MBT FINANCIAL CORP
Form 10-Q
August 10, 2009

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

þ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2009

Or

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

Commission File Number: 000-30973

MBT FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

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

102 E. Front Street
Monroe, Michigan 48161
(Address of principal executive offices)
(Zip Code)
(734) 241-3431
(Registrant s telephone number, including area code)

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

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

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

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

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

As of August 6, 2009, there were 16,192,352 shares of the Company s Common Stock outstanding**.**

TABLE OF CONTENTS

Part I Financial Information
- Item 1. Financial Statements
- Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations
- Item 3.Quantitative and Qualitative Disclosures about Market Risk
- Item 4.Controls and Procedures

Part II Other Information
- Item 1.Legal Proceedings
- Item 1A. Risk Factors
- Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.
- Item 3. Defaults Upon Senior Securities
- Item 4. Submission of Matters to a Vote of Security Holders
- Item 5. Other Information
- Item 6. Exhibits

Signatures
Exhibit Index
EX-31.1
EX-31.2
EX-32.1
EX-32.2

Table of Contents

Part I Financial Information
Item 1. Financial Statements

MBT FINANCIAL CORP.
CONSOLIDATED BALANCE SHEETS

Dollars in thousands	June 30, 2009 (Unaudited)	December 31, 2008
ASSETS		
Cash and Cash Equivalents		
Cash and due from banks		
Non-interest bearing	$ 18,047	$ 24,463
Interest bearing	5,513	26,323
Total cash and cash equivalents	23,560	50,786
Securities - Held to Maturity	40,578	46,840
Securities - Available for Sale	351,473	406,117
Federal Home Loan Bank stock - at cost	13,086	13,086
Loans held for sale	825	784
Loans - Net	885,656	922,420
Accrued interest receivable and other assets	46,517	43,973
Bank Owned Life Insurance	47,592	45,488
Premises and Equipment - Net	32,295	32,907
Total assets	$ 1,441,582	$ 1,562,401
LIABILITIES		
Deposits:		
Non-interest bearing	$ 128,254	$ 144,585
Interest-bearing	911,225	991,493
Total deposits	1,039,479	1,136,078
Federal Home Loan Bank advances	248,500	261,500
Repurchase agreements	30,000	30,000
Interest payable and other liabilities	13,593	13,846
Total liabilities	1,331,572	1,441,424
STOCKHOLDERS EQUITY		
Common stock (no par value; 30,000,000 shares authorized, 16,178,121 and 16,148,482 shares issued and outstanding)	496	321
Retained Earnings	115,832	122,896
Accumulated other comprehensive loss	(6,318)	(2,240)

Total stockholders equity		**110,010**		**120,977**
Total liabilities and stockholders equity	**$**	**1,441,582**	**$**	**1,562,401**

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

Table of Contents

MBT FINANCIAL CORP.
CONSOLIDATED STATEMENTS OF INCOME - UNAUDITED

	Three Months Ended June 30,	
Dollars in thousands, except per share data	2009	2008
Interest Income		
Interest and fees on loans	$ 13,165	$ 15,771
Interest on investment securities-		
Tax-exempt	865	818
Taxable	3,828	4,798
Interest on balances due from banks	12	
Total interest income	17,870	21,387
Interest Expense		
Interest on deposits	4,582	6,368
Interest on borrowed funds	3,103	3,892
Total interest expense	7,685	10,260
Net Interest Income	10,185	11,127
Provision For Loan Losses	8,000	2,700
Net Interest Income After Provision For Loan Losses	2,185	8,427
Other Income		
Income from wealth management services	906	1,119
Service charges and other fees	1,432	1,586
Net gain on sales of securities	50	23
Origination fees on mortgage loans sold	122	91
Bank owned life insurance income	296	275
Other	824	764
Total other income	3,630	3,858
Other Expenses		
Salaries and employee benefits	5,400	5,441
Occupancy expense	727	916
Equipment expense	771	848
Marketing expense	279	356
Professional fees	409	455

Collection expenses		**101**		**95**
Net loss on other real estate owned		**4,174**		**354**
Other real estate owned expenses		**467**		**432**
FDIC Deposit Insurance Assessment		**1,250**		**136**
Other		**1,011**		**1,130**
Total other expenses		**14,589**		**10,163**
Income (Loss) Before Income Taxes		**(8,774)**		**2,122**
Income Tax Expense (Benefit)		**(3,401)**		**404**
Net Income (Loss)	**$**	**(5,373)**	$	**1,718**
Basic Earnings (Loss) Per Common Share	**$**	**(0.33)**	$	**0.11**
Diluted Earnings (Loss) Per Common Share	**$**	**(0.33)**	$	**0.11**
Common Stock Dividends Declared Per Share	**$**	**0.01**	$	**0.18**

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

Table of Contents

MBT FINANCIAL CORP.
CONSOLIDATED STATEMENTS OF INCOME - UNAUDITED

Dollars in thousands, except per share data	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Interest Income		
Interest and fees on loans	$ 26,765	$ 32,199
Interest on investment securities-		
Tax-exempt	1,742	1,633
Taxable	8,328	9,754
Interest on balances due from banks	27	
Interest on federal funds sold		1
Total interest income	36,862	43,587
Interest Expense		
Interest on deposits	10,106	13,859
Interest on borrowed funds	6,358	8,148
Total interest expense	16,464	22,007
Net Interest Income	20,398	21,580
Provision For Loan Losses	12,200	3,900
Net Interest Income After Provision For Loan Losses	8,198	17,680
Other Income		
Income from trust services	1,820	2,246
Service charges and other fees	2,788	3,112
Net gain on sales of securities	656	48
Other Than Temporary Impairments on securities	(6,400)	
Portion of loss recognized in other comprehensive income	5,631	
Origination fees on mortgage loans sold	231	284
Bank Owned Life Insurance income	665	630
Other	1,570	1,500
Total other income	6,961	7,820
Other Expenses		
Salaries and employee benefits	10,834	11,023
Occupancy expense	1,641	1,911

Equipment expense	**1,619**	**1,676**
Marketing expense	**521**	**597**
Professional fees	**867**	**924**
Collection expense	**564**	**427**
Net loss on other real estate	**6,030**	**389**
Other real estate owned expense	**766**	**588**
FDIC deposit insurance assessment	**1,686**	**168**
Other	**2,058**	**2,158**
Total other expenses	**26,586**	**19,861**
Income (Loss) Before Income Taxes	**(11,427)**	**5,639**
Income Tax Expense (Benefit)	**(4,687)**	**1,274**
Net Income (Loss)	**$ (6,740)**	$ **4,365**
Basic Earnings (Loss) Per Common Share	**$ (0.42)**	$ **0.27**
Diluted Earnings (Loss) Per Common Share	**$ (0.42)**	$ **0.27**
Common Stock Dividends Declared Per Share	**$ 0.02**	$ **0.36**

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

Table of Contents

MBT FINANCIAL CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED

	Six Months Ended June 30,	
Dollars in thousands	2009	2008
Cash Flows from Operating Activities		
Net Income (Loss)	$ (6,740)	$ 4,365
Adjustments to reconcile net income (loss) to net cash from operating activities		
Provision for loan losses	12,200	3,900
Depreciation	1,135	1,454
(Increase) decrease in net deferred Federal income tax asset	(4,302)	239
Net (accretion) amortization of investment premium and discount	107	15
Writedowns of Other Real Estate Owned	5,201	
Net increase (decrease) in interest payable and other liabilities	(589)	175
Net increase in interest receivable and other assets	(3,241)	(4,728)
Equity based compensation expense	72	135
Net gain on sale/settlement of securities	(656)	(48)
Other Than Temporary Impairment of investment securities	769	
Increase in cash surrender value of life insurance	(665)	(630)
Net cash provided by operating activities	$ 3,291	$ 4,877
Cash Flows from Investing Activities		
Proceeds from maturities and redemptions of investment securities held to maturity	$ 8,105	$ 6,879
Proceeds from maturities and redemptions of investment securities available for sale	100,201	153,865
Proceeds from sales of investment securities available for sale	52,589	2,989
Net decrease in loans	24,523	6,391
Proceeds from sales of other real estate owned	3,226	1,548
Proceeds from sales of other assets	112	96
Purchase of investment securities held to maturity	(1,837)	(150)
Purchase of Bank Owned Life Insurance	(1,439)	
Purchase of investment securities available for sale	(104,310)	(164,903)
Purchase of bank premises and equipment	(576)	(967)
Net cash provided by investing activities	$ 80,594	$ 5,748
Cash Flows from Financing Activities		
Net decrease in deposits	$ (96,599)	$ (44,210)
Net increase in short term borrowings		41,200
Net decrease in securities sold under agreements to repurchase		(5,000)
Net decrease in Federal Home Loan Bank borrowings	(13,000)	
Proceeds from issuance of common stock	103	64
Dividends paid	(1,615)	(5,806)

Net cash used for financing activities	**$ (111,111)**	$ **(13,752)**
Net Decrease In Cash and Cash Equivalents	**$ (27,226)**	$ **(3,127)**
Cash and Cash Equivalents at Beginning Of Period	**50,786**	**25,113**
Cash And Cash Equivalents At End Of Period	**$ 23,560**	$ **21,986**

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

Table of Contents

MBT FINANCIAL CORP.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY - UNAUDITED

Dollars in thousands	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance - January 1, 2009	$ 321	$ 122,896	$ (2,240)	$ 120,977
Issuance of Common Stock (38,795 shares)				
Restricted stock awards (15,000 shares)	45			45
Other stock issued (23,795 shares)	58			58
Equity Compensation	72			72
Dividends declared ($0.02 per share)		(324)		(324)
Comprehensive income:				
Net income (loss)		(6,740)		(6,740)
Change in net unrealized loss on securities available for sale - Net of tax effect of $1,241			(2,306)	(2,306)
Change in net unrealized loss on securities available for sale for which a portion of an other-than-temporary impairment has been recognized in earnings - Net of tax effect of $1,068			(1,983)	(1,983)
Reclassification adjustment for losses included in net income - Net of tax effect of $(39)			73	73
Change in postretirement benefit obligation Net of tax effect of $(74)			138	138
Total Comprehensive Income				(10,818)
Balance - June 30, 2009	$ 496	$ 115,832	$ (6,318)	$ 110,010

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

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

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The unaudited consolidated financial statements include the accounts of MBT Financial Corp. (the Company) and its subsidiary, Monroe Bank & Trust (the Bank). The Bank includes the accounts of its wholly owned subsidiaries, MBT Credit Company, Inc. and MB&T Financial Services, Inc. The Bank operates eighteen branches in Monroe County, Michigan and seven branches in Wayne County, Michigan. MBT Credit Company, Inc. operates a mortgage loan office in Monroe County. The Bank s primary source of revenue is from providing loans to customers, who are predominantly small and middle-market businesses and middle-income individuals. The Company s sole business segment is community banking.

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

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

The significant accounting policies are as follows:

PRINCIPLES OF CONSOLIDATION

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

COMPREHENSIVE INCOME

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

BUSINESS SEGMENTS

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

FAIR VALUE

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

Table of Contents

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

The Corporation measures or monitors many of its assets and liabilities on a fair value basis. Fair value is used on a recurring basis for assets and liabilities that are elected to be accounted for under FAS 159 as well as for certain assets and liabilities in which fair value is the primary basis of accounting. Examples of these include derivative instruments and available for sale securities. Additionally, fair value is used on a non-recurring basis to evaluate assets or liabilities for impairment or for disclosure purposes. Examples of these non-recurring uses of fair value include certain loans held for sale accounted for on a lower of cost or market basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Depending on the nature of the asset or liability, the Corporation uses various valuation techniques and assumptions when estimating fair value, which are in accordance with FAS 157.

In accordance with FAS 157, the Corporation applied the following fair value hierarchy:

Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets. The Corporation s U.S. government agency securities, government sponsored mortgage backed securities, and mutual fund investments where quoted prices are available in an active market generally are classified within Level 1 of the fair value hierarchy.

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

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

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

ACCOUNTING PRONOUNCEMENTS

On April 9, 2009, the FASB issued FASB Staff Positions FSP 157-4, FSP FAS 107-1 and APB 28-1, and FSP FAS 115-2 and FAS 124-2. These FSPs, regarding fair value measurement and

Table of Contents

disclosure, are effective for interim and annual periods beginning on or after June 15, 2009. The Company elected early adoption beginning with the first quarter of 2009, and the appropriate disclosures are contained in these financial statements.

In May 2009, the FASB issued Statement of Financial Accounting Standard No. 165, Subsequent Events (FAS 165). FAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. Specifically, FAS 165 defines: 1) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, 2) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and 3) the disclosure that an entity should make about events or transactions that occurred after the balance sheet date. Management has reviewed events occurring through August 7, 2009, the date the financial statements were issued, and no subsequent events occurred that requiring disclosure or accrual.

In June 2009, the FASB issued Statement of Financial Accounting Standard No. 168, The FASB Accounting Standards of Codification and the Hierarchy of Generally Accepted Accounting Principles - a replacement of FASB Statement No. 162. The FASB Accounting Standards of Codification will become the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied to nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of this Statement, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification will become non-authoritative. This Statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company will comply with the requirements of the Statement beginning in the third quarter of 2009.

2. EARNINGS PER SHARE

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

	2009	2008
Basic		
Net income (loss)	$ (5,373,000)	$ 1,718,000
Less preferred dividends		
Net income (loss) applicable to common stock	$ (5,373,000)	$ 1,718,000
Average common shares outstanding	16,182,528	16,130,806
Earnings (loss) per common share - basic	$ (0.33)	$ 0.11

	2009	2008
Diluted		
Net income	$ (5,373,000)	$ 1,718,000
Less preferred dividends		
Net income applicable to common stock	$ (5,373,000)	$ 1,718,000
Average common shares outstanding	16,182,528	16,130,806
Stock option adjustment		31,375

Average common shares outstanding - diluted	16,182,528	16,162,181
Earnings per common share - diluted	$ (0.33)	$ 0.11

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

Table of Contents

	2009	2008
Basic		
Net income (loss)	$ (6,740,000)	$ 4,365,000
Less preferred dividends		
Net income (loss) applicable to common stock	$ (6,740,000)	$ 4,365,000
Average common shares outstanding	16,174,231	16,128,926
Earnings (loss) per common share - basic	$ (0.42)	$ 0.27

	2009	2008
Diluted		
Net income (loss)	$ (6,740,000)	$ 4,365,000
Less preferred dividends		
Net income (loss) applicable to common stock	$ (6,740,000)	$ 4,365,000
Average common shares outstanding	16,174,231	16,128,926
Stock option adjustment		31,375
Average common shares outstanding - diluted	16,174,231	16,160,301
Earnings (loss) per common share - diluted	$ (0.42)	$ 0.27

3. STOCK BASED COMPENSATION

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

	Shares	Weighted Average Exercise Price
Options Outstanding, January 1, 2009	541,976	$ 17.42
Granted		
Exercised		
Forfeited		
Options Outstanding, June 30, 2009	541,976	$ 17.42
Options Exercisable, June 30, 2009	513,646	$ 17.54

Restricted Stock Unit Awards - On January 2, 2009, performance restricted stock units were awarded to certain key executives in accordance with the MBT 2008 Stock Incentive Plan that was approved by shareholders on May 1,

2008. Each restricted stock unit (RSU) is equivalent to one share of MBT Financial Corp. common stock. Stock will be issued to the participants following a three year performance period that ends on December 31, 2011 based on the cumulative earnings per share during that three year period. The RSUs vest on December 31, 2011. There were 19,800 RSUs granted, and none will be considered vested and earned for payment if the Company s three year cumulative earnings per share are less than $0.05. The amount of RSUs that will vest on December 31, 2011 is based on the three year cumulative earnings per share achieved by the company during the vesting period as shown in the following schedule:

Three Year Cumulative Fully Diluted EPS for the Performance Period Ending December 31, 2011	Percent PSUs Vested
$0.15	100%
$0.10	75%
$0.05	50%

Restricted Stock Awards - On January 2, 2009, 15,000 restricted shares were awarded to certain key executives in accordance with the MBT 2008 Stock Incentive Plan that was approved by shareholders on May 1, 2008. The restricted shares will vest on December 31, 2011.

Stock Only Stock Appreciation Rights (SOSARs) - On January 2, 2009, Stock Only Stock Appreciation Rights (SOSARs) were awarded to certain key executives in accordance with the

Table of Contents

MBT 2008 Stock Incentive Plan that was approved by shareholders on May 1, 2008. The SOSARs have a term of ten years and vest in three equal annual installments beginning December 31, 2009. 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.

On January 2, 2009, Stock Only Stock Appreciation Rights (SOSARs) were awarded to certain directors in exchange for a portion of their retainer in accordance with the MBT 2008 Stock Incentive Plan that was approved by shareholders on May 1, 2008. The SOSARs have a term of ten years and vest on December 31, 2009. SOSARs granted under the plan are structured as fixed grants with the exercise price equal to the market value of the underlying stock on the date of the grant.

The fair value of $0.52 for the SOSARs was estimated at the date of the grant, using the Black-Scholes option pricing model, with the following assumptions: expected option lives of 7 years, expected volatility of 25.8%, a risk free rate of 3.38% and dividend yield of 4.87%. The following table summarizes the SOSARs that have been granted:

	Shares		Weighted Average Exercise Price
SOSARs Outstanding, January 1, 2009	99,500	$	8.53
Granted	141,500		3.03
Exercised			
Forfeited	9,500		5.06
SOSARs Outstanding, June 30, 2009	231,500	$	5.31
SOSARs Exercisable, June 30, 2009	35,345	$	8.53

The total expense for equity based compensation was $40,000 in the second quarter of 2009 and $45,000 in the second quarter of 2008. The total expense for equity based compensation was $80,000 in the first six months of 2009 and $135,000 in the first six months of 2008.

4. LOANS

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

Loans consist of the following (000s omitted):

	June 30, 2009		December 31, 2008
Residential real estate loans	$ 413,216	$	439,133
Non-farm, non-residential real estate loans	351,356		352,935
Loans to finance agricultural production and other loans to farmers	9,790		9,763
Commercial and industrial loans	110,182		109,495
Loans to individuals for household, family, and other personal expenditures	25,275		29,901
All other loans (including overdrafts)	460		384
Total loans, gross	910,279		941,611
Less: Deferred loan fees	748		663

Total loans, net of deferred loan fees	909,531	940,948
Less: Allowance for loan losses	23,875	18,528
	$ 885,656	$ 922,420

Table of Contents

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

	June 30, 2009	December 31, 2008
Nonaccrual loans	$ 61,917	$ 47,872
Loans 90 days past due	300	93
Restructured loans	7,552	5,811
Total nonperforming loans	$ 69,769	$ 53,776
Other real estate owned	16,189	17,156
Other assets	2,081	2,055
Nonperforming investment securities	945	
Total nonperforming assets	$ 88,984	$ 72,987
Nonperforming assets to total assets	6.17%	4.67%
Allowance for loan losses to nonperforming loans	34.22%	34.45%

5. ALLOWANCE FOR LOAN LOSSES

Activity in the allowance for loan losses during the quarter ended June 30 was as follows (000 s omitted):

	June 30, 2009	June 30, 2008
Balance beginning of quarter	$ 21,753	$ 17,683
Provision for loan losses	8,000	2,700
Loans charged off	(6,334)	(2,607)
Recoveries	456	317
Balance end of period	$ 23,875	$ 18,093

Activity in the allowance for loan losses during the six months ended June 30 was as follows (000 s omitted):

	June 30, 2009	June 30, 2008
Balance beginning of year	$ 18,528	$ 20,222
Provision for loan losses	12,200	3,900
Loans charged off	(7,909)	(6,562)

Recoveries	1,056		533
Balance end of period	$ 23,875	$	18,093

For each period, the provision for loan losses in the income statement is based on Management s estimate of the amount required to maintain an adequate Allowance for Loan Losses.
To serve as a basis for making this provision, the Bank maintains an extensive credit risk monitoring process that considers several factors including: current economic conditions affecting the Bank s customers, the payment performance of individual loans and pools of

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

The provision for loan losses increases the Allowance for Loan Losses, a valuation account which is netted against loans on the consolidated statements of condition. When it is determined that a customer will not repay a loan, the loan is charged off, reducing the Allowance for Loan Losses. If, subsequent to a charge off, the Bank is able to collect additional amounts from the customer or sell collateral worth more than earlier estimated, a recovery is recorded.

6. INVESTMENT SECURITIES

The following is a summary of the Bank s investment securities portfolio as of June 30, 2009 and December 31, 2008 (000 s omitted):

	Held to Maturity June 30, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Obligations of U.S. Government Agencies	$ 7	$	$	$ 7
Obligations of States and Political Subdivisions	40,571	187	(447)	40,311
	$ 40,578	$ 187	$ (447)	$ 40,318

	Available for Sale June 30, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Obligations of U.S. Government Agencies	$ 274,014	$ 6,561	$ (590)	$ 279,985
Obligations of States and Political Subdivisions	45,240	531	(456)	45,315
Trust Preferred CDO Securities	24,311		(10,701)	13,610
Corporate Debt Securities	11,756		(2,241)	9,515
Other Securities	2,974	74		3,048
	$ 358,295	$ 7,166	$ (13,988)	$ 351,473

	Held to Maturity December 31, 2008			
	Gross Amortized Cost	Gross Unrealized Gains	Estimated Unrealized Losses	Market Value
Obligations of U.S. Government Agencies	$ 7	$	$	$ 7
Obligations of States and Political Subdivisions	46,833	214	(1,011)	46,036

$ 46,840	$ 214	$ (1,011)	$ 46,043

Table of Contents

	Available for Sale December 31, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Obligations of U.S. Government Agencies	$ 322,767	$ 6,915	$ (11)	$ 329,671
Obligations of States and Political Subdivisions	40,999	541	(426)	41,114
Trust Preferred CDO Securities	25,132		(5,761)	19,371
Corporate Debt Securities	15,170		(1,654)	13,516
Other Securities	2,386	59		2,445
	$ 406,454	$ 7,515	$ (7,852)	$ 406,117

The investment securities portfolio is evaluated for impairment throughout the year. Impairment is recorded against individual securities, unless the decrease in fair value is attributable to interest rates or the lack of an active market, and Management determines that the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before a recovery of their amortized costs bases, which may be maturity. The following table shows the gross unrealized losses and fair value of the Company s investments with unrealized losses that are not deemed to be other than temporarily impaired (in thousands), aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2009 and December 31, 2008.

	June 30, 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	$ 43,790	$ 590	$	$	$ 43,790	$ 590
Obligations of States and Political Subdivisions	13,009	402	13,498	501	26,507	903
Trust Preferred CDO Securities			13,610	10,701	13,610	10,701
Corporate Debt Securities	878	67	8,638	2,174	9,516	2,241
	$ 57,677	$ 1,059	$ 35,746	$ 13,376	$ 93,423	$ 14,435

	December 31, 2008					
	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	$	8,791	$	4	$	1,500	$	7	$	10,291	$	11
Obligations of States and Political Subdivisions		20,707		1,211		3,878		226		24,585		1,437
Trust Preferred CDO Securities		6,605		2,474		12,766		3,287		19,371		5,761
Corporate Debt Securities		12,516		1,654						12,516		1,654
	$	48,619	$	5,343	$	18,144	$	3,520	$	66,763	$	8,863

The amount of investment securities issued by government agencies, states, and political subdivisions with unrealized losses and the amount of unrealized losses on those investment securities are primarily the result of market interest rates and not the result of the credit quality of the issuers of the securities. Because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the company does not consider those investments to be other than temporarily impaired at June 30, 2009.

The Trust Preferred CDO Securities are issued by companies in the financial services industry, including banks, thrifts, and insurance companies. Each of the four securities owned by the Company is in an unrealized loss position. The main reasons for the impairment are the overall decline in market values for financial industry securities and the lack of an active market for these types of securities in particular. In determining whether the impairment is not other-than-temporary, the Company analyzed each security s expected cash flows. The assumptions used in the cash flow analysis were developed following a review of the financial condition of the individual obligors in the pools. The analysis concluded that disruption of our cash flows due to defaults by issuers was currently not expected to occur in the four securities owned. As a result of uncertainties in the market place affecting companies in the financial services industry, it is at least reasonably possible that a change in the estimate will occur in the near term. Because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the company does not consider those investments to be other than temporarily impaired at June 30, 2009.

The Corporate Debt Securities consist of senior unsecured debt issued by regional banks and bank holding companies. The market values for these securities have declined over the last several months due to larger credit spreads on financial sector debt. The Company owns six bonds with maturities ranging from December, 2009 to February, 2019. The Company monitors the financial condition of each issuer by reviewing financial statements and industry analyst reports, and believes that the each of the issuers will be able to fulfill the obligations of these securities. The unrealized losses on investment securities are primarily the result of increases in market interest rates and not the result of credit quality of the issuers of the securities. Because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the company does not consider those investments to be other than temporarily impaired at June 30, 2009.

7. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

Certain of the Bank s assets and liabilities are financial instruments that have fair values that differ from their carrying values in the accompanying consolidated balance sheets. These fair values, along with the methods and assumptions used to estimate such fair values, are discussed below. The fair values of all financial instruments not discussed below (Cash and cash equivalents, Federal funds sold, Federal Home Loan Bank stock, Accrued interest receivable and other assets, Bank Owned Life Insurance, Federal funds purchased, and Interest payable and other liabilities) are estimated to be equal to their carrying amounts as of June 30, 2009 and December 31, 2008.

INVESTMENT SECURITIES

Fair value for the Bank s investment securities was determined using the market value in active markets, where available. When not available, fair values are estimated using the fair value hierarchy. In the fair value hierarchy, Level 2 fair values are determined using observable inputs other than Level 1 market prices, such as quoted prices for similar assets. Level 3 values are determined using unobservable inputs, such as discounted cash flow projections. These Estimated Market Values are disclosed in Note 6. The fair value disclosures required by FAS 157 are in Note 8.

Table of Contents

LOANS, NET

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

OTHER TIME DEPOSITS

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

FHLB ADVANCES AND SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

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

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

OFF-BALANCE-SHEET FINANCIAL INSTRUMENTS

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

The carrying amounts and approximate fair values as of June 20, 2009 and December 31, 2008 are as follows (000 s omitted):

	June 30, 2009		December 31, 2008	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial Assets:				
Cash and due from banks	$ 23,560	$ 23,560	$ 50,786	$ 50,786
Securities	392,051	391,791	452,957	452,160
Federal Home Loan Bank Stock	13,086	13,086	13,086	13,086
Loans, net	885,656	889,561	922,420	953,267
Financial Liabilities:				
Demand, NOW, savings and money market savings deposits	592,390	592,390	621,762	621,762
Other time deposits	447,089	455,601	514,316	521,272
Borrowed funds				
Variable Rate FHLB Advances	110,000	117,580	123,000	131,491
Fixed Rate FHLB Advances	8,500	8,649	8,500	8,800
Putable FHLB Advances	130,000	136,033	130,000	138,870
Repurchase Agreements	30,000	35,075	30,000	33,840

8. FAIR VALUE MEASUREMENTS

The following tables present information about the Company s assets measured at fair value on a recurring basis at June 30, 2009, and the valuation techniques used by the Company to determine those fair values.

Table of Contents

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Company has the ability to access.
Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.
Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset.
In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Company s assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.
Assets measured at fair value on a recurring basis are as follows (000 s omitted):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2009
Investment Securities - Available for Sale	$ 291,147	$ 46,716	$ 13,610	$ 351,473

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

	Investment Securities - Available for Sale
Balance at December 31, 2008	$ 19,746
Total realized and unrealized gains (losses) included in income	(769)
Total unrealized gains (losses) included in other comprehensive income	(5,367)
Net purchases, sales, calls and maturities	
Net transfers in/out of Level 3	
Balance at June 30, 2009	$ 13,610

Of the Level 3 assets that were held by the Company at June 30, 2009, the unrealized loss for the six months ended June 30, 2009 was $5,367,000, which is recognized in other comprehensive income in the consolidated statements of financial condition. The Company did not have any sales or purchases of Level 3 available for sale securities during the period.
Both observable and unobservable inputs may be used to determine the fair value of positions classified as Level 3 assets. As a result, the unrealized gains and losses for these assets presented in the tables above may include changes in fair value that were attributable to both observable and unobservable inputs.
The Company owns pooled Trust Preferred Securities (TRUPs) with a fair value of $13,610,000 as of June 30, 2009. Trading of these types of securities is only conducted on a distress sale or forced liquidation basis. As a result, the Company measures the fair values of these assets using Level 3 inputs, specifically discounted cash flow projections.
The Company also has assets that under certain conditions are subject to measurement at fair value on a nonrecurring basis. These assets include loans and Other Real Estate Owned. The Company estimated the fair values of these assets using Level 3 inputs, specifically discounted cash flow projections.

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

	Balance at June 30, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Losses for the three months ended June 30, 2009	Total Losses for the six months ended June 30, 2009
Impaired loans accounted for under FAS 114	$ 53,574	$	$	$ 53,574	$ 3,162	$ 6,670
Other Real Estate Owned	$ 16,189	$	$ 16,189	$	$ 4,174	$ 6,030

Impaired loans accounted for under FAS 114 categorized as Level 3 assets consist of non-homogenous loans that are considered impaired. The Company estimates the fair value of the loans based on the present value of expected future cash flows using management s best estimate of key assumptions. These assumptions include future payment ability, timing of payment streams, and estimated realizable values of available collateral (typically based on outside appraisals). Other Real Estate Owned (OREO) consists of property received in full or partial satisfaction of a receivable. The Company utilizes independent appraisals to estimate the fair value of OREO properties.

8. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

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

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

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

	Contractual Amount	
	June 30, 2009	December 31, 2008
Commitments to extend credit:		
Unused portion of commercial lines of credit	$ 63,439	$ 62,537
Unused portion of credit card lines of credit	5,751	5,872
Unused portion of home equity lines of credit	17,229	20,200
Standby letters of credit and financial guarantees written	6,279	7,297
All other off-balance sheet assets	5,144	3,682

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Most commercial lines of credit are secured by real estate mortgages or other collateral, and generally have fixed expiration dates or other termination clauses. Since the lines of credit may expire without being drawn upon, the total committed amounts do not necessarily represent future cash requirements. Credit card

lines of credit have various established expiration dates, but are fundable on demand. Home equity lines of credit are secured by real estate mortgages, a majority of which have ten year expiration dates, but are fundable on demand. The Bank evaluates each customer s creditworthiness on a case-by-case basis. The amount of the collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on Management s credit evaluation of the counterparty.

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

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

Introduction

MBT Financial Corp. (the Company) is a bank holding company with one subsidiary, Monroe Bank & Trust (the Bank). The Bank is a commercial bank with two wholly owned subsidiaries, MBT Credit Company, Inc. and MB&T Financial Services. MBT Credit Company, Inc. conducts lending operations for the Bank and MB&T Financial Services is an insurance agency which sells insurance policies to the Bank. The Bank operates 18 branch offices in Monroe County, Michigan and 7 offices in Wayne County, Michigan. The Bank s primary source of income is interest income on its loans and investments and its primary expense is interest expense on its deposits and borrowings.

The ongoing challenges in the national economy generally and in the southeast Michigan economy in particular, with increasing unemployment and decreasing real estate values, continue to have a negative impact on our performance. We monitor the quality of our loan portfolios closely, and we decided that the decrease in real estate values necessitated write downs of some of our Other Real Estate Owned this quarter. The decrease in the value of real estate collateral also required an increase in the allowance for loan losses. Our Allowance for Loan Losses is now $23.9 million, or 2.62% of loans. Non performing assets (NPAs) increased from $79.0 million to $89.0 million during the quarter, as non performing loans increased $13.6 million and OREO decreased $3.6 million. Total Problem Assets, which includes non performing assets and problem loans that are still performing, decreased $6.1 million, or 3.9% during the quarter

Net Interest Income decreased $942,000 compared to the second quarter of 2008 as the net interest margin and the average earning assets decreased. The provision for loan losses increased from $2.7 million in the second quarter of 2008 to $8 million in 2009 to cover the net charge offs of $5.9 million and to fund the increase in the Allowance for Loan Losses mentioned above. Non interest income decreased $228,000 compared to last year as Wealth Management fees decreased due to lower market values for investments and NSF fees decreased due to a significant decrease in overdraft activity. We are beginning to see the benefits of our cost reduction initiatives. However, credit related expenses and an increase in FDIC insurance costs caused total non interest expenses to increase $4.4 million. We expect credit related expenses to remain high, but we expect to see meaningful expense improvement in most other areas.

Our capital levels remain strong, and well above regulatory minimums required to be considered a well-capitalized institution. As of June 30, 2009 our total capital was $110,010,000. We believe that we have ample liquidity to meet the needs of our qualified loan customers, and continue to maintain a financially sound and solvent balance sheet. Due to the low level of earnings last year, and the continued poor earnings and economic outlook, our board of directors decided to reduce the quarterly dividend from $0.09 to $0.01 in 2009. Even with the loss of $0.33 per share during the second quarter, the dividend reduction and a reduction in our assets allowed us to maintain capital ratios in excess of the minimum to be considered well capitalized by regulators. Our board will continue to evaluate all options concerning the payment of our dividend each quarter.

Table of Contents

In May, 2009 the Bank agreed to an informal memorandum of understanding with its regulators to establish, among other things, reporting regularly to the regulators about our operations, financial condition, and efforts to mitigate risks. As a part of this informal program the Bank has agreed to take certain actions to improve the Bank s credit administration and to develop a written plan to attain a minimum Tier 1 Leverage Capital ratio of 8%. Management developed a capital plan that was approved by the Company s Board and timely submitted to its regulatory agencies. A failure to meet its commitment regarding these corrective actions could result in more formal regulatory actions. The Bank s Tier 1 Leverage Capital ratio was 7.83% as of June 30, 2009. Bank management and its Board of Directors have been targeting its capital ratio to the 8% level since 2007, and believe that its current plan for risk mitigation, profitability, and capital management will allow the company to achieve this target during 2009.

Critical Accounting Policies

The Company s Allowance for Loan Losses is a critical accounting estimate because it is an estimate that is based on assumptions that are highly uncertain, and if different assumptions were used or if any of the assumptions used were to change, there could be a material impact on the presentation of the Company s financial condition. These assumptions include, but are not limited to, collateral values and the effect of economic conditions on the financial condition of the borrowers. To determine the Allowance for Loan Losses, the Company estimates losses on all loans that are not classified as non accrual or renegotiated by applying historical loss rates, adjusted for current conditions, to those loans in accordance with SFAS 5. In addition, all loans that are non accrual or renegotiated are individually tested for impairment. Any amount of monetary impairment is included in the Allowance for Loan Losses in accordance with SFAS 114.

Recently Adopted Accounting Pronouncements

In April 2009, the FASB issued three FASB Staff Positions (FSPs) intended to provide additional application guidance and enhance disclosures regarding fair value measurements and impairments of securities. FSP 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly, provides guidelines for making fair value measurements more consistent with the principles presented in FASB Statement No. 157, Fair Value Measurements. FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments, enhances consistency in financial reporting by increasing the frequency of fair value disclosures. FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments*,* provides additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on securities. These FSPs are effective for interim or annual periods beginning after June 15, 2009. The Company elected early adoption of these three FSPs in the first quarter of 2009.

Financial Condition

Economic conditions remained weak during the second quarter of 2009. Rising unemployment and decreasing property values resulted in decreases in loans and an increase in nonperforming assets during the quarter. We continued to use maturities and sales of investments to decrease our borrowings and brokered certificates of deposits, which has helped preserve our net interest margin. This has also resulted in a decrease in total assets, which has enabled us to maintain a high capital ratio even though our capital decreased due to the loss. The decrease in earning assets resulted in a decrease in net interest income, and the poor economic conditions caused a significantly larger provision for loan losses, and higher credit related non interest expenses. While some lending opportunities exist, the economy is expected to remain weak in our market

Table of Contents

area into 2010. The Company expects low or slightly negative deposit and asset growth for the rest of 2009 and intends to continue to focus efforts on credit quality, capital management, and risk mitigation.

Since December 31, 2008, total loans decreased $31.4 million (3.3%) due to the weak loan demand. Total cash and investments decreased $88.1 million (17.1%), and total assets decreased $120.8 million (7.7%). Residential real estate secured loans decreased $25.9 million (5.9%) due to a decrease in residential development activity. Deposits decreased $96.6 million, or 8.5%, due to continued reduction in the amount of brokered certificates of deposit and a less competitive pricing strategy which is designed to reduce the amount of deposits and the average cost of deposits while managing our interest rate risk. Total capital decreased $11.0 million or 9.1% because of the net loss of $6.7 million, and the $4.1 million decrease in accumulated other comprehensive income (AOCI). AOCI decreased due to the decrease in the value of securities available for sale. Total capital decreased at a higher rate than total assets causing the capital to assets ratio to decrease from 7.74% at December 31, 2008 to 7.63% at June 30, 2009.

The amount of nonperforming assets (NPAs) increased $16.0 million or 21.9% since year end. NPAs include non performing loans, which increased 29.7% from $53.8 million to $69.8 million, and Other Real Estate Owned and Other Assets (OREO), which was unchanged at $19.2 million. Total problem assets, which includes all NPAs and performing loans that are internally classified as substandard, increased $11.1 million, or 8.1%. The Company s Allowance for Loan and Lease Losses (ALLL) increased $5.3 million since December 31, 2008, as the amount of specific allocations required by FAS 114 increased from $5.2 million to $11.4 million, mainly due to decreased values of real estate collateral. The FAS 5 portion of the allowance decreased slightly from $13.2 million to $12.5 million because the impact of the decrease in the size of the loan portfolio was greater than the impact of the increase in the loss factors. The loss factors, which include five year loss averages, and adjustments for various current factors, such as recent delinquency and charge off trends and national and local economic conditions, were increased due to the weak economic conditions and declining real estate values. The ALLL is now 2.62% of loans, compared to 1.97% at year end. The ALLL is 34.2% of NPLs, compared to 34.4% at year end. We believe that at this level the ALLL adequately estimates the potential losses in the loan portfolio.

Results of Operations Second Quarter 2009 vs. Second Quarter 2008

Net Interest Income A comparison of the income statements for the three months ended June 30, 2008 and 2009 shows a decrease of $942,000, or 8.5% in Net Interest Income. Interest income on loans decreased $2.6 million or 16.5% as the average loans outstanding decreased $74.1 million and the average yield on loans decreased from 6.39% to 5.75%. The interest income on investments, fed funds sold, and interest bearing balances due from banks decreased $911,000 as the average amount of investments, fed funds sold, and interest bearing balances due from banks decreased $12.1 million and the yield decreased from 5.13% to 4.41%. An improvement in the term structure of interest rates and a decrease in the overall level of interest rates allowed funding costs to decrease faster than asset yields. The interest expense on deposits decreased $1.8 million or 28.0% as the average deposits decreased $21.6 million and the average cost of those deposits decreased from 2.38% to 1.74%. The cost of borrowed funds decreased $0.8 million as the average amount of borrowed funds decreased $45.4 million and the average cost of the borrowings decreased from 4.75% to 4.38%.

Provision for Loan Losses The Provision for Loan Losses increased from $2.7 million in the second quarter of 2008 to $8.0 million in the second quarter of 2009 due to increased non performing loans and weaker economic conditions. Net charge offs were $5.9 million during the second quarter of 2009, compared to $2.3 million in the second quarter of 2008. Each quarter,

Table of Contents

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

Other Income Non interest income decreased $228,000 or 5.9% compared to the second quarter of 2008. Although we have been successful in attracting new business in our Wealth Management Group, income decreased 19.0% due to decreasing market values of investments. Service charges and other fees decreased $154,000, or 9.7%, primarily due to a decrease in NSF fees on checking accounts. Mortgage loan activity increased in the second quarter of 2009 due to an increase in the number of refinances, and the origination fees on mortgage loans sold increased $31,000, or 34.1%.

Other Expenses Total non interest expenses increased $4.4 million or 43.6% compared to the second quarter of 2008 primarily due to higher credit related expenses and an increase in our FDIC insurance assessment. Salaries and Employee Benefits decreased $41,000, or 0.8%, primarily due to a reduction in the incentive compensation accrual. Occupancy expense decreased $189,000 or 20.6% due to lower depreciation, maintenance, and property tax expenses. Equipment expenses decreased $77,000, or 9.1% due to a decrease of $59,000 in depreciation expense. The advertising program was reduced in 2009, resulting in a decrease of $77,000, or 21.6% in marketing expense. Losses on OREO transactions increased $3.8 million compared to the second quarter last year due to a loss of $1.8 million on 37 properties sold at an auction in the second quarter of 2009. We also wrote down the carrying values of several properties this year due to the continued decline in market values. The properties sold had quarterly carrying costs of approximately $58,000. FDIC insurance premium expense increased $1.1 million due to a special assessment of $663,000 in the second quarter of 2009, an increase in our regular assessment rate from 7 basis points to nearly 22 basis points, and because the Bank utilized its remaining assessment credits in 2008. Excluding the OREO losses and expenses and the FDIC assessments, non interest expenses decreased $543,000, or 5.9%.

As a result of the above activity, the Income Before Income Taxes decreased $10.9 million to a loss of $8.8 million. The income tax expense decreased $3.8 million from $0.4 million to a benefit of $3.4 million. The Net Loss of $5.4 million is a decrease of $7.1 million from the profit of $1.7 million in the second quarter of 2008.

Results of Operations Six Months Ended June 30, 2009 vs. June 30, 2008

Net Interest Income A comparison of the income statements for the six months ended June 30, 2008 and 2009 shows a decrease of $1.2 million, or 5.5% in Net Interest Income. Interest income on loans decreased $5.4 million or 16.9% as the average loans outstanding decreased $68.7 million and the average yield on loans decreased from 6.51% to 5.82%. The interest income on investments, fed funds sold, and interest bearing balances due from banks decreased $1.3 million even though the average amount of investments, fed funds sold, and interest bearing balances due from banks increased $6.1 million as the yield decreased from 5.17% to 4.53%. An improvement in the term structure of interest rates and a decrease in the overall level of interest rates allowed funding costs to decrease faster than asset yields. The interest expense on deposits decreased $3.8 million or 27.1% as the average deposits decreased $15.3 million and the average cost of those deposits decreased from 2.55% to 1.89%. The cost of borrowed funds decreased $1.8 million as the average amount of borrowed funds decreased $29.6 million and the average cost of the borrowings decreased from 5.15% to 4.44%.

Provision for Loan Losses The Provision for Loan Losses increased from $3.9 million in the first six months of 2008 to $12.2 million in the first six months of 2009 due to increased non

Table of Contents

performing loans and weaker economic conditions. Net charge offs were $6.9 million during the first six months of 2009, compared to $6.0 million in the first six months of 2008.

Other Income Non interest income, excluding securities transactions, decreased $698,000 or 9.0% compared to the first six months of 2008. Although we have been successful in attracting new business in our Wealth Management Group, income decreased $426,000, or 19.0% due to decreasing market values of investments. Service charges and other fees decreased $324,000, or 10.4%, primarily due to a decrease in NSF fees on checking accounts. Mortgage loan activity increased in the second quarter of 2009, but the first half of 2009 was considerably slower than the first half of 2008, and the origination fees on mortgage loans sold decreased $53,000, or 18.7%.

Other Expenses Total non interest expenses increased $6.7 million or 33.9% compared to the first six months of 2008 primarily due to higher credit related expenses and an increase in our FDIC insurance assessment. Salaries and Employee Benefits decreased $189,000, or 1.7%, primarily due to a reduction in the incentive compensation accrual. Occupancy expense decreased $270,000 or 14.1% due to lower depreciation, maintenance, and property tax expenses. The advertising program was reduced in 2009, resulting in a decrease of $76,000, or 12.7% in marketing expense. Losses on OREO transactions increased $5.6 million compared to the second quarter last year due to a loss of $1.8 million on 37 properties sold at an auction in the second quarter of 2009 and the write down of $835,000 on a property sold in the first quarter of 2009. We also wrote down the carrying values of several properties this year due to the continued decline in market values. FDIC insurance premium expense increased $1.5 million due to a special assessment of $663,000 in the second quarter of 2009, an increase in our regular assessment rate from 7 basis points to nearly 22 basis points in the second quarter of 2009, and because the Bank utilized its remaining assessment credits in the first six months of 2008.

As a result of the above activity, the Income Before Income Taxes decreased $17.1 million to a loss of $11.4 million. The income tax expense decreased $6.0 million from $1.3 million to a benefit of $4.7 million. The Net Loss of $6.7 million is a decrease of $11.1 million from the profit of $4.4 million in the first six months of 2008.

Cash Flows

Cash flows from operating activities decreased from $4.9 million in the first six months of 2008 to $3.3 million in the first six months of 2009 due to the decrease in net income and the increase in the net deferred federal income tax asset. Cash flows provided by investing activities increased from $5.7 million in the first six months of 2008 to $80.6 million in the first six months of 2009 primarily due to a decrease in the amount of investment securities purchased, an increase in the amount of investment securities sold, and a decrease in loans in the first six months of 2009. A significant portion of the investment activity proceeds was used to fund the reduction in deposits. The amount of cash used for financing activities increased from $13.8 million in the first six months of 2008 to $111.1 million in the first six months of 2009 as the decrease in deposits increased from $44.2 million in 2008 to $96.6 million in 2009. Also, the increase in short term borrowing was $41.2 million in 2008, compared to zero in 2009, and Federal Home Loan Bank advances decreased $13.0 million in 2009. This is a result of the Bank s efforts to improve its capital position and net interest margin by reducing higher cost funding and lower yield assets.

Liquidity and Capital

The Company maintains sufficient liquidity to fund its lending activity and allow for fluctuations in deposit levels. Internal sources of liquidity are provided by the maturities of loans and securities as well as holdings of securities Available for Sale. External sources of liquidity

Table of Contents

include a line of credit with the Federal Home Loan Bank of Indianapolis, the Federal funds line that has been established with our correspondent bank, and Repurchase Agreements with money center banks that allow us to pledge securities as collateral for borrowings. As of June 30, 2009, the Bank utilized $248.5 million of its authorized limit of $275 million with the Federal Home Loan Bank of Indianapolis and none of its $25 million of federal funds line with a correspondent bank.

The Company s Funds Management Policy includes guidelines for desired amounts of liquidity and capital. The Funds Management Policy also includes contingency plans for liquidity and capital that specify actions to take if liquidity and capital ratios violate the guidelines. Throughout the second quarter of 2009 the Company was in compliance with its Funds Management Policy regarding liquidity and capital.

Total stockholders equity of the Company was $110.0 million at June 30, 2009 and $121.0 million at December 31, 2008. The ratio of equity to assets was 7.6% at June 30, 2009 and 7.7% at December 31, 2008. Federal bank regulatory agencies have set capital adequacy standards for Total Risk Based Capital, Tier 1 Risk Based Capital, and Leverage Capital. These standards require banks to maintain Leverage and Tier 1 ratios of at least 4% and a Total Capital ratio of at least 8% to be adequately capitalized. The regulatory agencies consider a bank to be well capitalized if its Total Risk Based Capital is at least 10% of Risk Weighted Assets, Tier 1 Capital is at least 6% of Risk Weighted Assets, and the Leverage Capital Ratio is at least 5%.

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

	Actual		Minimum to Qualify as Well Capitalized	
	Amount	Ratio	Amount	Ratio
As of June 30, 2009:				
Total Capital to Risk-Weighted Assets				
Consolidated	$ 129,791	11.93%	$ 108,796	10%
Monroe Bank & Trust	128,647	11.83%	108,703	10%
Tier 1 Capital to Risk-Weighted Assets				
Consolidated	116,028	10.66%	65,277	6%
Monroe Bank & Trust	114,895	10.57%	65,222	6%
Tier 1 Capital to Average Assets				
Consolidated	116,028	7.91%	73,381	5%
Monroe Bank & Trust	114,895	7.83%	73,337	5%

	Actual		Minimum to Qualify as Well Capitalized	
	Amount	Ratio	Amount	Ratio
As of December 31, 2008:				
Total Capital to Risk-Weighted Assets				
Consolidated	$ 136,286	12.74%	$ 106,980	10%
Monroe Bank & Trust	134,853	12.62%	106,895	10%
Tier 1 Capital to Risk-Weighted Assets				
Consolidated	122,820	11.48%	64,188	6%
Monroe Bank & Trust	121,398	11.36%	64,137	6%
Tier 1 Capital to Average Assets				
Consolidated	122,820	7.82%	78,543	5%
Monroe Bank & Trust	121,398	7.73%	78,495	5%

At June 30, 2009 and December 31, 2008, the Bank was in compliance with the capital guidelines and is considered well-capitalized under regulatory standards.

Market risk for the Bank, as is typical for most banks, consists mainly of interest rate risk and market price risk. The Bank s earnings and the economic value of its equity are exposed to interest rate risk and market price risk, and monitoring this risk is the responsibility of the

Asset/Liability Management Committee (ALCO) of the Bank. The Bank s market risk is monitored monthly and it has not changed significantly since year-end 2008.

Forward-Looking Statements

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

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

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

The Bank s ALCO has established limits in the acceptable amount of interest rate risk, as measured by the change in the Bank s projected net interest income, in its policy. At the end of 2008, the estimated variability of the net interest income exceeded the Bank s established policy limits for the minus 200 and minus 300 basis point rate scenarios. For the first six months of 2009, the estimated variability of the net interest income exceeded the Bank s established policy limit for the minus 300 basis point rate scenario. Because current interest rates are at historically low levels, it is not probable that rates would decrease 300 basis points, and the ALCO determined that no corrective action is required.

Table of Contents

The ALCO also monitors interest rate risk by estimating the effect of changes in interest rates on the economic value of the Bank s equity each month. The actual economic value of the Bank s equity is first determined by subtracting the fair value of the Bank s liabilities from the fair value of the Bank s assets. The fair values are determined in accordance with Statement of Financial Accounting Standards Number 107, Disclosures about Fair Value of Financial Instruments. The Bank estimates the interest rate risk by calculating the effect of market interest rate shocks on the economic value of its equity. For this analysis, the Bank assumes immediate parallel shifts of plus or minus 100, 200, and 300 basis points in interest rates. The discount rates used to determine the present values of the loans and deposits, as well as the prepayment rates for the loans, are based on Management s expectations of the effect of the rate shock on the market for loans and deposits.

The Bank s interest rate risk, as measured by the net interest income and economic value of equity simulations, has not changed significantly from December 31, 2008.

Item 4. Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of the Company s management, including the Company s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures as of June 30, 2009, pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective as of June 30, 2009, in alerting them in a timely manner to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company s periodic SEC filings.

There was no change in the Company s internal control over financial reporting that occurred during the Company s fiscal quarter ended June 30, 2009, that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

Part II Other Information

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There have been no material changes in the risk factors disclosed by the Company in its Report on Form 10-K for the fiscal year ended December 31, 2008.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Table of Contents

Item 4. Submission of Matters to a Vote of Security Holders

The Annual Meeting of Shareholders of MBT Financial Corp. was held on May 7, 2009. The following directors were elected to a new term of office:

Peter H. Carlton
H. Douglas Chaffin
Joseph S. Daly
Edwin L. Harwood
Thomas M. Huner
Rocque E. Lipford
William D. McIntyre, Jr.
Michael J. Miller
Debra J. Shah
John L. Skibski
Philip P. Swy
Karen M. Wilson

The Annual Meeting of Shareholders of MBT Financial Corp. was held for the following purposes:

1. To elect a Board of Directors for the ensuing year;

2. To transact such other business as may properly come before the meeting or any adjournment thereof.

The results of the voting are as follows:

Proposal 1, Election of Directors:

	For	Withhold Authority
Peter H. Carlton	11,134,854	2,422,895
H. Douglas Chaffin	11,031,438	2,526,311
Joseph S. Daly	9,871,357	3,686,392
Edwin L. Harwood	12,316,832	1,240,917
Thomas M. Huner	12,109,276	1,448,473
Rocque E. Lipford	8,657,637	4,900,112
William D. McIntyre, Jr.	10,220,790	3,336,959
Michael J. Miller	11,080,327	2,477,422
Debra J. Shah	10,744,431	2,813,318
John L. Skibski	12,149,292	1,408,457
Philip P. Swy	12,033,803	1,523,946
Karen M. Wilson	10,739,996	2,817,753

Item 5. Other Information

No matters to be reported.

Table of Contents

Item 6. Exhibits

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

3.1	Restated Articles of Incorporation of MBT Financial Corp. Previously filed as Exhibit 3.1 to MBT Financial Corp. s Form 10-K for its fiscal year ended December 31, 2000.
3.2	Amended and Restated Bylaws of MBT Financial Corp. Previously filed as Exhibit 3.2 to MBT Financial Corp. s Form 10-Q for its quarter ended March 31, 2008.
31.1	Certification by Chief Executive Officer required by Securities and Exchange Commission Rule 13a-14.
31.2	Certification by Chief Financial Officer required by Securities and Exchange Commission Rule 13a-14.
32.1	Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as enacted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as enacted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Table of Contents

Signatures

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

	MBT Financial Corp. (Registrant)
August 7, 2009	By /s/ H. Douglas Chaffin
Date	H. Douglas Chaffin President & Chief Executive Officer
August 7, 2009	By /s/ John L. Skibski
Date	John L. Skibski Executive Vice President and Chief Financial Officer

Table of Contents

Exhibit Index

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