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, 2011

OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 0-14773

NATIONAL BANCSHARES CORPORATION
exact name of registrant as specified in its charter

Ohio	34-1518564
State of incorporation	IRS Employer Identification No.

112 West Market Street, Orrville, Ohio 44667
Address of principal executive offices

Registrant's telephone number: (330) 682-1010

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes __X__ No _____

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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 as defined in Rule 12b-2 of the Exchange Act. See definition 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___

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of May 6, 2011.

Common Stock, Without Par Value: 2,209,717 shares Outstanding

NATIONAL BANCSHARES CORPORATION

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Item 1. Financial Statements

NATIONAL BANCSHARES CORPORATION
CONSOLIDATED BALANCE SHEETS (Unaudited)

(dollars in thousands)

	Mar. 31, 2011	Dec. 31, 2010
ASSETS		
Cash and due from banks	$ 21,285	$ 12,837
Time deposits with other financial institutions	3,729	5,697
Securities available for sale	133,049	138,033
Restricted equity securities	3,220	3,219
Loans held for sale	106	-
Loans, net of allowance for loan losses:		
March 31, 2011 - $2,720; December 31, 2010 - $2,585	193,610	190,685
Premises and equipment, net	12,466	12,526
Goodwill	4,723	4,723
Identified intangible assets	86	107
Accrued interest receivable	1,512	1,270
Cash surrender value of life insurance	2,884	2,862
Other assets	2,355	2,137
Total assets	$ 379,025	$ 374,096
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest bearing	$ 61,628	$ 57,435
Interest bearing	254,940	251,699
Total deposits	316,568	309,134
Repurchase agreements	7,658	7,747
Federal Reserve Bank note account	423	724
Federal Home Loan Bank advances	12,000	15,000
Accrued interest payable	283	312
Accrued expenses and other liabilities	2,374	2,198
Total liabilities	339,306	335,115
SHAREHOLDERS' EQUITY		
Common stock, no par value; 6,000,000 shares authorized; 2,289,528 shares issued	11,447	11,447
Additional paid-in capital	4,785	4,775
Retained earnings	22,761	22,475
Treasury stock, at cost (79,811 and 83,555 shares)	(1,565)	(1,639)
Accumulated other comprehensive income	2,291	1,923
Total shareholders' equity	39,719	38,981
Total liabilities and shareholders' equity	$ 379,025	$ 374,096

See accompanying notes to consolidated financial statements.

NATIONAL BANCSHARES CORPORATION
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (Unaudited)

(dollars in thousands, except per share data)

	Three months ended Mar. 31, 2011	Three months ended Mar. 31, 2010
Interest and dividend income		
Loans, including fees	$ 2,518	$ 2,602
Securities:		
Taxable	739	1,029
Nontaxable	390	271
Federal funds sold and other	28	56
Total interest and dividend income	3,675	3,958
Interest expense		
Deposits	485	572
Short-term borrowings	11	13
Federal Home Loan Bank advances	82	261
Total interest expense	578	846
Net interest income	3,097	3,112
Provision for loan losses	147	507
Net interest income after provision for loan losses	2,950	2,605
Noninterest income		
Checking account fees	266	262
Visa check card interchange fees	121	98
Deposit and miscellaneous service fees	75	83
Mortgage banking activities	37	51
Securities gains, net	5	76
Loss on sale of other real estate owned	-	(11)
Gain on sale of loans guaranteed by SBA	128	-
Other	100	66
Total noninterest income	732	625
Noninterest expense		
Salaries and employee benefits	1,494	1,378
Data processing	283	241
Net occupancy	367	294
FDIC Assessment	136	121
Professional and consulting fees	150	182
Franchise tax	93	90
Maintenance and repairs	77	70
Amortization of intangibles	21	22
Telephone	59	58
Marketing	60	65
Director fees and pension	60	72
Software expense	54	43
Postage and supplies	74	80
Other	218	213
Total noninterest expense	3,146	2,929
Income before income tax expense	536	301
Income tax expense	49	8
Net income	487	293

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	Three months ended Mar. 31, 2011	Three months ended Mar. 31, 2010
Other comprehensive income (loss):		
Unrealized appreciation (depreciation) in fair value of securities available for sale, net of taxes of $193 and $356	371	692
Reclassification adjustment for realized gains included in earnings, net of taxes of $2 and $26	(3)	(50)
Total other comprehensive income, net of taxes	368	642
Comprehensive income	$ 855	$ 935
Weighted average basic and diluted common shares outstanding	2,209,717	2,205,973
Basic and diluted earnings per common share	$ 0.22	$ 0.13
Dividends declared per common share	$ 0.08	$ 0.08

See accompanying notes to consolidated financial statements.

NATIONAL BANCSHARES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)

(dollars in thousands, except per share data)

	Three months ended, Mar. 31, 2011	Three months ended, Mar. 31, 2010
Balance at beginning of period	$ 38,981	$ 38,903
Comprehensive income		
Net income	487	293
Other comprehensive income	368	642
Total comprehensive income	855	935
Stock awards issued from Treasury Shares (3,744 shares)	50	-
Compensation expense under stock-based compensation plans	10	4
Cash dividends declared ($0.08 per share in 2011 and 2010)	(177)	(176)
Balance at end of period	$ 39,719	$ 39,666

See accompanying notes to consolidated financial statements.

NATIONAL BANCSHARES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(dollars in thousands, except per share data)

	Three months ended Mar. 31, 2011	Three months ended Mar. 31, 2010
Net cash from operating activities	$ 344	$ 647
Cash flows from investing activities		
Purchases of time deposits with other financial institutions	-	(2,460)
Proceeds from time deposits with other financial institutions	1,968	3,500
Securities available for sale		
Proceeds from maturities and repayments	7,513	11,160
Proceeds from sales	1,114	1,988
Purchases	(3,181)	(5,531)
Purchases of property and equipment	(164)	(525)
Proceeds from the sale of other real estate owned	-	35
Proceeds from the sale of loans guaranteed by SBA	1,832	-
Net change in loans	(4,846)	2,066
Net cash from investing activities	4,236	10,233
Cash flows from financing activities		
Net change in deposits	7,434	14,633
Net change in short-term borrowings	(390)	(2,629)
Repayments of Federal Home Loan Bank advances	(3,000)	(2,000)
Dividends paid	(176)	(176)
Net cash from financing activities	3,868	9,828
Net change in cash and cash equivalents	8,448	20,708
Beginning cash and cash equivalents	12,837	8,124
Ending cash and cash equivalents	$ 21,285	$ 28,832
Supplemental Disclosures		
Cash paid for interest	$ 607	$ 874
Cash paid for income taxes	$ -	$ 100
Supplemental noncash disclosures:		
Transfer from loans to other real estate owned	$ 54	$ 41
Issuance of stock awards	$ 50	$ -
Transfer from loans to loans held for sale	$ 1,708	$ -

See accompanying notes to consolidated financial statements.

Note 1 – Basis of Presentation

(dollars in thousands)

Company Organization and Financial Presentation

The accompanying consolidated financial statements include the accounts of National Bancshares Corporation (the "Company") and its wholly owned subsidiaries, First National Bank, Orrville, Ohio (the "Bank") and NBOH Properties, LLC. The Bank has a minority interest in First Kropf Title, LLC. The Bank's investment in First Kropf Title, LLC is immaterial to the consolidated financial statements. All significant intercompany transactions and balances have been eliminated.

The Company provides a broad range of financial services to individuals and companies in Medina, Stark, Summit and Wayne Counties, Ohio. While the Company's chief decision makers monitor the revenue streams of the various products and services, operations are managed and financial performance is evaluated on a Company-wide basis. Accordingly, all the Company's banking operations are considered by management to be aggregated in one reportable operating segment.

The consolidated balance sheet as of March 31, 2011 and December 31, 2010, the consolidated statements of income and comprehensive income for the three month periods ended March 31, 2011 and 2010, and the condensed consolidated statements of changes in shareholders' equity and the condensed consolidated statements of cash flows for the three month periods ended March 31, 2011 and 2010, have been prepared by the Company without audit. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

The consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q, but do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. These statements should be read in conjunction with the consolidated financial statements and footnotes in the Company's annual report on Form 10-K for the year ended December 31, 2010. Operating results for the three months ended March 31, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

The Company believes that the disclosures are adequate to make the information presented not misleading; however, the results of operations and other data presented for the periods presented are not necessarily indicative of results to be expected for the entire fiscal year.

Use of Estimates

To prepare financial statements in conformity with U.S. generally accepted accounting principles, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ. The allowance for loan losses, fair values of financial instruments and carrying value of intangible assets are particularly subject to change.

Cash Flows

Cash and cash equivalents include cash, deposits with other banks with original maturities under 90 days, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, repurchase agreements and other short-term borrowings.

Earnings Per Common Share

Earnings per common share is net income divided by the weighted average number of shares outstanding during the period. Diluted earnings per share includes the dilutive effect of additional potential common shares issuable under stock options. 89,000 and 53,000 stock options were not considered in computing diluted earnings per common share for the periods ending March 31, 2011 and 2010, respectively, because they were antidilutive.

Note 2 – Securities
(dollars in thousands)

Securities consist of the following at March 31, 2011 and December 31, 2010:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2011				
U.S. Government and federal agency	$ 2,793	$ 16	$ -	$ 2,809
State and municipal	45,724	1,198	(246)	46,676
Corporate bonds and notes	1,495	17	-	1,512
Mortgage-backed: residential	79,543	2,637	(157)	82,023
Equity securities	23	6	-	29
Total	$ 129,578	$ 3,874	$ (403)	$ 133,049
December 31, 2010				
U.S. Government and federal agency	$ 2,954	$ 21	$ -	$ 2,975
State and municipal	44,656	833	(484)	45,005
Corporate bonds and notes	1,487	29	-	1,516
Mortgage-backed: residential	86,001	2,766	(240)	88,527
Equity securities	23	-	(13)	10
Total	$ 135,121	$ 3,649	$ (737)	$ 138,033

	For the three months ended Mar. 31, 2011	Mar. 31, 2010
Sales of available for sale securities were as follows:		
Proceeds	$ 1,114	$ 1,988
Gross gains	5	76
Gross losses	-	-

The tax provision related to these net realized gains and losses was $2 and $26, respectively for the three months ended March 31, 2011 and 2010.

The fair value of securities at March 31, 2011 by contractual maturity were as follows. Securities not due at a single maturity date, primarily mortgage-backed securities, are shown separately.

	Amortized Cost	Fair Value
Due in one year or less	$ 5,372	$ 5,389
Due from one to five years	6,004	6,211
Due from five to ten years	16,936	17,647
Due after ten years	21,700	21,750
Mortgage-backed: residential	79,543	82,023
Equity securities	23	29
Total	$ 129,578	$ 133,049

Securities pledged at March 31, 2011 and December 31, 2010 had a fair value of $72,999 and $58,827 and were pledged to secure public deposits and repurchase agreements.

At March 31, 2011 and December 31, 2010, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareholders' equity.

Securities with unrealized losses at March 31, 2011 and December 31, 2010, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

	Less than 12 months		12 months or more		Total	
March 31, 2011	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
State and municipal	$ 14,947	$ (246)	$ -	$ -	$ 14,947	$ (246)
Mortgage-backed: residential	11,453	(157)	-	-	11,453	(157)
Total temporarily impaired	$ 26,400	$ (403)	$ -	$ -	$ 26,400	$ (403)

	Less than 12 months		12 months or more		Total	
December 31, 2010	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
State and municipal	$ 18,125	$ (484)	$ -	$ -	$ 18,125	$ (484)
Mortgage-backed: residential	17,067	(240)	-	-	17,067	(240)
Equity securities	-	-	10	(13)	10	(13)
Total temporarily impaired	$ 35,192	$ (724)	$ 10	$ (13)	$ 35,202	$ (737)

Management believes the unrealized losses of securities as of March 31, 2011 are the result of fluctuations in interest rates and do not reflect deterioration in the credit quality of the securities. Accordingly management considers these unrealized losses to be temporary in nature. The Company does not have the intent to sell and does not believe it is more likely than not the Company will be required to sell these securities before their recovery. The fair value of debt securities is expected to recover as the securities approach their maturity date.

Note 3 – Loans and Allowance for Loan Losses
(dollars in thousands)

The following table presents the activity in the allowance for loan losses by portfolio segment for the three months ended March 31, 2011:

	Commercial	Commercial Real Estate	Residential Real Estate	Home Equity	Consumer	Unallocated	Total
Beginning balance	$ 460	$ 1,267	$ 675	$ 100	$ 53	$ 30	$ 2,585
Provision for loan losses	34	3	117	(1)	19	(25)	147
Loans charged-off	-	-	(3)	-	(12)	-	(15)
Recoveries	-	-	-	1	2	-	3
Ending balance	$ 494	$ 1,270	$ 789	$ 100	$ 62	$ 5	$ 2,720

The recorded investment in loans includes the principal balance outstanding, net of unearned and deferred income and including accrued interest receivable. The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of March 31, 2011 and December 31, 2010:

	Commercial	Commercial Real Estate	Residential Real Estate	Home Equity	Consumer	Unallocated	Total
March 31, 2011							
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ -	$ 28	$ 235	$ -	$ -	$ -	$ 263
Collectively evaluated for impairment	523	1,110	624	129	66	5	2,457
Total ending allowance balance	$ 523	$ 1,138	$ 859	$ 129	$ 66	$ 5	$ 2,720
Recorded investment in loans:							
Loans individually evaluated for impairment	$ 589	$ 2,906	$ 1,133	$ -	$ -	$ -	$ 4,628
Loans collectively evaluated for impairment	28,231	61,897	65,189	28,212	8,744	-	192,273
Total ending loans balance	$ 28,820	$ 64,803	$ 66,322	$ 28,212	$ 8,744	$ -	$ 196,901
December 31, 2010							
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ -	$ 30	$ 239	$ -	$ -	$ -	$ 269
Collectively evaluated for impairment	460	1,237	436	100	53	30	2,316
Total ending allowance balance	$ 460	$ 1,267	$ 675	$ 100	$ 53	$ 30	$ 2,585
Recorded investment in loans:							
Loans individually evaluated for impairment	$ 662	$ 2,881	$ 1,149	$ -	$ -	$ -	$ 4,692
Loans collectively evaluated for impairment	25,539	65,035	60,609	27,914	10,049	-	189,146
Total ending loans balance	$ 26,201	$ 67,916	$ 61,758	$ 27,914	$ 10,049	$ -	$ 193,838

The impact on interest income of impaired loans was not significant to the consolidated statements of income.

Impaired loans are generally measured for impairment using the fair value of the collateral supporting the loan. Evaluating impaired loan collateral is based on level 3 inputs utilizing outside appraisals adjusted by management for sales costs and other assumptions regarding market conditions to arrive at fair value.

The following table presents loans individually evaluated for impairment by class of loans as of March 31, 2011 and December 31, 2010:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
March 31, 2011			
With no related allowance recorded:			
Real estate:			
Commercial and land development	$ 482	$ 482	$ -
One-to-four family	50	50	-
Real estate construction:			
Commercial and land development	1,308	1,308	-
Commercial	589	589	-
With an allowance recorded:			
Real estate:			
Commercial and land development	919	919	8
One-to-four family	1,083	1,083	235
Real estate construction:			
Commercial and land development	197	197	20
	$ 4,628	$ 4,628	$ 263

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
December 31, 2010			
With no related allowance recorded:			
Real estate:			
Commercial and land development	$ 1,258	$ 1,258	$ -
One-to-four family	52	52	-
Real estate construction:			
One-to-four family	1,326	1,326	-
Commercial	662	662	-
With an allowance recorded:			
Real estate:			
Commercial and land development	99	99	10
One-to-four family	1,097	1,097	239
Multifamily	-	-	-
Real estate construction:			
Commercial and land development	198	198	20
	$ 4,692	$ 4,692	$ 269

Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

The following table presents the recorded investment in nonaccrual and loans past due over 90 days still on accrual by class of loans as of March 31, 2011 and December 31, 2010:

	March 31, 2011		December 31, 2010	
	Nonaccrual	Loans Past Due Over 90 Days Still Accruing	Nonaccrual	Loans Past Due Over 90 Days Still Accruing
Real estate:				
Commercial and land development	$ 1,401	$ -	$ 1,358	$ -
One-to-four family	459	475	448	360
Home equity	382	63	382	116
Real estate construction:				
Commercial and land development	1,505	-	1,524	-
Commercial	589	23	661	-
Consumer:				
Auto:				
Indirect	-	14	-	11
	$ 4,336	$ 575	$ 4,373	$ 487

The following table presents the aging of the recorded investment in past due loans as of March 31, 2011 by class of loans:

	30 - 59 Days Past Due(1)	60 - 89 Days Past Due	Greater Than 90 Days Past Due(2)	Total Past Due	Loans Not Past Due(3)	Total
Real estate:						
Commercial and land development	$ -	$ -	$ 1,127	$ 1,127	$ 56,849	$ 57,976
One-to-four family	789	39	884	1,712	48,285	49,997
Home equity	72	-	444	516	27,696	28,212
Multifamily	-	-	-	-	16,011	16,011
Real estate construction:						
Commercial and land development	912	-	593	1,505	5,322	6,827
One-to-four family	-	-	-	-	314	314
Commercial	-	33	612	645	28,175	28,820
Consumer:						
Auto:						
Direct	8	-	-	8	2,258	2,266
Indirect	-	1	14	15	5,673	5,688
Other	2	-	-	2	788	790
	$ 1,783	$ 73	$ 3,674	$ 5,530	$191,371	$196,901

(1) Includes $936 thousand of loans on nonaccrual status.
(2) All loans are nonaccrual status except for $575 thousand of loans past due over 90 days still on accrual.
(3) Includes $301 thousand of loans on nonaccrual status.

The following table presents the aging of the recorded investment in past due loans as of December 31, 2010 by class of loans:

	30 - 59 Days Past Due(1)	60 - 89 Days Past Due(2)	Greater Than 90 Days Past Due(3)	Total Past Due	Loans Not Past Due(4)	Total
Real estate:						
Commercial and land development	$ -	$ 165	$ 1,076	$ 1,241	$ 56,806	$ 58,047
One-to-four family	769	167	784	1,720	45,484	47,204
Home equity	2	45	498	545	27,221	27,766
Multifamily	-	-	-	-	14,397	14,397
Real estate construction:						
Commercial and land development	930	396	198	1,524	8,418	9,942
One-to-four family	-	-	-	-	301	301
Commercial	-	22	661	683	25,475	26,158
Consumer:						
Auto:						
Direct	22	-	-	22	2,452	2,474
Indirect	52	-	11	63	6,338	6,401
Other	9	-	-	9	980	989
	$ 1,784	$ 795	$ 3,228	$ 5,807	$187,872	$193,679

(1) Includes $854 thousand of loans on nonaccrual status.
(2) Includes $399 thousand of loans on nonaccrual status.
(3) All loans are nonaccrual status except for $487 thousand of loans past due over 90 days still on accrual.
(4) Includes $379 thousand of loans on nonaccrual status.

Troubled Debt Restructuring

The Company has $1,864 of loans individually evaluated for impairment whose loan terms have been modified in troubled debt restructurings as of March 31, 2011. $9 thousand of specific reserve has been allocated for these loans. The Company has not committed to lend any additional amounts as of March 31, 2011 to customers with outstanding loans that are classified as troubled debt restructurings. There were $1,876 of loans whose terms have been modified in troubled debt restructurings as of December 31, 2010.

Credit Quality Indicators

The Corporation categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends and other information specific to each borrower. The Corporation analyzes loans individually by classifying the loans as to credit risk. This analysis includes non-homogeneous loans, such as commercial and commercial real estate loans. This analysis is performed on an annual basis or more frequently if management becomes aware of information affecting a borrower's ability to fulfill its obligation. The Corporation uses the following definitions for risk ratings:

Special Mention

Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard

Loans classified as substandard are inadequately protected by the current financial condition and paying capacity of the obligor or of the collateral securing the loan. Substandard loans have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt with a distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful

Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. As of March 31, 2011 and December 31, 2010, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

March 31, 2011	Pass	Special Mention	Substandard	Doubtful	Total
Real estate:					
Commercial and land development	$ 53,779	$ 278	$ 3,919	$ -	$ 57,976
Real estate construction:					
Commercial and land development	3,259	1,788	1,780	-	6,827
Commercial	26,347	656	1,817	-	28,820
	$ 83,385	$ 2,722	$ 7,516	$ -	$ 93,623

December 31, 2010	Pass	Special Mention	Substandard	Doubtful	Total
Real estate:					
Commercial and land development	$ 53,794	$ 350	$ 3,903	$ -	$ 58,047
Real estate construction:					
Commercial and land development	6,352	1,788	1,802	-	9,942
Commercial	23,627	507	2,024	-	26,158
	$ 83,773	$ 2,645	$ 7,729	$ -	$ 94,147

The Corporation considers the performance of the loan portfolio and its impact on the allowance for loan losses. For residential and consumer loan classes, the Corporation also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. The following table presents the recorded investment in residential and consumer loans based on payment activity as of March 31, 2011 and December 31, 2011:

		Consumer			Residential Real Estate			
Mar. 31, 2011	Direct	Indirect	Other	Construction	Multifamily	One-to-four Family	Home Equity	Total
Performing	$ 2,266	$ 5,674	$ 790	$ 314	$ 16,011	$ 49,113	$ 27,768	$101,936
Nonperforming	-	14	-	-	-	884	444	1,342
	$ 2,266	$ 5,688	$ 790	$ 314	$ 16,011	$ 49,997	$ 28,212	$103,278

		Consumer			Residential Real Estate			
Dec. 31, 2010	Direct	Indirect	Other	Construction	Multifamily	One-to-four Family	Home Equity	Total
Performing	$ 2,474	$ 6,390	$ 989	$ 301	$ 14,397	$ 46,420	$ 27,268	$ 98,239
Nonperforming	-	11	-	-	-	784	498	1,293
	$ 2,474	$ 6,401	$ 989	$ 301	$ 14,397	$ 47,204	$ 27,766	$ 99,532

Note 4 – Interest-Rate Swaps
(dollars in thousands)

The Company utilizes interest-rate swap agreements as part of its asset liability management strategy to help manage its interest rate risk position, not for speculation. The notional amount of the interest-rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest-rate swap agreements.

The Company implemented a program in 2009 whereby it lends to its borrowers at a fixed rate with the loan agreement containing a two-way yield maintenance provision. The program has one participant as of March 31, 2011. If the borrower prepays the loan, the yield maintenance provision will result in a prepayment penalty or benefit depending on the interest rate environment at the time of the prepayment. This provision represents an embedded derivative which is required to be bifurcated from the host loan contract. As a result of bifurcating the embedded derivative, the Company records the transaction with the borrower as a floating rate loan and a pay floating / receive fixed interest-rate swap. To offset the risk of the interest-rate swap with the borrower, the Company enters into an interest-rate swap with an outside counterparty that mirrors the terms of the interest-rate swap between the Company and the borrower. Both interest-rate swaps are carried as freestanding derivatives with their changes in fair value reported in current earnings. The interest-rate swaps are not designated as hedges. The change in the fair value of the interest-rate swap between the Company and its borrower was an decrease of $6 for the three months ended March 31, 2011, which was offset by an equal decrease in value during the three months ended March 31, 2011 on the interest-rate swap with an outside counterparty, with the result that there was no impact on income as of March 31, 2011.

Summary information about the interest-rate swaps not designated as hedges between the Company and its borrower as of March 31, 2011 is as follows:

Notional amount	$ 1,470
Weighted average receive rate	5.33%
Weighted average pay rate	3.30%
Weighted average maturity (years)	2.7
Fair value of interest-rate swaps	$ 41

Summary information about the interest-rate swaps between the Company and outside parties as of March 31, 2011 is as follows:

Notional amount	$ 1,470
Weighted average pay rate	5.33%
Weighted average receive rate	3.30%
Weighted average maturity (years)	2.7
Fair value of interest-rate swaps	$ (41)

The fair value of the interest-rate swaps at March 31, 2011 is reflected in other assets and other liabilities with a corresponding offset to noninterest income.

Note 5 – Stock-Based Compensation
(dollars in thousands, except per share information)

The Corporation's 2008 Equity Incentive Plan ("the Plan"), which is shareholder-approved, permits the grant of stock options or restricted stock awards, to its officers, employees, consultants and non-employee directors for up to 223,448 shares of common stock.

Option awards are granted with an exercise price equal to the fair value of the Corporation's common stock at the date of grant; those option awards have vesting periods determined by the Corporation's compensation committee and have terms that shall not exceed 10 years.

On May 20, 2008, the Corporation granted options to purchase 58,000 shares of stock to directors and certain key officers, of which 46,000 remain outstanding at March 31, 2011. The exercise price of the options is $18.03 per share. The options vest in five equal installments over a five-year period and have a term of 10 years. None of these options have been exercised as of March 31, 2011.

On October 19, 2010, the Corporation granted options to purchase 43,000 shares of stock to directors and certain key officers, all of which remained outstanding at March 31, 2011. The exercise price of the options is $13.22 per share. The options vest in five equal installments over a five-year period and have a term of 10 years. None of these options have been exercised as of March 31, 2011.

A summary of the activity in the stock option plan for 2011 follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding - January 1, 2011	89,000	$ 15.71		
Granted	-	-		
Exercised	-			
Forfeited or expired	-	-		
Outstanding - March 31, 2011	89,000	$ 15.71	8.3	$ -
Fully expected to vest at March 31, 2011	(70,600)	$ 15.10	8.6	$ -
Exercisable at March 31, 2011	18,400	$ 18.03	7.2	$ -

The total compensation cost that has been charged against income for the plan was $10 and $4 for the quarters ended March 31, 2011 and 2010. The total income tax benefit was $3 and $1 for the quarters ended March 31, 2011 and 2010. As of March 31, 2011, there was $107 of total unrecognized compensation cost related to nonvested stock options granted under the Plan. The cost is expected to be recognized over a weighted-average period of 3.3 years.

Restricted Stock Awards

On January 3, 2011, the Company granted restricted stock awards for 3,744 shares of the Corporation's common stock to certain directors in lieu of fees. The awards vested immediately and the compensation expense related to the awards of $50 was recorded in 2010. The fair value of the stock was determined using closing market price of the Corporation's common stock on the date of the grant.

Note 6 – Fair Value
(dollars in thousands)

ASC 820-10 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the relationship to other benchmark quoted securities (Level 2 inputs). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3). Discounted cash flows are calculated using estimates of current market rates for each type of security. During times when trading is more liquid, broker quotes are used (if available) to validate the model. Rating agency and industry research reports as well as defaults and deferrals on individual securities are reviewed and incorporated into the calculations.

The fair value of derivatives is based on valuation models using observable market data as of the measurement date (Level 2 inputs).

The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value.

Nonrecurring adjustments to certain commercial and residential real estate properties classified as other real estate owned are measured at the lower of carrying amount or fair value, less cost to sell. Fair Values are generally based on third party appraisals of the property, resulting in a Level 3 classification. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized.

Loans held for sale are carried at the lower of cost or fair value, as determined by outstanding commitments, from third party investors.

Assets and Liabilities Measured on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements at March 31, 2011 Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
Available for sale securities:			
U.S. Government and federal agency	$ -	$ 2,809	$ -
State and municipal	-	46,376	300
Corporate bonds and notes	-	1,512	-
Mortgage-backed securities - residential	-	82,004	19
Equity securities	29	-	-
Interest rate swaps	-	41	-

	Fair Value Measurements at March 31, 2011 Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities:			
Interest rate swaps	$ -	$ 41	$ -

	Fair Value Measurements at December 31, 2010 Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
Available for sale securities:			
U.S. Government and federal agency	$ -	$ 2,975	$ -
State and municipal	-	44,705	300
Corporate bonds and notes	-	1,516	-
Mortgage-backed securities - residential	-	88,507	20
Equity securities	10	-	-
Interest rate swaps	-	47	-

	Fair Value Measurements at December 31, 2010 Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities:			
Interest rate swaps	$ -	$ 47	$ -

Assets and Liabilities Measured on a Non-Recurring Basis

Assets and liabilities measured at fair value on a non-recurring basis are summarized below:

	Fair Value Measurements at March 31, 2011 Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
Impaired loans	$ -	$ -	$ 2,921
Other real estate owned	-	-	112

	Fair Value Measurements at December 31, 2010 Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
Impaired loans	$ -	$ -	$ 3,116
Other real estate owned	-	-	58

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a principal amount of $3,184, with a valuation allowance of $263, resulting in no additional provision for loan loss in the three months ended March 31, 2011. Impaired loans had a principal amount of $3,385, with a valuation allowance of $269, resulting in an additional provision of $1,790 for loan loss in the year ended December 31, 2010.

Other real estate owned measured at fair value less costs to sell, had a net carrying amount of $112, which is made up of the outstanding balance of $187, net of a valuation allowance of $75 at March 31, 2011. There were no write-downs of other real estate owned for the quarter ended March 31, 2011 and the year ended December 31, 2010.

Carrying amount and estimated fair values of financial instruments at March 31, 2011 were as follows:

	For the three months ended			
	Mar. 31, 2011		Dec. 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	$ 21,285	$ 21,285	$ 12,837	$ 12,837
Time deposits with other financial institutions	3,729	3,729	5,697	5,697
Securities available for sale	133,049	133,049	138,033	138,033
Restricted equity securities	3,220	na	3,219	na
Loans held for sale	106	106	-	-
Loans, net	193,610	194,522	190,685	192,372
Accrued interest receivable	1,512	1,512	1,270	1,270
Interest rate swaps	41	41	47	47
Financial liabilities				
Deposits	$ 316,568	$ 317,219	$ 309,134	$ 309,908
Short-term borrowings	8,081	8,081	8,471	8,471
Federal Home Loan Bank advances	12,000	12,280	15,000	15,337
Accrued interest payable	283	283	312	312
Interest rate swaps	41	41	47	47

The methods and assumptions used to estimate fair value are described as follows:

Carrying amount is the estimated fair value for cash and cash equivalents, time deposits with other financial institutions, interest bearing deposits, accrued interest receivable and payable, demand deposits, short-term debt, and variable rate loans or deposits that reprice frequently and fully. Security fair values are determined as previously described. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. Fair value of debt is based on current rates for similar financing. It was not practicable to determine the fair value of restricted equity securities due to restrictions placed on its transferability. The fair value of off-balance-sheet items is not considered material.

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

FORWARD-LOOKING INFORMATION

This Form 10-Q contains forward-looking statements as referenced in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are subject to many risks and uncertainties. When used herein, the terms "anticipates," "plans," "expects," "believes," and similar expressions as they relate to the Company or its management are intended to identify such forward looking statements. Actual results could differ materially from those indicated by the forward-looking statements. Risks and uncertainties that could cause or contribute to differences include, changes in the regulatory environment, changes in business conditions and inflation, risks associated with credit quality and other factors discussed in the Company's filings with the U.S. Securities and Exchange Commission, including its Annual Report on Form 10-K for the year ended December 31, 2010. The Company assumes no obligation to update any forward-looking statement.

GENERAL

The Company's results of operations are dependent primarily on net interest income, provision for loan losses, noninterest income and its ability to control costs. Net interest income is the difference ("spread") between the interest income earned on loans and securities and the cost of funds, consisting of interest paid on deposits, Federal Home Loan Bank advances and short-term funds. The interest rate spread is affected by regulatory, economic and competitive factors that influence interest rates, loan demand and deposit flows. The provision for loan losses is significantly affected by the relative strength or weakness of the local economy. The Company's net income is also affected by, among other things, loan fee income, service charges, gains on securities and loans, operating expenses, FDIC assessment expense and franchise and income taxes. The Company's operating expenses principally consist of employee compensation and benefits, occupancy and other general and administrative expenses. The Company's results of operations are also significantly affected by general economic and competitive conditions, particularly changes in market interest rates, government policies and actions of regulatory authorities. Additionally, future changes in applicable laws, regulations or government policies may also materially impact the Company.

OVERVIEW

Total assets increased to $379.0 million as of March 31, 2011, from $374.1 million at December 31, 2010.

Net income for the first three months of 2011 was $487 thousand compared to $293 thousand for the same period of 2010 or $0.22 and $0.13 basic and diluted per share, respectively. Net income was positively impacted by a decrease in the provision for loan losses and a gain on sale of a portion of five loans guaranteed by the Small Business Association (SBA), partially offset by an increase in noninterest expense.

Net interest income for the three month period ended March 31, 2011 decreased by 0.5% compared to the same period in 2010, despite a declining interest rate environment. The provision for loan losses decreased to $147 thousand for the three months ended March 31, 2011 compared to $507 thousand for the same period in 2010. The change in the provision was primarily related to an increase in the specific loss allocations of two adversely classified loans during the quarter ended March 31, 2010. Noninterest income for the first three months of 2011 increased $107 thousand compared to the same period in 2010, primarily related to the gain on sale of a portion of five loans guaranteed by the SBA.

Noninterest expense for the first three months of 2011 increased $217 thousand compared to the same period in 2010 due primarily to an increase in salaries and employee benefits, data processing and occupancy expense. Income tax expense was $49 thousand for the three months ended March 31, 2011 compared to $8 thousand for the same period in 2010.

Office of the Controller of the Currency ("OCC") regulations requires banks to maintain certain minimum levels of regulatory capital. Additionally, the regulations establish a framework for the classification of banks into five categories: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. Generally, an institution is considered well-capitalized if it has a core (Tier 1) capital ratio of at least 5.0% (based on adjusted total assets); a core (Tier 1) risk-based capital ratio of a least 6.0%; and a total risk-based capital ratio of at least 10.0%. The Bank had capital ratios above the minimum to be well-capitalized at March 31, 2011 and December 31, 2010.

The Company is not aware of any market or institutional trends, events or uncertainties that are expected to have a material effect on liquidity, capital resources or operations or any current recommendations by its regulators which would have a material effect if implemented. The Company has not engaged in sub-prime lending activities and does not plan to engage in those activities in the future.

FINANCIAL CONDITION – MARCH 31, 2011, COMPARED TO DECEMBER 31, 2010

Balance Sheet

Cash and due from banks increased $8.4 million to $21.3 million at March 31, 2011.

Securities available for sale decreased $5.0 million due to maturities and repayments of $7.5 million and $1.1 million in sales, offset by the purchase of $3.2 million of securities. The net unrealized gains on securities increased to $3.5 million as of March 31, 2011 compared to $2.9 million net unrealized gains on securities as of December 31, 2010.

Loans increased $3.2 million during the first three months of 2011. The loan demand in the Bank's primary market remains soft. However, the Bank continues to focus on enhancing it's ability to originate commercial loans and improving demand for commercial loan products. The Bank is also concentrating on the expansion of our agricultural business and lending services.

Loans at March 31, 2011 and December 31, 2010 were as follows:
(dollars in thousands)

	Mar. 31, 2011	Dec. 31, 2010
Real estate:		
Commercial and land development	$ 58,045	$ 58,047
One-to-four family	50,075	47,204
Home Equity	28,057	27,766
Multifamily	16,058	14,397
Real estate construction:		
Commercial and land development	6,834	9,942
One-to-four family	319	301
Commercial	28,759	26,158
Consumer:		
Auto:		
Direct	2,265	2,474
Indirect	5,543	6,401
Other	791	989
	196,746	193,679
Unearned and deferred income	(416)	(409)
Allowance for loan losses	(2,720)	(2,585)
Total	$ 193,610	$ 190,685

Allowance for loan losses is a valuation allowance for probable incurred credit losses. This account is increased by the provision for loan losses and decreased by charge-offs less recoveries. The allowance balance required is established using the following methodology:

- All problem loans, impaired loans, past due loans and non-performing loans are closely monitored and analyzed by management on an ongoing basis. A classification rating is assigned to problem loans based on information about specific borrower situations and estimated collateral values. These loans are classified as either special mention, substandard, doubtful or loss.
- Specific problem loans, past due loans or non-performing loans are identified and analyzed individually in an effort to determine the expected probable incurred loss on these specifically identified loans.
- For problem loans that are not analyzed individually, a provision is established based on a historical migration analysis. The historical migration analysis identifies the percentage of problem loans that have been ultimately charged-off historically and over what time periods such loans have been charged off. Historical migration percentages are reviewed and adjusted by management to reflect various factors such as the growth and change in mix of the loan portfolio and by Comptroller of the Currency regulatory guidance. Non-individually analyzed loans are pooled and evaluated by loan type. The probable incurred loss on these pooled past due loans is estimated using historical loan loss experience.
- National and local economic conditions and other factors are also considered in determining the adequacy of the allowance for loan losses.
- A percentage of the allowance is allocated to specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off.
- The allowance for loan losses is reviewed on a regular basis to determine the adequacy of the allowance.

The allowance for loan losses to total loans outstanding was 1.38% as of March 31, 2011, which is an increase from 1.34% at December 31, 2010. The provision for loan losses for the three months ended March 31, 2011 was $147 thousand, compared to $507 thousand for the same period in 2010. Net charge-offs were $12 thousand for the three months ended March 31, 2011, compared to $19 thousand for the same period in 2010.

The ratio of non-performing loans to total loans was 2.49% ($4.9 million) for March 31, 2011 compared to 2.55% ($4.9 million) for December 31, 2010. Non-performing loans consist of loans that have been placed on non-accrual status and loans past due over 90 days and still accruing interest. Loans past due 30 through 89 days and still accruing decreased from $1.3 million as of December 31, 2010 to $910 thousand as of March 31, 2011.

Adversely classified assets at March 31, 2011 and December 31, 2010 were as follows:
(dollars in thousands)

	Mar. 31, 2011		Dec. 31, 2010	
	Amount	Percent of total loans	Amount	Percent of total loans
Classified loans:				
Special mention	$ 2,743	1.4%	$ 2,667	1.4%
Substandard	9,331	4.7%	9,878	5.1%
Doubtful	-	0.0%	-	0.0%
Loss	-	0.0%	-	0.0%
Total classified loans	12,074	6.1%	12,545	6.5%
Other real estate owned	112	0.1%	58	0.0%
Total classified assets	$ 12,186	6.2%	$ 12,603	6.5%

Total classified loans decreased from $12.5 million at December 31, 2010 to $12.1 million at March 31, 2011. The Bank's classification ratio was 29.8% and 32.0% as of March 31, 2011 and December 31, 2010. The classification ratio is calculated using total adversely classified assets (excluding special mention loans) divided by Tier 1 capital plus allowance for loan losses. Management believes the allowance for loan losses is adequate as of March 31, 2011.

Total deposits increased $7.4 million as of March 31, 2011 compared to December 31, 2010. Historically noninterest-bearing demand accounts have fluctuated based upon the liquidity needs of our customers.

Deposits at March 31, 2011 and December 31, 2010 were as follows:
(dollars in thousands)

	Mar. 31, 2011	Dec. 31, 2010
Demand, noninterest-bearing	$ 61,628	$ 57,435
Demand, interest-bearing	135,514	133,987
Savings	51,861	49,804
Time, $100,000 and over	17,710	16,089
Time, other	49,855	51,819
	$ 316,568	$ 309,134

Shareholders' Equity

Total shareholders' equity increased $738 thousand to $39.7 million as of March 31, 2011 from $39.0 million as of December 31, 2010. Net income for the three months ended March 31, 2011 was $487 thousand, while dividends declared were $177 thousand. Accumulated other comprehensive income increased from $1.9 million on December 31, 2010 to $2.3 million as of March 31, 2011.

The Bank is subject to regulatory capital requirements. The following is a summary of the actual and required regulatory capital amounts and ratios. Management believes the capital position of the Bank remains strong.

(dollars in thousands)

March 31, 2011	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital to risk-weighted assets	$ 31,688	13.78%	$ 18,395	8.00%	$ 22,994	10.00%
Tier 1 capital to risk-weighted assets	28,968	12.60%	9,197	4.00%	13,796	6.00%
Tier 1 capital to average assets	28,968	7.80%	14,857	4.00%	18,571	5.00%

December 31, 2010	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital to risk-weighted assets	$ 31,032	13.59%	$ 18,267	8.00%	$ 22,834	10.00%
Tier 1 capital to risk-weighted assets	28,447	12.46%	9,134	4.00%	13,701	6.00%
Tier 1 capital to average assets	28,447	7.46%	15,261	4.00%	19,077	5.00%

Statements of Cash Flows

Net cash from operating activities for the first three months of 2011 was $344 thousand compared to $647 thousand for the same period of 2010. Net cash from investing activities for the first three months of 2011 was $4.2 million, compared to $10.2 million for the first three months of 2010. Net cash from financing activities was $3.9 million for the first three months of 2011 compared to $9.8 million for the first three months of 2010. The increase in cash and cash equivalents was $8.4 million during the first three months of 2011 primarily related to an increase in local governmental deposit accounts. Total cash and cash equivalents was $21.3 million as of March 31, 2011 compared to $12.8 million at December 31, 2010. The Company intends to use the excess liquidity to reduce the Company’s outstanding borrowings.

COMPARISON OF RESULTS OF OPERATIONS FOR THE THREE MONTH PERIODS ENDED March 31, 2011 and 2010

Net income for the first three months of 2011 was $487 thousand or $0.22 per basic and diluted earnings per share compared to $293 thousand or $0.13 per basic and diluted earnings per share for the same period in 2010. Net income was positively impacted by a decrease in the provision for loan losses and a gain on sale of a portion of five loans guaranteed by the SBA, partially offset by an increase in noninterest expense.

Annualized return on average equity ("ROAE") and average assets ("ROAA") for the first three months of 2011 were 5.02% and 0.52%, respectively, compared with 2.97% and 0.31% for the first three months of 2010.

	Three months ended March 31,					
	2011			2010		
(dollars in thousands)	Daily Average Balance	Interest	Average yield/cost (1)	Daily Average Balance	Interest	Average yield/cost (1)
Assets						
Interest earning assets:						
Securities:						
Taxable	$ 92,658	$ 739	3.28%	$ 100,990	$1,029	4.22%
Nontaxable (tax equivalent basis) (2)	46,033	591	5.19%	28,416	409	5.94%
Interest bearing deposits	22,773	28	0.49%	23,608	56	0.95%
Net loans (including nonaccrual loans)	191,319	2,518	5.26%	194,004	2,602	5.36%
Total interest-earning assets	352,783	3,876	4.39%	347,018	4,096	4.72%
All other assets	26,231			25,633		
Total assets	$ 379,014			$ 372,651		
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Interest-bearing checking	$ 133,645	206	0.62%	$ 119,619	172	0.58%
Savings	50,826	20	0.16%	46,586	17	0.15%
Time, $100,000 and over	17,645	59	1.34%	15,815	75	1.90%
Time, other	50,792	200	1.58%	56,743	305	2.15%
Federal Home Loan Bank advances	12,400	82	2.65%	25,967	261	4.02%
Short-term borrowings	8,369	11	0.53%	12,772	16	0.50%
Total interest-bearing liabilities	273,677	578	0.84%	277,502	846	1.22%
Demand deposits	63,592			52,337		
Other liabilities	2,395			3,440		
Shareholders' equity	39,350			39,372		
Total liabilities and shareholders' equity	$ 379,014			$ 372,651		
Net interest income (tax equivalent basis) (2)		$ 3,298			$3,250	
Interest rate spread (3)			3.55%			3.50%
Net yield on interest-earning assets (4)			3.74%			3.75%
Ratio of average interest-earning assets to average interest-bearing liabilities			128.90%			125.05%

(1) Average yields are computed using annualized interest income and expense for the periods.
(2) Tax equivalence based on highest statutory rate of 34%.
(3) Interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.
(4) Net yield on interest-earning assets represents net interest income as a percentage of average interest-earning assets.

Interest and dividend income totaled $3.7 million, a decrease of $283 thousand for the three months ended March 31, 2011 compared to the same period in 2010. Adjusted on a fully tax-equivalent ("FTE") basis the yield on earning assets in the first three months of 2011 was 4.39% compared to 4.72% in the first three months of 2010. The decrease in the yield on earning assets is primarily related to a lower yield on taxable and nontaxable securities.

Interest expense totaled $578 thousand, a decrease of $268 thousand or 31.7% for the three months ended March 31, 2011 as compared to the same period in 2010. The average cost for interest bearing liabilities was 0.84% for the first three months of 2011 compared to 1.22% for the same period in 2010.

The decrease of 38 basis points from the first three months of 2011 is the result of change in the average volume in the mix of interest bearing liabilities and declining interest rates. Most of the growth in interest-bearing liabilities has occurred in interest-bearing demand accounts. The cost of interest-bearing demand deposits is relatively low compared to other interest-bearing liabilities.

Net interest income decreased $15 thousand, or 0.5% for the three month period ended March 31, 2011 as compared to March 31, 2010. During the first three months of 2011, the interest rate spread on a FTE basis increased by 5 basis points when compared to the first three months of 2010.

Provision for loan losses totaled $147 thousand for the first three months of 2011 compared to $507 thousand for the same period in 2010. The higher than normal provision for loan losses during the quarter ended March 31, 2010 was primarily related to the deterioration of two loan relationships.

Non-performing loans were $4.9 million as of March 31, 2011, compared to $4.9 million as of December 31, 2010. Adversely classified loans decreased to $12.1 million at March 31, 2011 compared to $12.5 million as of December 31, 2010. Adversely classified loans are credits that Bank management has graded special mention, substandard and doubtful. Loans past due 30 through 89 days and still accruing decreased from $1.3 million as of December 31, 2010 to $910 thousand as of March 31, 2011.

Each quarter, management reviews the adequacy of the allowance for loan losses by reviewing the overall quality and risk profile of the Company's loan portfolio, by reviewing specific problem credits and assessing the potential for losses based on expected cash flows or collateral values, by reviewing trends in problem loan levels, by updating loss history for the Company's loans, by analyzing the growth and change in mix of the portfolio, and by analyzing economic trends that are believed to impact the Company's borrowers. Management reviewed all of these factors and determined the allowance for loan losses was adequate as of March 31, 2011.

Noninterest income for the three months ended March 31, 2011 increased to $732 thousand or 17.1%, from $625 thousand for the same period in 2010. The change is primarily related to a $128 thousand gain on sale of the guaranteed portion of five SBA loans, partially offset by the decrease in net gains recorded on the sale of securities from $76 thousand in 2010 to $5 thousand in 2011.

Noninterest expense for the three months ended March 31, 2011 was $3.1 million, an increase of 7.4% from $2.9 million for the same period in 2010. The increase in salaries and employee benefits was primarily related to the opening of the retail banking office in Fairlawn, Ohio and the increase of office hours at all retail banking locations in the fourth quarter of 2010. There were also slight increases to data processing expense and net occupancy expense.

Income tax expense was $49 thousand for the three months ended March 31, 2011 which represents an increase of $41 thousand compared to the same period in 2010. Higher pre-tax income, partially offset by an increase in interest income from tax-exempt securities for the three months ended March 31, 2011, compared to the same period in 2010, are the primary factors causing the increase in income tax expense.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Economic Value of Equity

The economic value of equity, (EVE), is the difference between the net present value of the assets and the net present value of liabilities. EVE can be thought of as the liquidation value of the Bank on the date the calculation is made. Calculating EVE involves using a discount rate to calculate the net present value of assets and liabilities after making assumptions about the duration of assets and liabilities. As interest rates change, the discount rate changes and the change in interest rates effects the duration of assets and liabilities. If interest rates fall, for example, the duration of loans shortens since borrowers tend to prepay. Conversely the duration of loans increases if interest rates rise since borrowers are inclined to hold on to the favorable rate they were able to obtain in the lower interest rate environment.

The Board of Directors has established revised limits on a decline in the economic value of equity (EVE) and earnings at risk (EAR) given changes in interest rates. These limits are that EVE shall not decline by more than 10%, 20% and 30% given a 1%, 2% and 3% increase or decrease in interest rates respectively and that EAR shall not be greater than 8%, 16% or 24% given a 1%, 2% or 3% increase or decrease in interest rates respectively. The following illustrates our equity at risk in the economic value of equity model.

March 31, 2011

Basis Point Change in Rates	+300 bp	+200 bp	+100 bp	-100 bp	-200 bp	-300 bp
Increase (decrease) in EVE	(13.0)%	(6.6)%	(2.0)%	(2.8)%	*nm*	*nm*

December 31, 2010

Basis Point Change in Rates	+300 bp	+200 bp	+100 bp	-100 bp	-200 bp	-300 bp
Increase (decrease) in EVE	(12.9)%	(6.8)%	(1.9)%	(4.3)%	*nm*	*nm*

nm – not meaningful

The Bank is in compliance with the interest rate risk policy limits related to EVE as of March 31, 2011 and December 31, 2010.

Earnings at Risk

Earnings at risk, is the amount by which net interest income will be affected given a change in interest rates. The interest income and interest expense for each category of earning assets and interest bearing liabilities is recalculated after making up and down assumptions about the change in interest rates. Changes in prepayment speeds and repricing speeds are also taken into account when computing earnings at risk given a change in interest rates.

The following illustrates the effect on earnings or EAR given rate increases of 100 to 300 basis points and decreases in interest rates of 100 to 300 basis points.

March 31, 2011

Basis Point Change in Rates	+300 bp	+200 bp	+100 bp	-100 bp	-200 bp	-300 bp
Increase (decrease) in Earnings	1.6%	1.2%	0.6%	(1.0)%	*nm*	*nm*

December 31, 2010

Basis Point Change in Rates	+300 bp	+200 bp	+100 bp	-100 bp	-200 bp	-300 bp
Increase (decrease) in Earnings	(0.7)%	(0.4)%	(0.3)%	(1.4)%	*nm*	*nm*

nm – not meaningful

The Bank is in compliance with the interest rate risk policy limits related to EAR as of March 31, 2011 and December 31, 2010.

Item 4T. Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of the Company’s management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company’s disclosure controls and procedures as of March 31. 2011, pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company’s disclosure controls and procedures were, to the best of their knowledge, effective as of March 31, 2011, in timely alerting them to material information relating to the Company (including its consolidated subsidiary) required to be included in the Company’s periodic SEC filings.

There were no changes in the Company’s internal controls over financial reporting during the three months ended March 31, 2011 that materially affected or are reasonably likely to materially affect the Company’s internal controls over financial reporting.

PART II. OTHER INFORMATION

Item 1.	Legal Proceedings - None
Item 1A.	Risk Factors - There have been no significant changes in the Company's risk factors as outlined in the Company's Form 10-K for the period ending December 31, 2010.
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds - None
Item 3.	Defaults Upon Senior Securities - None
Item 4.	Removed and Reserved
Item 5.	Other Information - None
Item 6.	Exhibits

Exhibit No. Under Reg. S-K, Item 601	Description of Exhibits	If incorporated by Reference, Documents with Which Exhibit Was Previously Filed with SEC
(3.1)	Amended Articles of Incorporation	Annual Report 10-K filed 3/26/04 File No. 000-14773
(3.2)	Code of Regulations	Annual Report 10-K filed 3/26/04 File No. 000-14773
(10.1)	Directors Defined Benefit Plan Agreement	Annual Report 10-K filed 3/29/01 File No. 000-14773
(10.2)	Employment Agreement entered into by David C. Vernon and National Bancshares and First National Bank	Special Report 8-K filed 12/7/06
(10.3)	Special Separation Agreement of James R. VanSickle	Quarterly Report 10-Q filed 8/14/07 File No. 000-14473
(10.4)	Special Separation Agreement of Thomas R. Poe	Quarterly Report 10-Q filed 11/16/09 File No. 000-14473
(10.5)	Special Separation Agreement of Myron Filarski	Quarterly Report 10-Q filed 11/2/10 File No. 000-14473
(10.6)	Amendment to Employment Agreement entered into by David C. Vernon and National Bancshares Corporation and First National Bank	Annual Report 10-K filed 3/29/10 File No. 000-14773
(11)	Computation of Earnings per Share	See Consolidated Statements of Income and Comprehensive Income Page 4
(31.1)	Certification	
(31.2)	Certification	
(32)	Certification	

No other exhibits are required to be filed herewith pursuant to Item 601 of Regulation S-K.

SIGNATURES

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

National Bancshares Corporation

Date: May 6, 2011

/s/David C. Vernon
David C. Vernon, President and
Chief Executive Officer

Date: May 6, 2011

/s/James R. VanSickle
James R. VanSickle, Chief Financial Officer

Exhibit 31.1

CERTIFICATIONS

I, David C. Vernon, certify that:

1. I have reviewed this quarterly report on Form 10-Q of National Bancshares Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2011

/s/ David C. Vernon
David C. Vernon, President and
Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, James R. VanSickle, certify that:

1. I have reviewed this quarterly report on Form 10-Q of National Bancshares Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2011

/s/James R. VanSickle
James R. VanSickle, Chief Financial Officer

Exhibit 32

SECTION 1350 CERTIFICATION OF QUARTERLY REPORT ON FORM 10-Q

OF

NATIONAL BANCSHARES CORPORATION

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2011

The undersigned are the President and Chief Financial Officer of National Bancshares Corporation (the “Registrant”). This Certification is made pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. This Certification accompanies the Quarterly Report on Form 10-Q of the Registrant for the quarterly period ended March 31, 2011.

We certify that such Quarterly Report on Form 10-Q fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in such 10-Q Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

This Certification is executed as of May 6, 2011

/s/ David C. Vernon
David C. Vernon, President and
Chief Executive Officer

/s/ James R. VanSickle
James R. VanSickle, Chief Financial Officer