CHOICEONE FINANCIAL SERVICES INC
Form 10-Q
August 12, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2011

¨ **Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from to

Commission File Number: 000-19202

ChoiceOne Financial Services, Inc.

(Exact Name of Registrant as Specified in its Charter)

Michigan	**38-2659066**
(State or Other Jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**Identification No.)**
109 East Division	
Sparta, Michigan	**49345**
(Address of Principal Executive Offices)	**(Zip Code)**

(616) 887-7366

(Registrant s Telephone Number, including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 x No ¨

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

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

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

As of July 31, 2011, the Registrant had outstanding 3,289,386 shares of common stock.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

ChoiceOne Financial Services, Inc.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)	**June 30, 2011 (Unaudited)**	December 31, 2010 (Audited)
Assets		
Cash and due from banks	**$ 17,307**	$ 19,074
Federal funds sold	**0**	5,000
Cash and cash equivalents	**17,307**	24,074
Securities available for sale	**103,369**	90,820
Federal Home Loan Bank stock	**2,478**	2,889
Federal Reserve Bank stock	**1,271**	1,270
Loans held for sale	**285**	1,610
Loans	**314,042**	316,940
Allowance for loan losses	**(4,802)**	(4,729)
Loans, net	**309,240**	312,211
Premises and equipment, net	**12,343**	12,525
Other real estate owned, net	**2,502**	1,953
Loan servicing rights, net	**328**	347
Cash value of life insurance policies	**9,675**	9,520
Intangible assets, net	**2,396**	2,620
Goodwill	**13,728**	13,728
Other assets	**4,494**	6,957
Total assets	**$ 479,416**	$ 480,524
Liabilities		
Deposits noninterest-bearing	**$ 72,563**	$ 66,932
Deposits interest-bearing	**316,875**	322,952
Total deposits	**389,438**	389,884
Advances from Federal Home Loan Bank	**8,460**	8,473
Securities sold under agreements to repurchase	**21,743**	22,249
Other liabilities	**3,569**	5,605
Total liabilities	**423,210**	426,211
Shareholders Equity		
Preferred stock; shares authorized: 100,000; shares outstanding: none		
Common stock and paid in capital, no par value; shares authorized: 7,000,000; shares outstanding: 3,288,620 at June 30, 2011 and 3,280,515 at December 31, 2010	**46,550**	46,461
Retained earnings	**7,772**	6,952
Accumulated other comprehensive income, net	**1,884**	900
Total shareholders equity	**56,206**	54,313

Total liabilities and shareholders equity	**$ 479,416**	$ 480,524

See accompanying notes to consolidated financial statements.

ChoiceOne Financial Services, Inc.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (Unaudited)

(Dollars in thousands, except per share data)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Interest income				
Loans, including fees	$ 4,593	$ 4,767	$ 9,142	$ 9,491
Securities:				
Taxable	464	302	864	718
Tax exempt	322	351	649	717
Other	7	74	13	6
Total interest income	5,386	5,494	10,668	10,932
Interest expense				
Deposits	764	1,013	1,552	2,079
Advances from Federal Home Loan Bank	76	194	152	427
Other	74	77	147	156
Total interest expense	914	1,284	1,851	2,662
Net interest income	4,472	4,210	8,817	8,270
Provision for loan losses	850	1,000	1,850	2,050
Net interest income after provision for loan losses	3,622	3,210	6,967	6,220
Noninterest income				
Customer service charges	905	795	1,715	1,524
Insurance and investment commissions	202	223	370	370
Gains on sales of loans	132	68	271	174
Gains on sales of securities	26	8	62	397
Gains/(losses) on sales of other assets	83	(9)	42	(101)
Earnings on life insurance policies	89	89	177	179
Other	187	157	387	295
Total noninterest income	1,624	1,331	3,024	2,838
Noninterest expense				
Salaries and benefits	1,868	1,756	3,676	3,436
Occupancy and equipment	583	529	1,132	1,080
Data processing	435	412	866	838
Professional fees	202	177	383	349
Supplies and postage	140	145	279	271
Advertising and promotional	45	39	86	70
Intangible amortization	112	112	224	224
Loan and collection expense	141	110	251	250
FDIC insurance	127	156	297	312
Other	414	289	740	592
Total noninterest expense	4,067	3,725	7,934	7,422
Income before income tax	1,179	817	2,057	1,636
Income tax expense	275	148	449	323

Net income	$ 904	$ 669	$ 1,608	$ 1,313
Basic earnings per share	$ 0.28	$ 0.20	$ 0.49	$ 0.40
Diluted earnings per share	$ 0.28	$ 0.20	$ 0.49	$ 0.40
Dividends declared per share	$ 0.12	$ 0.12	$ 0.24	$ 0.24

See accompanying notes to consolidated financial statements.

ChoiceOne Financial Services, Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (Unaudited)

(Dollars in thousands)	Number of Shares	Common Stock and Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income, Net	Total
Balance, January 1, 2010	3,265,714	$ 46,326	$ 5,813	$ 787	$ 52,926
Comprehensive income					
Net income			1,313		1,313
Net change in unrealized gain on securities available for sale, net of tax of $148				287	287
Total comprehensive income					1,600
Shares issued	9,226	73			73
Shares cancelled	(4)				
Change in ESOP repurchase obligation		(6)			(6)
Effect of stock options granted		7			7
Effect of employee stock purchases		8			8
Cash dividends declared ($0.24 per share)			(785)		(785)
Balance, June 30, 2010	3,274,936	$ 46,408	$ 6,341	$ 1,074	$ 53,823
Balance, January 1, 2011	**3,280,515**	**$ 46,461**	**$ 6,952**	**$ 900**	**$ 54,313**
Comprehensive income					
Net income			**1,608**		**1,608**
Net change in unrealized gain on securities available for sale, net of tax of $507				**984**	**984**
Total comprehensive income					**2,592**
Shares issued	**7,628**	**80**			**80**
Exercise of stock options	**477**				
Change in ESOP repurchase obligation		**(1)**			**(1)**
Effect of stock options granted		**3**			**3**
Effect of employee stock purchases		**7**			**7**
Cash dividends declared ($0.24 per share)			**(788)**		**(788)**
Balance, June 30, 2011	**3,288,620**	**$ 46,550**	**$ 7,772**	**$ 1,884**	**$ 56,206**

See accompanying notes to consolidated financial statements.

ChoiceOne Financial Services, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(Dollars in thousands)	Six Months Ended June 30, 2011	2010
Cash flows from operating activities:		
Net income	**$ 1,608**	$ 1,313
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	**1,850**	2,050
Depreciation	**475**	424
Amortization	**620**	538
Expense related to employee stock options and stock purchases	**10**	15
Gains on sales of securities	**(62)**	(397)
Gains on sales of loans	**(271)**	(174)
Loans originated for sale	**(10,218)**	(8,398)
Proceeds from loan sales	**11,778**	7,824
Earnings on bank-owned life insurance	**(177)**	(179)
Losses/(gains) on sales of other real estate owned	**(99)**	(56)
Write-downs of other real estate owned	**57**	157
Proceeds from sales of other real estate owned	**1,661**	784
Deferred federal income tax benefit	**(222)**	(72)
Net changes in other assets	**2,445**	233
Net changes in other liabilities	**(2,321)**	(42)
Net cash from operating activities	**7,134**	4,020
Cash flows from investing activities:		
Securities available for sale:		
Sales	**3,031**	3,421
Maturities, prepayments and calls	**7,735**	12,351
Purchases	**(22,064)**	(23,022)
Sale of Federal Home Loan Bank stock	**411**	
Purchase of Federal Reserve Bank stock	**(1)**	
Loan originations and repayments, net	**(1,047)**	10,116
Additions to premises and equipment	**(293)**	(1,304)
Net cash from investing activities	**(12,228)**	1,562
Cash flows from financing activities:		
Net change in deposits	**(446)**	(1,447)
Net change in repurchase agreements	**(506)**	(1,703)
Proceeds from Federal Home Loan Bank advances	**250**	
Payments on Federal Home Loan Bank advances	**(263)**	(6,512)
Issuance of common stock	**80**	73
Cash dividends	**(788)**	(785)
Net cash used in financing activities	**(1,673)**	(10,374)
Net change in cash and cash equivalents	**(6,767)**	(4,792)
Beginning cash and cash equivalents	**24,074**	19,750
Ending cash and cash equivalents	**$ 17,307**	$ 14,958
Supplemental disclosures of cash flow information:		

Cash paid for interest	**$**	**1,886**	$	2,768
Cash paid for income taxes	**$**	**400**	$	110
Loans transferred to other real estate	**$**	**2,168**	$	311
Other real estate transferred to loans	**$**		$	85

See accompanying notes to consolidated financial statements.

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ChoiceOne Financial Services, Inc.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include ChoiceOne Financial Services, Inc. (the Registrant) and its wholly-owned subsidiary, ChoiceOne Bank (the Bank), and the Bank s wholly-owned subsidiary ChoiceOne Insurance Agencies, Inc. Intercompany transactions and balances have been eliminated in consolidation.

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information, prevailing practices within the banking industry and 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.

The accompanying consolidated financial statements reflect all adjustments ordinary in nature which are, in the opinion of management, necessary for a fair presentation of the Consolidated Balance Sheets as of June 30, 2011 and December 31, 2010, the Consolidated Statements of Income for the three- and six-month periods ended June 30, 2011 and June 30, 2010, the Consolidated Statements of Changes in Shareholders Equity for the six-month periods ended June 30, 2011 and June 30, 2010, and the Consolidated Statements of Cash Flows for the six-month periods ended June 30, 2011 and June 30, 2010. Operating results for the six months ended June 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

The accompanying consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Registrant s Annual Report on Form 10-K for the year ended December 31, 2010.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level believed adequate by management to absorb probable incurred losses inherent in the consolidated loan portfolio. Management s evaluation of the adequacy of the allowance is an estimate based on reviews of individual loans, assessments of the impact of current economic conditions on the portfolio and historical loss experience of seasoned loan portfolios. See Note 3 to the interim consolidated financial statements for additional information.

Management believes the accounting estimate related to the allowance for loan losses is a critical accounting estimate because (1) the estimate is highly susceptible to change from period to period because of assumptions concerning the changes in the types and volumes of the portfolios and economic conditions and (2) the impact of recognizing an impairment or loan loss could have a material effect on ChoiceOne s assets reported on the balance sheet as well as its net income.

Stock Transactions

A total of 4,517 shares of common stock were issued to the Registrant s Board of Directors for a cash price of $52,000 under the terms of the Directors Stock Purchase Plan in the first half of 2011. A total of 3,111 shares were issued to employees for a cash price of $28,000 under the Employee Stock Purchase Plan in the first two quarters of 2011. A total of 477 shares were issued upon the exercise of stock options in the first half of 2011.

Reclassifications

Certain amounts presented in prior periods have been reclassified to conform to the current presentation.

New Accounting Pronouncements

In April 2011, the Financial Accounting Standards Board (FASB) issued ASU No. 2011-02, *A Creditor s Determination of Whether a Restructuring is a Troubled Debt Restructuring* ASU 2011-02 , which amends FASB ASC 310-40, *Receivables Troubled Debt Restructurings by Creditors* because of inconsistencies in practice and the increased volume of debt modifications. ASU 2011-02 provides additional clarifying guidance in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties for purposes of determining whether a restructuring qualifies as a troubled debt restructuring. The effective date of implementation is for the first interim or annual period beginning on or after June 15, 2011, and should be applied retrospectively to restructurings that occurred after the beginning

of the fiscal year of adoption, with early application allowed. As a result of applying ASU 2011-02, receivables that are newly considered impaired for which impairment was previously measured using a general allowance for credit losses may be identified. Disclosure is required of the total amount of receivables and the allowance for loan losses as of the end of the period of adoption. For purposes of measuring impairment of those receivables, ASU 2011-02 should be applied prospectively for the first interim or annual period beginning on or after June 15, 2011. ChoiceOne is analyzing the impact of ASU 2011-02 and will adopt it the third quarter of 2011.

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.* This ASU represents the converged guidance of the FASB and the IASB (the Boards) on fair value measurement. The collective efforts of the Boards and their staffs, reflected in ASU 2011-04, have resulted in common requirements for measuring fair value and for disclosing information about fair value measurements, including a consistent meaning of the term fair value. The Boards have concluded the common requirements will result in greater comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRSs. The amendments to the Codification in this ASU are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. Early application by public entities is not permitted. The impact of adoption of this ASU is not expected to be material.

In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income*, which provides entities with the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income, along with a total for other comprehensive income, and a total amount for comprehensive income. Regardless of whether an entity chooses to present comprehensive income in a single continuous statement or in two separate but consecutive statements, the entity is required to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. This update should be applied retrospectively effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. We anticipate early adopting this standard with our 2011 annual financial statements by adding a statement of comprehensive income.

NOTE 2 - SECURITIES

The fair value of securities available for sale and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) were as follows:

	June 30, 2011			
(Dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. Government and federal agency	**$ 36,534**	**$ 628**	**$ (2)**	**$ 37,160**
State and municipal	**49,555**	**1,695**	**(209)**	**51,041**
Mortgage-backed	**6,395**	**291**		**6,686**
Corporate	**4,936**	**96**		**5,032**
FDIC-guaranteed financial institution debt	**2,015**	**37**		**2,052**
Equity securities	**1,500**		**(102)**	**1,398**
Total	**$ 100,935**	**$ 2,747**	**$ (313)**	**$ 103,369**

	December 31, 2010			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government and federal agency	$ 28,737	$ 382	$ (53)	$ 29,066
State and municipal	47,319	935	(373)	47,881
Mortgage-backed	7,307	298	(6)	7,599
Corporate	2,854	36	(7)	2,883
FDIC-guaranteed financial institution debt	2,020	33		2,053
Equity securities	1,500		(162)	1,338
Total	$ 89,737	$ 1,684	$ (601)	$ 90,820

ChoiceOne reviews its securities portfolio on a quarterly basis to determine whether unrealized losses are considered to be temporary or other-than-temporary. No other-than-temporary impairment charges were recorded in the first two quarters of 2011. One municipal security with a fair value of $330,000 was considered to be other-than-temporarily impaired as of June 30, 2011. The issuer of the security defaulted upon its maturity in September 2009. Impairment losses of $141,000 were recorded through December 2010 due to uncertainty as to when the principal payment will be received. A settlement agreement was reached with the security s issuer in March 2011. Based on the agreement, ChoiceOne believes it will receive an amount equal to or greater than its carrying value for the security.

Other than the security noted in the preceding paragraph, ChoiceOne believed that unrealized losses on securities were temporary in nature and were due to changes in interest rates and reduced market liquidity and not as a result of credit quality issues.

NOTE 3 - ALLOWANCE FOR LOAN LOSSES

An analysis of changes in the allowance for loan losses follows:

(Dollars in thousands)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Balance at beginning of period	**$ 4,731**	$ 4,687	**$ 4,729**	$ 4,322
Provision charged to expense	**850**	1,000	**1,850**	2,050
Recoveries credited to the allowance	**99**	96	**246**	187
Loans charged off	**(878)**	(926)	**(2,023)**	(1,702)
Balance at end of period	**$ 4,802**	$ 4,857	**$ 4,802**	$ 4,857

Activity in the allowance for loan losses and balances in the loan portfolio were as follows:

(Dollars in thousands)

	Agricultural	Commercial and Industrial	Consumer	Commercial Real Estate	Construction Real Estate	Residential Real Estate	Unallocated	Total
Allowance for Loan Losses								
Six Months Ended June 30, 2011								
Beginning balance	**$ 181**	**$ 641**	**$ 243**	**$ 1,729**	**$ 2**	**$ 1,554**	**$ 379**	**$ 4,729**
Charge-offs			**(169)**	**(805)**		**(1,049)**		**(2,023)**
Recoveries	**3**	**6**	**131**	**44**		**62**		**246**
Provision	**(13)**	**(41)**	**4**	**723**		**889**	**288**	**1,850**
Ending balance	**$ 171**	**$ 606**	**$ 209**	**$ 1,691**	**$ 2**	**$ 1,456**	**$ 667**	**$ 4,802**
Individually evaluated for impairment	**$**	**$ 98**	**$**	**$ 301**	**$**	**$**	**$**	**$ 399**
Collectively evaluated for impairment	**$ 171**	**$ 508**	**$ 209**	**$ 1,390**	**$ 2**	**$ 1,456**	**$ 667**	**$ 4,403**
Six Months Ended June 30, 2010								
Beginning balance	$ 124	$ 735	$ 306	$ 1,546	$ 3	$ 1,590	$ 18	$ 4,322
Charge-offs		(225)	(206)	(714)		(557)		(1,702)
Recoveries		26	151	4		6		187
Provision	52	393	48	570	(1)	808	180	2,050
Ending balance	$ 176	$ 929	$ 299	$ 1,406	$ 2	$ 1,847	$ 198	$ 4,857
Individually evaluated for impairment	$	$	$	$ 1,123	$	$	$	$ 1,123
Collectively evaluated for impairment	$ 176	$ 929	$ 299	$ 283	$ 2	$ 1,847	$ 198	$ 3,734

Loans								
June 30, 2011								
Individually evaluated for impairment	**$ 188**	**$ 358**	**$**	**$ 3,779**	**$**	**$ 1,195**		**$ 5,520**
Collectively evaluated for impairment	**30,895**	**54,967**	**18,386**	**108,261**	**781**	**95,232**		**308,522**
Ending balance	**$ 31,083**	**$ 55,325**	**$ 18,386**	**$ 112,040**	**$ 781**	**$ 96,427**	$	**$ 314,042**
December 31, 2010								
Individually evaluated for impairment	$ 39	$ 272	$	$ 3,529	$	$ 2,733		$ 6,573
Collectively evaluated for impairment	29,642	55,675	16,709	112,822	853	94,666		310,367
Ending balance	$ 29,681	$ 55,947	$ 16,709	$ 116,351	$ 853	$ 97,399	$	$ 316,940

The process to monitor the credit quality of ChoiceOne s loan portfolio includes tracking (1) the risk ratings of business loans, (2) the level of classified business loans, and (3) delinquent and nonperforming consumer loans. Business loans are risk rated on a scale of 1 to 8. A description of the characteristics of the ratings follows:

Risk rating 1 through 3: These loans are considered pass credits. They exhibit acceptable to exceptional credit risk and demonstrate the ability to repay the loan from normal business operations.

Risk rating 4: These loans are considered watch credits. They have potential developing weaknesses that, if not corrected, may cause deterioration in the ability of the borrower to repay the loan. While a loss is possible for a loan with this rating, it is not anticipated.

Risk rating 5: These loans are considered special mention credits. Loans in this risk rating are considered to be inadequately protected by the net worth and debt service coverage of the borrower or of any pledged collateral. These loans have well defined weaknesses that may jeopardize the borrower s ability to repay the loan. If the weaknesses are not corrected, loss of principal and interest could be probable.

Risk rating 6: These loans are considered substandard credits. These loans have well defined weaknesses, the severity of which makes collection of principal and interest in full questionable. Loans in this category may be placed on nonaccrual status.

Risk rating 7: These loans are considered doubtful credits. Some loss of principal and interest has been determined to be probable. The estimate of the amount of loss could be affected by factors such as the borrower s ability to provide additional capital or collateral. Loans in this category are on nonaccrual status.

Risk rating 8: These loans are considered loss credits. They are considered uncollectible and will be charged off against the allowance for loan losses.

Information regarding the Bank s credit exposure follows:

(Dollars in thousands)

Corporate Credit Exposure - Credit Risk Profile By Creditworthiness Category

	Agricultural		Commercial and Industrial		Commercial Real Estate	
	June 30, 2011	December 31, 2010	**June 30, 2011**	December 31, 2010	**June 30, 2011**	December 31, 2010
Risk rating 2	**$ 2,602**	$ 1,901	**$ 1,918**	$ 2,818	**$ 6,543**	$ 6,755
Risk rating 3	**16,555**	17,592	**28,086**	29,806	**47,381**	57,265
Risk rating 4	**7,941**	8,919	**21,914**	20,198	**37,250**	31,921
Risk rating 5	**3,708**	1,017	**2,838**	2,703	**13,632**	14,069
Risk rating 6	**227**	213	**523**	251	**6,177**	5,412
Risk rating 7	**50**	39	**46**	171	**1,057**	929
	$ 31,083	$ 29,681	**$ 55,325**	$ 55,947	**$ 112,040**	$ 116,351

Consumer Credit Exposure - Credit Risk Profile Based On Payment Activity

	Consumer		Construction Real Estate		Residential Real Estate	
	June 30, 2011	December 31, 2010	**June 30, 2011**	December 31, 2010	**June 30, 2011**	December 31, 2010
Performing	**$ 18,261**	$ 16,519	**$ 781**	$ 853	**$ 93,717**	$ 92,885
Nonperforming	**125**	190			**2,710**	4,514
	$ 18,386	$ 16,709	**$ 781**	$ 853	**$ 96,427**	$ 97,399

Loans are classified as performing when they are current as to principal and interest payments or are past due on payments less than 90 days. Loans are classified as nonperforming when they are past due 90 days or more as to principal and interest payments or are considered a troubled debt restructuring.

Impaired loans by loan category follow:

(Dollars in thousands)

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
June 30, 2011					
With no related allowance recorded					
Agricultural	**$ 188**	**$ 188**	**$**	**$ 76**	**$**
Commercial and industrial	**180**	**191**		**144**	
Commercial real estate	**2,695**	**3,739**		**2,774**	**15**
Residential real estate	**1,195**	**1,195**		**1,708**	**22**
With an allowance recorded					
Agricultural					
Commercial and industrial	**178**	**183**	**98**	**150**	
Commercial real estate	**1,084**	**1,166**	**301**	**1,504**	**2**
Residential real estate					
Total					
Agricultural	**188**	**188**		**76**	
Commercial and industrial	**358**	**374**	**98**	**294**	
Commercial real estate	**3,779**	**4,905**	**301**	**4,278**	**17**
Residential real estate	**1,195**	**1,195**		**1,708**	**22**
December 31, 2010					
With no related allowance recorded					
Agricultural	$ 39	$ 44	$	$ 165	$
Commercial and industrial	222	229		211	(5)
Commercial real estate	1,914	2,385		1,951	(2)
Residential real estate	2,733	2,736		2,640	170
With an allowance recorded					
Agricultural				65	
Commercial and industrial	50	50	50	464	12
Commercial real estate	1,615	1,672	531	3,591	(3)
Residential real estate					
Total					
Agricultural	39	44		230	
Commercial and industrial	272	279	50	675	7
Commercial real estate	3,529	4,057	531	5,542	(5)
Residential real estate	2,733	2,736		2,640	170

An aging analysis of loans by loan category follows:

(Dollars in thousands)

	30 to 59 Days	60 to 89 Days	Greater Than 90 Days (1)	Total	Loans Not Past Due	Total Loans	90 Days Past Due and Accruing
June 30, 2011							
Agricultural	**$ 139**	**$**	**$ 45**	**$ 184**	**$ 30,899**	**$ 31,083**	**$**
Commercial and industrial	**134**	**265**	**159**	**558**	**54,767**	**55,325**	
Consumer	**266**	**2**	**30**	**298**	**18,088**	**18,386**	**15**
Commercial real estate	**1,043**	**365**	**2,288**	**3,696**	**108,344**	**112,040**	
Construction real estate					**781**	**781**	
Residential real estate	**1,274**	**553**	**828**	**2,655**	**93,772**	**96,427**	**182**

	$ 2,856	**$ 1,185**	**$ 3,350**	**$ 7,391**	**$ 306,651**	**$ 314,042**	**$ 197**
December 31, 2010							
Agricultural	$ 71	$ 7	$ 39	$ 117	$ 29,564	$ 29,681	$
Commercial and industrial	133	175	142	450	55,497	55,947	
Consumer	84	41	29	154	16,555	16,709	23
Commercial real estate	266	646	2,129	3,041	113,310	116,351	
Construction real estate					853	853	
Residential real estate	1,223	833	2,249	4,305	93,094	97,399	
	$ 1,777	$ 1,702	$ 4,588	$ 8,067	$ 308,873	$ 316,940	$ 23

(1) Includes nonaccrual loans.
Nonaccrual loans by loan category follow:

(Dollars in thousands)

	June 30, 2011	December 31, 2010
Agricultural	$	$ 64
Commercial and industrial	438	256
Consumer	22	5
Commercial real estate	3,935	3,302
Construction real estate		
Residential real estate	1,212	2,646
	$ 5,607	$ 6,273

NOTE 4 - EARNINGS PER SHARE

Earnings per share are based on the weighted average number of shares outstanding during the period. A computation of basic earnings per share and diluted earnings per share follows:

(Dollars in thousands, except per share data)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Basic Earnings Per Share				
Net income available to common shareholders	$			