CHOICEONE FINANCIAL SERVICES INC
Form 10-Q
August 14, 2012

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, 2012

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

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 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 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 o No x

As of July 31, 2012, the Registrant had outstanding 3,298,804 shares of common stock.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

ChoiceOne Financial Services, Inc.
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)	June 30, 2012 (Unaudited)	December 31 2011 (Audited)
Assets		
Cash and due from banks	$20,084	$17,125
Federal funds sold	0	0
Cash and cash equivalents	20,084	17,125
Securities available for sale	129,573	114,276
Federal Home Loan Bank stock	2,478	2,478
Federal Reserve Bank stock	1,271	1,271
Loans held for sale	1,013	1,262
Loans	304,825	320,127
Allowance for loan losses	(5,609)	(5,213)
Loans, net	299,216	314,914
Premises and equipment, net	11,775	12,080
Other real estate owned, net	1,286	1,934
Cash value of life insurance policies	9,813	9,834
Intangible assets, net	1,948	2,172
Goodwill	13,728	13,728
Other assets	4,388	4,840
Total assets	$496,573	$495,914
Liabilities		
Deposits – noninterest-bearing	$85,113	$78,263
Deposits – interest-bearing	317,629	325,102
Total deposits	402,742	403,365
Repurchase agreements	24,662	21,869
Advances from Federal Home Loan Bank	5,434	8,447
Other liabilities	4,353	4,329
Total liabilities	437,191	438,010
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: 3,298,804 at June 30, 2012 and 3,293,269 at December 31, 2011	46,676	46,602
Retained earnings	10,132	8,887

Accumulated other comprehensive income, net	2,574	2,415
Total shareholders' equity	59,382	57,904
Total liabilities and shareholders' equity	$496,573	$495,914

See accompanying notes to consolidated financial statements.

ChoiceOne Financial Services, Inc.
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(Dollars in thousands, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Interest income				
Loans, including fees	$4,165	$4,593	$8,511	$9,142
Securities:				
Taxable	494	464	997	864
Tax exempt	339	322	660	649
Other	6	7	11	13
Total interest income	5,004	5,386	10,179	10,668
Interest expense				
Deposits	532	764	1,144	1,552
Advances from Federal Home Loan Bank	112	76	188	152
Other	70	74	138	147
Total interest expense	714	914	1,470	1,851
Net interest income	4,290	4,472	8,709	8,817
Provision for loan losses	650	850	1,475	1,850
Net interest income after provision for loan losses	3,640	3,622	7,234	6,967
Noninterest income				
Customer service charges	806	905	1,586	1,715
Insurance and investment commissions	221	202	382	370
Gains on sales of loans	386	132	760	271
Gains on sales of securities	117	26	286	62
Gains/(losses) on sales of other real estate and other assets	(67)	83	(239)	42
Earnings on life insurance policies	77	89	290	177
Other	173	187	341	387
Total noninterest income	1,713	1,624	3,406	3,024
Noninterest expense				
Salaries and benefits	1,949	1,868	3,818	3,676
Occupancy and equipment	545	583	1,137	1,132
Data processing	434	435	876	866
Professional fees	189	202	399	383
Supplies and postage	116	140	251	279
Advertising and promotional	37	45	81	86
Intangible amortization	112	112	224	224
Loan and collection expense	114	141	242	251
FDIC insurance	105	127	210	297
Other	410	414	788	740
Total noninterest expense	4,011	4,067	8,026	7,934
Income before income tax	1,342	1,179	2,614	2,057

Income tax expense	321	275	578	449
Net income	$1,021	$904	$2,036	$1,608
Basic earnings per share	$0.31	$0.28	$0.62	$0.49
Diluted earnings per share	$0.31	$0.28	$0.62	$0.49
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 COMPREHENSIVE INCOME (Unaudited)

(Dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income	$1,021	$904	$2,036	$1,608
Other comprehensive income, net of tax:				
Unrealized holding gains on available for sale securities	539	700	348	1,025
Less: Reclassification adjustment for gain recognized in earnings, net of tax	77	17	189	41
Other comprehensive income, net of tax	462	683	159	984
Comprehensive income	$1,483	$1,587	$2,195	$2,592

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, 2011	3,280,515	$46,461	$6,952	$ 900	$54,313
Net income			1,608		1,608
Other comprehensive income				984	984
Shares issued	8,105	80			80
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
Balance, January 1, 2012	3,293,269	$46,602	$8,887	$ 2,415	$57,904
Net income			2,036		2,036
Other comprehensive income				159	159
Shares issued	5,535	68			68
Effect of employee stock purchases		6			6
Cash dividends declared ($0.24 per share)			(791)		(791)
Balance, June 30, 2012	3,298,804	$46,676	$10,132	$ 2,574	$59,382

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, 2012	2011
Cash flows from operating activities:		
Net income	$2,036	$1,608
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	1,475	1,850
Depreciation	463	475
Amortization	747	620
Compensation expense on stock options and employee stock purchases	6	10
Gains on sales of securities	(286)	(62)
Gains on sales of loans	(760)	(271)
Loans originated for sale	(21,622)	(10,218)
Proceeds from loan sales	22,484	11,778
Earnings on bank-owned life insurance	(290)	(177)
Proceeds from life insurance	311	—
Gains on sales of other real estate owned	14	(99)
Write-downs of other real estate owned	231	57
Proceeds from sales of other real estate owned	596	1,661
Deferred federal income tax expense (benefit)	43	(222)
Net changes in other assets	814	2,445
Net changes in other liabilities	(101)	(2,321)
Net cash from operating activities	6,161	7,134
Cash flows from investing activities:		
Securities available for sale:		
Sales	6,801	3,031
Maturities, prepayments and calls	18,172	7,735
Purchases	(40,481)	(22,064)
Sale of Federal Home Loan Bank stock	—	411
Purchase of Federal Reserve Bank stock	—	(1)
Loan originations and payments, net	14,030	(1,047)
Additions to premises and equipment	(158)	(293)
Net cash from investing activities	(1,636)	(12,228)
Cash flows from financing activities:		
Net change in deposits	(623)	(446)
Net change in repurchase agreements	2,793	(506)
Proceeds from Federal Home Loan Bank advances	—	250
Payments on Federal Home Loan Bank advances	(3,013)	(263)
Issuance of common stock	68	80
Cash dividends	(791)	(788)
Net cash from financing activities	(1,566)	(1,673)

Net change in cash and cash equivalents	2,959	(6,767)
Beginning cash and cash equivalents	17,125	24,074
Ending cash and cash equivalents	$20,084	$17,307
Supplemental disclosures of cash flow information:		
Cash paid for interest	$1,498	$1,886
Cash paid for income taxes	$800	$400
Loans transferred to other real estate owned	$193	$2,168
Securities transferred to other assets	$330	$—

See accompanying notes to consolidated financial statements.

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. ("ChoiceOne" or 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, 2012 and December 31, 2011, the Consolidated Statements of Income for the three- and six-month periods ended June 30, 2012 and June 30, 2011, the Consolidated Statements of Comprehensive Income for the three- and six-month periods ended June 30, 2012 and June 30, 2011, the Consolidated Statements of Changes in Shareholders' Equity for the six-month periods ended June 30, 2012 and June 30, 2011, and the Consolidated Statements of Cash Flows for the six-month periods ended June 30, 2012 and June 30, 2011. Operating results for the six months ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

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, 2011.

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 2,858 shares of common stock were issued to the Registrant's Board of Directors for a cash price of $39,000 under the terms of the Directors' Stock Purchase Plan in the first six months of 2012. A total of 2,615 shares were issued to employees for a cash price of $29,000 under the Employee Stock Purchase Plan in the first half of 2012. A total of 62 shares were issued upon the exercise of stock options in the first two quarters of 2012.

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

New Accounting Pronouncements

In July 2012, the FASB issued ASU No. 2012-02, Intangibles – Goodwill and Other: Testing Indefinite-Lived Intangible Assets for Impairment ("ASU 2012-02") to reduce the cost and complexity of testing indefinite-lived intangible assets for impairment. ASU 2012-02 gives an entity the option of first assessing qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived asset and perform the quantitative impairment test by comparing the fair value with the carrying amount in accordance with Subtopic 350-30. An entity also has the option to bypass the qualitative assessment for any indefinite-lived asset in any period and proceed directly to performing the quantitative impairment test. An entity will be able to resume performing the qualitative assessment in any subsequent period. ASU 2012-02 is effective for fiscal years beginning after September 15, 2012 and early adoption is permitted. The adoption of ASU 2012-02 is not expected to have a material impact on ChoiceOne's consolidated financial condition or results of operations.

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:

(Dollars in thousands)	June 30, 2012 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury	$ 2,031	$ 18	$ —	$ 2,049
U.S. Government and federal agency	44,081	501	—	44,582
State and municipal	56,828	2,844	(126)	59,546
Mortgage-backed	13,159	323	(4)	13,478
Corporate	6,174	115	—	6,289
FDIC-guaranteed financial institution debt	2,005	14	—	2,019
Equity securities	1,651	—	(41)	1,610
Total	$ 125,929	$ 3,815	$ (171)	$ 129,573

(Dollars in thousands)	December 31, 2011 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government and federal agency	$ 39,829	$ 584	$ —	$ 40,413
State and municipal	51,859	2,729	(89)	54,499
Mortgage-backed	9,511	276	(7)	9,780
Corporate	5,914	100	(3)	6,011
FDIC-guaranteed financial institution debt	2,010	28	—	2,038
Equity securities	1,751	16	(232)	1,535
Total	$ 110,874	$ 3,733	$ (331)	$ 114,276

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 six months of 2012. 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. One municipal security with a fair value of $311,000 was considered to be other than temporarily impaired as of December 31, 2011. The issuer of the security defaulted upon its maturity of September 1, 2009. Impairment losses totaling $141,000 had been recorded through the end of 2011 due to uncertainty as to how much and when principal repayment would be received. Settlement was reached with the security's issuer in December 2011 and the bond's carrying value was reclassified from securities to other assets in January 2012 upon termination of the bond's contractual agreement. ChoiceOne received the carrying value of the security in the second quarter of 2012.

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES

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

	Agricultural	Commercial and Industrial	Consumer	Commercial Real Estate	Construction Real Estate	Residential Real Estate	Unallocated	Total
Allowance for Loan Losses								
Three Months Ended June 30, 2012								
Beginning balance	$ 50	$ 556	$ 231	$ 2,748	$ 16	$ 1,522	$ 213	$ 5,336
Charge-offs	—	(10)	(62)	(247)	—	(156)	—	(475)
Recoveries	2	10	59	11	—	16	—	98
Provision	69	134	8	99	(1)	292	49	650
Ending balance	$ 121	$ 690	$ 236	$ 2,611	$ 15	$ 1,674	$ 262	$ 5,609
Six Months Ended June 30, 2012								
Beginning balance	$ 55	$ 609	$ 197	$ 2,299	$ 34	$ 1,846	$ 172	$ 5,213
Charge-offs	—	(30)	(133)	(434)	—	(740)	—	(1,337)
Recoveries	3	30	125	21	—	79	—	258
Provision	63	81	47	725	(19)	489	90	1,475
Ending balance	$ 121	$ 690	$ 236	$ 2,611	$ 15	$ 1,674	$ 262	$ 5,609
Individually evaluated for impairment	$ —	$ —	$ —	$ 173	$ —	$ —	$ —	$ 173
Collectively evaluated for impairment	$ 121	$ 690	$ 236	$ 2,438	$ 15	$ 1,674	$ 262	$ 5,436
Three Months Ended June 30, 2011								
Beginning balance	$ 153	$ 532	$ 176	$ 2,064	$ 1	$ 1,803	$ 2	$ 4,731
Charge-offs	–	–	(72)	(252)	–	(553)	–	(877)
Recoveries	3	2	65	8	–	20	–	98
Provision	15	72	40	(129)	1	186	665	850
Ending balance	$ 171	$ 606	$ 209	$ 1,691	$ 2	$ 1,456	$ 667	$ 4,802
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
Loans								
June 30, 2012								
Individually evaluated for impairment	$ —	$ 681	$ —	$ 3,365	$ —	$ 1,852		$ 5,898
Collectively evaluated for impairment	28,261	57,610	19,012	99,574	742	93,728		298,927
Ending balance	$ 28,261	$ 58,291	$ 19,012	$ 102,939	$ 742	$ 95,580		$ 304,825
December 31, 2011								
Individually evaluated for impairment	$ –	$ 163	$ –	$ 2,758	$ –	$ 1,580		$ 4,501
Collectively evaluated for impairment	38,929	58,522	18,657	103,492	1,169	94,857		315,626
Ending balance	$ 38,929	$ 58,685	$ 18,657	$ 106,250	$ 1,169	$ 96,437		$ 320,127

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 ratings 1 and 2: These loans are considered pass credits. They exhibit good to exceptional credit risk and demonstrate the ability to repay the loan from normal business operations.

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

Risk rating 4: These loans are considered pass credits. However, 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 is as follows:

(Dollars in thousands)
Corporate Credit Exposure - Credit Risk Profile By Creditworthiness Category

	Agricultural		Commercial and Industrial		Commercial Real Estate	
	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011
Risk ratings 1 and 2	$4,601	$6,486	$4,194	$4,149	$6,551	$6,403
Risk rating 3	14,497	20,211	34,906	30,109	49,512	45,034
Risk rating 4	7,026	9,499	17,041	21,993	28,157	33,462
Risk rating 5	2,084	2,672	865	1,669	12,514	14,313
Risk rating 6	50	57	1,237	680	4,402	5,009
Risk rating 7	3	4	48	85	1,803	2,029
	$28,261	$38,929	$58,291	$58,685	$102,939	$106,250

Consumer Credit Exposure - Credit Risk Profile Based On Payment Activity

	Consumer		Construction Real Estate		Residential Real Estate	
	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011
Performing	$18,992	$18,634	$742	$1,169	$95,173	$95,732
Nonperforming	20	23	—	–	407	705
	$19,012	$18,657	$742	$1,169	$95,580	$96,437

The following schedule provides information on loans that were considered troubled debt restructurings ("TDRs") as of June 30, 2012 that were modified during the three months and six months ended June 30, 2012:

	Three Months Ended June 30, 2012		
(Dollars in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment

Commercial and industrial	1	$ 126	$ 126
Commercial real estate	1	70	70
Residential real estate	2	287	287
	4	$ 483	$ 483

	Six Months Ended June 30, 2012		
(Dollars in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Agricultural	1	$ 74	$ 74
Commercial and industrial	2	154	154
Consumer	1	33	33
Commercial real estate	2	147	147
Residential real estate	3	356	356
	9	$ 764	$ 764

The pre-modification and post-modification outstanding recorded investment represents amounts as of the date of loan modification. If a difference exists between the pre-modification and post-modification outstanding recorded investment, it represents impairment recognized through the provision for loan losses computed based on a loan's post-modification present value of expected future cash flows discounted at the loan's original effective interest rate. If no difference exists, a loss is not expected to be incurred based on an assessment of the borrower's expected cash flows.

The following schedule provides information on TDRs as of June 30, 2012 where the borrower was past due with respect to principal and/or interest for 30 days or more during the three months and six months ended June 30, 2012 that had been modified during the year prior to the default:

	Three Months Ended June 30, 2012		Six Months Ended June 30, 2012	
(Dollars in thousands)	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Commercial and industrial	3	$202	3	$202
Commercial real estate	3	761	5	1,336
Residential real estate	1	100	7	865
	7	$1,063	15	$2,403

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 or 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, 2012					
With no related allowance recorded					
Agricultural	$—	$—	$—	$—	$—
Commercial and industrial	681	690	—	298	7
Commercial real estate	2,773	3,375	—	1,776	(1)
Residential real estate	1,853	2,336	—	1,666	27
Subtotal	5,307	6,401	—	3,740	33
With an allowance recorded					
Agricultural	—	—	—	—	—
Commercial and industrial	—	—	—	83	(3)
Commercial real estate	592	879	173	1,328	(3)
Residential real estate	—	—	—	—	—
Subtotal	592	879	548	1,411	(6)
Total					
Agricultural	—	—	—	—	—
Commercial and industrial	681	690	—	382	4
Commercial real estate	3,365	4,254	173	3,103	(4)
	1,853	2,336	—	1,666	27

Residential real estate					
Total	$5,899	$7,280	$173	$5,151	$27
December 31, 2011					
With no related allowance recorded					
Agricultural	$—	$—	$—	$45	$—
Commercial and industrial	102	105	—	167	—
Commercial real estate	1,122	1,538	—	2,369	15
Residential real estate	1,580	1,580	—	1,620	50
Subtotal	2,804	3,223	—	4,201	65
With an allowance recorded					
Agricultural	—	—	—	—	—
Commercial and industrial	61	63	7	85	—
Commercial real estate	1,636	2,120	424	1,490	6
Residential real estate	—	—	—	—	—
Subtotal	1,697	2,183	431	1,575	6
Total					
Agricultural	—	—	—	45	—
Commercial and industrial	163	168	7	252	—
Commercial real estate	2,758	3,658	424	3,859	21
Residential real estate	1,580	1,580	—	1,620	50
Total	$4,501	$5,406	$431	$5,776	$71

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, 2012							