NORWOOD FINANCIAL CORP
Form 10-Q
May 11, 2007

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, 2007

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 11, 2007
Common stock, par value $0.10 per share	2,787,855

NORWOOD FINANCIAL CORP.
FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2007

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	March 31, 2007	Decem 2
ASSETS		
Cash and due from banks	$ 8,604	$ 9
Interest bearing deposits with banks	141	
Federal funds sold	3,130	

Cash and cash equivalents	11,875	9
Securities available for sale	112,597	112
Securities held to maturity, fair value 2007: $974, 2006: $971	955	
Loans receivable (net of unearned income)	320,744	315
Less: Allowance for loan losses	3,871	3
Net loans receivable	316,873	311
Investment in FHLB Stock	1,923	1
Bank premises and equipment, net	5,935	6
Bank owned life insurance	7,549	7
Accrued interest receivable	2,175	2
Other Assets	1,501	1
TOTAL ASSETS	$461,383	$454
LIABILITIES		
Deposits:		
Non-interest bearing demand	$ 54,046	$ 53
Interest bearing	305,988	304
Total deposits	360,034	358
Short-term borrowings	19,986	22
Long-term debt	23,000	13
Accrued interest payable	3,402	2
Other liabilities	1,902	5
TOTAL LIABILITIES	408,324	402
STOCKHOLDERS' EQUITY		
Common stock, $.10 par value per share, authorized 10,000,000; shares issued 2,840,872	284	
Surplus	10,233	10
Retained earnings	43,946	43
Treasury stock at cost: 2007: 53,017 shares, 2006: 43,721	(1,556)	(1
Accumulated other comprehensive income (loss)	152	
TOTAL STOCKHOLDERS' EQUITY	53,059	52
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$461,383	$454

See accompanying notes to the unaudited consolidated financial statements.

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

	Three Months Ended March 31,	
	2007	2006

INTEREST INCOME		
Loans receivable, including fees	$5,840	$4,944
Securities	1,218	1,050
Other	21	2
Total interest income	7,079	5,996
INTEREST EXPENSE		
Deposits	2,486	1,590
Short-term borrowings	256	187
Long-term debt	246	293
Total interest expense	2,988	2,070
NET INTEREST INCOME	4,091	3,926
PROVISION FOR LOAN LOSSES	50	70
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	4,041	3,856
OTHER INCOME		
Service charges and fees	606	590
Income from fiduciary activities	125	77
Net realized gain on sales of securities	--	7
Gain on sale of loans	7	--
Earnings on life insurance policies	81	74
Other	75	76
Total other income	894	824
OTHER EXPENSES		
Salaries and employee benefits	1,497	1,406
Occupancy, furniture & equipment, net	415	380
Data processing	174	156
Taxes, other than income	118	113
Professional fees	89	113
Amortization of intangibles	13	13
Other	555	585
Total other expenses	2,861	2,766
INCOME BEFORE INCOME TAXES	2,074	1,914
INCOME TAX EXPENSE	611	581
NET INCOME	$1,463	$1,333
BASIC EARNINGS PER SHARE	$ 0.52	$ 0.48
DILUTED EARNINGS PER SHARE	$ 0.51	$ 0.47

See accompanying notes to the unaudited consolidated financial statements.

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	Unearned ESOP Shares
Balance December 31, 2006	2,840,872	$284	$10,149	$43,125	($1,283)	$ --
Comprehensive Income:						
Net Income				1,463		
Change in unrealized gains (losses) on securities available for sale, net of reclassification adjustment and tax effects						
Total comprehensive income						
Cash dividends declared $.23 per share				(642)		
Acquisition of 9,267 shares of treasury stock					(273)	
Compensation expense related to stock options			84			--
Balance, March 31, 2007	2,840,872	$284	$10,233	$43,946	($1,556)	$ --

See accompanying notes to the unaudited consolidated financial statements.

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

	Three
	2
CASH FLOWS FROM OPERATING ACTIVITIES	
Net Income	$
Adjustments to reconcile net income to net cash provided by (used in) operating activities:	
Provision for loan losses	
Depreciation	
Amortization of intangible assets	
Deferred income taxes	
Net amortization of securities premiums and discounts	
Net realized gain on sales of securities	

Earnings on life insurance policy	
Net gain on sale of mortgage loans	
Mortgage loans originated for sale	
Proceeds from sale of mortgage loans	
Release of ESOP shares	
Compensation expense related to stock options	
Decrease in accrued interest receivable and other assets	
Increase (decrease) in accrued interest payable and other liabilities	(
Net cash provided by (used in) operating activities	
CASH FLOWS FROM INVESTING ACTIVITIES	
Securities available for sale:	
Proceeds from maturities and principal reductions on mortgage-backed securities	1
Purchases	(1
Securities held to maturity, proceeds from maturities	
Increase in investment in FHLB stock	
Net increase in loans	(
Purchase of bank premises and equipment	
Net cash used in investing activities	(
CASH FLOWS FROM FINANCING ACTIVITIES	
Net (decrease) increase in deposits	
Net increase (decrease) in short-term borrowings	(
Proceeds from long-term debt	1
Acquisition of treasury stock	
Cash dividends paid	
Net cash provided by(used in) financing activities	
Increase (decrease) in cash and cash equivalents	
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 1

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.

The accompanying unaudited consolidated financial statements have been prepared in conformity with generally accepted accounting principles for interim financial statements and with instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted 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, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007 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, 2006.

2. EARNINGS PER SHARE

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,	
	2007	2006
Basic EPS weighted average shares outstanding	2,791	2,797
Dilutive effect of stock options	56	55
Diluted EPS weighted average shares outstanding	2,847	2,852

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3. STOCK-BASED COMPENSATION

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement No. 123(R), "Share-Based Payment." Statement No. 123(R) replaces Statement No. 123, "Accounting for Stock-Based Compensation," and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." Statement No. 123(R) requires that the fair value of share-based payment transactions be recognized as compensation costs in the financial statements over the period than an employee provides service in exchange for the award. The fair value of the share-based payments is estimated using the Black-Scholes option-pricing model. The Company adopted Statement No. 123(R) effective January 1, 2006, using the modified-prospective transition method. Under the modified prospective method, companies are required to record compensation cost for new and modified awards over the related vesting period of such awards and record compensation cost prospectively for the unvested portion, at the date of adoption, of previously issued and outstanding awards over the remaining vesting period of such awards.

No change to prior periods presented is permitted under the modified prospective method. The Company did not issue any stock options in 2005 and for the period ended March 31, 2006. All outstanding options as of December 31, 2005 are fully vested. The Company's shareholders approved the Norwood Financial Corp 2006 Stock Option Plan at the annual meeting on April 25, 2006 and the Company awarded 47,700 options in 2006, all of which have a twelve month vesting period. Included in the results for the three months ended March 31, 2007, were $84,000 in compensation costs. Net income for the three months ended March 31, 2007 was reduced by approximately $80,000 which is net of related income tax benefit. As of March 31, 2007, there was approximately $166,000 of total unrecognized compensation cost related to nonvested options under the plan. There were no options awarded or exercised for the three month period ending March 31, 2007.

4. 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 with maturities of 90 days or less and federal funds sold.

Cash payments for interest for the period ended March 31, 2007 and 2006 were $2,480,000 and $2,124,000 respectively. Cash payments for income taxes in 2007 were $4,000 compared to $5,000 in 2006. Non-cash investing activity for 2007 and 2006 included foreclosed mortgage loans and repossession of other assets of $24,000 and $26,000, respectively.

5. 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	
	2007	2006
Unrealized holding gains (losses) on available for sale securities	$ 294	$(199)
Reclassification adjustment for gains realized in income	--	(7)
Net unrealized gain (losses)	294	(206)
Income tax expense (benefit)	98	(70)
Other comprehensive income (loss)	$ 196	$(136)

6. 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 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	
	2007	2006
Commitments to grant loans	$ 8,940	$18,971
Unfunded commitments under lines of credit	30,376	31,532
Standby letters of credit	6,914	7,120
	$46,230	$57,623

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, 2007 for guarantees under standby letters of credit issued is not material.

7. NEW AND RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2007, the Company adopted Financial Accounting Standards Board (FASB) Statement 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. The adoption of SFAS 156 did not have a significant effect on the consolidated financial statements.

Effective January 1, 2007, the Company adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No,. 48, "Accounting for Uncertainty in Income Taxes". The Interpretation provides clarification on accounting for uncertainty in income taxes recognized in an enterprises's financial statements in accordance with FASB Statement of Financial Accounting Standard (SFAS) No. 109, "Accounting for Income Taxes". The Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on derecogntion, classification, interest and penalties, accounting in interim periods, disclosure and transition. As a result of the Company's evaluation of the implementation of FIN 48, no significant income tax uncertainties were identified. Therefore, the Company recognized no adjustment for unrecognized income tax benefits during the three months ended March 31, 2007. Our policy is to recognize interest and penalties on unrecognized tax benefits in "Federal income taxes" in the Consolidated Statements of Income. The amount of interest and penalties for the three months ended March 31, 2007 was immaterial. The tax years subject to examination by the taxing authorities are the years ending December 31, 2006, 2005, 2004 and 2003.

In March 2007, the FASB ratified EITF Issue No. 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards." EITF 06-11 requires companies to recognize the income tax benefit realized from dividends or dividend equivalents that are charged to retained earnings and paid to employees for nonvested equity-classified employee share-based payment awards as an increase to additional paid-in capital. EITF 06-11 is effective for fiscal years beginning after September 15, 2007. The Company does not expect EITF 06-11 will have a material impact on its consolidated financial position, results of operations or cash flows.

In March 2007, the FASB ratified Emerging Issues Task Force Issue No. 06-10 "Accounting for Collateral Assignment Split-Dollar Life Insurance Agreements" (EITF 06-10). EITF 06-10 provides guidance for determining a liability for the postretirement benefit obligation as well as recognition and measurement of the associated asset on the basis of the terms of the collateral assignment agreement. EITF 06-10 is effective for fiscal years beginning after December 15, 2007. The Company is currently assessing the impact of EITF 06-10 on its consolidated financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115. "SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for our Company January 1, 2008. The Company is evaluating the impact that the adoption of SFAS No. 159 will have on our consolidated financial statements.

On September 7, 2006, the Task Force reached a conclusion on EITF Issue No. 06-5, "Accounting for Purchases of Life Insurance - Determining the Amount that Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance" ("EITF 06-5"). The Scope of EITF 06-5 consists of six separate issues relating to accounting for life insurance policies purchased by entities protecting against the loss of "key persons." The six issues are clarifications of previously issued guidance on FASB Technical

Bulletin No. 85-4. EITF 06-5 is effective for fiscal years beginning after December 15, 2006. The Company does not expect it to have a material impact on the Company's consolidated financial statements.

In September 2006, the FASB's Emerging Issues Task Force (EIFT) issued EITF Issue No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split Dollar Life Insurance Arrangements" ("EITF 06-4). EITF 06-4 requires the recognition of a liability related to the postretirement benefits covered by an endorsement split-dollar life insurance arrangement. The consensus highlights that the employer (who is also the policyholder) has a liability for the benefit it is providing to its employee. As such, if the policyholder has agreed to maintain the insurance policy in force for the employee's benefit during his or her retirement, then the liability recognized during the employee's active service period should be based on the future cost of insurance to be incurred during the employee's retirement. Alternatively if the policy holder has agreed to provide the employee with a death benefit, then the liability for the future death benefit should be recognized by following the guidance in SFAS No. 106 or Accounting Principals Board (APB) Opinion No. 12, as appropriate. For transition, an entity can choose to apply the guidance using either of the following approaches: (a) a change in accounting principle through retrospective application to all periods presented or (b) a change in accounting principle through a cumulative-effect adjustment to the balance in retained earnings at the beginning of the year of adoption. The disclosures are required in fiscal years beginning after December 15, 2007, with early adoption permitted. The Company is evaluating the potential impact of this guidance on Company's consolidated financial statements.

In September 2006, the FASB issued FASB Statement No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. FASB Statement 157 applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. We are currently evaluating the potential impact, if any, of the adoption of FASB Statement No. 157 on our consolidated financial position, results of operations and cash flows.

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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 for the year ended December 31, 2006 (incorporated by reference in Item 8 of the Form 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.

The Company adopted SFAS No. 123(R) "Share-Based Payment" as of January 1, 2006, which requires that transactions be recognized as compensation cost in the income statement based on their fair values on the measurement date, which, for the Company is the grant date. There were no stock options 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 and the Company granted 47,700 options during 2006. For the three months ended March 31, 2007, salaries and employee benefit expense includes $84,000 related to the adoption of Statement No. 123 (R) and $-0- for the three months ended March 31, 2006.

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 that 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. The

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Company believes that the unrealized losses at March 31, 2007 and December 31, 2006 represent temporary impairment of the securities.

CHANGES IN FINANCIAL CONDITION

GENERAL

Total assets as of March 31, 2007 were $461.4 million compared to $454.4 million as of December 31, 2006 an increase of $7.0 million or 1.6%. The increase reflects a $5.1 million, or 1.6%, increase in loans receivable and a $2.4 million increase in cash and cash equivalents.

SECURITIES

The fair value of securities available for sale as of March 31, 2007 was $112.6 million compared to $112.9 million as of December 31, 2006. The Company purchased $13.3 million of securities using the proceeds from $13.9 million of securities called, maturities and principal reductions.

The carrying value of the Company's securities portfolio (Available-for Sale and Held-to Maturity) consisted of the following:

(dollars in thousands)	March 31, 2007 Amount	% of portfolio	Decem Amount
US Government agencies	$ 43,656	38.5%	$ 47,581
States and political subdivisions	19,900	17.5	17,419
Corporate securities	7,457	6.6	8,439
Mortgage-backed securities	40,792	35.9	38,652
Equity securities	1,747	1.5	1,775
Total	$113,552	100.0%	$113,866

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 2.2 years. Interest rates in the 2-3 year section of the treasury yield curve decreased during the three months ended March 31, 2007 favorably impacting the fair value of individual securities. Management believes that the unrealized losses represent temporary impairment of the securities and are the 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 $320.7 million compared to $315.7 million as of December 31, 2006. Residential real estate increased $3.3 million principally due to growth in single family first lien residential loans. Commercial real estate increased $2.9 million during the period. Consumer loans declined $1.2 million due to continued run-off in the Company's indirect automobile portfolio.

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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, 2007 $	%	December 3 $
Real Estate-Residential	$117,120	36.5	$113,783
Commercial	141,830	44.2	138,881
Construction	6,660	2.1	7,714
Commercial, financial and agricultural	35,097	10.9	34,019
Consumer loans to individuals	20,354	6.3	21,520
Total loans	321,061	100.0	315,917
Deferred fees	(317)		(350)
	320,744		315,567

Allowance for loan losses	(3,871)	(3,828)
Net loans receivable	$316,873	$311,739

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, 2007	Three Months Ended March 31, 2006
Balance, beginning	$ 3,828	$ 3,669
Provision for loan losses	50	70
Charge-offs	(28)	(27)
Recoveries	21	31
Net (charge-offs)/recoveries	(7)	4
Balance, ending	$ 3,871	$ 3,743
Allowance to total loans	1.21%	1.28%
Net (charge-offs) recoveries to average loans (annualized)	(.01%)	.01%

The allowance for loan losses totaled $3,871,000 as of March 31, 2007 and represented 1.21% of total loans, compared to $3,828,000 at year end, and $3,743,000 as of March 31, 2006. The Company had net charge-offs for the three months ended March 31, 2007 of $7,000 compared to net recoveries of $4,000 in 2006. 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, 2007 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.

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As of March 31, 2007, non-performing loans totaled $407,000, which is .13% of total loans compared to $409,000, or .13% of total loans at December 31, 2006. The following table sets forth information regarding non-performing loans and foreclosed real estate at the dates indicated:

(dollars in thousands)	March 31, 2007	December 31, 2006
Loans accounted for on a non-accrual basis:		
Commercial and all other	$ -	$ -

Real Estate	401	392
Consumer	6	17
Total	407	409
Accruing loans which are contractually past due 90 days or more	-	-
Total non-performing loans	407	409
Foreclosed real estate	-	-
Total non-performing assets	$ 407	$ 409
Allowance for loans losses	$3,871	$3,828
Coverage of non-performing loans	9.5x	9.4x
Non-performing loans to total loans	.13%	.13%
Non-performing assets to total assets	.09%	.09%

DEPOSITS

Total deposits as of March 31, 2007 were $360.0 million increasing slightly from $358.1 million as of December 31, 2006.

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

(dollars in thousands)	March 31, 2007	December 31, 2006
Non-interest bearing demand	$ 54,046	$ 53,856
Interest bearing demand	36,498	36,600
Money Market	50,095	50,048
Savings	43,895	45,144
Time deposits		