NORWOOD FINANCIAL CORP
Form 10-Q
May 12, 2006

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2006

OR

[ ] 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 0-28366

Norwood Financial Corp.
(Exact name of registrant as specified in its charter)

Pennsylvania	23-2828306
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)

717 Main Street, Honesdale, Pennsylvania 18431
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (570)253-1455

N/A
Former name, former address and former fiscal year, if changed since last report.

Indicate by check (x) 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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): [ ] Yes [X] No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding as of May 12, 2006
Common stock, par value $0.10 per share	2,667,061

NORWOOD FINANCIAL CORP.
FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2006
INDEX

P
Nu

2

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

NORWOOD FINANCIAL CORP.
Consolidated Balance Sheets
(dollars in thousands, except per share data)

	March 31, 2006 (unaudited)	December 31, 2005
ASSETS		

Cash and due from banks	$ 9,330	$ 9,746
Interest bearing deposits with banks	22	70
Cash and cash equivalents	9,352	9,816
Securities available for sale	116,659	115,814
Securities held to maturity, fair value 2006: $976, 2005: $1,480	953	1,452
Loans receivable (net of unearned income)	291,840	290,890
Less: Allowance for loan losses	3,743	3,669
Net loans receivable	288,097	287,221
Investment in FHLB Stock	2,073	1,620
Bank premises and equipment, net	5,508	5,393
Accrued interest receivable	1,979	1,812
Other assets	9,509	10,428
TOTAL ASSETS	$ 434,130	$ 433,556
LIABILITIES		
Deposits:		
Non-interest bearing demand	$ 54,505	$ 50,891
Interest bearing	285,002	289,712
Total deposits	339,507	340,603
Short-term borrowings	19,765	18,564
Long-term debt	23,000	23,000
Accrued interest payable	1,626	1,691
Other liabilities	1,735	1,590
TOTAL LIABILITIES	385,633	385,448
STOCKHOLDERS' EQUITY		
Common stock, $.10 par value per share, authorized 10,000,000 shares issued 2006: 2,841,000, 2005: 2,705,715 shares	284	270
Surplus	5,730	5,648
Retained earnings	44,497	43,722
Treasury stock at cost: 2006: 35,267 shares, 2005: 21,189	(1,029)	(633)
Unearned ESOP shares	(77)	(127)
Accumulated other comprehensive loss	(908)	(772)
TOTAL STOCKHOLDERS' EQUITY	48,497	48,108
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 434,130	$ 433,556

See accompanying notes to the unaudited consolidated financial statements

NORWOOD FINANCIAL CORP. Consolidated Statements of Income (unaudited)
(dollars in thousands, except per share data)

	Three Months Ended March 31	
	2006	2005
INTEREST INCOME		
Loans receivable, including fees	$4,944	$3,920
Securities	1,050	1,041
Other	2	12
Total interest income	5,996	4,973
INTEREST EXPENSE		
Deposits	1,590	987
Short-term borrowings	187	99
Long-term debt	293	317
Total interest expense	2,070	1,403
NET INTEREST INCOME	3,926	3,570
PROVISION FOR LOAN LOSSES	70	100
NET INTEREST INCOME AFTER PROVSION FOR LOAN LOSSES	3,856	3,470
OTHER INCOME		
Service charges and fees	590	579
Income from fiduciary activities	77	84
Net realized gains on sales of securities	7	77
Gain on sale of loans	--	40
Other	150	140
Total other income	824	920
OTHER EXPENSES		
Salaries and employee benefits	1,406	1,387
Occupancy, furniture & equipment, net	380	384
Data processing related	156	160
Taxes, other than income	113	98
Professional fees	113	109
Other	598	513
Total other expenses	2,766	2,651
INCOME BEFORE INCOME TAXES	1,914	1,739
INCOME TAX EXPENSE	581	496
NET INCOME	$1,333	$1,243
BASIC EARNINGS PER SHARE	$ 0.48	$ 0.44

DILUTED EARNINGS PER SHARE	$ 0.47	$ 0.43
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See accompanying notes to the unaudited consolidated financial statements.

4

NORWOOD FINANCIAL CORP
Consolidated Statements of Changes in Stockholders' Equity (unaudited)

(dollars in thousands, except per share data)

	Number of shares issued	Common Stock	Surplus	Retained Earnings	Treasury Stock	Un ES Sh
Balance December 31, 2004	2,705,715	$270	$5,336	$40,222	($149)	(
Comprehensive Income:						
Net Income				1,243		
Change in unrealized losses on securities available for sale, net of reclassification adjustment and tax effects						
Total comprehensive income						
Cash dividends declared, $.18 per share				(481)		
Stock options exercised			(3)		48	
Tax benefit of stock options exercised			7			
Release of Treasury Stock for ESOP					22	
Aquisition of treasury stock					(78)	
Release of earned ESOP shares			81			
Balance, March 31, 2005	2,705,715	$270	$5,421	$40,984	($157)	(

	Number of shares issued	Common Stock	Surplus	Retained Earnings	Treasury Stock	Un ES Sh
Balance December 31, 2005	2,705,715	$270	$5,648	$43,722	($633)	(
Comprehensive Income:						
Net Income				1,333		
Change in unrealized losses on securities available for sale, net of reclassification adjustment and tax effects						
Total comprehensive income						

Cash dividends declared, $.21 per share				(558)	
5% Stock dividend	135,285	14	(14)		
Acquisition of treasury stock					(396)
Release of earned ESOP shares			96		
Balance, March 31, 2006	2,841,000	$284	$5,730	$44,497	($1,029)

See accompanying notes to the unaudited consolidated financial statements.

NORWOOD FINANCIAL CORP.
Consolidated Statements of Cash Flows (unaudited)
(dollars in thousands)

	Three Months En
	2006
CASH FLOWS FROM OPERATING ACTIVITIES	
Net Income	$ 1,333
Adjustments to reconcile net income to net cash provided by operating activities:	
Provision for loan losses	70
Depreciation	123
Amortization of intangible assets	13
Deferred income taxes	(129)
Net amortization of securities premiums and discounts	92
Net realized gain on sales of securities	(7)
Earnings on life insurance policy	(64)
Net gain on sale of mortgage loans and servicing	-
Mortgage loans originated for sale	-
Proceeds from sale of mortgage loans and servicing	-
Tax benefit of stock options exercised	-
Release of ESOP shares	146
Decrease in accrued interest receivable and other assets	959
Increase in accrued interest payable and other liabilities	153
Net cash provided by operating activities	2,689
CASH FLOWS FROM INVESTING ACTIVITIES	
Securities available for sale:	
Proceeds from sales	-
Proceeds from maturities and principal reductions on mortgage-backed securities	3,622
Purchases	(4,765)
Securities held to maturity, proceeds from maturities	505
Increase in investment in FHLB stock	(453)
Net increase in loans	(972)
Purchase of bank premises and equipment	(238)
Net cash used in investing activities	(2,301)

CASH FLOWS FROM FINANCING ACTIVITIES

Net decrease in deposits	(1,096)
Net increase in short term borrowings	1,201
Stock options exercised	-
Acquisition of treasury stock	(396)
Cash dividends paid	(561)
Net cash used in financing activities	(852)
Decrease in cash and cash equivalents	(464)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	9,816
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 9,352

See accompanying notes to the unaudited consolidated financial statements

Notes to Unaudited Consolidated Financial Statements

1. Basis of Presentation

The consolidated financial statements include the accounts of Norwood Financial Corp. (Company) and its wholly-owned subsidiary, Wayne Bank (Bank) and the Bank's wholly-owned subsidiaries, WCB Realty Corp., Norwood Investment Corp. and WTRO Properties. All significant intercompany transactions have been eliminated in consolidation.

2. Estimates

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ from those estimates. The financial statements reflect, in the opinion of management, all normal, recurring adjustments necessary to present fairly the financial position of the Company. The operating results for the three month period ended March 31, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006 or any other future interim period.

These statements should be read in conjunction with the consolidated financial statements and related notes which are incorporated by reference in the Company's Annual Report on Form 10-K for the year-ended December 31, 2005.

3. Stock Dividend and Earnings Per Share

On April 11, 2006, the Board of Directors declared a 5% stock dividend on common stock outstanding, payable May 26, 2006 to shareholders of record on May 12, 2006. The stock dividend will result in the issuance of 135,285 additional common shares. All per share data has been adjusted for the effect of the stock dividend.

Basic earnings per share represents income available to common stockholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate solely to outstanding stock options and are determined using the treasury stock method.

The following table sets forth the computations of basic and diluted earnings per share:

(in thousands)

	Three Months Ended March 31, 2006	2005
Basic EPS weighted average shares outstanding	2,797	2,798
Dilutive effect of stock options	55	63
Diluted EPS weighted average shares outstanding	2,852	2,861

7

4. Stock Based Compensation

Prior to January 1, 2006, the Company's stock option plan was accounted for under the recognition and measurement provisions of APB Opinion No. 25 (Opinion 25), Accounting for Stock Issued to Employees, and related Interpretations, as permitted by FASB Statement No. 123, Accounting for Stock Based Compensation (as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure) (collectively SFAS 123). No stock-based employee compensation cost was recognized in the Company's consolidated statements of earnings through December 31, 2005, as all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of grant. Effective January 1, 2006, the Company adopted the fair value recognition provisions of FASB Statement No. 123(R), Share-Based Payment (SFAS 123R), using the modified-prospective transition method. Under that transition method, compensation cost recognized in 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006 based on the grant date fair value calculated in accordance with the original provisions of SFAS 123, and (b) compensation cost for all share-based payments granted subsequent to December 31, 2005, based on a grant-date fair value estimated in accordance with the provisions of SFAS 123(R). As of December 31, 2005, all stock options were fully vested and no stock options were granted during the three months ended March 31, 2006. Therefore no expense related to stock based compensation was incurred for the period ending March 31, 2006.

The following table illustrates the effect on net earnings and earnings per share if the Company had applied the fair value recognition provisions of SFAS 123 to options granted under the Company's stock option plan for the three months ended March 31, 2005. For purposes of this pro forma disclosure, the value of the options is estimated using the Black-Scholes option pricing model and is being amortized to expense over the options' vesting periods.

Three Months Ended

(in thousands, except for per share data)	March 31, 2005
Net income as reported	$1,243
Total stock-based employee compensation cost, net of tax, which would have been included in the determination of net income if the fair value based method had been applied to all awards	(49)
Pro forma net income	$1,194
Earnings per share (basic)	
As Reported	$ .44
Pro forma	.43
Diluted earnings per share (assuming dilution)	
As Reported	.43
Pro forma	.42

8

5. Cash Flow Information

For the purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, interest-bearing deposits with banks and federal funds sold.

Cash payments for interest for the period ended March 31, 2006 and 2005 were $2,124,000 and $1,414,000 respectively. Cash payments for income taxes in 2006 were $5,000 compared to $3,000 in 2005. Non-cash investing activity for 2006 and 2005 included foreclosed mortgage loans and repossession of other assets of $26,000 and $23,000, respectively.

6. Comprehensive Income

Accounting principles generally accepted in the United States of America require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income. The components of other comprehensive income and related tax effects are as follows.

(in thousands)	Three Months Ended March 31	
	2006	2005
Unrealized holding losses on available for sale securities	$(199)	$(1,375)
Reclassification adjustment for gains realized in income	(7)	(77)
Net unrealized losses	(206)	(1,452)
Income tax benefit	(70)	(495)
Other comprehensive loss	$(136)	$(957)

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7. Off-Balance Sheet Financial Instruments and Guarantees

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 letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and 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 on-balance sheet instruments.

A summary of the Bank's financial instrument commitments is as follows:

(in thousands)	March 31, 2006	March 31, 2005
Commitments to grant loans	$18,971	$11,056
Unfunded commitments under lines of credit	31,532	31,495
Standby letters of credit	7,120	1,831
	$57,623	$44,382

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. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the customer and generally consists of real estate.

The Bank does not issue any guarantees that would require liability recognition or disclosure, other than its standby letters of credit. Standby letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Generally, all letters of credit, when issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as those that are involved in extending loan facilities to customers. The Bank, generally, holds collateral and/or personal guarantees supporting these commitments. Management believes that the proceeds obtained through a liquidation of collateral and the enforcement of guarantees would be sufficient to cover the potential amount of future payments required under the corresponding guarantees. The current amount of the liability as of March 31, 2006 for guarantees under standby letters of credit issued is not material.

8. New Accounting Pronouncements

FAS 155

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments"("SFAS No. 155"). SFAS No. 155 amends FASB Statement No. 133 and FASB Statement No. 140, and improves the financial reporting of certain hybrid financial instruments by requiring more consistent accounting that eliminates exemptions and provides a means to simplify the accounting for these instruments. Specifically, SFAS No. 155 allows financial instruments that have embedded derivatives to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) if the holder elects to account for the whole instrument on a fair value basis. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company is required to adopt the provisions of SFAS No. 155, as applicable, beginning in fiscal year 2007. Management does not believe the adoption of SFAS No. 155 will have a material impact on the Company's consolidated financial position and results of operations.

FAS 156

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets -- An Amendment of FASB Statement No. 140" ("SFAS 156"). SFAS 156 requires that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. The statement permits, but does not require, the subsequent measurement of servicing assets and servicing liabilities at fair value. SFAS 156 is effective as of the beginning of an entity's first fiscal year that begins after September 15, 2006, which for the Company will be as of the beginning of fiscal 2007. The Company does not believe that the adoption of SFAS 156 will have a significant effect on its consolidated financial statements.

10

FSP No. FAS 123(R)-4

In February 2006, the FASB issued FASB Staff Position No. FAS 123(R)-4, "Classification of Options and Similar Instruments Issued as Employee Compensation That Allow for Cash Settlement upon the Occurrence of a Contingent Event." This Position amends SFAS 123(R) to incorporate that a cash settlement feature that can be exercised only upon the occurrence of a contingent event that is outside the employee's control does not meet certain conditions in SFAS 123(R) until it becomes probable that the event will occur. The guidance in this FASB Staff Position shall be applied upon initial adoption of Statement 123(R). This FASB Staff Position did not have a significant effect on the Company's consolidated financial statements.

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

Forward Looking Statements

The Private Securities Litigation Reform Act of 1995 contains safe harbor provisions regarding forward-looking statements. When used in this discussion, the words believes, anticipates, contemplates, expects, and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties, which could cause actual results to differ materially from those projected. Those risks and uncertainties include changes in interest rates, risks associated with the effect of opening a new branch, the ability to control costs and expenses, demand for real estate and general economic conditions. The Company undertakes no obligation to publicly release the results of any revisions to those forward-looking statements which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Critical Accounting Policies

Note 2 to the Company's consolidated financial statements (incorporated by reference in Item 8 of the 10-K) lists significant accounting policies used in the development and presentation of its financial statements. This discussion and analysis, the significant accounting policies, and other financial statement disclosures identify and address key variables and other qualitative and quantitative factors that are necessary for an understanding and evaluation of the Company and its results of operations.

Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, accounting for stock options, the valuation of deferred tax assets and the determination of other-than-temporary impairment losses on securities. Please refer to the discussion of the allowance for loan losses calculation under "Non-performing Assets and Allowance for Loan Losses" in the "Financial Condition" section. For periods ending prior to January 1, 2006, the Company accounted for stock option plans under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations. No stock-based employee compensation was reflected in net income, as all options granted had an exercise price equal to the market value of the underlying common stock on the grant date. The Company adopted SFAS No. 123(R) "Share-Based Payment" as of January 1, 2006. However, no stock options were awarded in 2005 or for the three months ended March 31, 2006. The Norwood Financial Corp, 2006 Stock Option Plan was approved on April 25, 2006. The Company expects to grant options in the second quarter of 2006. The Company expects SFAS No. 123(R) to have a negative impact on its consolidated financial position, results of operations and cash flows in subsequent periods.

The deferred income taxes reflect temporary differences in the recognition of the revenue and expenses for tax reporting and financial statement purposes, principally because certain items are recognized in different periods for financial reporting and tax return purposes. Although realization is not assured, the Company believes it is more likely than not that all deferred tax assets will be realized.

In estimating other-than-temporary impairment losses on securities, the Company considers 1) the length of time and extent to which the fair value has been less than cost 2) the financial condition of the issuer and 3) the intent and ability of the Company to hold the security to allow for a recovery to fair value.

Changes in Financial Condition

General

Total assets as of March 31, 2006 were $434.1 million compared to

$433.6 million as of December 31, 2005.

Securities

The fair value of securities available for sale as of March 31, 2006 was $116.7 million compared to $115.8 million as of December 31, 2005. The Company purchased $4.8 million of securities to offset $3.6 million of maturities and principal reductions on mortgage-backed securities.

The Company has securities in an unrealized loss position. In Management's opinion, the unrealized losses reflect changes in interest rates subsequent to the acquisition of specific securities. The Company's available-for-sale portfolio has an average repricing term of 1.9 years. Interest rates in the 2-3 year section of the treasury yield curve have increased 100 basis points in the last year impacting the fair value of individual securities. Management believes that the unrealized losses represent temporary impairment of the securities, as a result of changes in interest rates. The Company has the intent and ability to hold these investments until maturity or market price recovery.

Loans Receivable

Loans receivable totaled $291.8 million compared to $290.9 million as of December 31, 2005. Commercial real estate loans decreased $6.2 million due to the pay off of a short-term $6.7 million loan originated in the first quarter of 2005. This was offset by $5.0 million increase in commercial loans and $3.3 million growth in residential real estate loans.

Set forth below is selected data relating to the composition of the loan portfolio at the dates indicated:

Types of loans (dollars in thousands)	March 31, 2006		December 31, 2005	
	$	%	$	%
Real Estate-Residential	$ 103,957	35.6%	$ 100,705	34.6%
Commercial	127,285	43.6	133,495	45.8
Construction	6,183	2.1	5,944	2.0
Commercial, financial and agricultural	31,718	10.9	26,755	9.2
Consumer loans to individuals	23,105	7.9	24,353	8.4
Total loans	292,248	100.0%	291,252	100.0%
Deferred fees	(408)		(362)	
	291,840		290,890	
Allowance for loan losses	(3,743)		(3,669)	
Net loans receivable	$ 288,097		$ 287,221	

Allowance for Loan Losses and Non-performing Assets

Following is a summary of changes in the allowance for loan losses for the periods indicated:

(dollars in thousands)	Three Months Ended March 31 2006	2005
Balance, beginning	$ 3,669	$ 3,448
Provision for loan losses	70	100
Charge-offs	(27)	(47)
Recoveries	31	22
Net (charge-offs)/recoveries	4	(25)
Balance, ending	$ 3,743	$ 3,523
Allowance to total loans	1.28%	1.32%
Net (charge-offs) recoveries to average loans (annualized)	.01%	(.04%)

The allowance for loan losses totaled $3,743,000 as of March 31, 2006 and represented 1.28% of total loans, compared to $3,669,000 at year end, and $3,523,000 as of March 31, 2005. The Company had net recoveries for the three months ended March 31, 2006 of $4,000 compared to net charge-offs of $25,000 in 2005. The Company's loan review process assesses the adequacy of the allowance for loan losses on a quarterly basis. The process includes an analysis of the risks inherent in the loan portfolio. It includes an analysis of impaired loans and a historical review of credit losses by loan type. Other factors considered include: concentration of credit in specific industries; economic and industry conditions; trends in delinquencies and loan classifications, large dollar exposures and loan growth. Management considers the allowance adequate at March 31, 2006 based on the Company's criteria. However, there can be no assurance that the allowance for loan losses will be adequate to cover significant losses, if any, that might be incurred in the future.

13

As of March 31, 2006, non-performing loans totaled $398,000, which is ..14% of total loans compared to $353,000, or .12% of total loans at December 31, 2005. The following table sets forth information regarding non-performing loans and foreclosed real estate at the date indicated:

(dollars in thousands)	March 31, 2006	December 31, 2005
Loans accounted for on a non accrual basis:		
Commercial and all other	$ -	$ -
Real Estate	330	330
Consumer	20	11
Total	350	341

Accruing loans which are contractually Past due 90 days or more	48	12
Total non-performing loans	398	353
Foreclosed real estate	-	-
Total non-performing assets	$398	$353
Allowance for loans losses coverage of non-performing loans	9.4x	10.4x
Non-performing loans to total loans	.14%	.12%
Non-performing assets to total assets	.09%	.08%

Deposits

Total deposits as of March 31, 2006 were $339.5 million declining slightly from $340.6 million as of December 31, 2005.

The following table sets forth deposit balances as of the dates indicated.

(dollars in thousands)	March 31, 2006	December 31, 2005
Non-interest bearing demand	$ 54,505	$ 50,891
Interest bearing demand	41,294	40,738
Money Market	60,498	52,194
Savings	52,082	53,311
Time deposits		