010	Postretirement Health Care Benefits 2009
Assets	$ -	-	$ -	$ -
Liabilities	4,892	4,437	2,277	2,078
Total	$ 4,892	$ 4,437	$ 2,277	$ 2,078

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

	Postretirement Death Benefit Obligations 2010	Postretirement Death Benefit Obligations 2009	Postretirement Health Care Benefits 2010	Postretirement Health Care Benefits 2009
Net loss (gain)	$ (116)	(291)	$ (264)	$ (373)
Transition obligation (asset)	-	-	107	161

Prior service cost (credit)	2,613	2,927	13	17
	$ 2,497	$ 2,636	$ (144)	$ (195)

(10) Stockholders' Equity

On September 8, 2010, the Corporation commenced a private placement offering (the "Private Placement") of up to 2,500,000 shares of the Corporation's common stock, without par value. The shares of common stock being offered were not registered under the Securities Act of 1933 (the "Act") in reliance of the exemption from registration provided by Section 4(2) of the Act and Rule 506 of SEC Regulation D. As of December 31, 2010, the Corporation had sold 887,638 shares of common stock pursuant to the Private Placement for the aggregate cash consideration of $1,242,000. The Private Placement was scheduled to terminate on December 31, 2010, however, the Corporation decided to extend the offering until March 31, 2011.

(11) Disclosures about Fair Value of Financial Instruments

Certain of the Bank's assets and liabilities are financial instruments that have fair values that differ from their carrying values in the accompanying consolidated balance sheets. These fair values, along with the methods and assumptions used to estimate such fair values, are discussed below. The fair values of all financial instruments not discussed below (Cash and cash equivalents, Federal funds sold, Federal Home Loan Bank stock, Accrued interest receivable and other assets, Bank Owned Life Insurance, Federal funds purchased, Interest payable and other liabilities, and Notes payable) are estimated to be equal to their carrying amounts as of December 31, 2010 and 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 3 and the required fair value disclosures are in Note 19.

LOANS,

Loans Held for Sale consists of fixed rate mortgage loans originated by the Bank. The fair value of Loans Held for Sale is the estimated value the Bank will receive upon sale of the loan. The fair value of all other loans is estimated by discounting the future cash flows associated with the loans, using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

OTHER TIME DEPOSITS

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

FHLB ADVANCES AND SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

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

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

OFF-BALANCE-SHEET FINANCIAL INSTRUMENTS

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

FAIR VALUES

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

	December 31, 2010		December 31, 2009	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial Assets:				
Cash and due from banks	$ 86,300	$ 86,300	$ 69,746	$ 69,746
Securities - Held to Maturity	23,804	23,842	36,433	36,417
Securities - Available for Sale	289,365	289,365	307,346	307,346
Federal Home Loan Bank Stock	11,831	11,831	13,086	13,086
Loans Held for Sale	973	973	931	931
Loans, net	731,664	755,312	824,916	838,965
Accrued Interest Receivable	3,912	3,912	5,513	5,513
Financial Liabilities:				
	631,997	631,997	630,065	630,065

Demand, NOW, savings and money market savings deposits				
Other Time Deposits	399,896	405,736	401,726	408,516
Borrowed funds				
Variable Rate FHLB Advances	110,000	115,045	110,000	116,938
Fixed Rate FHLB Advances	3,500	3,567	3,500	3,688
Putable FHLB Advances	-	-	115,000	119,700
Repurchase Agreements	30,000	33,796	30,000	34,896
Notes Payable	135	135	-	-
Accrued Interest Payable	882	882	1,259	1,259

(12) Federal Income Taxes

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

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

	2010	2009	2008
Federal income taxes currently payable (refundable)	$ -	$ (7,189)	$ 77
Provision (credit) for deferred taxes on:			
Book (over) under tax loan loss provision	614	(1,937)	584
Accretion of bond discount	(74)	(46)	18
Net deferred loan origination fees	40	(14)	(21)
Accrued postretirement benefits	(150)	(293)	(303)
Tax over (under) book depreciation	(67)	197	14
Alternative minimum tax	(67)	(264)	(440)
Non-accrual loan interest	(102)	294	(352)
Write down of other real estate owned	(481)	(411)	(799)
Other than temporary impairment AFS securities	3,550	(4,116)	-
Net operating loss carry forward	(6,851)	-	-
Other, net	(306)	(173)	(95)
Total deferred provision (credit)	(3,894)	(6,763)	(1,394)
Valuation allowance deferred tax assets	7,077	13,850	-
Net deferred provision	3,183	7,087	(1,394)
Tax expense	$ 3,183	$ (102)	$ (1,317)

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

	2010	2009	2008
Statutory rate	(34.0)%	(34.0)%	34.0 %
Municipal interest income	(6.9)	(3.0)	(266.7)
Other, net	(3.8)	(3.7)	(118.5)
Valuation allowance	81.2	40.4	-
Effective tax rate	36.5 %	(0.3)%	(351.2)%

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

	2010	2009
Deferred Federal income tax assets:		
Allowance for loan losses	$ 7,913	$ 8,527
Net deferred loan origination fees	206	246
Tax versus book depreciation differences	146	79
Net unrealized losses on securities available for sale	1,500	3,036
Accrued postretirement benefits	2,683	2,587
Alternative minimum tax	771	704
Non-accrual loan interest	224	122
Write down of other real estate owned	1,952	1,471
Other than temporary impairment AFS securities	566	4,116
Net operating loss	6,851	-
Other, net	804	607
Gross deferred tax asset	23,616	21,495
Valuation allowance	(20,927)	(13,850)

Total Federal deferred tax asset	$	2,689	$	7,645
Deferred Federal income tax liabilities:				
Accretion of bond discount	$	(24)	$	(98)
Other		(365)		(474)
	$	(389)	$	(572)
Net deferred Federal income tax asset	$	2,300	$	7,073

The Corporation has net operating loss carry forwards of approximately $20.2 million that are available to reduce future taxable income through the year ending 2030.

(13) Regulatory Capital Requirements

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

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

As of December 31, 2010, the Bank's capital ratios exceeded the required minimums to be considered well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum Total risk based, Tier 1 risk based, and Tier 1 leverage ratios as set forth in the tables, as well as meeting other requirements specified by the federal banking regulators, including not being subject to any written agreement or order issued by the FDIC pursuant to section 8 of the Federal Deposit Insurance Act. Since July 22, 2010, the Bank has been under a Consent Order with the FDIC. As a result, the Bank is considered to be "Adequately Capitalized" as of December 31, 2010. There are no conditions or events since December 31, 2010 that Management believes have changed the Bank's category.

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

	Actual		Minimum to Qualify as Well Capitalized*	
	Amount	Ratio	Amount	Ratio
As of December 31, 2010:				
Total Capital to Risk-Weighted Assets				
Consolidated	$ 89,270	10.24 %	$ 87,196	10 %
Monroe Bank & Trust	88,440	10.15 %	87,120	10 %
Tier 1 Capital to Risk-Weighted Assets				
Consolidated	78,239	8.97 %	52,318	6 %
Monroe Bank & Trust	77,383	8.88 %	52,272	6 %
Tier 1 Capital to Average Assets				
Consolidated	78,239	6.24 %	62,705	5 %
Monroe Bank & Trust	77,383	6.17 %	62,672	5 %

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

	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	%

(14) Earnings Per Share

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

	2010	2009	2008
Basic			
Net income (loss)	$ (11,899,000)	$ (34,177,000)	$ 1,692,000
Less preferred dividends	-	-	-
Net income (loss) applicable to common stock	$ (11,899,000)	$ (34,177,000)	$ 1,692,000
Average common shares outstanding	16,498,734	16,186,478	16,134,570
Earnings (loss) per common share - basic	$ (0.72)	$ (2.11)	$ 0.10

	2010	2009	2008
Diluted			
Net income (loss)	$ (11,899,000)	$ (34,177,000)	$ 1,692,000
Less preferred dividends	-	-	-
Net income (loss) applicable to common stock	$ (11,899,000)	$ (34,177,000)	$ 1,692,000
Average common shares outstanding	16,498,734	16,186,478	16,134,570
Stock option adjustment	-	-	-
Average common shares outstanding - diluted	16,498,734	16,186,478	16,134,570
Earnings (loss) per common share - diluted	$ (0.72)	$ (2.11)	$ 0.10

(15) Stock-Based Compensation Plan

The Long-Term Incentive Compensation Plan approved by shareholders at the April 6, 2000 Annual Meeting of Shareholders of Monroe Bank & Trust authorized the Board of Directors to grant nonqualified stock options to key employees and non-employee directors. Such grants could be made until January 2, 2010 for up to 1,000,000 shares of the Corporation’s common stock. The amount that could be awarded to any one individual was limited to 100,000 shares in any one calendar year. The MBT Financial Corp. 2008 Stock Incentive Plan was approved by shareholders at the May 1, 2008 Annual meeting of shareholders of MBT Financial Corp. This plan replaced the Long-Term Incentive Compensation Plan and authorized the Board of Directors to grant equity incentive awards to key employees and non-employee directors. Such grants may be made until May 1, 2018 for up to 1 million shares of the Corporation’s common stock. The amount that may be awarded to any one individual is limited to 100,000 shares in any one calendar year. As of December 31, 2010, the number of shares available under the plan is 595,541. This includes 74,300 shares that were previously awarded that have been forfeited.

Stock Option Awards - Stock options granted under the plans have exercise prices equal to the fair market value at the date of grant. Options granted under the plan may be exercised for a period of no more than ten years from the date of grant. All options granted are fully vested at December 31, 2010.

Stock Only Stock Appreciation Rights (SOSARs) – 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 Financial Corp. 2008 Stock Incentive Plan. The SOSARs have a term of 10 years and vested 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. Upon exercise, the director will generally receive common shares equal in value to the excess of the market value of the shares over the exercise price on the exercise date.

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

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

Stock Options	2010 Shares	2010 Weighted Average Exercise Price	2009 Shares	2009 Weighted Average Exercise Price	2008 Shares	2008 Weighted Average Exercise Price
Options Outstanding, January 1	489,075	$ 17.35	541,976	$ 17.42	602,143	$ 17.36
Granted	-	-	-	-	-	-
Exercised	-	-	-	-	-	-
Forfeited/Expired	44,500	18.03	52,901	18.03	60,167	16.85
Options Outstanding, December 31	444,575	$ 17.28	489,075	$ 17.35	541,976	$ 17.42
Options Exercisable, December 31	444,575	$ 17.28	489,075	$ 17.35	513,646	$ 17.54
Stock Only Stock Appreciation Rights (SOSARs)						
SOSARs Outstanding, January 1	221,500	$ 5.23	99,500	$ 8.53	-	$ 0.00
Granted	16,000	1.52	141,500	3.03	99,500	8.53
Exercised	-	-	-	-	-	-
Forfeited/Expired	13,500	2.58	19,500	6.13	-	-
SOSARs Outstanding, December 31	224,000	$ 5.12	221,500	$ 5.23	99,500	$ 8.53
SOSARs Exercisable, December 31	190,820	$ 5.49	124,682	$ 5.63	35,845	$ 8.53
Weighted Average Fair Value of Options or SOSARs Granted During Year		$ 0.45		$ 0.52		$ 1.39

The options and SOSARs exercisable as of December 31, 2010 are exercisable at prices ranging from $1.52 to $23.40. The number of options and SOSARs and remaining life at each exercise price are as follows:

Exercise Price	Outstanding Options Shares	Outstanding Options Remaining Life (in years)	Exercisable Options Shares	Exercisable Options Remaining Life (in years)
$ 13.20	68,335	2.01	68,335	2.01
$ 13.85	25,838	1.01	25,838	1.01
$ 13.94	4,402	0.01	4,402	0.01
$ 15.33	78,000	6.01	78,000	6.01
$ 16.24	67,000	5.01	67,000	5.01
$ 16.69	93,500	3.01	93,500	3.01
$ 23.40	107,500	4.01	107,500	4.01
	444,575	3.78	444,575	3.78

Outstanding SOSARs Exercisable SOSARs

Exercise Price		Shares	Remaining Life (in years)	Shares	Remaining Life (in years)
$	1.52	12,000	9.01	12,000	9.01
$	3.03	123,500	8.01	90,320	8.01
$	8.53	88,500	7.60	88,500	7.60
		224,000	7.90	190,820	7.88

A summary of the status of the Corporation's nonvested SOSARs as of December 31, 2010 and changes during the year ended December 31, 2010 is as follows:

Nonvested SOSAR Shares	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2010	96,818	$ 0.78
Granted	16,000	0.45
Vested	(74,638)	0.85
Forfeited	(5,000)	0.46
Nonvested at December 31, 2010	33,180	$ 0.51

As of December 31, 2010, there was $17,000 of total unrecognized compensation cost related to nonvested share based compensation arrangements granted under the Plan. The cost is expected to be recognized over a weighted average period of 1 year.

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

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

On January 2, 2009, 15,000 restricted shares were awarded to certain key executives in accordance with the MBT Financial Corp. 2008 Stock Incentive Plan. The restricted shares will on December 31, 2011.

A summary of the status of the Corporation's nonvested restricted stock awards as of December 31, 2009 and 2010, and changes during the years then ended is as follows:

Restricted Stock Awards	2010	2009
Nonvested at January 1	15,000	-
Granted	120,000	15,000
Vested	-	-
Forfeited	-	-
Nonvested at December 31	135,000	15,000

The total expense recorded for the restricted stock awards was $29,000 in 2010. As of December 31, 2010 there was $187,000 of unrecognized compensation cost related to the nonvested portion of restricted stock awards under the plan.

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

Balance Sheets

	December 31,			
		2010		2009
Assets				
Cash and due from banks	$	339	$	239
Securities		324		270
Investment in subsidiary bank		73,192		80,959
Other assets		278		296
Total assets	$	74,133	$	81,764
Liabilities				
Dividends payable and other liabilities	$	135	$	-
Total liabilities		135		-
Stockholders' Equity				
Total stockholders' equity		73,998		81,764
Total liabilities and stockholders' equity	$	74,133	$	81,764

68

Statements of Income

	Years Ended December 31, 2010	2009	2008
Income			
Dividends from subsidiary bank	$ -	$ -	$ 10,549
Other operating income	-	-	5
Total income	-	-	10,554
Expense			
Interest on borrowed funds	2	-	-
Other expense	298	592	493
Total expense	300	592	493
Income (loss) before tax and equity in undistributed net income (loss) of subsidiary bank	(300)	(592)	10,061
Income tax benefit	-	(202)	(166)
Income (loss) before equity in undistributed net income of subsidiary bank	(300)	(390)	10,227
Equity in undistributed net income (loss) of subsidiary bank	(11,599)	(33,787)	(8,535)
Net Income (Loss)	$ (11,899)	$ (34,177)	$ 1,692

Statements of Cash Flows

	Years Ended December 31, 2010	2009	2008
Cash Flows Provided By Operating Activities:			
Net income (loss)	$ (11,899)	$ (34,177)	$ 1,692
Equity in undistributed net income of subsidiary bank	11,599	33,787	8,535
Net increase (decrease) in other liabilities	-	(19)	(1,430)
Net (increase) decrease in other assets	92	223	190
Net cash provided by (used for) operating activities	$ (208)	$ (186)	$ 8,987
Cash Flows Used For Investing Activities:			
Investment in subsidiary	$ (1,100)	$ -	$ -
Net cash used for investing activities	$ (1,100)	$ -	$ -
Cash Flows Used For Financing Activities:			
Issuance of common stock	$ 1,273	$ 147	$ 131
Dividends paid	-	(1,777)	(10,162)
Issuance of long term debt	135	-	-
Net cash used for financing activities	$ 1,408	$ (1,630)	$ (10,031)

Net Decrease In Cash And Cash Equivalents	$ 100	$ (1,816)	$ (1,044)
Cash And Cash Equivalents At Beginning Of Year	239	2,055	3,099
Cash And Cash Equivalents At End Of Year	$ 339	$ 239	$ 2,055

Under current regulations, the Bank is limited in the amount it may loan to the Corporation. Loans to the Corporation may not exceed ten percent of the Bank's capital stock, surplus, and undivided profits plus the allowance for loan losses. Loans from the Bank to the Corporation are required to be collateralized. Accordingly, at December 31, 2010, Bank funds available for loans to the Corporation amounted to $9,873,000. The Bank has not made any loans to the Corporation.

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

(17) Financial Instruments with Off-Balance Sheet Risk

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

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

Financial instruments whose contractual amounts represent off-balance sheet credit risk at December 31 were as follows (000s omitted):

	Contractual Amount	
	2010	2009
Commitments to extend credit:		
Unused portion of commercial lines of credit	$ 59,238	$ 64,096
Unused portion of credit card lines of credit	2,987	4,286
Unused portion of home equity lines of credit	15,905	16,034
Standby letters of credit and financial guarantees written	4,710	5,008
All other off-balance sheet assets	-	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, generally have fixed expiration dates or other termination clauses, and require payment of a fee. Since the lines of credit may expire without being drawn upon, the total committed amounts do not necessarily represent future cash requirements. Credit card lines of credit have various established expiration dates, but are fundable on demand. Home equity lines of credit are secured by real estate mortgages, a majority of which have ten year expiration dates, but are fundable on demand. The Bank evaluates each customer's creditworthiness on a case by case basis. The amount of the collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on Management's credit evaluation of the counter party.

Standby letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements and other business transactions. All of the letters of credit expire in 2011. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

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

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

2010	First	Second	Third	Fourth
Total Interest Income	$ 15,314	$ 14,499	$ 13,789	$ 12,984
Total Interest Expense	5,909	5,311	4,368	4,170
Net Interest Income	9,405	9,188	9,421	8,814
Provision for Loan Losses	2,200	3,750	7,464	7,086

Other Income		4,041			6,819			4,381			4,195	
Other Expenses		10,898			12,629			10,676			10,277	
Income Before Provision For Income Taxes		348			(372	)		(4,338	)		(4,354	)
Provision For Income Taxes		-			-			-			3,183	
Net Income	$	348		$	(372	)	$	(4,338	)	$	(7,537	)
Basic Earnings Per Common Share	$	0.02		$	(0.02	)	$	(0.27	)	$	(0.45	)
Diluted Earnings Per Common Share	$	0.02		$	(0.02	)	$	(0.27	)	$	(0.45	)
Dividends Declared Per Share	$	-		$	-		$	-		$	-	

2009	First	Second	Third	Fourth
Total Interest Income	$ 18,992	$ 17,870	$ 17,640	$ 16,502
Total Interest Expense	8,779	7,685	7,124	6,401
Net Interest Income	10,213	10,185	10,516	10,101
Provision for Loan Losses	4,200	8,000	6,800	17,000
Other Income	3,331	3,630	3,559	(40)
Other Expenses	11,997	14,589	11,390	11,798
Income Before Provision For Income Taxes	(2,653)	(8,774)	(4,115)	(18,737)
Provision For Income Taxes	(1,286)	(3,401)	(1,790)	6,375
Net Income	$ (1,367)	$ (5,373)	$ (2,325)	$ (25,112)
Basic Earnings Per Common Share	$ (0.08)	$ (0.33)	$ (0.14)	$ (1.56)
Diluted Earnings Per Common Share	$ (0.08)	$ (0.33)	$ (0.14)	$ (1.56)
Dividends Declared Per Share	$ 0.01	$ 0.01	$ -	$ -

(19) Fair Value Disclosures

The following tables present information about the Corporation’s assets measured at fair value on a recurring basis at December 31, 2010 and 2009, and the valuation techniques used by the Corporation to determine those fair values.

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

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

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

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

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

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

Investment Securities Available for Sale at December 31, 2009	Quoted Prices in Active Markets for	Significant Other Observable Inputs	Significant Unobservable

	Identical Assets (Level 1)	(Level 2)	Inputs (Level 3)
Obligations of U.S. Government Agencies	$ 254,628	$ -	$ -
Obligations of States and Political Subdivisions	-	35,637	-
Trust Preferred CDO Securities	-	-	7,215
Corporate Debt Securities	7,509		
Other Securities	2,087	270	-
Total Securities Available for Sale	$ 264,224	$ 35,907	$ 7,215

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 January 1	$ 7,215	$ 19,746
Total realized and unrealized gains (losses) included in income	-	(11,760)
Total unrealized gains (losses) included in other comprehensive income	1,893	(771)
Net purchases, sales, calls and maturities	(3,920)	-
Net transfers in/out of Level 3	-	-
Balance at December 31	$ 5,188	$ 7,215

Of the Level 3 assets that were held by the Corporation at December 31, 2010, the unrealized gain for the year was $1,893,000. That gain is recognized in other comprehensive income in the consolidated statements of financial condition. During 2010 the Company sold one Level 3 available for sale security. That security was sold at its carrying value of $3,920,000 and the company did not record a gain or loss on the sale. The Company did not have any sales of Level 3 available for sale securities during 2009. The Company did not purchase any Level 3 available for sale securities during 2010 or 2009.

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

The Company also has assets that under certain conditions are subject to measurement at fair value on a non-recurring basis. These assets include held to maturity investments and loans. The Company estimated the fair values of these assets using Level 3 inputs, specifically discounted cash flow projections.

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

	Balance at December 31, 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 year ended December 31, 2010
Impaired loans	$ 78,538	$ -	$ -	$ 78,538	$ 20,008
Other Real Estate Owned	$ 19,432	$ -	$ -	$ 19,432	$ 2,807

	Balance at December 31, 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 year ended December 31, 2009
Impaired loans	$ 76,964	$ -	$ -	$ 76,964	$ 27,272
Other Real Estate Owned	$ 17,502	$ -	$ -	$ 17,502	$ 3,025

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

(20) Consent Order and Management's Plan
On July 12, 2010, Monroe Bank & Trust (the "Bank"), the wholly owned commercial bank subsidiary of the Corporation, entered into a stipulation and consent to the issuance of a consent order (the "Consent Order") with the Federal Deposit Insurance Corporation (FDIC") and the Office of Financial and Insurance Regulation of the state of Michigan ("OFIR"). The Consent Order was dated July 12, 2010 and became effective on July 22, 2010.

Management and the Board of Directors are committed to complying with the terms of the Consent Order, and have already taken, and continue to take, numerous steps to address these matters. The Bank reports to the FDIC and OFIR quarterly regarding its progress in complying with the provisions included in the Consent Order. Compliance with the terms of the Consent Order will be an ongoing priority for management of the Bank.

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

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

None

Item 9A. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures
MBT Financial Corp. carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Corporation’s disclosure controls and procedures as of December 31, 2010, pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Corporation’s disclosure controls and procedures were effective as of December 31, 2010, in timely alerting them to material information relating to the Corporation (including its consolidated subsidiaries) required to be in the Corporation’s periodic SEC filings.

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

MBT Financial Corp.’s management assessed the effectiveness of the Corporation’s internal control over financial reporting as of December 31, 2010 based on criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in “Internal Control-Integrated Framework.” Based on that assessment, management determined that, as of December 31, 2010, the Corporation’s internal control over financial reporting is effective, based on those criteria. Management’s assessment of the effectiveness of the Corporation’s internal control over financial reporting as of December 31, 2010 has been audited by Plante & Moran, PLLC, an independent registered public accounting firm, as stated in their report appearing on page 45.

There was no change in the Company's internal control over financial reporting that occurred during the Company's fiscal quarter ended December 31, 2010, that materially affected, or is reasonably likely to affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None.

Part III

Item 10. Directors and Executive Officers of the Registrant

(a) Executive Officers – See “Executive Officers” in part I, Item 1 hereof.

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

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

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

Item 11. Executive Compensation

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

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

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

Securities authorized for issuance under equity compensation plans as of December 31, 2010 were as follows:

	Number of securities to be issued upon exercise of outstanding options, warrants, and rights	Weighted average exercise price of outstanding options, warrants, and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity Compensation plans approved by security holders	444,575	$ 17.28	595,541
Equity Compensation plans not approved by security holders	0	0	0
Total	444,475	$ 17.28	595,541

Item 13. Certain Relationships and Related Transactions

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

Item 14. Principal Accountant Fees and Services

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

Part IV

Item 15. Exhibits and Financial Statement Schedules

Contents

Financial Statements	
	Reports of Independent Registered Public Accounting Firm – Pages 43-44
	Consolidated Balance Sheets as of December 31, 2010 and 2009 – Page 45
	Consolidated Statements of Income for the Years Ended December 31, 2010, 2009, and 2008 – Page 46
	Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2010, 2009, and 2008 – Page 47
	Consolidated Statements of Cash Flows for the Years Ended December 31, 2010, 2009, and 2008 – Page 48
	Notes to Consolidated Financial Statements – Pages 49 – 72

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-K for its fiscal year ended December 31, 2004.
10.1	MBT Financial Corp. 2008 Stock Incentive Compensation Plan. Previously filed as Exhibit 10 on Form 8-K filed by MBT Financial Corp. on June 5, 2008.
10.2	Monroe Bank & Trust Salary Continuation Agreement with Ronald D. LaBeau. Previously filed as Exhibit 10.2 to MBT Financial Corp.'s Form 10-K for its fiscal year ended December 31, 2000.
10.3	MBT Financial Corp. Amended and Restated Change in Control Agreement with H. Douglas Chaffin. Previously filed as Exhibit 10.5 to MBT Financial Corp.'s Form 10-K for its fiscal year ended December 31, 2005.
10.4	Monroe Bank & Trust Group Director Death Benefit Only Plan. Previously filed as Exhibit 10.4 to MBT Financial Corp.'s Form 10-K for its fiscal year ended December 31, 2006.
10.5	Monroe Bank & Trust Group Executive Death Benefit Only Plan. Previously filed as Exhibit 10.5 to MBT Financial Corp.'s Form 10-K for its fiscal year ended December 31, 2006.
10.6	Monroe Bank & Trust Amended and Restated Supplemental Executive Retirement Agreement with H. Douglas Chaffin. Previously filed as Exhibit 10.6 to MBT Financial Corp.'s Form 10-K for its fiscal year ended December 31, 2007.
10.7	MBT Financial Corp. Severance Agreements with Donald M. Lieto, James E. Morr, Thomas G. Myers, and John L. Skibski. Previously filed as Exhibit 10 on Form 8-K filed by MBT Financial Corp. on January 26, 2006.
10.8	MBT Financial Corp. Severance Agreement with Scott E. McKelvey. Previously filed as Exhibit 10.1 to MBT Financial Corp.'s Form 10-Q for its quarter ended June 30, 2007.
10.9	Real estate purchase agreement dated August 27, 2009 between Registrant's wholly owned commercial bank subsidiary and D-M Investments, LLC. Previously filed as Exhibit 10 to the Form 8-K filed by MBT Financial Corp. on September 22, 2009.
10.10	Stipulation and consent to the issuance of a Consent Order with the FDIC and Michigan OFIR dated July 12, 2010. Previously filed as Exhibit 10 to the Form 8-K filed by MBT Financial Corp. on July 13, 2010.
21	Subsidiaries of the Registrant. Previously filed as Exhibit 21 to MBT Financial Corp.'s Form 10-K for its fiscal year ended December 31, 2000.
23	Consent of Independent Auditors
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.
32.1	Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as enacted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 18, 2011		MBT FINANCIAL CORP.
	By:	/s/ John L. Skibski John L. Skibski Chief Financial Officer

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

Dated: March 18, 2011

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

Exhibit Index

Exhibit Number	Description of Exhibits
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-K for its fiscal year ended December 31, 2004.
10.1	MBT Financial Corp. 2008 Stock Incentive Compensation Plan. Previously filed as Exhibit 10 on Form 8-K filed by MBT Financial Corp. on June 5, 2008.
10.2	Monroe Bank & Trust Salary Continuation Agreement with Ronald D. LaBeau. Previously filed as Exhibit 10.2 to MBT Financial Corp.'s Form 10-K for its fiscal year ended December 31, 2000.
10.3	MBT Financial Corp. Amended and Restated Change in Control Agreement with H. Douglas Chaffin. Previously filed as Exhibit 10.5 to MBT Financial Corp.'s Form 10-K for its fiscal year ended December 31, 2005.
10.4	Monroe Bank & Trust Group Director Death Benefit Only Plan. Previously filed as Exhibit 10.4 to MBT Financial Corp.'s Form 10-K for its fiscal year ended December 31, 2006.
10.5	Monroe Bank & Trust Group Executive Death Benefit Only Plan. Previously filed as Exhibit 10.5 to MBT Financial Corp.'s Form 10-K for its fiscal year ended December 31, 2006.
10.6	Monroe Bank & Trust Amended and Restated Supplemental Executive Retirement Agreement with H. Douglas Chaffin. Previously filed as Exhibit 10.6 to MBT Financial Corp.'s Form 10-K for its fiscal year ended December 31, 2007.
10.7	MBT Financial Corp. Severance Agreements with Donald M. Lieto, James E. Morr, Thomas G. Myers, and John L. Skibski. Previously filed as Exhibit 10 on Form 8-K filed by MBT Financial Corp. on January 26, 2006.
10.8	MBT Financial Corp. Severance Agreement with Scott E. McKelvey. Previously filed as Exhibit 10.1 to MBT Financial Corp.'s Form 10-Q for its quarter ended June 30, 2007.
10.9	Real estate purchase agreement dated August 27, 2009 between Registrant's wholly owned commercial bank subsidiary and D-M Investments, LLC. Previously filed as Exhibit 10 to the Form 8-K filed by MBT Financial Corp. on September 22, 2009.
10.10	Stipulation and consent to the issuance of a Consent Order with the FDIC and Michigan OFIR. Previously filed as Exhibit 10 to the Form 8-K filed by MBT Financial Corp. on July 13, 2010.
21	Subsidiaries of the Registrant. Previously filed as Exhibit 21 to MBT Financial Corp.'s Form 10-K for its fiscal year ended December 31, 2000.
23	Consent of Independent Auditors
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.
32.1	Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as enacted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.