CHOICEONE FINANCIAL SERVICES INC
Form S-4/A
September 11, 2006

As filed with the Securities and Exchange Commission on September 11, 2006

Registration No. 333-136523

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 1
TO
FORM S-4

REGISTRATION STATEMENT
UNDER THE SECURITIES ACT OF 1933

CHOICEONE FINANCIAL SERVICES, INC.
(Exact Name of Registrant as Specified in its Charter)

Michigan	**6022**	**38-2659066**
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(IRS Employer Identification Number)

109 East Division
Sparta, Michigan 49345
(616) 887-7366
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

	Copies of communications to:
Linda R. Pitsch	**Jeffrey A. Ott**
Senior Vice President	**Warner Norcross & Judd LLP**
109 East Division	**111 Lyon Street, N.W. Suite 900**
Sparta, Michigan 49345	**Grand Rapids, Michigan 49503-2487**
(616) 887-7366	**(616) 752-2000**

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box: o

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

PROSPECTUS AND PROXY STATEMENT

Special Meeting of Shareholders of

VALLEY RIDGE FINANCIAL CORP.

In Connection with an Offering of up to
1,585,590 Shares
of

CHOICEONE FINANCIAL SERVICES, INC.

Common Stock Without Par Value

The Board of Directors of Valley Ridge Financial Corp. ("**Valley Ridge**") is furnishing this Prospectus and Proxy Statement and the accompanying form of proxy on or about September 15, 2006, as a proxy statement to the shareholders of Valley Ridge to solicit proxies to vote at a special meeting of Valley Ridge's shareholders to be held on October 12, 2006, and at any adjournments thereof. At the special meeting, the shareholders of Valley Ridge will be asked to consider and approve an Agreement and Plan of Merger (the "**Plan of Merger**") with ChoiceOne Financial Services, Inc. ("**ChoiceOne**") pursuant to which Valley Ridge would be merged with and into ChoiceOne (the "**Merger**"). The Plan of Merger has already been approved by ChoiceOne's board of directors and is not required to be submitted to its shareholders for approval.

This Prospectus and Proxy Statement, when delivered to shareholders of Valley Ridge, is a prospectus of ChoiceOne relating to an offering of ChoiceOne Common Stock, without par value. This offering is made only to the holders of Valley Ridge Common Stock. (*See* "**The Merger**")

If the Merger is consummated, each share of Valley Ridge Common Stock which is outstanding immediately prior to the effective time of the Merger will be converted into 8.5 shares of ChoiceOne Common Stock, subject to payment in cash for fractional shares. Pursuant to the Plan of Merger, Valley Ridge is also permitted and expects to declare a special cash dividend equal to, in the aggregate, $10 million to the Valley Ridge shareholders prior to closing (the "**Special Dividend**").

The ChoiceOne Common Stock that will be issued to Valley Ridge's shareholders in connection with the Merger is traded in the over-the-counter bulletin board market. There is no well-established public trading market for ChoiceOne Common Stock and trading activity is infrequent.

Valley Ridge shareholders should see "Risk Factors" beginning on page 10 for a discussion of factors that they should consider with respect to the ChoiceOne Common Stock offered by this Prospectus and Proxy Statement. Consummation of the Merger is subject to approval of the Plan of Merger by the shareholders of Valley Ridge, regulatory approvals and certain other conditions. (*See* "**The Merger--Conditions to the Merger and Abandonment**")

In the opinion of Donnelly Penman & Partners, the consideration to be offered and received in the Merger is fair, from a financial point of view, to the shareholders of Valley Ridge. (See "**The Merger--Fairness Opinion of Donnelly Penman & Partners**")

Your vote is important. Approval of the proposed Merger requires the affirmative vote of a majority of the outstanding shares of Valley Ridge Common Stock. Whether or not you expect to attend the meeting in person, please sign and date the enclosed Proxy and mail it promptly in the enclosed envelope.

The shares of ChoiceOne Common Stock to be issued in the Merger are not deposits or savings accounts or other obligations of any bank or savings association, and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

This Prospectus and Proxy Statement is dated September 14, 2006

AVAILABLE INFORMATION

ChoiceOne is currently subject to the information and reporting requirements of the Securities Exchange Act of 1934, as amended. ChoiceOne has filed a Registration Statement with the Securities and Exchange Commission (the "**Commission**") relating to the ChoiceOne Common Stock offered in connection with the proposed Merger described in this Prospectus and Proxy Statement. This Prospectus and Proxy Statement does not contain all of the information set forth in the Registration Statement, certain portions of which are omitted in accordance with the rules and regulations of the Commission. Reference is hereby made to the Registration Statement and exhibits thereto for further information about ChoiceOne, Valley Ridge, and their respective securities. The Registration Statement is available at http://www.sec.gov. Valley Ridge shareholders can also obtain copies of all or part of the Registration Statement upon written or oral request directed to Thomas Lampen, Treasurer, ChoiceOne Financial Services, Inc., 109 East Division, Sparta, Michigan 49345, (616) 887-7366**. A shareholder making such a request must request the information at least five business days prior to the date they must make their investment decision to ensure timely delivery. Accordingly, the deadline for a Valley Ridge shareholder to make a request is October 5, 2006.**

VALLEY RIDGE FINANCIAL CORP.

450 W. Muskegon
Kent City, Michigan 49330

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

To the shareholders of Valley Ridge Financial Corp.:

A special meeting of shareholders of Valley Ridge Financial Corp. will be held at Moss Ridge Golf Club, 13545 Apple Avenue, Ravenna, Michigan, on October 12, 2006 at 10:00 a.m. local time, for the following purposes:

1. To consider and vote upon a proposal to approve an Agreement and Plan of Merger between Valley Ridge Financial Corp. and ChoiceOne Financial Services, Inc.

2. To transact such other business as may properly come before the meeting.

The Board of Directors has established the close of business on September 1, 2006, as the record date for the determination of shareholders entitled to notice of and to vote at the meeting and any adjournment thereof. Shareholders of Valley Ridge are entitled to assert dissenters' rights under the Michigan Business Corporation Act ("MBCA") with respect to the Merger as provided in and in compliance with the provisions of the MBCA.

By Order of the Board of Directors,

Michael E. McHugh, Secretary

September 15, 2006

YOUR VOTE IS IMPORTANT. EVEN IF YOU PLAN TO ATTEND THE MEETING, PLEASE SIGN, DATE AND RETURN THE ENCLOSED PROXY PROMPTLY.

QUESTIONS AND ANSWERS ABOUT THE MERGER

Q: **What am I being asked to vote on?**

A: You are being asked to vote to approve an Agreement and Plan of Merger entered into between ChoiceOne and Valley Ridge (attached as Appendix A to this Prospectus and Proxy Statement). If the Plan of Merger is approved, Valley Ridge will merge with and into ChoiceOne.

Q: **If I own Valley Ridge Common Stock, what will I receive in the Merger?**

A: Each share of Valley Ridge Common Stock you own will be converted into 8.5 shares of ChoiceOne Common Stock, subject to payment in cash for fractional shares. Valley Ridge may and expects to declare a special cash dividend equal to, in the aggregate, $10,000,000 to the Valley Ridge shareholders prior to closing (the "**Special Dividend**"). This would equal approximately $53.60 per share, based upon the 184,495 shares of Valley Ridge Common Stock outstanding as of the date of the Plan of Merger and assuming that all of the 2,045 outstanding stock options of Valley Ridge Common Stock are exercised prior to the record date of the Special Dividend.

Q: **If I have been granted options to buy Valley Ridge Common Stock, what happens to the options in the Merger?**

A: Each outstanding option to acquire Valley Ridge Common Stock that is unexercised will, at the effective time of the Merger, be terminated and converted to a right to receive a cash amount equal to the difference between $153.00 and the applicable stock option exercise price.

Q: **What are the tax consequences of the Merger to me?**

A: Generally speaking, Valley Ridge shareholders will not recognize taxable income by reason of receiving shares of ChoiceOne Common Stock in the Merger (except to the extent of cash received in lieu of fractional shares). Shares of ChoiceOne Common Stock that Valley Ridge shareholders receive in the Merger will have the same basis and holding period as the respective shares of Valley Ridge Common Stock surrendered in the Merger. However, any cash received by Valley Ridge shareholders from the Special Dividend or in lieu of fractional shares of ChoiceOne Common Stock will be taxable. You should carefully review the section of this Prospectus and Proxy Statement entitled "The Merger--Federal Income Tax Consequences." In addition, you should consult your own tax advisors for a full understanding of the tax consequences of the Merger.

Q: **Who can vote and what vote is required to approve the Plan of Merger?**

A: Valley Ridge shareholders of record on September 1, 2006, or the record date, are entitled to receive notice of and vote at the special meeting. The affirmative vote of the holders of a majority of the shares of Valley Ridge Common Stock outstanding as of the record date for the special meeting is required to approve the Plan of Merger.

Q: **What should I do now?**

A: After you have carefully read this Prospectus and Proxy Statement, simply indicate on your proxy card how you want to vote with respect to the Merger proposal. Complete, sign, date, and mail the proxy card in the enclosed postage-paid return envelope as soon as possible so that your shares will be represented and voted at the meeting. The Board of Directors of Valley Ridge unanimously recommends that Valley Ridge shareholders vote in favor of the Merger proposal.

Q: **Why is my vote important?**

A: If you do not return your proxy card at or prior to the special meeting, it will have the same effect as a vote against the Merger proposal.

Q: **Can I change my vote after I have mailed my signed proxy card?**

A: Yes. If you have not voted through your broker, there are two ways for you to revoke your proxy and change your vote. First, you may send a written notice to the President of Valley Ridge stating that you would like to revoke your proxy, which notice must be received prior to the meeting date. Second, you may vote in person at the special meeting. If you have instructed a broker to vote your shares, you must follow the directions you receive from your broker to change your vote. Your last vote will be the vote that is counted.

Q: **If my shares are held in "street name" by my broker, will my broker vote my shares for me?**

A: Without instructions from you, your broker cannot vote your shares on the Merger proposal. If your shares are held in street name, you should instruct your broker as to how to vote your shares, following the instructions contained in the voting instructions card that your broker provides to you. Without instructions, your shares will not be voted, which will have the same effect as if you voted against the Merger proposal.

Q: **What risks should I consider before I vote on the Plan of Merger?**

A: We encourage you to read carefully the detailed information about the Merger contained in this Prospectus and Proxy Statement, including the section entitled "Risk Factors" beginning on page 10.

Q: **Do I have appraisal or dissenters' rights if I object to the Merger?**

A: Yes. Under Michigan law, shareholders of Valley Ridge may dissent from the proposed Merger and be paid the "fair value" for their shares of Valley Ridge Common Stock if the Merger is approved. To be entitled to this payment, you must not vote for approval of the Merger proposal and deliver a written notice of dissent to Valley Ridge at or before the special meeting. You should read carefully the section of this Prospectus and Proxy Statement entitled "Rights of Dissenting Shareholders."

Q: **Should I send in my stock certificates now?**

A: No. After the Merger is completed, we will send Valley Ridge shareholders written instructions for exchanging their stock certificates for ChoiceOne stock certificates. ChoiceOne shareholders will keep their existing stock certificates.

Q: **Whom should I contact with questions about the special meeting or the Merger?**

A:

Valley Ridge Financial Corp. 450 W. Muskegon Kent City, Michigan 49330 Attn: President (616) 678-5911	ChoiceOne Financial Services, Inc. 109 E. Division Sparta, Michigan 49345 Attn: President (616) 887-7366

PROSPECTUS AND PROXY STATEMENT

Special Meeting of Shareholders of

VALLEY RIDGE FINANCIAL CORP.
450 W. Muskegon
Kent City, Michigan 49330
(616) 678-5911

To vote to approve
an Agreement and Plan of Merger
involving an Offering of Common Stock, without par value, of

CHOICEONE FINANCIAL SERVICES, INC.

INTRODUCTION AND SUMMARY

Introduction

ChoiceOne Financial Services, Inc. ("**ChoiceOne**") and Valley Ridge Financial Corp. ("**Valley Ridge**") are furnishing this Prospectus and Proxy Statement and the accompanying form of proxy on or about September 15, 2006, to record holders of Valley Ridge common stock, without par value ("**Valley Ridge Common Stock**"), on September 1, 2006. The board of directors of Valley Ridge is soliciting proxies from its shareholders to vote at a special meeting of Valley Ridge shareholders, to be held on October 12, 2006 at Moss Ridge Golf Club, 13545 Apple Avenue, Ravenna, Michigan at 10:00 a.m., and at any adjournments thereof. In this Prospectus and Proxy Statement, ChoiceOne and Valley Ridge are each sometimes referred to as a "**Corporation**" and collectively as the "**Corporations**," and the combined surviving corporation is sometimes referred to as the "**Combined Organization**."

The purpose of the special meeting of Valley Ridge's shareholders is to consider and vote on approval of the Agreement and Plan of Merger (the "**Plan of Merger**") attached as **Appendix A** to this Prospectus and Proxy Statement. The Plan of Merger provides for the merger of Valley Ridge with and into ChoiceOne (the "**Merger**"). Under the Plan of Merger, each share of Valley Ridge Common Stock that is outstanding immediately prior to the effective time of the Merger will be converted into 8.5 shares of ChoiceOne common stock, without par value ("**ChoiceOne Common Stock**"), subject to payment in cash for fractional shares. In addition, the Plan of Merger permits Valley Ridge's board of directors to declare a one-time special dividend equal to, in the aggregate, $10,000,000 (the "**Special Dividend**"). Based upon the 184,495 shares of Valley Ridge Common Stock outstanding as of the date of the Plan of Merger and assuming that all of the 2,045 outstanding stock options for Valley Ridge Common Stock are exercised prior to the record date for the Special Dividend, the Special Dividend would equal approximately $53.60 per share. Each share of ChoiceOne Common Stock that is outstanding immediately prior to the effective time of the Merger will remain outstanding after the Merger. Donnelly Penman & Partners ("**Donnelly Penman**") has rendered a written opinion that the consideration to be offered and received in the Merger is fair from a financial point of view to the shareholders of Valley Ridge. See "**The Merger--Fairness Opinion of Donnelly Penman & Partners**." Approval of the Plan of Merger requires the affirmative vote of the holders of a majority of the outstanding shares of Valley Ridge Common Stock. (*See* "**The Merger**") It is not anticipated that any other matter will come before the special meeting. A majority of the issued and outstanding shares of Valley Ridge Common Stock represented in person or by proxy is required to constitute a quorum for the transaction of business at the special meeting of Valley Ridge's shareholders. As of August 25, 2006, directors and executive officers of Valley Ridge and their affiliates beneficially owned 29.40% of the outstanding shares of Valley Ridge Common Stock.

ChoiceOne's board of directors unanimously voted to approve the Plan of Merger at its April 25, 2006, meeting. Valley Ridge's board of directors unanimously voted to approve the Plan of Merger at its April 25, 2006, meeting. (See "**Voting and Management Information--Interests of Certain Persons**.")

THE BOARD OF DIRECTORS OF VALLEY RIDGE UNANIMOUSLY RECOMMENDS A VOTE FOR APPROVAL OF THE PLAN OF MERGER.

The Companies

ChoiceOne Financial Services, Inc.
109 East Division
P.O. Box 186
Sparta, Michigan 49345-0186
(616) 887-7366

ChoiceOne is a Michigan corporation and bank holding company headquartered in Sparta, Michigan. ChoiceOne is the parent company of ChoiceOne Bank ("**ChoiceOne Bank**"). ChoiceOne Bank is the parent company of ChoiceOne Insurance Agencies, Inc. and ChoiceOne Mortgage Company of Michigan. ChoiceOne Bank also owns a 20% interest in West Shore Computer Services, Inc., a data processing company. ChoiceOne Bank operates 5 banking offices located in Sparta, Rockford, Comstock Park and Cedar Springs, Michigan. At June 30, 2006, ChoiceOne Bank had assets of $249.3 million, deposits of $188.0 million, and a net loan portfolio of $181.5 million, and its assets represented 99% of ChoiceOne's consolidated assets. At June 30, 2006, ChoiceOne, on a consolidated basis, had shareholders' equity of $22.1 million.

ChoiceOne and ChoiceOne Bank are engaged in the business of commercial banking and other related activities. ChoiceOne Bank is a full service bank offering customary commercial banking services, which include mortgage banking, commercial and retail loans, business and personal checking accounts, savings and individual retirement accounts, time deposit instruments, automated transaction machine services, money transfer services, and safe deposit facilities. ChoiceOne's principal markets for financial services presently are the Michigan communities in which ChoiceOne Bank's offices are located and the areas immediately surrounding those communities.

ChoiceOne has authorized capital stock consisting of 4,000,000 shares of ChoiceOne Common Stock, of which 1,660,974 shares were issued and outstanding on August 25, 2006, and 100,000 shares of preferred stock, none of which were issued or outstanding as of August 25, 2006. As of August 25, 2006, there were 606 record holders of shares of ChoiceOne Common Stock. ChoiceOne Bank's deposits are insured by the Federal Deposit Insurance Corporation ("**FDIC**"), subject to applicable limitations. ChoiceOne Bank is a member of the Federal Reserve System.

Upon consummation of the Merger, ChoiceOne would have approximately 3,246,564 shares issued and outstanding. This is based upon a conversion ratio for Valley Ridge Common Stock (8.5), as applied to the 186,540 shares of Valley Ridge Common Stock outstanding as of August 25, 2006, added to the 1,660,974 shares of ChoiceOne Common Stock outstanding as of August 25, 2006. The actual number of shares outstanding may vary in the event that either ChoiceOne or Valley Ridge issue stock pursuant to the exercise of stock options or if ChoiceOne issues common stock pursuant to its dividend reinvestment plan, or other director or employee benefit plans. ChoiceOne is a reporting company under the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), and is required to file reports containing financial and certain other information with the Securities and Exchange Commission (the "**Commission**").

Valley Ridge Financial Corp.
450 W. Muskegon
Kent City, Michigan 49330
(616) 678-5911

Valley Ridge is a Michigan corporation and bank holding company headquartered in Kent City, Michigan. Valley Ridge is the parent company of Valley Ridge Bank ("**Valley Ridge Bank**"). Valley Ridge Bank is the parent company of Valley Ridge Mortgage Company, Valley Ridge Financial Services, Inc. and Valley Ridge Realty, Inc. Valley Ridge Bank also owns a 20% interest in West Shore Computer Services, Inc., a data processing company. Valley Ridge Bank operates 9 banking offices located in Kent City, Fremont, Ravenna, Coopersville, Grant, Sparta, Muskegon, Newaygo and White Cloud, Michigan. At June 30, 2006, Valley Ridge had assets of $214.1 million, deposits of $170.4 million, a net loan portfolio of $146.2 million, and shareholders' equity of $21.1 million.

Valley Ridge and Valley Ridge Bank are engaged in the business of commercial banking and other related activities. Valley Ridge Bank is a full service bank offering customary commercial banking services, which include mortgage banking, commercial and retail loans, business and personal checking accounts, savings and individual retirement accounts, time deposit instruments, automated transaction machine services, money transfer services, and safe deposit facilities. Valley Ridge's principal markets for financial services presently are the Michigan communities in which Valley Ridge Bank's offices are located and the areas immediately surrounding those communities.

Valley Ridge has authorized capital stock consisting of 1,500,000 shares of Valley Ridge Common Stock, of which 184,870 shares were issued and outstanding on August 25, 2006. As of August 25, 2006, there were 282 record holders of shares of Valley Ridge Common Stock. Valley Ridge Bank's deposits are insured by the FDIC, subject to applicable limitations. Valley Ridge Bank is a member of the Federal Reserve System.

Summary of Certain Aspects of the Merger

Valley Ridge shareholders should consider the following summary in conjunction with the more detailed information appearing elsewhere in this Prospectus and Proxy Statement. See "**The Merger**."

Background of the Merger. In late 2005, Richard L. Edgar, the President of Valley Ridge, contacted James A. Bosserd, the President of ChoiceOne, to explore the possibility of enhancing shareholder value for both organizations through an affiliation of ChoiceOne and Valley Ridge. Following preliminary discussions between Mr. Edgar and Mr. Bosserd, the board of directors of ChoiceOne submitted a proposal to Valley Ridge under which the two Corporations would merge. Valley Ridge's board of directors determined that ChoiceOne's proposal presented an excellent opportunity for enhancing shareholder value while preserving involvement in the Combined Organization of members of the communities served by Valley Ridge and ChoiceOne. After an exchange of information and preliminary negotiations, ChoiceOne and Valley Ridge entered into the Plan of Merger on April 25, 2006, following approval of the Plan of Merger by their respective boards of directors. ChoiceOne's board of directors and Valley Ridge's board of directors, and their respective representatives, negotiated the conversion ratio and other terms of the Plan of Merger on an arm's-length basis. The boards of directors of both ChoiceOne and Valley Ridge view the proposed Merger as a strategic merger of the two Corporations into the Combined Organization, not a purchase of Valley Ridge by ChoiceOne, and the transaction has been negotiated and structured accordingly.

Consideration to be Received in the Merger. If the Merger is consummated, Valley Ridge will be merged with and into ChoiceOne. The surviving corporation will be ChoiceOne. The surviving corporation will own Valley Ridge Bank and all of the other assets of Valley Ridge as well as ChoiceOne Bank and all of the assets of ChoiceOne.

Each share of Valley Ridge Common Stock outstanding at the time the Merger becomes effective will be converted into 8.5 shares of ChoiceOne Common Stock, subject to payment in cash for fractional shares. In the event that the number of shares of Valley Ridge Common Stock is greater than 184,495 for any reason other than as the result of the issuance of up to 2,045 shares of Valley Ridge Common Stock pursuant to the exercise of stock options that existed as of the date of the Plan of Merger, then the conversion ratio shall be adjusted accordingly. In addition, Valley Ridge is permitted under the Plan of Merger to declare a one-time special cash dividend to the Valley Ridge shareholders that equals, in the aggregate, $10,000,000 (the "**Special Dividend**"). Based upon the 184,495 shares of Valley Ridge Common Stock outstanding on the date of the Plan of Merger and assuming that all of the 2,045 outstanding stock options for Valley Ridge Common Stock are exercised prior to the record date for the Special Dividend, this would equal approximately $53.60 per share.

Pursuant to the Plan of Merger, both Valley Ridge and ChoiceOne may declare and pay cash dividends upon shares of their common stock quarterly at a rate, in a manner, on dates and with respect to record dates consistent with their respective past practices. However, Valley Ridge is required by the Plan of Merger to adjust the record date for its regularly scheduled dividend with respect to the period in which the Merger will become effective if necessary to assure that Valley Ridge shareholders receive one and only one dividend (besides the Special Dividend) payable in, or with a record date occurring in, the quarter in which the Merger becomes effective.

ChoiceOne will not issue fractional shares of ChoiceOne Common Stock in the Merger. A Valley Ridge shareholder who would otherwise be entitled to receive a fraction of a share of ChoiceOne Common Stock in the Merger will receive instead an amount of cash determined by multiplying that fraction by $18.00.

ChoiceOne Common Stock. Holders of ChoiceOne Common Stock are entitled to dividends out of funds legally available for that purpose when, as, and if declared by the board of directors. Each holder of ChoiceOne Common Stock is entitled to one vote for each share held on each matter submitted for shareholder action. ChoiceOne Common Stock has no preemptive rights, cumulative voting rights, conversion rights or redemption provisions.

In the case of any liquidation, dissolution or winding up of the affairs of ChoiceOne, holders of ChoiceOne Common Stock will be entitled to receive, pro rata, any assets distributable to common shareholders in proportion to the number of shares held by them.

All outstanding shares of ChoiceOne Common Stock are, and shares to be issued pursuant to the Merger will be, when issued, fully paid and nonassessable.

ChoiceOne's Restated Articles of Incorporation and Bylaws, as well as the Michigan Business Corporation Act (the "**MBCA**"), contain provisions designed to protect shareholders' rights, which could have an effect of delaying, deferring or preventing a change in control of ChoiceOne, including without limitation the classification of ChoiceOne's board of directors into three classes, with each class serving a staggered, three-year term. (See "**The Merger--Provisions Affecting Control of ChoiceOne**.")

Fairness Opinion. The board of directors of Valley Ridge has engaged Donnelly Penman to render its opinion on the consideration to be received in the Merger. Donnelly Penman has rendered an opinion to the effect that the consideration to be offered and received in the Merger is fair from a financial point of view to the shareholders of Valley Ridge. The opinion of Donnelly Penman is attached as Appendix B to this Prospectus and Proxy Statement. For a more detailed description of this opinion, see "**The Merger--Fairness Opinion of Donnelly Penman & Partners**."

Consummation of the Merger. Consummation of the Merger is subject to certain conditions, including among others that the shareholders of Valley Ridge approve the Plan of Merger, that necessary regulatory approvals be obtained, that no proceeding seeking to prevent the Merger be pending or threatened, that ChoiceOne and Valley Ridge obtain various ancillary certificates, opinions and agreements, and that holders of not more than 10% of the outstanding shares of Valley Ridge Common Stock shall have asserted dissenters' rights with respect to their shares under Section 762 of the MBCA. At any time prior to the effective time of the Merger, the boards of directors of ChoiceOne and Valley Ridge may by mutual consent abandon the Merger. In addition, for certain specified reasons the board of directors of either ChoiceOne or Valley Ridge may abandon the Merger. (See "**The Merger--Conditions to the Merger and Abandonment**.")

It is expected that the closing of the Merger will occur, and the Merger will become effective, on or before November 30, 2006.

Vote Required. Pursuant to the MBCA, the vote of the shareholders of ChoiceOne is not required to approve the Plan of Merger. Pursuant to the MBCA, the affirmative vote of the holders of a majority of the outstanding shares of Valley Ridge Common Stock is required to approve the Plan of Merger. The board of directors of Valley Ridge has fixed September 1, 2006, as the record date (the "**Record Date**") for purposes of determining those shareholders who will be entitled to vote at the special meeting of Valley Ridge shareholders to be held on October 12, 2006. Each share of Valley Ridge Common Stock will entitle the holder of record on the Record Date to one vote on each matter submitted for shareholder action at the shareholders' meeting. As of August 25, 2006, Valley Ridge's directors and executive officers and their affiliates held 29.40% of the outstanding shares of Valley Ridge Common Stock. (See "**Voting and Management Information--Interests of Certain Persons.**") Therefore, if all directors and executive officers of Valley Ridge and their affiliates vote the shares beneficially owned by them in favor of approval of the Plan of Merger, the affirmative vote of only an additional 20.61% of the outstanding shares of Valley Ridge Common Stock would be required to approve the Plan of Merger.

As of the Record Date for the special meeting of Valley Ridge shareholders, there were 184,870 shares of Valley Ridge Common Stock outstanding held by 282 shareholders of record.

Regulatory Approvals. Completion of the Merger is subject to the approval of the Board of Governors of the Federal Reserve System (the "**Federal Reserve Board**"). The Merger cannot be completed for a period of 30 days after the date of the Federal Reserve Board's final approval unless the Department of Justice shortens this period to 15 days. During this period, the United States Department of Justice may review the competitive effects of the Merger to determine whether it will take action to block the Merger. The applications to obtain such approval have been filed with the Federal Reserve Board as of the date of this Prospectus and Proxy Statement. Although we do not know of any reason why we could not obtain these regulatory approvals in a timely manner, we cannot be certain when or if we will obtain them.

Dissenters' Rights. Under the provisions of Section 762 of the MBCA, any Valley Ridge shareholder may dissent from the proposed Merger and be paid the "fair value" of his or her shares if the Plan of Merger is approved by the shareholders of Valley Ridge and the proposed Merger is completed by complying with the procedures set forth in Sections 761 through 774 of the MBCA. To be entitled to payment of the fair value of shares of Valley Ridge Common Stock, a shareholder of Valley Ridge must not vote for approval of the Plan of Merger at the special meeting of shareholders and must deliver written notice of dissent to Valley Ridge at or before the special meeting. A shareholder may not dissent as to less than all of the shares of Valley Ridge Common Stock beneficially owned by him or her. A dissenting shareholder must also submit a written demand for payment, accompanied by certain representations and his or her stock certificates, to Valley Ridge within 30 days (or such longer period up to 60 days as may be permitted by the applicable Corporation) after notice is given to the shareholder of approval of the Plan of Merger. See "**Rights of Dissenting Shareholders**." If dissenters' rights are asserted with respect to more than 10% of the outstanding shares of Valley Ridge Common Stock, either Corporation may terminate the Plan of Merger and abandon the Merger. Shareholders of Valley Ridge who do not want to vote in favor of approval of the Plan of Merger, but who also do not wish to perfect dissenters' rights pursuant to the MBCA, would continue to have the ability to sell their shares in the open market until the Merger becomes effective if approved.

Shareholders of Valley Ridge who would like to assert dissenters' rights may send a written notice of dissent to Mr. Richard L. Edgar, Valley Ridge Financial Corp., 450 W. Muskegon, Kent City, Michigan 49330.

Federal Income Tax Consequences. As a condition precedent to consummation of the Merger, ChoiceOne and Valley Ridge must each receive an opinion from ChoiceOne's legal counsel regarding the federal income tax consequences of the Merger. Such opinion of ChoiceOne's counsel must be substantially to the effect, among other matters, that Valley Ridge shareholders will not recognize taxable income by reason of receiving shares of ChoiceOne Common Stock in the Merger (except to the extent of cash received in lieu of fractional shares), and that shares of ChoiceOne Common Stock that Valley Ridge shareholders receive in the Merger will have the same basis and holding period as the respective shares of Valley Ridge Common Stock surrendered in exchange therefor. Cash received by Valley Ridge shareholders from the Special Dividend and in lieu of fractional shares of ChoiceOne Common Stock will be taxable. (See "**The Merger--Federal Income Tax Consequences**.")

Accounting Treatment. ChoiceOne expects to account for the Merger under the purchase method of accounting. (See "**The Merger--Accounting Treatment**.")

Market Value of Shares

There is no well-established public trading market for either ChoiceOne Common Stock or Valley Ridge Common Stock and trading activity is infrequent. Transactions in ChoiceOne Common Stock and Valley Ridge Common Stock are occasionally effected by individuals on an informal basis. ChoiceOne Common Stock is traded in the over-the-counter bulletin board market. Some transactions are effected through the involvement of local brokerage firms. The prices at which such transactions are effected are only occasionally available to ChoiceOne and Valley Ridge.

The following table sets forth the price of ChoiceOne Common Stock in the last sale prior to April 26, 2006 (the date of the public announcement of the signing of the Plan of Merger), for which the price was reported to ChoiceOne management, the price of Valley Ridge Common Stock in the last sale prior to April 26, 2006, for which the price was reported to Valley Ridge management, and the estimated value of ChoiceOne Common Stock to be received for each share of Valley Ridge Common Stock on an equivalent per share basis:

ChoiceOne Common Stock Last Reported Sale Price Prior to 4/26/06	**Valley Ridge Common Stock Last Reported Sale Price Prior to 4/26/06**	**Equivalent Per Share (not including Special Dividend)**(1)
$18.25	$197.50	$155.13

(1) The Equivalent Per Share value of Valley Ridge Common Stock is the estimated market value of ChoiceOne Common Stock to be received in the Merger by Valley Ridge shareholders for each share of Valley Ridge Common Stock. This value is estimated assuming a market value of $18.25 per share for ChoiceOne Common Stock and using a conversion ratio of 8.5 shares of ChoiceOne Common Stock for each share of Valley Ridge Common Stock. The equivalent per share price does not include the Special Dividend that Valley Ridge is authorized and expected to pay, which is expected to equal approximately $53.60 per Valley Ridge share assuming all Valley Ridge stock options are exercised.

As of August 25, 2006, there were 1,660,974 shares of ChoiceOne Common Stock issued and outstanding held by 606 holders of record. As of August 25, 2006, there were 184,870 shares of Valley Ridge Common Stock issued and outstanding held by 282 holders of record.

Selected Unaudited Financial Data

The following unaudited table presents selected historical financial information and selected pro forma combined financial information for ChoiceOne and Valley Ridge. This information should be read in conjunction with the historical and pro forma financial statements and notes thereto included elsewhere in this Prospectus and Proxy Statement. The pro forma combined financial information gives effect to the Merger as if the Merger occurred on January 1 of the year presented. The pro forma combined financial information may not be indicative of the results that actually would have occurred if the Merger had been in effect on that date or that may be attained in the future. The pro forma combined financial information has been prepared on the assumption that the Merger will be accounted for under the purchase method of accounting. (See "**The Merger--Pro Forma Condensed Combined Financial Statements**.")

CHOICEONE FINANCIAL SERVICES, INC. AND VALLEY RIDGE FINANCIAL CORP.
SELECTED UNAUDITED CONSOLIDATED FINANCIAL DATA AND PER SHARE DATA

CHOICEONE FINANCIAL SERVICES, INC. (HISTORICAL)

	Six Months Ended June 30,		Year Ended December 31,				
	2006	2005	2005	2004	2003	2002	2001
	(Unaudited) (Dollars in thousands, except per share data)						
Net interest income	$ 3,861	$ 3,979	$ 8,045	$ 7,672	$ 7,775	$ 8,106	$ 7,603
Net income	1,080	1,061	2,166	1,854	2,101	1,643	1,458
Total assets (period end)	250,628	238,076	248,110	232,285	215,467	212,324	197,791
Other borrowings	38,584	45,071	42,288	41,869	46,937	38,667	42,027
Shareholders' equity	22,084	21,461	21,717	21,069	20,568	19,359	18,273
Net income per share (diluted)	0.65	0.64	1.31	1.13	1.29	1.01	0.90
Dividends declared per share	0.34	0.33	0.67	0.65	0.65	0.64	0.62

VALLEY RIDGE FINANCIAL CORP. (HISTORICAL)

	Six Months Ended June 30,		Year Ended December 31,				
	2006	2005	2005	2004	2003	2002	2001
	(Unaudited) (Dollars in thousands, except per share data)						
Net interest income	$ 4,104	$ 3,761	$ 7,691	$ 7,130	$ 6,972	$ 7,707	$ 7,298
Net income	910	876	2,151	2,019	2,083	2,055	1,726
Total assets (period end)	214,055	200,695	216,285	198,673	193,564	189,300	169,811
Other borrowings	19,667	23,390	26,879	23,209	18,820	27,083	26,353
Shareholders' equity	21,095	20,338	20,883	19,945	19,170	19,252	17,543
Net income per share (diluted)	4.92	4.76	11.64	10.88	10.86	10.80	9.10
Dividends declared per share	2.70	2.60	5.20	4.65	4.00	4.00	3.75

PRO FORMA CHOICEONE FINANCIAL SERVICES, INC. AND VALLEY RIDGE FINANCIAL CORP. COMBINED USING AN 8.5 EXCHANGE RATIO

	Six Months Ended June 30, 2006	Year Ended December 31, 2005
	(Unaudited) (Dollars in thousands, except per share data)	
Net interest income	$ 8,255	$ 16,010
Net income	1,949	4,034
Total assets (period end)	474,673	474,385
Other borrowings	57,992	68,908
Shareholders' equity	51,417	50,838
Net income per share (diluted)	0.60	1.25

Dividends declared per share	0.32	0.64
Weighted average number of shares outstanding (diluted)	3,242,673	3,237,048

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(1) Net income per share is calculated by dividing net income for the period by the average number of common shares outstanding plus the dilutive effect of assumed exercises of stock options (see "**Introduction and Summary--Comparative Per Share Data**") for the period.

(2) ChoiceOne and Valley Ridge have adjusted historical information to reflect stock splits and stock dividends.

(3) The pro forma ChoiceOne and Valley Ridge combined data reflects the combined results of ChoiceOne and Valley Ridge after giving effect to the purchase method of accounting. For illustrative purposes, the combined results assume the Merger was consummated on January 1 of the year presented.

The per share data was calculated assuming the issuance of 1,585,590 shares of ChoiceOne Common Stock in the Merger, which is based on a conversion ratio of 8.5 shares of ChoiceOne Common Stock for each outstanding share of Valley Ridge Common Stock. These numbers have been rounded for convenience of presentation.

The number of shares to be issued upon consummation of the Merger is dependent upon factors specified in the Plan of Merger to be determined in the future which cannot be determined before that date. The pro forma financial results included in this table are for illustrative purposes only.

(4) ChoiceOne and Valley Ridge have maintained capital positions in excess of minimum capital requirements. Risk-based ratios as of June 30, 2006 were as follows:

Risk-based ratios	ChoiceOne	Valley Ridge	Pro Forma
Tier 1 Leverage Capital	9.17%	10.08%	7.17%
Tier 1 Risk-Based Capital	12.36%	14.04%	9.61%
Total Risk-Based Capital	13.38%	15.18%	10.69%

Comparative Per Share Data

The following unaudited table sets forth certain historical and pro forma combined per share information for ChoiceOne, and certain historical and equivalent pro forma combined per share information for Valley Ridge. The data is derived from financial statements of ChoiceOne and Valley Ridge included elsewhere in this Prospectus and Proxy Statement. The pro forma combined per share information for ChoiceOne and the equivalent pro forma combined per share information for Valley Ridge are stated as if the Merger had occurred on January 1 of the year presented, giving effect to the proposed transaction under the purchase method of accounting.

CHOICEONE FINANCIAL SERVICES, INC. (HISTORICAL)

	Six Months Ended June 30, 2006	Year Ended December 31, 2005
	(Unaudited)	
Net income per share (diluted)	$ 0.65	$ 1.31
Dividends declared per share	$ 0.34	$ 0.67
Book value per share (period end)	$ 13.31	$ 13.16
Average shares outstanding	1,653,882	1,647,264
Shares outstanding (period end)	1,659,761	1,649,940

VALLEY RIDGE FINANCIAL CORP. (HISTORICAL)

	Six Months Ended June 30, 2006	Year Ended December 31, 2005
	(Unaudited)	
Net income per share (diluted)	$ 4.92	$ 11.64
Dividends declared per share	$ 2.70	$ 5.20
Book value per share (period end)	$ 114.15	$ 113.19
Average shares outstanding	184,519	184,342
Shares outstanding (period end)	184,803	184,495

PRO FORMA CHOICEONE FINANCIAL SERVICES, INC. AND VALLEY RIDGE FINANCIAL CORP. COMBINED USING AN 8.5 EXCHANGE RATIO

	Six Months Ended June 30, 2006	Year Ended December 31, 2005
	(Unaudited)	(Unaudited)
Net income per share (diluted)	$ 0.60	$ 1.25
Dividends declared per share	$ 0.33	$ 0.64
Book value per share (period end)	$ 15.92	$ 15.80
Average shares outstanding (diluted)	3,242,673	3,237,048
Shares outstanding (period end)	3,230,587	3,218,148

PRO FORMA VALLEY RIDGE FINANCIAL CORP. SHARE EQUIVALENT USING AN 8.5 EXCHANGE RATIO

	Six Months Ended June 30, 2006	Year Ended December 31, 2005
	(Unaudited)	(Unaudited)
Net income per share (diluted)	$ 0.58	$ 1.37
Dividends declared per share	$ 0.32	$ 0.61
Book value per share (period end)	$ 13.43	$ 13.32

(1) Net income per share is calculated by dividing net income for the period (see "**Introduction and Summary--Selected Unaudited Financial Data**") by the average number of common shares outstanding plus the dilutive effect of assumed exercises of stock options for the period. Book value per share is calculated by dividing total shareholders' equity at the end of the period (see **"Introduction and Summary--Selected Unaudited Financial Data**") by the number of shares outstanding at the end of the period.

(2) Valley Ridge and ChoiceOne have adjusted historical information to reflect stock splits and stock dividends.

(3) The Valley Ridge equivalent pro forma combined per share information is calculated by multiplying the pro forma income per share, pro forma book value per share, and the pro forma dividends per share of ChoiceOne by a conversion ratio so that the per share amounts are equated to the respective values for one share of Valley Ridge. This information is based upon a conversion ratio of 8.5.

RISK FACTORS

In addition to the other information included in this Prospectus and Proxy Statement, you should carefully consider the matters described below in determining whether to approve the Plan of Merger.

Risks Associated with the Merger and ChoiceOne Common Stock

Absence of a public trading market.

ChoiceOne Common Stock is traded in the over-the-counter bulletin board market in occasional transactions. As of the date of this Prospectus and Proxy Statement, there is no well established public trading market for ChoiceOne Common Stock. Even if the Plan of Merger is approved and the Merger is completed, ChoiceOne does not expect an active trading market for ChoiceOne Common Stock to develop.

Because the market price of ChoiceOne Common Stock will fluctuate, you cannot be sure of the market value of the ChoiceOne Common Stock that you will receive in the Merger.

Upon completion of the Merger, each issued and outstanding share of Valley Ridge Common Stock will be converted into the right to receive 8.5 shares of ChoiceOne Common Stock. There will be no adjustment made to the merger consideration you are entitled to receive as a result of fluctuations in the market price of Valley Ridge Common Stock or ChoiceOne Common Stock. As a result, it is likely that the value of the ChoiceOne Common Stock you receive in the Merger will be different than the value of such shares on the date that you vote to approve the Plan of Merger.

Stock price changes may result from a variety of factors, including general market and economic conditions, changes in ChoiceOne's business, operations and prospects, and regulatory considerations. Many of these factors are beyond ChoiceOne's control. Accordingly, at the time of the special meeting, you will not necessarily know or be able to calculate the exact value of the shares of ChoiceOne Common Stock you will receive upon completion of the Merger.

Combining the two Corporations may be more difficult, costly, or time-consuming than we expect.

ChoiceOne and Valley Ridge have operated, and, until completion of the Merger, will continue to operate, independently. It is possible that the integration process for the Merger could result in the loss of key employees or disruption of each Corporation's ongoing business or inconsistencies in standards, procedures and policies that would adversely affect ChoiceOne's ability to maintain relationships with clients and employees or to achieve the anticipated benefits of the Merger. If we have difficulties with the integration process, ChoiceOne might not achieve the economic benefits expected to result from the Merger. As with any merger of banking institutions, the Merger may also result in business disruptions that cause ChoiceOne to lose customers or cause customers to remove their deposits or loans from ChoiceOne Bank and move their business to competing financial institutions.

Regulatory approvals may not be received, may take longer than expected or impose conditions that are not presently anticipated.

The Merger must be approved by the Federal Reserve Board, which will consider, among other factors, the competitive impact of the Merger, ChoiceOne's financial and managerial resources and the convenience and needs of the communities to be served. As part of that consideration, we expect that the Federal Reserve Board will review capital position, safety and soundness, legal and regulatory compliance matters and Community Reinvestment Act matters. There can be no assurance as to whether these and other regulatory approvals will be received, the timing of those approvals, or whether any conditions will be imposed.

The Plan of Merger limits each Corporation's ability to pursue alternatives to the Merger.

The Plan of Merger contains provisions that limit each Corporation's ability to discuss competing third-party proposals to acquire all or a significant part of its stock. In addition, each Corporation has agreed to pay the other Corporation a fee of $1,541,625 in the event that the Plan of Merger is not consummated and the paying Corporation enters into certain business transactions with third parties. These provisions might discourage a potential competing acquiror that might have an interest in acquiring all or a significant part of either of the Corporations from considering or proposing that acquisition even if it were prepared to pay consideration with a higher per share market price than that proposed in the Merger, or might result in a potential competing acquiror proposing to pay a lower per share price to acquire the Corporation than it might otherwise have proposed to pay.

ChoiceOne's ability to pay dividends is limited and ChoiceOne may be unable to pay future dividends.

ChoiceOne's ability to pay dividends is limited by regulatory restrictions and the need to maintain sufficient consolidated capital. The ability of ChoiceOne Bank to pay dividends to ChoiceOne is limited by its obligations to maintain sufficient capital and by other general restrictions on its dividends that are applicable to banks. If ChoiceOne or ChoiceOne Bank does not satisfy these regulatory requirements, ChoiceOne will be unable to continue to pay dividends on its common stock.

ChoiceOne may issue additional shares of its common stock in the future, which would dilute your ownership if you did not, or were not permitted to, invest in the additional issuances.

ChoiceOne's restated articles of incorporation authorize its board of directors, without shareholder approval, to, among other things, issue additional common stock or issue preferred stock. The issuance of any additional shares of common stock could be substantially dilutive to ChoiceOne's Common Stock. Moreover, to the extent that ChoiceOne issues stock appreciation rights, options or warrants to purchase ChoiceOne Common Stock in the future and those stock appreciation rights, options or warrants are exercised, ChoiceOne's shareholders may experience further dilution. Holders of shares of ChoiceOne Common Stock have no preemptive rights that entitle holders to purchase their pro rata share of any offering of shares of any class or series and, therefore, ChoiceOne's shareholders may not be permitted to invest in future issuances of ChoiceOne Common Stock.

ChoiceOne may issue debt and equity securities, which are senior to ChoiceOne Common Stock as to distributions and in liquidation, which could negatively affect the value of ChoiceOne's Common Stock.

In the future, ChoiceOne may attempt to increase its capital resources by entering into debt or debt-like financing that is unsecured or secured by all or up to all of ChoiceOne's assets, or issuing debt or equity securities, which could include issuances of secured or unsecured commercial paper, medium-term notes, senior notes, subordinated notes, preferred stock or common stock. In the event of ChoiceOne's liquidation, its lenders and holders of its debt securities would receive a distribution of ChoiceOne's available assets before distributions to the holders of ChoiceOne Common Stock. Because ChoiceOne's decision to incur debt and issue securities in future offerings will depend on market conditions and other factors beyond ChoiceOne's control, ChoiceOne cannot predict or estimate the amount, timing or nature of its future offerings and debt financings. Further, market conditions could require ChoiceOne to accept less favorable terms for the issuance of its securities in the future. Thus, you will bear the risk of ChoiceOne's future offerings reducing the value of your shares of ChoiceOne Common Stock and diluting your interest in ChoiceOne.

Risks Related to ChoiceOne's Business

ChoiceOne's business is subject to the success of the local economies where it operates.

ChoiceOne's success significantly depends upon the growth in the economy, population, income levels, deposits and housing starts in the West Michigan market. If this market does not grow or if prevailing economic conditions locally or nationally are unfavorable, ChoiceOne's business may not succeed. Adverse economic conditions in West Michigan, including the loss of certain significant employers, could reduce ChoiceOne's growth rate, affect the ability of its customers to repay their loans to ChoiceOne and generally affect ChoiceOne's financial condition and results of operations. ChoiceOne is less able than a larger institution to spread the risks of unfavorable local economic conditions across a large number of diversified economies. Moreover, ChoiceOne cannot give any assurance that it will benefit from any market growth or favorable economic conditions in West Michigan if they do occur.

Any adverse market or economic conditions in Michigan may disproportionately increase the risk that ChoiceOne's borrowers are unable to make their loan payments. In addition, the market value of the real estate securing loans as collateral could be adversely affected by unfavorable changes in market and economic conditions. As of December 31, 2005, approximately 68% of ChoiceOne's loans held for investment were secured by real estate. Of the commercial real estate loans in ChoiceOne's portfolio, approximately 60% represents properties owned and occupied by businesses to which ChoiceOne has extended loans. Any sustained period of increased payment delinquencies, foreclosures or losses caused by adverse market or economic conditions in the State of Michigan could adversely affect the value of ChoiceOne's assets, revenues, results of operations and financial condition.

Commercial banks and other financial institutions are affected by economic and political conditions, both domestic and international, and by governmental monetary policies. Conditions such as inflation, recession, unemployment, high interest rates, short money supply, scarce natural resources, international disorders, terrorism and other factors beyond ChoiceOne's control may adversely affect profitability.

ChoiceOne may face risks with respect to future expansion and acquisitions or mergers.

ChoiceOne may seek to acquire other financial institutions or parts of those institutions and may engage in de novo branch expansion in the future. ChoiceOne may also consider and enter into new lines of business or offer new products or services. Acquisitions and mergers involve a number of risks, including:

- the time and costs associated with identifying and evaluating potential acquisitions and merger partners;
- the estimates and judgments used to evaluate credit, operations, management and market risks with respect to the target institution may not be accurate;
- the time and costs of evaluating new markets, hiring experienced local management and opening new offices, and the time lags between these activities and the generation of sufficient assets and deposits to support the costs of the expansion;
- the diversion of ChoiceOne's management's attention to the negotiation of a transaction, and the integration of the operations and personnel of the combining businesses;
- entry into new markets where ChoiceOne lacks experience;
- the introduction of new products and services into ChoiceOne's business;
- the incurrence and possible impairment of goodwill associated with an acquisition and possible adverse short-term effects on ChoiceOne's results of operations; and
- the risk of loss of key employees and customers.

ChoiceOne may incur substantial costs to expand, and can give no assurance that such expansion will result in the levels of profits it seeks. There can be no assurance that integration efforts for any future mergers or acquisitions will be successful. Also, ChoiceOne may issue equity securities, including common stock and securities convertible into shares of ChoiceOne Common Stock in connection with future acquisitions, which could cause ownership and economic dilution to its current shareholders. There is no assurance that, following any future mergers or acquisitions, ChoiceOne's integration efforts will be successful or that, after giving effect to any merger or acquisition, ChoiceOne will achieve profits comparable to or better than ChoiceOne's historical experience.

ChoiceOne's recent operating results may not be indicative of its future operating results.

ChoiceOne may not be able to sustain its historical rate of growth or may not even be able to grow its business at all. In the future, ChoiceOne may not have the benefit of a favorable interest rate environment, a strong residential mortgage market, or the ability to find suitable candidates for acquisition. Various factors, such as economic conditions, regulatory and legislative considerations and competition, may also impede or prohibit ChoiceOne's ability to expand its market presence. If ChoiceOne experiences a significant decrease in its historical rate of growth, ChoiceOne's results of operations and financial condition may be adversely affected due to a high percentage of its operating costs being fixed expenses.

ChoiceOne's continued pace of growth may require it to raise additional capital in the future, but that capital may not be available when it is needed.

ChoiceOne is required by federal and state regulatory authorities to maintain adequate levels of capital to support its operations. ChoiceOne may at some point need to raise additional capital to support its continued growth. ChoiceOne's ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside ChoiceOne's control, and on its financial performance. Accordingly, if needed, ChoiceOne cannot assure you of its ability to raise additional capital on terms acceptable to ChoiceOne. If ChoiceOne cannot raise additional capital when needed, its ability to further expand its operations through internal growth and acquisitions could be materially impaired.

Changes in interest rates may negatively affect ChoiceOne's earnings and the value of its assets.

Changes in interest rates may affect ChoiceOne's level of interest income, the primary component of its gross revenue, as well as the level of its interest expense, ChoiceOne's largest recurring expenditure. Market rates have been at historically low levels. Since June 30, 2004, however, the Federal Reserve Board has increased its target federal funds rate 17 times, from 1.00% to 5.25%. While the federal funds rate and other short-term market interest rates, which ChoiceOne uses to guide its deposit pricing, have increased, intermediate and long-term market interest rates, which ChoiceOne uses to guide its loan pricing, have not increased proportionately. This has led to a "flattening" of the market yield curve, which has even "inverted" recently as short-term rates have exceeded long-term rates over an intermediate maturity horizon. The flat yield curve may hurt ChoiceOne's interest rate spread and net interest margin because the interest rates ChoiceOne pays on its deposits may reprice upwards faster than the interest rates that ChoiceOne earns on its loans and investments. If short-term interest rates continue to rise so that the yield curve remains relatively flat or inverts further, ChoiceOne would expect that its net interest spread and net interest margin may continue to compress, which would hurt its net interest income.

Residential mortgage originations generated $264,000, or 2%, of ChoiceOne's gross revenue for the year ended December 31, 2005. ChoiceOne expects the number of residential real estate loans that it originates to be inversely related to interest rates. Accordingly, a period of rising interest rates would negatively affect ChoiceOne's residential mortgage origination business.

Changes in the level of interest rates also may negatively affect ChoiceOne's ability to originate real estate loans, the value of ChoiceOne's assets and its ability to realize gains from the sale of its assets, all of which ultimately affect ChoiceOne's earnings. A decline in the market value of ChoiceOne's assets may limit its ability to raise additional capital. As a result, ChoiceOne could be required to sell some of its loans and investments under adverse market conditions or upon terms that are not favorable to ChoiceOne, in order to maintain its liquidity. If those sales are made at prices lower than the amortized costs of the investments, ChoiceOne will incur losses.

ChoiceOne's loan portfolio includes a substantial amount of commercial and industrial loans, which include risks that may be greater than the risks related to residential loans.

ChoiceOne's commercial and industrial loan portfolio was $48 million at December 31, 2005, comprising 26% of total loans. Commercial and industrial loans generally carry larger loan balances and involve a greater degree of financial and credit risks than home equity loans or residential mortgage loans. Any significant failure to pay on time by ChoiceOne's customers would hurt ChoiceOne's earnings. The increased financial and credit risk associated with these types of loans is a result of several factors, including the concentration of principal in a limited number of loans and borrowers, the size of loan balances, the effects of general economic conditions on income-producing properties and the increased difficulty of evaluating and monitoring these types of loans. In addition, when underwriting a commercial or industrial loan, ChoiceOne may take a security interest in commercial real estate and, in some instances upon a default by the borrower, ChoiceOne may foreclose on and take title to the property, which may lead to potential financial risk for ChoiceOne under applicable environmental laws. If hazardous substances were discovered on any of these properties, ChoiceOne may be liable to governmental entities or third parties for the costs of remediation of the hazard, as well as for personal injury and property damage. Many environmental laws can impose liability regardless of whether ChoiceOne knew of, or was responsible for, the contamination. Furthermore, the repayment of loans secured by commercial real estate is typically dependent upon the successful operation of the related real estate or commercial project. If the cash flow from the project is reduced, the borrower's ability to repay the loan may be impaired. This cash flow shortage may result in the failure to make loan payments. In such cases, ChoiceOne may be compelled to modify the terms of the loan. In addition, the nature of these loans is such that they are generally less predictable and more difficult to evaluate and monitor. As a result, repayment of these loans may, to a greater extent than residential loans, be subject to adverse conditions in the real estate market or economy.

If ChoiceOne's allowance for loan losses is not sufficient to cover actual loan losses, ChoiceOne's earnings could decrease.

ChoiceOne's loan customers may not repay their loans according to the terms of these loans, and the collateral securing the payment of these loans may be insufficient to assure repayment. ChoiceOne may experience significant loan losses, which could have a material adverse effect on its operating results. Management of ChoiceOne makes various assumptions and judgments about the collectibility of ChoiceOne's loan portfolio, including the creditworthiness of its borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of ChoiceOne's loans. ChoiceOne maintains an allowance for loan losses to cover loan losses that may occur. In determining the size of the allowance, ChoiceOne relies on an analysis of its loan portfolio based on historical loss experience, volume and types of loans, trends in classification, volume and trends in delinquencies and non-accruals, national and local economic conditions and other pertinent information. As ChoiceOne expands into new markets, its determination of the size of the allowance could be understated due to ChoiceOne's lack of familiarity with market-specific factors.

If ChoiceOne's assumptions are wrong, its current allowance may not be sufficient to cover loan losses, and adjustments may be necessary to allow for different economic conditions or adverse developments in ChoiceOne's loan portfolio. Material additions to ChoiceOne's allowance would materially decrease its net income. ChoiceOne's allowance for loan losses was $2.0 million, $1.7 million and $2.0 million as of December 31, 2005, 2004 and 2003, respectively.

In addition, federal and state regulators periodically review ChoiceOne's allowance for loan losses and may require ChoiceOne to increase its provision for loan losses or recognize further loan charge-offs, based on judgments different than those of ChoiceOne's management. Any increase in ChoiceOne's allowance for loan losses or loan charge-offs as required by these regulatory agencies could have a negative effect on ChoiceOne's operating results.

Competition from competing financial institutions and other financial service providers may adversely affect ChoiceOne's profitability.

The banking business is highly competitive and ChoiceOne experiences competition in each of its markets from many other financial institutions. ChoiceOne competes with commercial banks, credit unions, savings and loan associations, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market funds, and other mutual funds, as well as other super-regional, national and international financial institutions that operate offices in ChoiceOne's primary market areas and elsewhere. In addition, some of the institutions that ChoiceOne competes against are not subject to the same regulatory restrictions as ChoiceOne, and accordingly, may have certain, inherent, cost advantages.

ChoiceOne competes with these institutions both in attracting deposits and in making loans. Price competition for loans might result in ChoiceOne originating fewer loans, or earning less on its loans, and price competition for deposits might result in a decrease in ChoiceOne's total deposits or higher rates on its deposits. In addition, ChoiceOne has to attract its customer base from other existing financial institutions and from new residents. Many of ChoiceOne's competitors are larger financial institutions. While ChoiceOne believes it can and does successfully compete with these other financial institutions in its primary markets, ChoiceOne may face a competitive disadvantage as a result of its smaller size, lack of geographic diversification and inability to spread its marketing costs across a broader market. Although ChoiceOne competes by concentrating its marketing efforts in its primary markets with local advertisements, personal contacts, and greater flexibility and responsiveness in working with local customers, ChoiceOne can give no assurance that this strategy will be successful.

ChoiceOne is subject to extensive regulation that could limit or restrict its activities.

ChoiceOne operates in a highly regulated industry and is subject to examination, supervision, and comprehensive regulation by various federal and state agencies. ChoiceOne's compliance with these regulations is costly and restricts certain of its activities, including payment of dividends, mergers and acquisitions, investments, loans and interest rates charged, interest rates paid on deposits and locations of offices. ChoiceOne is also subject to capitalization guidelines established by its regulators, which require ChoiceOne to maintain adequate capital to support its growth.

The laws and regulations applicable to the banking industry could change at any time, and ChoiceOne cannot predict the effects of these changes on its business and profitability. Because government regulation greatly affects the business and financial results of all commercial banks and bank holding companies, ChoiceOne's cost of compliance could adversely affect its ability to operate profitably.

The Sarbanes-Oxley Act of 2002, and the related rules and regulations issued by the Securities and Exchange Commission that are now applicable to ChoiceOne, have increased the scope, complexity and cost of corporate governance, reporting and disclosure practices.

ChoiceOne's directors and executive officers own a significant portion of its common stock.

ChoiceOne's directors and executive officers, as a group, beneficially owned approximately 14.06% of outstanding ChoiceOne Common Stock as of August 25, 2006. As a result of their ownership, the directors and executive officers will have the ability, by voting their shares in concert, to significantly influence the outcome of all matters submitted to the ChoiceOne shareholders for approval, including the election of directors. If the Merger is approved, the resulting board of directors will own or control 20.82% of the Combined Organization's outstanding common stock.

GENERAL PROXY INFORMATION

Voting by Proxy

If a holder of shares of Valley Ridge Common Stock as of the Record Date properly executes and returns a proxy in the enclosed form, the shares represented by that proxy will be voted at the special meeting of Valley Ridge shareholders and at any adjournment of that meeting. If a shareholder specifies a choice, the proxy will be voted in accordance with the shareholder's specification. If no specification is made, the shares represented by the proxy will be voted for approval of the Plan of Merger. Proxies that indicate a vote against approval of the Plan of Merger, if any, will not be used by management of Valley Ridge to vote for any proposed adjournment of the special meeting.

Valley Ridge's management currently is not aware of any other matter to be presented at the special meeting. If other matters are presented, the shares for which proxies have been received will be voted in accordance with the judgment of the persons named as proxies.

A shareholder may revoke a proxy at any time prior to its exercise by written notice delivered to the President of Valley Ridge, or by attending and voting in person at the special meeting.

Proxy Solicitation

The board of directors and management of Valley Ridge will initially solicit proxies by mail. If they deem it advisable, directors, officers, and employees of Valley Ridge may also solicit proxies in person, by telephone or by facsimile without additional compensation. In addition, nominees and other fiduciaries may solicit proxies. Such persons may at the request of Valley Ridge's management mail material to or otherwise communicate with the beneficial owners of shares held by them.

Expenses

Valley Ridge will pay all expenses incurred in connection with the solicitation of proxies of Valley Ridge shareholders. ChoiceOne will pay all printing expenses and filing fees pertaining to the Registration Statement. ChoiceOne and Valley Ridge will each pay its own fees and expenses incident to preparing for, entering into, and carrying out the Plan of Merger and procuring any necessary approvals, including fees and expenses of its own legal counsel and accountants and postage expenses. If the Merger is abandoned pursuant to Article VII of the Plan of Merger for any reason, the aggregate expenses of both ChoiceOne and Valley Ridge incident to the Merger will be allocated to and paid by each Corporation proportionately to the extent that each Corporation's "book value" relates to the sum of the book values of the Corporations. "Book value" means an amount equal to the difference between the Corporation's total assets and total liabilities as determined from the Corporation's consolidated balance sheet dated as of December 31, 2005, less all dividends and other distributions of cash or property accrued after December 31, 2005. Under certain circumstances involving the termination of the Plan of Merger and a business combination of ChoiceOne or Valley Ridge with any other entity, the party to the Plan of Merger not involved in such business combination would be entitled to a termination fee from the other party. (See "**The Merger--Termination Fee after Business Combination**.")

Shareholder Proposals

Valley Ridge is not currently required to comply with the Commission's rules with respect to solicitation of proxies. If the Merger is not completed, Valley Ridge is not expected to be required to comply with those rules in connection with its next annual meeting of shareholders. If the Merger is completed, Valley Ridge will be merged into ChoiceOne, Valley Ridge is not expected to hold any future annual meetings of shareholders, and holders of Valley Ridge Common Stock will become shareholders of ChoiceOne. If a shareholder of ChoiceOne would like a proposal to be presented at the 2007 annual meeting of shareholders and if the shareholder would like the proposal to be considered for inclusion in ChoiceOne's proxy statement and form of proxy relating to that meeting, the shareholder must submit the proposal to ChoiceOne in accordance with Commission Rule 14a-8. ChoiceOne must receive the proposal by December 1, 2006 for the proposal to be eligible for inclusion in the proxy statement and form of proxy relating to that meeting. To be considered timely, any other proposal a shareholder intends to present at the 2007 annual meeting of shareholders must similarly be received by ChoiceOne by December 1, 2006.

Vote Required for Approval

An affirmative vote of the shareholders holding a majority of the outstanding shares of Valley Ridge Common Stock is required to approve the Plan of Merger. For purposes of counting votes on approval of the Plan of Merger, abstentions, broker non-votes and other shares not voted will be counted as voted against the Plan of Merger.

THE MERGER

The respective boards of directors of ChoiceOne and Valley Ridge have adopted an Agreement and Plan of Merger dated as of April 25, 2006 (the "**Plan of Merger**").

The following discussion summarizes the material provisions of the Plan of Merger and aspects of the Merger. This summary discussion does not purport to be a complete description of the Merger and is qualified in its entirety by reference to the Plan of Merger, which is attached as Appendix A to this Prospectus and Proxy Statement and incorporated by reference into this Prospectus and Proxy Statement.

Background of the Merger

In late 2005, Richard L. Edgar, the President and Chief Executive Officer of Valley Ridge, contacted James A. Bosserd, the President and Chief Executive Officer of ChoiceOne, to explore the possibility of enhancing shareholder value for both organizations through an affiliation of ChoiceOne and Valley Ridge. In March 2006, the board of directors of ChoiceOne submitted a proposal to Valley Ridge under which the two Corporations would merge. Valley Ridge's board of directors determined that ChoiceOne's proposal presented an excellent opportunity for enhancing shareholder value while preserving involvement in the Combined Organization of members of the communities served by Valley Ridge and ChoiceOne. After an exchange of information and preliminary negotiations, ChoiceOne and Valley Ridge entered into the Plan of Merger on April 25, 2006, following approval of the Plan of Merger by their respective boards of directors. ChoiceOne's board of directors and Valley Ridge's board of directors, and their respective representatives, negotiated the conversion ratio and other terms of the Plan of Merger on an arm's-length basis. The boards of directors of both ChoiceOne and Valley Ridge view the proposed Merger as a strategic merger of equals of the two Corporations into the Combined Organization, not a purchase of Valley Ridge by ChoiceOne, and the transaction has been negotiated and structured accordingly.

Reasons for the Merger

The boards of directors of ChoiceOne and Valley Ridge have each unanimously determined that the proposed Merger is desirable and in the best interests of the respective Corporation and its shareholders. In negotiating the terms of the Plan of Merger and in considering its adoption, each Corporation's board of directors reviewed the financial results and conditions of Valley Ridge and ChoiceOne, the perceived prospects for each in the future, and the business philosophies of Valley Ridge and ChoiceOne.

The boards of directors of Valley Ridge and ChoiceOne believe the Merger provides the shareholders of the respective Corporation an opportunity to have an interest in a larger and more diversified financial organization. Shareholders of the Combined Organization may enjoy certain benefits associated with the Combined Organization's larger and more diversified asset base and access to a broader range of markets. The Combined Organization's shareholders will, however, also be subject to the risks associated with either ChoiceOne or Valley Ridge in which they have not previously held an interest.

The boards of directors believe that the Merger will enable the Corporations' subsidiaries to become more effective competitors in their respective markets through access to greater financial and managerial resources. Each Corporation's directors consider this access to be important in light of increased competition from a broader range of financial institutions than has generally been encountered in the banking industry. Each board also believes that the

Merger will permit the achievement of certain economies of scale in the areas of administration, regulatory compliance, management and capital formation. The boards of directors did not assign any particular weight to any one of the foregoing factors.

Summary of the Terms of the Merger

Pursuant to the Plan of Merger, Valley Ridge is soliciting proxies from Valley Ridge shareholders for the purpose of approving the Plan of Merger. The affirmative vote of the holders of a majority of the outstanding shares of Valley Ridge Common Stock is required to approve the Plan of Merger.

At the time the Merger becomes effective, Valley Ridge will be merged with and into ChoiceOne. The surviving corporation will be ChoiceOne, which will own Valley Ridge Bank and all of the other assets of Valley Ridge. Upon consummation of the Merger, ChoiceOne would have authorized capital stock of 4,000,000 shares of common stock, without par value, of which approximately 3,242,215 shares will be issued and outstanding, and 100,000 shares of preferred stock, none of which will be issued or outstanding. The estimated number of shares of ChoiceOne Common Stock to be outstanding after the Merger was determined by reference to the conversion ratio of 8.5 shares of ChoiceOne Common Stock for each share of Valley Ridge Common Stock, as applied to the 184,870 shares and 1,669 stock options of Valley Ridge Common Stock outstanding as of August 25, 2006, added to the 1,660,974 shares of ChoiceOne Common Stock outstanding as of August 25, 2006. The Restated Articles of Incorporation and Bylaws of ChoiceOne as in effect immediately prior to the effective time of the Merger will be the Restated Articles of Incorporation and Bylaws of the Combined Organization.

Each share of Valley Ridge Common Stock outstanding at the time the Merger becomes effective will be converted into 8.5 shares of ChoiceOne Common Stock, subject to payment in cash for fractional shares.

ChoiceOne will not issue fractional shares of ChoiceOne Common Stock in the Merger. A Valley Ridge shareholder who would otherwise be entitled to receive a fraction of a share of ChoiceOne Common Stock in the Merger will receive instead an amount of cash determined by multiplying that fraction by $18.00.

Each stock option issued by Valley Ridge that has not been exercised and remains outstanding at the time the Merger becomes effective will be converted into the right to receive a cash payment equal to the difference between $153.00 and the applicable stock option exercise price.

In addition, under the Plan of Merger, Valley Ridge is authorized and expected to declare a special cash dividend to the Valley Ridge shareholders, to be paid after the effective time of the Merger, of an amount equal to, in the aggregate, $10,000,000 (the "**Special Dividend**"). Based on the number of shares of Valley Ridge Common Stock outstanding as of the date of the Plan of Merger, and assuming that all outstanding Valley Ridge stock options are exercised before the effective time of the Merger, the Special Dividend would equal approximately $53.60 per share of Valley Ridge Common Stock.

Cessation of Shareholder Status and Distribution of ChoiceOne Common Stock

As of the effective time of the Merger, holders of Valley Ridge Common Stock outstanding immediately prior to the effective time of the Merger will cease to be shareholders of Valley Ridge and will have no rights as Valley Ridge shareholders. Certificates that represented shares of Valley Ridge Common Stock outstanding immediately prior to the effective time of the Merger ("**Old Certificates**") will then represent the right to receive shares of ChoiceOne Common Stock having all of the voting and other rights of shares of ChoiceOne Common Stock, except for the right to receive dividends (including the Special Dividend) pending surrender of the Old Certificates, and the right to receive cash in lieu of fractional shares, all as provided in the Plan of Merger, and subject to the rights of a dissenting shareholder under the MBCA. (See "**Rights of Dissenting Shareholders**.") After the effective time of the Merger, Old Certificates will be exchangeable for new stock certificates representing the number of shares of

ChoiceOne Common Stock to which such holders will be entitled.

As soon as practicable after the effective time of the Merger, ChoiceOne will segregate into a separate account the amount of cash payable for the Special Dividend and fractional shares in the Merger. ChoiceOne will add to that account an amount equal to all dividends and other distributions paid with respect to shares to be distributed to Valley Ridge's shareholders pursuant to the Plan of Merger.

As soon as practicable after the Merger becomes effective, ChoiceOne will send transmittal materials to be used to exchange Old Certificates for stock certificates representing shares of ChoiceOne Common Stock. The transmittal materials will contain instructions with respect to the surrender of Old Certificates.

Promptly after the receipt of the proper transmittal documents and Old Certificates from a Valley Ridge shareholder, ChoiceOne will issue and deliver new stock certificates to the shareholder. ChoiceOne will issue and deliver certificates in the names and to the addresses appearing on Valley Ridge's stock records as of the effective time of the Merger, or in such other name or to such other address as the holder of record may specify in transmittal documents received by ChoiceOne. ChoiceOne is not required to issue and deliver certificates to a shareholder until it has received all of the Old Certificates held of record by that shareholder, or an affidavit of loss, indemnity bond and payment for such bond in lieu of such certificate or certificates, together with properly executed transmittal materials. Such Old Certificates, transmittal materials and affidavits must be in a form and condition reasonably acceptable to ChoiceOne.

ChoiceOne will have reasonable discretion to determine the rules and procedures relating to the issuance and delivery of certificates of ChoiceOne Common Stock into which shares of Valley Ridge Common Stock are converted in the Merger and governing the payment for fractional shares.

The declaration of any dividends on ChoiceOne Common Stock payable to shareholders of record of ChoiceOne as of a record date on or after the effective time of the Merger will include dividends on all shares issuable under the Plan of Merger. However, no former shareholder of Valley Ridge will be entitled to receive a distribution of such dividends until physical exchange of that shareholder's Old Certificates has been effected. Upon physical exchange of that shareholder's Old Certificates, he or she will be entitled to receive from ChoiceOne an amount equal to all such dividends (without interest and less the amount of taxes, if any, which may have been withheld) declared and paid with respect to those shares.

After the effective time of the Merger, ChoiceOne and Valley Ridge will not transfer on the stock transfer books of Valley Ridge any shares of Valley Ridge Common Stock that were issued and outstanding immediately prior to the effective time of the Merger. If, after the effective time of the Merger, a shareholder properly presents Old Certificates to ChoiceOne, ChoiceOne will cancel and exchange the Old Certificates for stock certificates representing shares of ChoiceOne Common Stock as provided in the Plan of Merger. After the effective time of the Merger, ownership of shares represented by Old Certificates may be transferred only on the stock transfer records of ChoiceOne.

Each share of ChoiceOne Common Stock outstanding immediately prior to the effective time of the Merger will continue to be outstanding without any change. Each shareholder of ChoiceOne whose shares were outstanding immediately prior to the effective time of the Merger will hold the same number of shares, with identical designations, preferences, limitations and relative rights, immediately after the effective time of the Merger.

Management After the Merger

Upon the consummation of the Merger, the board of directors of the Combined Organization will consist of 7 members of each of the boards of directors of ChoiceOne and Valley Ridge immediately prior to the effective time of the Merger. The names of the members of the board of directors of the Combined Organization will be: Richard Edgar, Jerry Arends, Timothy Bull, Gary Gust, Robert Humphreys, Dennis Nelson, Donald VanSingel, James Bosserd, Frank Berris, William F. Cutler, Jr., Stuart Goodfellow, Paul Johnson, Jon Pike and Andrew Zamiara. Richard Edgar shall serve as the chairperson until the Combined Organization's next annual meeting.

The officers of the Combined Organization will be:

Office	**Designee**	**Present Affiliation**
Chairman of the Board	Richard L. Edgar	Valley Ridge

President and Chief Executive Officer	James A. Bosserd	ChoiceOne
Secretary	Linda R. Pitsch	ChoiceOne
Treasurer	Thomas L. Lampen	ChoiceOne

Effective Time of the Merger

The Merger will be consummated on the date and time specified in a certificate of merger filed in accordance with the MBCA. If the shareholders of Valley Ridge approve the Plan of Merger at the special meeting of Valley Ridge shareholders, and the other conditions to the Merger set forth in the Plan of Merger and summarized under "**The Merger--Conditions to the Merger and Abandonment**" in this Prospectus and Proxy Statement are satisfied, the effective time of the Merger is anticipated to be during the fourth quarter of 2006, provided that the Plan of Merger has not been terminated prior to such time. The Merger may not be consummated until receipt of approval from the Federal Reserve Board or its delegate and expiration of the required waiting period following such approval.

Business of ChoiceOne and Valley Ridge Pending the Merger

The Plan of Merger also contains covenants to which ChoiceOne and Valley Ridge have agreed. The covenants remain in effect until the effective time of the Merger or until the Plan of Merger has been terminated and include an agreement that each of ChoiceOne and Valley Ridge and their respective subsidiaries will: (i) conduct its business and manage its property only in the usual, regular and ordinary course; (ii) not, except as contemplated by the Plan of Merger, enter into any employment agreement that is not terminable, without cost or penalty, on 60 days' or less notice; (iii) not, except as permitted by the Plan of Merger, issue any capital stock, any security convertible into capital stock, any warrant or option to acquire capital stock, or otherwise alter its capital structure; (iv) not make any material changes in any policies or procedures applicable to the conduct of its business; (v) not sell, mortgage, pledge, encumber or otherwise dispose of any property or assets, except in the ordinary course of business; (vi) except to reelect persons who are then incumbent directors and officers at annual meetings, not increase the number of directors or fill any vacancy on the board of directors or elect or appoint any person to an executive office; (vii) except for certain exceptions listed in the Plan of Merger, not increase the salary or compensation payable to or agree to pay any bonus to any director or officer, or any class or group of employees as a class or group, and not introduce or change any employee benefit plan or program of any kind for the benefit of its employees unless required by law or the Plan of Merger; (viii) not borrow money except in the ordinary course of business; (ix) make no change in its articles of incorporation, charter or bylaws except as effected by the Plan of Merger and the Merger; and (x) take or not take other comparatively immaterial actions.

Nothing contained in the Plan of Merger will preclude Valley Ridge from declaring and paying cash dividends on Valley Ridge Common Stock quarterly at a rate not to exceed $5.40 per share per year in a manner, on dates, and with respect to record dates consistent with its past practice; provided, that Valley Ridge must adjust the record date for its regularly scheduled dividend with respect to the period in which the Merger becomes effective if necessary to assure that Valley Ridge shareholders receive only one dividend (other than the Special Dividend) payable in the quarter in which the Merger becomes effective with respect to shares of Valley Ridge Common Stock or ChoiceOne Common Stock received in the Merger. In addition, the Valley Ridge board of directors may declare the Special Dividend. The board of directors of Valley Ridge is under no obligation to pay dividends on Valley Ridge Common Stock. Nothing contained in the Plan of Merger will preclude ChoiceOne from declaring and paying cash dividends on ChoiceOne Common Stock quarterly at a rate not to exceed $0.68 per share per year in a manner, on dates, and with respect to record dates consistent with its past practice. The board of directors of ChoiceOne is under no obligation to pay dividends on ChoiceOne Common Stock.

Conditions to the Merger and Abandonment

The obligations of ChoiceOne and Valley Ridge to consummate the Merger are subject to the fulfillment of certain conditions, including the following:

(i) An affirmative vote of the holders of a majority of the outstanding shares of Valley Ridge Common Stock is required to approve the Plan of Merger.

(ii) The Federal Reserve Board must approve the Merger and the statutory waiting period must have expired.

(iii) ChoiceOne and Valley Ridge must comply with their respective covenants, and their respective representations and warranties must be true in all material respects, each as set forth in the Plan of Merger. (See "**The Merger--Business of ChoiceOne and Valley Ridge Pending the Merger**.")

(iv) ChoiceOne and Valley Ridge must receive certain opinions of counsel.

(v) ChoiceOne and Valley Ridge must obtain waivers of all material rights and waivers of the loss of all material rights that could be triggered by the change in control of the applicable Corporation resulting from the Merger.

(vi) Neither ChoiceOne nor Valley Ridge must be subject to any order, decree or injunction of a court or agency enjoining or prohibiting the Merger.

(vii) There must not be any suit or proceeding pending or threatened that could result in any liability that could have a material adverse effect on either Corporation and its subsidiaries on a consolidated basis or that challenges the Merger.

(viii) Demands for payment for their shares under Section 762 of the MBCA shall have been made, perfected and not withdrawn by the holders of not more than 10% of the then outstanding shares of Valley Ridge Common Stock.

(ix) Valley Ridge must have received a fairness opinion from Donnelly Penman.

(x) ChoiceOne must have entered into certain employment, retention, non-competition, and/or consulting agreements with certain key employees.

(xi) Other comparatively immaterial conditions.

Either ChoiceOne or Valley Ridge, whichever is entitled to the benefit of the foregoing conditions, may waive one or more of those conditions except where satisfaction of the condition is required by law. In addition, ChoiceOne's obligations to complete the Merger are subject to Valley Ridge's book value equaling or exceeding $21,058,344. The Plan of Merger contains various other conditions to the respective obligations of ChoiceOne and Valley Ridge that have been satisfied.

The boards of directors, or duly authorized committees thereof, of ChoiceOne and Valley Ridge may by mutual consent terminate the Plan of Merger and abandon the Merger at any time before the effective time of the Merger.

Either ChoiceOne or Valley Ridge may terminate the Plan of Merger and abandon the Merger on its own action upon the occurrence of certain events specified in the Plan of Merger, including the following:

(i) ChoiceOne or Valley Ridge discovers that one or more of the other party's representations and warranties is or has become untrue, and the cumulative effect of all such untrue representations and warranties is material to the other party's business, income or financial condition on a consolidated basis.

(ii) ChoiceOne or Valley Ridge commits one or more breaches of any provision of the Plan of Merger which would in the aggregate be material and such breach or breaches are not cured after notice.

(iii) There occurs a materially adverse change in the financial condition of ChoiceOne or Valley Ridge and their respective subsidiaries on a consolidated basis.

(iv) The Merger is not effective on or before March 31, 2007 despite all reasonable efforts by the abandoning corporation, or, in any event the Merger is not effective by June 30, 2007.

(v) A court of competent jurisdiction issues a final unappealable injunction or other judgment restraining or prohibiting completion of the Merger.

(vi) The Federal Reserve Board refuses to approve the Merger.

(vii) An environmental assessment indicates any environmental conditions which are contrary to ChoiceOne's or Valley Ridge's representations and warranties, and the parties are unable to agree on a course of action for further investigation of the environmental condition and/or a mutually acceptable modification to the Plan of Merger, and the environmental condition is not one for which it can be determined to a reasonable degree of certainty that the risk and expense to which the Combined Organization and its subsidiaries (after the Merger) would be subject as the owner or operator of the property can be quantified or limited to an immaterial amount; provided, that the abandoning party gives the other party 5 days' written notice of its intent to terminate the Plan of Merger.

(viii) ChoiceOne or Valley Ridge shall have received a bona fide unsolicited offer to enter into a merger or similar business combination that would require the Corporation's board of directors to determine that it is required under applicable law to modify, change or withdraw its recommendation for the Merger and the board of directors has decided to accept such proposal.

(ix) ChoiceOne or Valley Ridge or their respective subsidiaries, or any of their respective directors, officers, employees, investment bankers, representatives, or agents, solicits, encourages, or negotiates with any party other than the other Corporation any proposals, offers, or expressions of interest concerning any tender offer, exchange offer, merger, consolidation, sale of shares, sale of assets, or assumption of liabilities not in the ordinary course, or other business combination involving ChoiceOne or Valley Ridge or any of their respective subsidiaries other than the Merger (a "**Business Combination**").

(x) Upon the occurrence or nonoccurrence of other comparatively immaterial events.

Termination Fee after Business Combination

Under certain circumstances involving the acquisition of control of either party to the Plan of Merger by a party other than ChoiceOne or Valley Ridge (an "**Unaffiliated Person**"), the other party to the Plan of Merger may be entitled to a fee of $1,541,625 from the party that is acquired (the "**Acquired Party**"). A party is entitled to this fee if: (i) the Plan of Merger is terminated and the Merger is abandoned pursuant to the provisions of the Plan of Merger for any reason; (ii) while the Plan of Merger is in effect: (a) an Unaffiliated Person directly or indirectly acquires control (as defined in the Federal Bank Holding Company Act using 25%) of ChoiceOne or Valley Ridge, or its successor by merger or consolidation, or acquires 25% or more of the consolidated assets of ChoiceOne or Valley Ridge; or (b) the Acquired Party solicits, invites, encourages, negotiates, or enters into an agreement with an Unaffiliated Person to acquire such control or such assets, or publicly announces an intention to do so; and (iii) within one year of the date of termination of the Plan of Merger the Unaffiliated Person acquires such control or such assets.

Description of ChoiceOne Common Stock

If the Plan of Merger is approved by Valley Ridge's shareholders and the Merger is consummated, ChoiceOne's authorized capital stock will consist of 4,000,000 shares of common stock, without par value ("**ChoiceOne Common Stock**"), and 100,000 shares of preferred stock. As of August 25, 2006, ChoiceOne had outstanding 1,660,974 shares of ChoiceOne Common Stock and zero shares of preferred stock. If all of Valley Ridge's currently outstanding options are exercised prior to the effective time of the Merger, ChoiceOne expects to issue approximately 1,585,590 shares of ChoiceOne Common Stock in the Merger using a conversion ratio of 8.5. These numbers have been rounded for convenience of presentation.

ChoiceOne's board of directors is authorized at any time, and from time to time, to provide for the issuance of shares of preferred stock in one or more series, each with such voting powers, full or limited, or without voting powers, and with such designations, preferences and relative, participating, conversion, optional or other rights, and such qualifications, limitations or restrictions thereof as shall be stated in the resolution or resolutions providing for the issue of such stock adopted by the board of directors. This authorization includes the right to fix the designation of the series and the number of shares in it, the dividend rate, whether and when shares will be redeemable, the prices at which shares will be redeemable, rights upon liquidation, any sinking fund provisions, any conversion or exchange privileges, voting rights, any restrictions on other series of stock and any other rights, preferences or limitations.

The issuance of shares of ChoiceOne preferred stock could adversely affect the availability of earnings for distribution to the holders of ChoiceOne Common Stock if the preferred stock provides for cumulative dividends, dividend preferences, conversion rights or exchange, redemption or other similar rights or preferences.

Holders of ChoiceOne Common Stock are entitled to dividends out of funds legally available for that purpose when, as, and if declared by the board of directors. The board of directors' right to declare dividends will be subject to the rights of any holders of preferred stock or any other stock with superior dividend rights and ChoiceOne's legal ability to make certain other payments. ChoiceOne's board of directors may fix the dividend rights and rates of preferred stock when it is issued. Each holder of ChoiceOne Common Stock is entitled to one vote for each share held on each matter submitted for shareholder action. ChoiceOne Common Stock has no preferences, preemptive rights, cumulative voting rights, conversion rights or redemption provisions.

In the case of any liquidation, dissolution or winding up of the affairs of ChoiceOne, holders of ChoiceOne Common Stock will be entitled to receive, pro rata, any assets distributable to common shareholders in proportion to the number of shares held by them after an amount has been paid to or set aside for the holders of all shares having priority over the Common Stock. The rights of any ChoiceOne preferred stock will be determined by ChoiceOne's board of directors when those shares are first issued.

All outstanding shares of ChoiceOne Common Stock are, and shares to be issued pursuant to the Merger will be, when issued, fully paid and nonassessable.

A number of important provisions of the Restated Articles of Incorporation and Bylaws of ChoiceOne and the MBCA that could affect the rights of holders of shares of ChoiceOne Common Stock are described below. (See "**The Merger--Provisions Affecting Control of ChoiceOne, --Comparison of Rights of ChoiceOne Shareholders and Valley Ridge Shareholders to Rights of Shareholders in the Combined Organization, and --Indemnification and Limitation of Liability**.")

Provisions Affecting Control of ChoiceOne

At the effective time of the Merger, the Restated Articles of Incorporation and the Bylaws of ChoiceOne will remain unchanged. Some provisions of ChoiceOne's Restated Articles of Incorporation and/or the MBCA may have an anti-takeover impact and may make tender offers, proxy contests and certain mergers more difficult to complete. Both ChoiceOne and Valley Ridge are currently subject to the provisions of the MBCA, and the Combined Organization will be subject to these provisions after the Merger.

ChoiceOne's Restated Articles of Incorporation. Article IX of ChoiceOne's Restated Articles of Incorporation contain provisions intended to protect shareholders and prohibit or discourage certain types of hostile takeover activities. This provision requires a supermajority vote of two-thirds of the outstanding and disinterested shares of

ChoiceOne Common Stock to approve a Business Combination with an "interested shareholder" unless it has been approved by the board of directors or the offer is in cash (or at the shareholder's option cash and debt) and is either higher than the highest price paid by the "interested shareholder" for prior purchases of ChoiceOne Common Stock or exceeds the fair value as determined by the board of directors, and certain other conditions are met.

Anti-Takeover Legislation. The MBCA contains provisions intended to protect shareholders and prohibit or discourage certain types of hostile takeover activities. These provisions establish a statutory scheme similar to the supermajority and fair price provisions found in ChoiceOne's Restated Articles of Incorporation and other corporate charters (the "**Fair Price Act**"). ChoiceOne's Restated Articles of Incorporation opt out of the Fair Price Act.

Control Share Act. The MBCA establishes procedures governing "control share acquisitions" (the "**Control Share Act**"). A control share acquisition is defined as an acquisition of shares by an acquirer which, when combined with other shares held by that person or entity, would give the acquirer voting power at or above any of the following thresholds: 20%, 33 1/3% or 50%. Under the Control Share Act, an acquirer may not vote "control shares" unless the corporation's disinterested shareholders vote to confer voting rights on the control shares. The acquiring person, officers of the target corporation, and directors of the target corporation who are also employees of the corporation are precluded from voting on the issue of whether the control shares shall be accorded voting rights. The Control Share Act does not affect the voting rights of shares owned by an acquiring person prior to the control share acquisition.

The Control Share Act entitles corporations to redeem control shares from the acquiring person under certain circumstances. In other cases, the Control Share Act confers dissenters' rights upon all of a corporation's shareholders except the acquiring person.

The Control Share Act applies only to an "issuing public corporation." ChoiceOne falls within the statutory definition of an "issuing public corporation" and would continue to do so after the Merger.

Classified Board. Each of the current boards of directors of both ChoiceOne and Valley Ridge are classified into three classes, with each class serving a staggered, three-year term. The Restated Articles of Incorporation of ChoiceOne after the Merger also would classify the board of directors of ChoiceOne into three classes serving staggered, three-year terms. Classification of the board could have the effect of extending the time during which the existing board of directors could control the operating policies of ChoiceOne even though opposed by the holders of a majority of the outstanding shares of ChoiceOne Common Stock. In addition, under the Restated Articles of Incorporation, directors of ChoiceOne could be removed only for "cause," and then in some cases only upon a super-majority vote of the shareholders. (See "**The Merger--Comparison of Rights of ChoiceOne Shareholders and Valley Ridge Shareholders to Rights of Shareholders in the Combined Organization**.")

Board Evaluation of Certain Offers. Article X of ChoiceOne's Restated Articles of Incorporation provides that the board of directors shall not approve, adopt or recommend any offer of any person or entity (other than ChoiceOne) to make a tender or exchange offer for any ChoiceOne Common Stock, to merge or consolidate ChoiceOne with any other entity, or to purchase or acquire all or substantially all of ChoiceOne's assets, unless and until the board has evaluated the offer and determined that it would be in compliance with all applicable laws and that the offer is in the best interests of ChoiceOne. In doing so, the board may rely on an opinion of legal counsel who is independent from the offeror, and/or may test such legal compliance in front of any court or agency that may have appropriate jurisdiction over the matter.

In making its determination, the board must consider all factors it deems relevant, including but not limited to: (i) the adequacy and fairness of the consideration to be received by ChoiceOne and/or its shareholders, considering historical trading prices of ChoiceOne Common Stock, the price that could be achieved in a negotiated sale of ChoiceOne as a whole, past offers, and the future prospects of ChoiceOne; (ii) the potential social and economic impact of the proposed transaction on ChoiceOne, its employees, customers and vendors; (iii) the potential social and economic impact of the proposed transaction on the communities in which ChoiceOne and its subsidiaries operate or are located; (iv) the financial condition and earnings prospects of the offering party, including any intention to use the assets of ChoiceOne to finance the transaction; and (v) the competence, experience and integrity of management of the offering party. Consideration of these factors may result in ChoiceOne's board of directors rejecting offers that would otherwise be desirable to its shareholders.

In order to amend, repeal, or adopt any provision that is inconsistent with Article X, at least 66 2/3% of the shareholders, voting together as a single class, must approve the change.

Nomination of Directors. Under ChoiceOne's Bylaws, all nominations for directors must be delivered to ChoiceOne in writing at least 120 days prior to the date of notice of the annual meeting of shareholders. A nomination that is not received prior to this deadline will not be placed on the ballot. The board believes that advance notice of nominations by shareholders will afford a meaningful opportunity to consider the qualifications of the proposed nominees and, to the extent deemed necessary or desirable by the board of directors, will provide an opportunity to inform shareholders about such qualifications. Although this nomination procedure does not give the board of directors any power to approve or disapprove of shareholder nominations for the election of directors, this nomination procedure may have the effect of precluding a nomination for the election of directors at a particular annual meeting if the proper procedures are not followed.

Comparison of Rights of ChoiceOne Shareholders and Valley Ridge Shareholders to Rights of Shareholders in the Combined Organization

If the Merger is consummated, a person holding a given percentage of the outstanding shares of ChoiceOne Common Stock or Valley Ridge Common Stock will hold a lesser percentage of the outstanding shares of common stock in the Combined Organization after the Merger. In addition, because the Combined Organization will be a larger entity than either ChoiceOne or Valley Ridge, the universe of financial institutions and other companies that have the resources to acquire the Combined Organization will be smaller than before the Merger.

ChoiceOne is currently, and will be after the Merger is completed, subject to the informational requirements of the Exchange Act. Valley Ridge is not presently subject to these reporting requirements. Valley Ridge's shareholders will therefore benefit from ChoiceOne's obligation to file periodic reports under the Exchange Act by virtue of the availability of more current and detailed information regarding the Combined Organization than presently exists with respect to Valley Ridge. This benefit will be offset, to a degree, by the costs associated with complying with the Exchange Act, which will be borne by the Combined Organization. The Sarbanes-Oxley Act of 2002 has increased these compliance costs considerably.

At the effective time of the Merger, the Restated Articles of Incorporation and Bylaws of ChoiceOne will remain unchanged. The corporate affairs of both ChoiceOne and Valley Ridge are governed by the MBCA, and the corporate affairs of the Combined Organization after the Merger will also be governed by the MBCA. Therefore, the rights of shareholders of the Combined Organization under the MBCA after the Merger will not significantly differ from the present rights of shareholders of ChoiceOne and Valley Ridge under the MBCA.

Removal of Directors and Filling Vacancies. The Restated Articles of Incorporation of ChoiceOne provide that a director may be removed only for "cause." Accordingly, unless otherwise provided by law, a director may only be removed if: (a) he or she has been convicted of a felony and has exhausted all appeals; (b) a final unappealable verdict has been entered against the director by a court of competent jurisdiction for negligence or misconduct in the performance of his or her duties to the corporation in a matter of substantial importance to the corporation; (c) he or she becomes mentally incompetent and such incompetence directly affects his or her ability to serve as a director; or (d) the director's actions or failure to act have been in derogation of his or her duties. In addition, any proposal to remove a director pursuant to (c) or (d) above that is initiated by the board of directors for submission to the shareholders requires the affirmative vote of at least two-thirds of the directors then in office, exclusive of the director who is the subject of the removal action. (See "**The Merger--Provisions Affecting Control of ChoiceOne**.")

Vacancies in the board of directors may be filled only by the board of directors, acting by an affirmative vote of a majority of all of the remaining directors. Any vacancy for any newly created directorships resulting from any increase in the number of directors may be filled solely by a majority of the "continuing directors." Any directors so chosen shall hold office until the next election for the class for which the director was chosen and until their respective successors shall be duly elected and qualified or their resignation or removal.

Amendment or Repeal of the Articles and Bylaws. Under Michigan law, the board of directors need not adopt a resolution setting forth an amendment to the articles of incorporation before the shareholders may vote on it. Unless the articles of incorporation provide otherwise, amendments of the articles of incorporation generally require the approval of the holders of a majority of the outstanding stock entitled to vote thereon, and if the amendment would increase or decrease the number of authorized shares of any class or series, or would adversely affect the rights, powers, or preferences of such class or series, a majority of the outstanding stock of such class or series also would be required to approve the amendment.

Certain provisions of the Restated Articles of Incorporation of ChoiceOne require a greater-than-majority vote. First, the affirmative vote of at least 66 2/3% of the outstanding voting stock is required to amend, repeal or adopt any provisions inconsistent with Article VII, which sets forth requirements applicable to nominations, filling of vacancies and removal of members of the board of directors; Article VIII, which opts out of the Michigan Fair Price Act; Article IX, which requires a super-majority vote for certain business combinations; and Article X, which governs the board's evaluation of certain offers.

The Bylaws of ChoiceOne may be altered, amended or repealed by the vote of the holders of a majority of the shares who are present or represented at a meeting at which a quorum is present. The Bylaws may also be amended by the directors upon a majority vote.

Indemnification and Limitation of Liability

Limitation of Personal Liability. The MBCA provides that a director or officer of a Michigan corporation shall discharge his or her duties as a director or officer in good faith, with the care an ordinarily prudent person in a like position would exercise under similar circumstances, and in a manner he or she reasonably believes to be in the best interests of the corporation. In discharging these duties, a director or officer is entitled to rely on information, reports, or statements prepared by directors, officers, or employees of the corporation whom the director or officer reasonably believes to be reliable and competent in the matters presented; legal counsel, accountants, engineers, or other persons as to matters the director or officer reasonably believes are within the person's professional or expert competence; or a committee of the board of which the director or officer is not a member if he or she believes the committee merits confidence. A director or officer is not, however, entitled to rely on the foregoing information if he or she has knowledge that makes such reliance unwarranted. A director or officer who so performs these duties may not be held liable by reason of being or having been a director or officer of the corporation.

The Restated Articles of Incorporation of ChoiceOne provide that directors shall not have personal liability to ChoiceOne or its shareholders for monetary damages arising out of a breach of fiduciary duty by directors in their capacities as directors. Under Michigan law, liability may not be eliminated for (i) breaches of the duty of loyalty; (ii) acts or omissions not in good faith or that involve intentional misconduct or knowing violations of law; (iii) actions involving approval of various types of illegal distributions or the making of improper loans; (iv) transactions from which an improper personal benefit was obtained; or (v) acts or omissions occurring prior to the time the provision limiting liability became effective. ChoiceOne's Restated Articles of Incorporation are intended to give to the directors of ChoiceOne the full protection against personal liability that is permitted under Michigan law. This provision is designed to promote an environment in which ChoiceOne's directors are free to function decisively and effectively in directing the operation of the Corporation without the potential inhibiting threat of litigation.

These provisions do not eliminate the duty of care imposed upon a director, but only eliminate a director's personal monetary liability to ChoiceOne and its shareholders for actions that may be deemed to constitute a breach of the duty of care in the decision-making context. The director's duty of care remains unchanged and will be enforceable through such equitable remedies as injunctive relief or rescission. However, equitable remedies available to shareholders may in some instances be ineffective as a practical matter. For instance, shareholders may not be aware of a proposed transaction or other action until it is too late to prevent its completion. The provision also does not eliminate the personal liability of directors to ChoiceOne or its shareholders for monetary damages for breaching their duty of loyalty, failing to act in good faith, engaging in intentional misconduct or knowingly violating law, paying a dividend or making an improper loan, or obtaining an improper personal benefit. The provision also does not change any of the separate obligations of directors under the federal securities laws.

Because these provisions of ChoiceOne's Restated Articles of Incorporation limit the situations in which a director may be held monetarily liable, they could have the effect of reducing the likelihood of derivative litigation against ChoiceOne's directors. They may also discourage or deter shareholders from bringing a lawsuit against ChoiceOne's directors for breach of their duties of care, even though such an action, if successful, might otherwise have benefited ChoiceOne and its shareholders. Insulation of directors from personal liability could influence their decisions with respect to any future proposals to acquire ChoiceOne. This could have the effect of making it more difficult for others to acquire ChoiceOne and might discourage efforts to acquire ChoiceOne.

ChoiceOne's board of directors does not believe the limitation of director liability under ChoiceOne's Restated Articles of Incorporation results in directors acting with less concern for their fiduciary duties. ChoiceOne's board of directors believes that the diligence exercised by directors stems primarily from their desire to act in the best interests of ChoiceOne, and not from a fear of monetary damage awards. Consequently, ChoiceOne's board of directors believes that the level of scrutiny and care exercised by directors is not lessened by limitation of liability provisions contained in ChoiceOne's Restated Articles of Incorporation.

An amendment to or repeal of the limitation of personal liability may not apply to or affect the liability or alleged liability of any director of ChoiceOne for or with respect to any act or omission of such director prior to such amendment or repeal.

Indemnification. ChoiceOne's Restated Articles of Incorporation require it to indemnify directors and executive officers of ChoiceOne to the fullest extent now or in the future permitted by the MBCA in connection with any actual or threatened civil, criminal, administrative or investigative action, suit or proceeding (whether brought by or in the name of the corporation, a subsidiary or otherwise) arising out of his or her service to ChoiceOne, a subsidiary or to another organization at the request of ChoiceOne or a subsidiary. In addition, ChoiceOne's Restated Articles of Incorporation permit it to indemnify persons who are not directors or executive officers of ChoiceOne to the extent authorized by its Bylaws, resolution of the Board of Directors or contractual agreement authorized by the Board of Directors.

ChoiceOne's Bylaws permit ChoiceOne to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending, or completed action, suit, or proceeding (other than an action by or in the right of ChoiceOne), whether civil, criminal, administrative, or investigative and whether formal or informal, by reason of the fact that the person is or was a director, officer, employee, or agent of ChoiceOne or is or was serving at the request of ChoiceOne as a director, officer, partner, trustee, employee, or agent of another foreign or domestic corporation, partnership, joint venture, trust, or other enterprise, whether for profit or not for profit, against expenses (including attorney fees), judgments, penalties, fines, and amounts paid in settlement actually and reasonably incurred by the person in connection with such action, suit, or proceeding if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of ChoiceOne or its shareholders and, with respect to a criminal action or proceeding, the person had no reasonable cause to believe his or her conduct was unlawful.

In addition, ChoiceOne's ability to indemnify its directors and officers or other persons is determined, to an extent, by the MBCA. The following is a summary of the applicable provisions of the MBCA:

Sections 561 through 571 of the MBCA contain provisions governing the indemnification of directors and officers by Michigan corporations. That statute provides that a corporation has the power to indemnify a person who was or is a party or is threatened to be made a party to a threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative and whether formal or informal (other than an action by or in the right of the corporation) by reason of the fact that he or she is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, partner, trustee, employee or agent of another foreign or domestic corporation, partnership, joint venture, trust or other enterprise, whether for profit or not, against expenses (including attorneys' fees), judgments, penalties, fines and amounts paid in settlement actually and reasonably incurred by him or her in connection with the action, suit or proceeding, if the person acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the corporation or its shareholders, and with respect to a criminal action or proceeding, if the person had no reasonable cause to believe his or her conduct was unlawful. The termination of an action, suit or proceeding by judgment, order, settlement or conviction, or upon a plea of nolo contendere or its equivalent, does not, of itself, create a presumption that the person did not act in good faith and in a manner which he or she reasonably believed to be in or not opposed to the best interests of the corporation or its shareholders, and, with respect to a criminal action or proceeding, had reasonable cause to believe that his or her conduct was unlawful.

Indemnification of expenses (including attorneys' fees) and amounts paid in settlement is permitted in derivative actions, except that indemnification is not allowed for any claim, issue or matter in which such person has been found liable to the corporation unless and to the extent that a court decides indemnification is proper. To the extent that a director or officer has been successful on the merits or otherwise in defense of an action, suit or proceeding, or in defense of a claim, issue or matter in the action, suit or proceeding, he or she shall be indemnified against actual and reasonable expenses (including attorneys' fees) incurred by him or her in connection with the action, suit or proceeding, and any action, suit or proceeding brought to enforce the mandatory indemnification provided under the MBCA. The MBCA permits partial indemnification for a portion of expenses (including reasonable attorneys' fees), judgments, penalties, fines and amounts paid in settlement to the extent the person is entitled to indemnification for less than the total amount.

A determination that the person to be indemnified meets the applicable standard of conduct and an evaluation of the reasonableness of the expenses incurred and amounts paid in settlement shall be made by a majority vote of a quorum of the board of directors who are not parties or threatened to be made parties to the action, suit or proceeding, by a majority vote of a committee of not less than 2 disinterested directors, by independent legal counsel, by all "independent directors" not parties or threatened to be made parties to the action, suit or proceeding, or by the shareholders.

Under the MBCA, a corporation may pay or reimburse the reasonable expenses incurred by a director, officer, employee or agent who is a party or threatened to be made a party to an action, suit or proceeding in advance of final disposition of the proceeding if (i) the person furnishes the corporation a written affirmation of his or her good faith belief that he or she has met the applicable standard of conduct, and (ii) the person furnishes the corporation a written undertaking to repay the advance if it is ultimately determined that he or she did not meet the standard of conduct, which undertaking need not be secured.

The indemnification provisions of the MBCA are not exclusive of the rights to indemnification under a corporation's articles of incorporation or bylaws or by agreement. However, the total amount of expenses advanced or indemnified from all sources combined may not exceed the amount of actual expenses incurred by the person seeking indemnification or advancement of expenses. The indemnification provided for under the MBCA continues as to a person who ceases to be a director, officer, employee or agent.

The MBCA permits ChoiceOne to purchase insurance on behalf of its directors, officers, employees and agents against liabilities arising out of their positions with ChoiceOne, whether or not such liabilities would be within the above indemnification provisions. Pursuant to this authority, ChoiceOne maintains such insurance on behalf of its directors, officers and employees.

The potential risks of personal liability may deter qualified individuals from accepting a position as a director of ChoiceOne unless adequate insurance or other protection is available. The board of directors of ChoiceOne believes that the provisions of the Restated Articles of Incorporation are important to ChoiceOne's efforts to attract and retain qualified directors and officers in the future.

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended (the "**Securities Act**"), may be permitted to directors, officers, and controlling persons of ChoiceOne pursuant to the foregoing provisions, or otherwise, ChoiceOne has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

Resales by Affiliates

The issuance of shares of ChoiceOne Common Stock to shareholders of Valley Ridge pursuant to the Merger has been registered under the Securities Act. That registration, however, does not cover resales by shareholders of Valley Ridge who may be deemed to control or be controlled by, or be under common control with, Valley Ridge at the effective time of the Merger.

In order to induce each other to proceed with the Merger, ChoiceOne and Valley Ridge have each agreed to use all reasonable efforts to cause each person identified by the applicable Corporation who is an affiliate of the applicable Corporation as that term is defined under Rule 144 of the Securities Act ("**Affiliates**") to agree in writing not to sell, transfer or otherwise dispose of shares of ChoiceOne Common Stock beneficially owned or received in the Merger by such person in a manner which would result in violation of the Securities Act or applicable rules and regulations.

Accounting Treatment

ChoiceOne expects to treat the Merger under generally accepted accounting principles governing the purchase method of accounting. (See "**The Merger--Pro Forma Condensed Combined Financial Statements**.")

Material Federal Income Tax Consequences of the Merger

The following is a summary of the material anticipated United States federal income tax consequences generally applicable to a U.S. Holder (as defined below) of Valley Ridge Common Stock with respect to the exchange of Valley Ridge Common Stock for ChoiceOne Common Stock pursuant to the Merger. This discussion assumes that U.S. Holders hold their Valley Ridge Common Stock as capital assets within the meaning of section 1221 of the Code. This summary is based on the Code, administrative pronouncements, judicial decisions and Treasury Regulations, each as in effect as of the date of this Prospectus and Proxy Statement. All of the foregoing are subject to change at any time, possibly with retroactive effect, and all are subject to differing interpretation. No advance ruling has been sought or obtained from the Internal Revenue Service ("**IRS**") regarding the United States federal income tax consequences of the Merger. As a result, no assurance can be given that the IRS would not assert, or that a court would not sustain, a position contrary to any of the tax consequences set forth below.

This summary does not address any tax consequences arising under United States federal tax laws other than United States federal income tax laws, nor does it address the laws of any state, local, foreign or other taxing jurisdiction. In addition, this summary does not address all aspects of United States federal income taxation that may apply to U.S. Holders of Valley Ridge Common Stock in light of their particular circumstances or U.S. Holders that are subject to special rules under the Code, such as holders of Valley Ridge Common Stock that are not U.S. Holders, holders that are partnerships or other pass-through entities (and persons holding their Valley Ridge Common Stock through a partnership or other pass-through entity), persons who acquired shares of Valley Ridge Common Stock as a result of the exercise of employee stock options or otherwise as compensation or through a tax-qualified retirement plan, persons subject to the alternative minimum tax, tax-exempt organizations, financial institutions, broker-dealers, traders in securities that have elected to apply a mark to market method of accounting, insurance companies, persons having a "**functional currency**" other than the U.S. dollar and persons holding their Valley Ridge Common Stock as part of a straddle, hedging, constructive sale or conversion transaction.

For purposes of this summary, a "**U.S. Holder**" is a beneficial owner of Valley Ridge Common Stock that is for United States federal income tax purposes:

- a United States citizen or resident alien;
- a corporation, or other entity taxable as a corporation for United States federal income tax purposes, created or organized under the laws of the United States or any state therein or the District of Columbia;
- an estate, the income of which is subject to United States federal income taxation regardless of its source; and

a trust if (1) it is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust, or (2) it was in existence on August 20, 1996 and has a valid election in effect under applicable Treasury Regulations to be treated as a United States person.

If a partnership (including any other entity treated as a partnership for United States federal income tax purposes) holds Valley Ridge Common Stock, the tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Such a partner should consult its tax advisor.

The Merger. The Merger is intended to qualify as a reorganization under section 368(a) of the Code. It is a condition to the completion of the Merger that each of ChoiceOne and Valley Ridge receive an opinion dated the closing date from Warner Norcross & Judd LLP to the effect that on the basis of facts, representations and assumptions set forth or referred to in the opinion, the Merger will constitute a reorganization within the meaning of section 368(a) of the Code. These opinions will be based in part on representation letters provided by ChoiceOne and Valley Ridge and on customary factual assumptions. If any of the facts, representations or assumptions upon which the opinions are based are inconsistent with the actual facts, the tax consequences of the Merger could be adversely affected, the opinions and this summary may not accurately describe the United States federal income tax treatment of the Merger, and the tax consequences of the Merger to U.S. Holders may be materially different from those described in this summary.

Assuming the Merger qualifies as a reorganization within the meaning of section 368(a) of the Code, ChoiceOne and Valley Ridge will not recognize any gain or loss for United States federal income tax purposes as a result of the Merger. Assuming the Merger qualifies as a reorganization within the meaning of section 368(a) of the Code, the United States federal income tax consequences of the Merger to U.S. Holders of Valley Ridge Common Stock are, in general, as follows:

- a U.S. Holder that receives ChoiceOne Common Stock in exchange for its shares of Valley Ridge Common Stock in the Merger will not recognize gain or loss on the exchange, except to the extent the U.S. Holder receives cash instead of a fractional share interest in ChoiceOne Common Stock;

- the aggregate tax basis of the shares of ChoiceOne Common Stock received in the Merger (including any fractional shares deemed received and redeemed for cash as described below) will be equal to the aggregate tax basis in the shares of Valley Ridge Common Stock surrendered in exchange for the ChoiceOne Common Stock; and

- an exchanging U.S. Holder's holding period in the ChoiceOne Common Stock received in the Merger (including any fractional shares deemed received and redeemed for cash as described below) will include the holding period of the Valley Ridge Common Stock surrendered in exchange for ChoiceOne Common Stock.

Cash Instead of Fractional Shares. A U.S. Holder that receives cash instead of a fractional share should be treated as if such U.S. Holder had received a fractional share of ChoiceOne Common Stock and then exchanged such fractional share for cash in a redemption by ChoiceOne. Assuming that the deemed redemption of a fractional share of ChoiceOne Common Stock is treated as a sale or exchange, and not as a dividend, a U.S. Holder will generally recognize capital gain or loss on such deemed redemption of the fractional share in an amount equal to the difference between the amount of cash received instead of the fractional share and the U.S. Holder's tax basis in the fractional share of ChoiceOne Common Stock. Such capital gain or loss will be long term capital gain or loss if the Valley Ridge Common Stock exchanged was held for more than one year at the effective time of the Merger.

Information Reporting and Backup Withholding. A non-corporate U.S. Holder of Valley Ridge Common Stock may be subject to information reporting and backup withholding on any cash payments it receives instead of fractional share interests in ChoiceOne Common Stock. Backup withholding will not apply, however, if such U.S. Holder (a) furnishes a correct taxpayer identification number and properly certifies that it is not subject to backup withholding (generally on a substitute Form W-9) or (b) otherwise establishes an exemption from backup withholding.

Any amounts withheld under the backup withholding rules may be allowed as a refund or credit against the U.S. Holder's United States federal income tax liability, provided such U.S. Holder timely furnishes the required information to the IRS. U.S. Holders should consult their tax advisors as to their qualifications for an exemption from backup withholding and the procedure for establishing an exemption.

Reporting Requirements. A U.S. Holder that receives ChoiceOne Common Stock as a result of the Merger will be required to retain records pertaining to the Merger and will be required to file with its United States federal income tax return for the year in which the Merger takes place a statement setting forth certain facts relating to the Merger.

EACH SHAREHOLDER OF VALLEY RIDGE SHOULD CONSULT A PROFESSIONAL TAX ADVISER ON THE TAX CONSEQUENCES OF THE MERGER TO SUCH SHAREHOLDER. THE TAX AND OTHER MATTERS DESCRIBED IN THIS PROSPECTUS AND PROXY STATEMENT DO NOT CONSTITUTE LEGAL OR TAX ADVICE.

Fairness Opinion of Donnelly Penman & Partners

Valley Ridge selected and retained Donnelly Penman & Partners ("**Donnelly Penman**") to act as Valley Ridge's financial advisor in connection with the Merger and related matters based upon its qualifications, expertise and reputation, as well as its familiarity with Valley Ridge. Donnelly Penman is a recognized investment banking and advisory firm. As a part of its investment banking and advisory business, Donnelly Penman is continually engaged in the valuation of businesses and securities in connection with mergers and acquisitions, secondary distributions of securities, private placements and valuations for ESOP, going private transactions, corporate and other purposes.

At the April 25, 2006 special meeting of the Valley Ridge board of directors, the Valley Ridge board approved the Merger and Donnelly Penman provided an oral opinion that the conversion ratio of eight and one half (8.5) shares of ChoiceOne Common Stock for each share of Valley Ridge Common Stock, after stating its intent to pay and paying a $10 million special cash dividend to its shareholders as described in the Plan of Merger, is fair to Valley Ridge's shareholders from a financial point of view. No limitations were imposed by Valley Ridge on the scope of Donnelly Penman's investigation or on the procedures followed by Donnelly Penman in rendering its opinion. The 8.5 conversion ratio was determined by Valley Ridge after arms-length negotiations with ChoiceOne.

The full text of the opinion of Donnelly Penman, which sets forth, among other things, assumptions made, procedures followed, matters considered and limits on the review undertaken by Donnelly Penman, is attached as Appendix B to this Prospectus and Proxy Statement. Holders of Valley Ridge Common Stock are urged to read the opinion in its entirety. Donnelly Penman's opinion is directed only to the Merger consideration described in the Plan of Merger and does not constitute a recommendation to any Valley Ridge shareholder as to how such shareholder should vote at the Valley Ridge special meeting of shareholders. The summary set forth in this Prospectus and Proxy Statement of the opinion of Donnelly Penman is qualified in its entirety by reference to the full text of its opinion attached to this document as Appendix B.

In arriving at its opinion, Donnelly Penman engaged in discussions with members of the management of each of Valley Ridge and ChoiceOne concerning the historical and current business operations, financial conditions and prospects of Valley Ridge and ChoiceOne and reviewed:

- the Agreement and Plan of Merger dated April 25, 2006;
- the Form S-4 as filed with the Commission;
- certain publicly-available information for ChoiceOne, including each of the Annual Reports to Shareholders and Annual Reports on Form 10-K for the years ended December 31, 2003, 2004 and 2005;
- the stock price and trading activity for ChoiceOne Common Stock and Valley Ridge Common Stock;

certain information, including historical and forecasted financial information, relating to earnings, assets, liabilities and prospects of Valley Ridge furnished by senior management of Valley Ridge;

certain information, including historical and forecasted financial information, relating to earnings, assets, liabilities and prospects of ChoiceOne furnished by senior management of ChoiceOne;

Valley Ridge senior management projected earnings estimates for fiscal years 2006 through 2010, which were deemed reasonable by Valley Ridge management;

ChoiceOne senior management projected earnings estimates for fiscal years 2006 through 2010, which were deemed reasonable by ChoiceOne management;

the amount and timing of the cost savings expected to result from the Merger furnished by senior management of Valley Ridge and ChoiceOne;

the financial condition and operating results of Valley Ridge and ChoiceOne compared to the financial conditions and operating results of certain other financial institutions that Donnelly Penman deemed comparable;

various valuation analyses of Valley Ridge and ChoiceOne that Donnelly Penman performed, including dividend discount analyses, accretion/dilution analysis, analysis of comparable transactions and analysis of comparable companies; and

such other information, financial studies, analyses and investigations and such other factors that Donnelly Penman deemed relevant for the purposes of its opinion.

In conducting its review and arriving at its opinion, as contemplated under the terms of its engagement by Valley Ridge, Donnelly Penman, with the consent of Valley Ridge and ChoiceOne, relied, without independent investigation, upon the accuracy and completeness of all financial and other information provided to it by Valley Ridge, ChoiceOne or upon publicly-available information. Donnelly Penman did not undertake any responsibility for the accuracy, completeness or reasonableness of, or any obligation independently to verify, such information. Donnelly Penman further relied upon the assurance of management of Valley Ridge and ChoiceOne that they were unaware of any facts that would make the information provided or available to Donnelly Penman incomplete or misleading in any respect. Donnelly Penman did not make any independent evaluations, valuations or appraisals of the assets or liabilities of Valley Ridge or ChoiceOne. Donnelly Penman did not review any individual credit files of Valley Ridge or ChoiceOne and assumed that the aggregate allowances for credit losses for Valley Ridge and ChoiceOne were adequate to cover such losses. Donnelly Penman's opinion was necessarily based upon economic and market conditions and other circumstances as they existed and evaluated by Donnelly Penman on the date of its opinion. Donnelly Penman does not have any obligation to update its opinion, unless requested by Valley Ridge in writing to do so, and Donnelly Penman expressly disclaims any responsibility to do so in the absence of any written request by Valley Ridge.

In connection with rendering its opinion to the Valley Ridge board of directors, Donnelly Penman performed a variety of financial analyses, which are summarized below. Donnelly Penman believes that its analyses must be considered as a whole and that selecting portions of its analyses and the factors considered by it, without consideration of all factors and analyses, could create a misleading view of the analyses and the processes underlying Donnelly Penman's opinion. Donnelly Penman arrived at its opinion based on the results of all the analyses it undertook assessed as a whole, and it did not draw conclusions from or with regard to any one method of analysis. The preparation of a fairness opinion is a complex process involving subjective judgments, and is not necessarily susceptible to partial analysis or summary description. With respect to the analysis of selected comparable companies and analysis of selected comparable merger of equal transactions summarized below, no public company utilized as a comparison is identical to Valley Ridge or ChoiceOne, and such analyses necessarily involve complex considerations and judgments concerning the differences in financial and operating characteristics of the relevant financial institutions and other factors that could affect the acquisition or public trading values of the financial institutions concerned.

The financial forecast information and cost savings and other synergies expected to result from the Merger furnished by management of Valley Ridge and ChoiceOne, respectively, and deemed reasonable by them contained in or underlying Donnelly Penman's analyses are not necessarily indicative of future results or values, which may be significantly more or less favorable than such forecasts and estimates. The forecasts and estimates were based on numerous variables and assumptions that are inherently uncertain, including factors related to general economic and competitive conditions. In that regard, Donnelly Penman assumed, with Valley Ridge's and ChoiceOne's consent, that the financial forecasts, including the cost savings and other synergies expected to result from the Merger, were reasonably prepared on a basis reflecting the best currently available judgments of Valley Ridge and ChoiceOne, and that such forecasts will be realized in the amounts and at the times that they contemplate. The estimates contained in Donnelly Penman's analyses are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than those suggested by those analyses. Estimates of values of financial institutions or assets do not purport to be appraisals or necessarily reflect the prices at which financial institutions or their securities actually may be sold. Accordingly, actual results could vary significantly from those assumed in the financial forecasts and related analyses.

The following is a brief summary of the analyses performed by Donnelly Penman in connection with its oral opinion delivered to the Valley Ridge Board on April 25, 2006. Certain analyses have been updated to reflect currently available information for purposes of the written fairness opinion.

Summary Analysis of the Transaction

Donnelly Penman reviewed the terms of the Merger. It noted that the conversion ratio of eight and one half (8.5) shares of ChoiceOne Common Stock for each share of Valley Ridge Common Stock, after Valley Ridge declares and pays a $10 million special cash dividend to its shareholders, meant that the transaction had an implied per share value of $156.83 for each share of Valley Ridge Common Stock based upon the closing price of ChoiceOne Common Stock of $18.45 on April 24, 2006. This implied per share value represents a 264.5% premium to fully diluted book value (after deducting the $10 million dividend) per Valley Ridge share of $59.28 as of March 31, 2006. Donnelly Penman also noted that, based on the conversion ratio, the transaction had an implied aggregate value of approximately $29.3 million (exclusive of the $10 million pre-transaction dividend, transaction costs or deferred bonus costs) as of April 25, 2006. If the pre-transaction $10 million cash dividend ($53.60 per fully diluted share) is added to the per share consideration, Valley Ridge shareholders will receive $210.43 per fully diluted share. The complete aggregate transaction metrics are displayed below:

Deal Price(1)	Price/Book Value(2)	Price/Tangible Book Value(2)	Price/LTM Diluted Earnings(3)	Price/Assets(2)	Price/ Deposits(2)	Premium to Core Deposits(2)
$29,254,136	264.5%	272.8%	17.73x	13.7%	17.3%	12.63%

(1) This is the aggregate consideration excluding the pre-transaction $10 million dividend.
(2) The multiples in relation to estimated balance sheet data is based on the March 31, 2006 balance sheet data (after being reduced for the $10 million dividend).
(3) The net income component for 2005 and last twelve month's ("LTM") results was estimated to reflect the impact on earnings had a $10 million dividend been declared on April 1, 2005. Although this dividend would be larger than what Valley Ridge could do independently and maintain capital ratios, Donnelly Penman thought this adjustment was relevant to reflect a more appropriate transaction multiple.

Analysis of Selected Comparable Companies

Donnelly Penman compared selected financial and operating results of Valley Ridge to a peer group that included the following 31 exchange traded commercial banks in Michigan, Illinois, Indiana and Ohio, which were selected based on comparable asset size and financial returns. Specifically, the peer group identified had assets less than $500 million and a last twelve month's return on average equity of between 8% and 12%. The peer group had median trading multiples of 139.6% of book value per share, 142.0% of tangible book value per share and 15.9 times last twelve month's earnings per share. These peer companies consisted of:

- American Community Bancorp Inc. (ACBP)
- Bancorp of Southern Indiana (BCSO)
- Capital Directions, Incorporated (CTDN)

- ChoiceOne Financial Services, Inc. (COFS)
- CITBA Financial Corporation (CBAF)
- Commercial Bancshares (CMOH)
- Community Central Bank Corporation (CCBD)
- Community Financial Shares, Inc. (CFIS)

- Community National Corporation (CMNC)
- Community Shores Bank Corporation (CSHB)
- Communibanc Corporation (CBCZ)
- Cortland Bancorp (CLDB)
- County Bank Corp (CBNC)
- Croghan Bancshares, Inc. (CHBH)
- CSB Bancorp, Incorporated (CSBB)
- CSB Bancorp, Inc. (CBMI)
- Eastern Michigan Financial Corp (EFIN)
- First Ottawa Bancshares, Inc. (FFOTB)
- First Robinson Financial Corporation (FRFC)
- FNB, Inc. (FIDS)
- Heartland Bancshares, Inc. (HRTB)
- Hillsdale County National Bank (HCNB)
- Illini Corporation (ILII)
- Ohio Heritage Bancorp, Inc. (OHHB)
- Pontiac Bancorp, Inc. (PONT)
- PSB Group, Inc. (PSBG)
- St. Joseph Capital Corporation (SJOE)
- United Bancorp, Inc. (UBCP)
- United Commerce Bancorp (UCBN)
- West Pointe Bancorp, Inc. (WTPT)
- Western Reserve Bancorp, Inc. (WRBO)

This comparison showed, among other things, that for the latest twelve months ended March 31, 2006:

Valley Ridge's net interest margin was 4.34%, compared with the Valley Ridge peer group median of 3.86%;

Valley Ridge's efficiency ratio was 70.86%, compared with the Valley Ridge peer group median of 69.51%;

Valley Ridge's return on average assets was 0.91%, compared to the Valley Ridge peer group median of 0.87%;

Valley Ridge's return on average equity was 9.77%, compared to the Valley Ridge peer group median of 9.42%; and

Valley Ridge's ratio of nonperforming assets to total assets was 0.29%, compared with the Valley Ridge peer group median of 0.50%.

Additionally, Donnelly Penman reviewed 13 publicly traded commercial banks in Michigan, Illinois, Indiana and Ohio, which were selected based on comparable asset size and financial returns based on the size of the combined Valley Ridge and ChoiceOne entity. Specifically the peer group identified had assets of between $500 million and $1 billion and a last twelve month's return on average equity of between 8% and 12%. The peer group had median trading multiples of 141.91% of book value per share, 164.76% of tangible book value per share and 16.02 times last twelve month's earnings per share. These peer companies consisted of:

- Centrue Financial Corporation (TRUE)
- Community Bank Shares of Indiana, Inc. (CBIN)
- Dearborn Bancorp, Inc.
- Farmers & Merchants Bancorp, Incorporated (FMAO)
- Farmers National Banc Corporation (FMNB)
- Fentura Financial, Inc. (FETM)
- Home Federal Bancorp (HOMF)

- IBT Bancorp, Inc. (IBTM)
- LNB Bancorp, Inc. (LNBB)

- NI Bancshares Corporation (NIBA)
- O.A.K. Financial Corporation (OKFC)
- Oxford Bank Corporation (OXBC)
- United Bancshares, Inc. (UBOH)

No financial institution used in the above analyses as a comparison is identical to Valley Ridge. Accordingly, an analysis of the results of the foregoing necessarily involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies and other factors that could affect the public trading values of the financial institutions to which Valley Ridge was compared.

Dividend Discount Analysis

Donnelly Penman calculated the estimated equity value per share for Valley Ridge under two separate scenarios based upon the values, discounted to the present, of estimates of projected dividends from the fiscal year ending December 31, 2007 through the fiscal year ending December 31, 2011 and a projected year 2011 terminal value assuming Valley Ridge continued to operate as an independent company.

The first dividend discount analysis scenario examined an indication of equity value in a stand alone scenario with no special dividend. The valuation date contemplated is December 31, 2006 (the approximate date Donnelly Penman estimated the proposed Merger would be completed). In conducting its analysis, Donnelly Penman utilized financial estimates provided by and deemed reasonable by Valley Ridge for 2007 through 2011. Donnelly Penman further assumed, with Valley Ridge senior management's consent, a $5.50 dividend payment per share in 2007 with a $.10 annual increase thereafter through 2010 and then held the dividend payout ratio for the 2011 year the same as the payout ratio for 2010 (29.7%). The analysis utilized a discount rate of 12% and a terminal price/earnings multiple of 14. The discount rate was derived from the Ibbotson and Associates 2005[1] data on cost of equity buildup. The terminal multiple was determined by using the approximate indicated multiple where ChoiceOne Common Stock currently trades. This dividend discount scenario yielded an indicated equity value per fully diluted Valley Ridge share of $194.27.

The second discount analysis scenario examined an indication of equity value in a stand alone scenario with a special $8 million dividend. Donnelly Penman estimated this size of a dividend would be approximately the maximum dividend Valley Ridge could contemplate and still be considered well capitalized. The valuation date contemplated is December 31, 2006 (the approximate date Donnelly Penman estimated the proposed Merger would be completed). This analysis assumed that a special $8 million dividend would be issued at the beginning of the projection period. Donnelly Penman further assumed, with Valley Ridge senior management's consent, a $5.50 dividend payment per share in 2007 with a $.10 annual increase thereafter through 2010 and then held the dividend payout ratio for the 2011 year the same as the payout ratio for 2010 (29.7%). The analysis utilized the same discount rate of 12% and a terminal price/earnings multiple of 14. This dividend discount scenario yielded an indicated equity value per fully diluted Valley Ridge share of $222.58.

The analysis was based upon Valley Ridge senior management's projections of future performance on a stand alone basis, which were based upon many factors and assumptions deemed reasonable by Valley Ridge senior management. This analysis did not purport to be indicative of actual values or actual future results and did not purport to reflect the prices at which any securities may trade at the present or at any time in the future. Donnelly Penman included this analysis because it is a widely used valuation methodology, but noted that the results of such methodology are highly dependent upon the numerous assumptions that must be made, including earnings growth rates, dividend payout rates, terminal values and discount rates.

Pro Forma Merger Analysis

Donnelly Penman analyzed the pro forma financial impact of the merger on the holders of Valley Ridge Common Stock and ChoiceOne Common Stock. Based on discussions with senior management of Valley Ridge and ChoiceOne, Donnelly Penman constructed a present value analysis of the estimated earnings stream of ChoiceOne on a pro forma combined basis including Valley Ridge. For the ChoiceOne contribution to the pro forma entity, Donnelly Penman utilized projections from ChoiceOne's management, which were deemed reasonable by the

[1] Stocks, Bonds, Bills and Inflation - Valuation Edition 2006 Yearbook, © Ibbotson Associates, Inc.

management of Valley Ridge and ChoiceOne. Using a 12.0% discount and a terminal value multiple range of 16.0 times 2011 earnings per share, Donnelly Penman's analysis indicated a value per post Merger fully diluted ChoiceOne share of $25.63. When this $25.63 per post Merger ChoiceOne share is multiplied by 8.5 (the conversion ratio per Valley Ridge share), the indicated value per share for Valley Ridge shareholders is $217.86. Then, if the $53.60 of cash Valley Ridge shareholders would receive from the special pre-Merger cash dividend is added, a per share value of $271.46 is calculated. This value is in excess of the two stand alone Valley Ridge scenarios previously described.

The terminal multiple was determined by using the median multiple for select publicly traded Midwest commercial banks with assets of more than $500 million and less than $1 billion (approximately the peer group a combined Valley Ridge and ChoiceOne would join) and last twelve month's return on equity between 8.0% and 12.0%.

For the pro forma analysis, Donnelly Penman assumed synergies at the levels agreed to and provided by Valley Ridge and ChoiceOne management. The synergies, totaling over $1.5 million on a pre-tax annualized basis, were incorporated into the combined earnings stream. Donnelly Penman assumed that dividends for the combined entity would be paid at a payout ratio consistent with ChoiceOne's stand alone projections.

Donnelly Penman further noted that the pro forma analysis indicates the Merger, based on the forecasted combined entity's pro forma earnings, would result in an increase to the Valley Ridge equivalent earnings per share by 3.8% in 2007, 6.0% in 2008 and 4.8% in 2009 when compared to Valley Ridge's forecasted earnings assuming Valley Ridge declared an $8 million dividend. This is the alternative scenario Donnelly Penman utilized in the previous analysis.

For its financial advisory services provided to Valley Ridge, Donnelly Penman has been paid fees of approximately $65,000 to date and will be paid additional fees that will total approximately $80,000 at or before completion of the Merger. In addition, Valley Ridge has agreed to indemnify Donnelly Penman against various liabilities, including any which may arise under the federal securities laws.

Unaudited Pro Forma Condensed Combined Financial Statements

The following unaudited pro forma condensed combined balance sheet as of June 30, 2006 and the unaudited pro forma condensed combined income statements for the six months ended June 30, 2006 and for the year ended December 31, 2005 give effect to the Merger. The pro forma information is based on the historical financial statements of ChoiceOne and Valley Ridge, giving effect to the proposed transaction under the purchase method of accounting.

The pro forma financial statements may not be indicative of the results that actually would have occurred if the Merger had been in effect on the dates indicated or which may be attained in the future. The pro forma financial statements should be read in conjunction with the financial statements and notes thereto of ChoiceOne and Valley Ridge included elsewhere in this Prospectus and Proxy Statement.

The pro forma financial statements were prepared using a conversion ratio of 8.5 shares of ChoiceOne Common Stock for each share of Valley Ridge Common Stock. All pro forma share and per share information was calculated assuming the issuance of 1,585,590 shares of ChoiceOne Common Stock in the Merger based on the conversion ratio of 8.5. These numbers have been rounded for convenience of presentation.

CHOICEONE FINANCIAL SERVICES, INC. AND VALLEY RIDGE FINANCIAL CORP.
UNAUDITED PRO FORMA COMBINED CONDENSED CONSOLIDATED BALANCE SHEET
As of June 30, 2006
(Dollars in thousands, except per share data)

	ChoiceOne	Valley Ridge	Pro Forma Adjustments	Pro Forma Combined
ASSETS				
Cash and due from banks	$ 3,930	$ 6,026	$ (3,080)	$ 6,876
Federal funds sold		11,650	(4,250)	7,400
Cash and cash equivalents	3,930	17,676	(7,330)	14,276
Securities available for sale	49,663	36,057	(4,170)	81,550
Federal Home Loan Bank stock	2,623	1,387		4,010
Federal Reserve Bank stock	376	300		676
Other securities		11		11
Loans held for sale	610			610
Loans held in portfolio	182,716	147,992	(2,246)	328,462
Allowance for loan losses	(1,861)	(1,749)		(3,610)
Loans, net	180,855	146,243	(2,246)	324,852
Premises and equipment, net	5,546	4,265	4,060	13,871
Cash surrender value of life insurance policies	2,278	5,644		7,922
Goodwill			13,992	13,992
Other intangible assets			5,684	5,684
Other assets	4,747	2,472		7,219
Total assets	**$ 250,628**	**$ 214,055**	**$ 9,990**	**$ 474,673**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Deposits				
Noninterest-bearing	$ 21,142	$ 33,083	$	$ 54,225
Interest-bearing	166,750	137,313	(384)	303,679
Total deposits	**187,892**	**170,396**	**(384)**	**357,904**
Securities sold under agreements to repurchase	6,317	3,167		9,484
Federal funds purchased	4,267			4,267
Advances from the Federal Home Loan Bank	28,000	16,500	(259)	44,241
Other liabilities	2,068	2,897	2,395	7,360

Total liabilities	**228,544**	**192,960**	**1,752**	**423,256**
Shareholders' equity				
Common stock and paid-in capital	17,603	7,022	22,311	46,936
Retained earnings	5,112	14,548	(14,548)	5,112
Unearned restricted stock compensation		(58)	58	0
Accumulated other comprehensive (loss) income	(631)	(417)	417	(631)
Total shareholders' equity	**22,084**	**21,095**	**8,238**	**51,417**
Total liabilities and shareholders' equity	**$ 250,628**	**$ 214,055**	**$ 9,990**	**$ 474,673**

See Note F for an explanation of pro forma adjustments.

CHOICEONE FINANCIAL SERVICES, INC. AND VALLEY RIDGE FINANCIAL CORP.
UNAUDITED PRO FORMA COMBINED CONDENSED CONSOLIDATED STATEMENT OF INCOME
For the Six Months Ended June 30, 2006
(Dollars in thousands, except per share data)

	ChoiceOne	Valley Ridge	Pro Forma Adjustments	Pro Forma Combined
Interest income				
Loans, including fees	$ 6,362	$ 5,476	$ 607	$ 12,445
Securities				
Taxable	644	625	(26)	1,243
Nontaxable	392	228		620
Other	4	171	(34)	141
Total interest income	**7,402**	**6,500**	**547**	**14,449**
Interest expense				
Deposits	2,861	1,880	121	4,862
Federal Home Loan Bank advances	558	435	59	1,052
Other	122	81	77	280
Total interest expense	**3,541**	**2,396**	**257**	**6,194**
Net interest income	**3,861**	**4,104**	**290**	**8,255**
Provision for loan losses	35	90		125
Net interest income after provision for loan losses	**3,826**	**4,014**	**290**	**8,130**
Noninterest income				
Customer service charges	609	993		1,602
Insurance and investment commissions	438			438
Loan servicing fees, net	42	93		135
Net gain on sales of loans	104	73		177
Net gain (loss) on sales of securities	55	(2)		53
Income earned on life insurance policies	47	133		180
Other income	102	117		219
Total noninterest income	**1,397**	**1,407**	**0**	**2,804**
Noninterest expenses				

Compensation and benefits	2,008	2,115		4,123
Occupancy and equipment	555	519	68	1,142
Data processing	322	204		526
Professional fees	208	197		405
Supplies and postage	113	132		245
Advertising and promotional	67	103		170
Intangible amortization			284	284
Other	506	854		1,360
Total noninterest expenses	**3,779**	**4,124**	**352**	**8,255**
Income before federal income taxes	**1,444**	**1,297**	**(62)**	**2,679**
Federal income taxes	364	387	(21)	730
Net income	**$ 1,080**	**$ 910**	**$ (41)**	**$ 1,949**

	ChoiceOne	Valley Ridge	Pro Forma Adjustments	Pro Forma Combined
Earnings per share				
Basic	$ 0.65	$ 0.57		$ 0.60
Diluted	$ 0.65	$ 0.57		$ 0.60
Average shares outstanding				
Basic	1,653,882	1,585,590		3,239,472
Diluted	1,657,083	1,585,590		3,242,673

See Note G for an explanation of pro forma adjustments.

CHOICEONE FINANCIAL SERVICES, INC. AND VALLEY RIDGE FINANCIAL CORP.
UNAUDITED PRO FORMA COMBINED CONDENSED CONSOLIDATED STATEMENT OF INCOME
For the Twelve Months Ended December 31, 2005
(Dollars in thousands, except per share data)

	ChoiceOne	Valley Ridge	Pro Forma Adjustments	Pro Forma Combined
Interest income				
Loans, including fees	$ 11,641	$ 9,858	$ 957	$ 22,456
Securities				
Taxable	993	1,201	(80)	2,114
Nontaxable	685	455		1,140
Other	5	67	(68)	4
Total interest income	**13,324**	**11,581**	**809**	**25,714**
Interest expense				
Deposits	4,082	2,882	262	7,226
Federal Home Loan Bank advances	974	892	118	1,984
Other	223	116	155	494
Total interest expense	**5,279**	**3,890**	**535**	**9,704**
Net interest income	**8,045**	**7,691**	**274**	**16,010**
Provision for loan losses	495	120		615
Net interest income after provision for loan losses	**7,550**	**7,571**	**274**	**15,395**
Noninterest income				
Customer service charges	1,133	2,097		3,230
Insurance and investment commissions	866			866
Loan servicing fees, net	56	191		247
Net gain on sales of loans	264	137		401
Net loss on sales of securities	(28)	(8)		(36)
Income earned on life insurance policies	88	265		353
Other income	201	98		299
Total noninterest income	**2,580**	**2,780**	**0**	**5,360**
Noninterest expenses				

Compensation and benefits	3,877	3,985		7,862
Occupancy and equipment	1,116	1,094	135	2,345
Data processing	570	377		947
Professional fees	464	139		603
Supplies and postage	227	250		477
Advertising and promotional	154	157		311
Intangible amortization			568	568
Other	776	1,494		2,270
Total noninterest expenses	**7,184**	**7,496**	**703**	**15,383**
Income before federal income taxes	**2,946**	**2,855**	**(429)**	**5,372**
Federal income taxes	780	704	(146)	1,338
Net income	**$ 2,166**	**$ 2,151**	**$ (283)**	**$ 4,034**

	ChoiceOne	Valley Ridge	Pro Forma Adjustments	Pro Forma Combined
Earnings per share				
Basic	$ 1.31	$ 1.36		$ 1.25
Diluted	$ 1.31	$ 1.36		$ 1.25
Average shares outstanding				
Basic	1,647,264	1,585,590		3,232,854
Diluted	1,651,458	1,585,590		3,237,048

See Note G for an explanation of pro forma adjustments.

NOTES TO UNAUDITED PRO FORMA COMBINED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE A - BASIS OF PRESENTATION

The unaudited pro forma combined condensed consolidated financial statements have been prepared assuming that the Merger will be accounted for under the purchase method of accounting. The unaudited pro forma combined condensed consolidated earnings for the year ended December 31, 2005 and the six months ended June 30, 2006 is presented as if the Merger occurred at the beginning of the period. The unaudited pro forma combined condensed balance sheet as of June 30, 2006 is presented as if the Merger occurred as of that date. This information is not intended to reflect the actual results that would have been achieved had the Merger actually occurred on those dates. ChoiceOne is in the process of completing its review of Valley Ridge's accounting policies. After this review is completed, ChoiceOne might determine that it is necessary to restate certain amounts in the financial statements of Valley Ridge to conform to ChoiceOne's accounting policies.

NOTE B - SOURCES OF FUNDS

ChoiceOne intends to fund 100% of the purchase price through the issuance of common stock and ChoiceOne and Valley Ridge intend to fund 100% of the transaction costs through existing cash reserves and sales of securities.

NOTE C - PURCHASE PRICE

Under the terms of the Plan of Merger, shareholders of Valley Ridge will receive a one-time cash dividend totaling $10 million (or approximately $53.60 per share). Shareholders of Valley Ridge will also receive 8.5 shares of ChoiceOne Common Stock in exchange for each share of Valley Ridge Common Stock.

NOTE D - ALLOCATION OF PURCHASE PRICE OF VALLEY RIDGE

Under purchase accounting, Valley Ridge's assets and liabilities and any identifiable intangible assets are required to be adjusted to their estimated fair values. The estimated fair values have been determined by ChoiceOne based upon available information from Valley Ridge. ChoiceOne cannot be sure that such estimated values represent the fair value that would ultimately be determined as of the Merger date. The following are the pro forma adjustments made to record the transaction and to adjust Valley Ridge's assets and liabilities to their estimated fair values at June 30, 2006.

Purchase Price of Valley Ridge:

(Dollars in thousands)

Market value (assuming market value per share of $18.50) of ChoiceOne Common Stock to be issued	$	29,333
Transaction costs, net of tax		1,127
	$	30,460
Historical net assets of Valley Ridge as of June 30, 2006	$	21,095
Less one-time cash dividend to be paid by Valley Ridge		10,000

Adjusted net assets of Valley Ridge		11,095
Fair market value adjustments as of June 30, 2006:		
Loans held in portfolio		(2,246)
Premises and equipment, net		4,060
Goodwill		13,992
Core deposit intangible		5,684
Fixed rate certificates of deposit		384
Advances from the Federal Home Loan Bank		259
Deferred taxes on purchase accounting adjustments		(2,768)
	$	30,460

All of the other asset and liability categories are either variable rate or short-term in nature and fair market adjustments were considered to be immaterial to the financial presentation. The purchase price adjustments are subject to further refinement, including the determination of a core deposit intangible and its life for amortization purposes. For pro forma purposes only, ChoiceOne has included an estimated core deposit intangible calculated as 3.82% of local market area deposits. In accordance with Statement of Financial Accounting Standards No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets," goodwill and intangible assets with indefinite lives are not amortized for acquisitions initiated after June 30, 2001; therefore, no goodwill amortization is presented in the pro forma financial statements. However, the core deposit intangible will be amortized over its estimated life of 10 years and recorded as a charge to operations.

NOTE E - MERGER COSTS OF VALLEY RIDGE

The table below reflects ChoiceOne's current estimate, for purposes of pro forma presentation, of the aggregate estimated merger costs of $1,127,000 (net of $373,000 in taxes, computed using an effective federal income tax rate of 34%) expected to be incurred in connection with the acquisition. While a portion of these costs may be required to be recognized over time, the current estimate of these costs, primarily comprised of anticipated cash charges, include the following:

(Dollars in thousands)

Professional fees	$	330(1)
Investment banker fees		275(2)
Severance		645
Change of signage and supplies		100
Change of control payments		135
Other		15
Pre-tax transaction costs		1,500
Taxes		373
Total transaction costs	$	1,127

(1) $127,000 of this amount is estimated to be not tax deductible.
(2) None of this amount is tax deductible.

ChoiceOne's cost estimates are forward-looking. While the costs represent ChoiceOne's current estimate of Merger costs associated with the Merger that will be incurred, the ultimate level and timing of recognition of these costs will be based on the final integration in connection with completion of the Merger. Readers are cautioned that the completion of this integration and other actions that may be taken in connection with the Merger will impact these estimates. The type and amount of actual costs incurred could vary materially from these estimates if future developments differ from the underlying assumptions used by management in determining the current estimate of these costs.

NOTE F - PRO FORMA CONDENSED COMBINED BALANCE SHEET ADJUSTMENTS

For purposes of determining the pro forma effect of the Merger on the balance sheet, the following pro forma adjustments have been made as if the acquisition occurred as of January 1, 2006:

(Dollars in thousands)

Cash received from federal funds sold and sales of securities	$ 8,420
Cash disbursed for one-time cash dividend	(10,000)
Cash disbursed for Merger costs	(1,500)
Federal funds sold decreased to provide cash	(4,250)
Securities sold to provide cash	(4,170)
Fair market value adjustment for loans held in portfolio	(2,246)
Fair market value adjustment for premises and equipment, net	4,060
Recognition of goodwill caused by Merger	13,992
Recognition of core deposit intangible	5,684
	$ 9,990

Fair market value adjustment of fixed rate certificates of deposit	$ (384)
Fair market value adjustment of advances from the Federal Home Loan Bank	(259)
Deferred tax effect of Merger costs	(373)
Deferred tax effect of fair market value adjustments	2,768
Market value of ChoiceOne Common Stock to be issued	29,333
Elimination of Valley Ridge Common Stock and paid-in capital balance	(7,022)
Payment of one-time cash dividend	(10,000)
Elimination of remaining Valley Ridge retained earnings balance	(4,548)
Elimination of Valley Ridge unearned restricted stock balance	58
Elimination of Valley Ridge accumulated other comprehensive (loss) income balance	417
	$ 9,990

NOTE G - PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME ADJUSTMENTS

For purposes of determining the pro forma effect of the Merger on the statement of income, the following pro forma adjustments have been made as if the acquisition occurred as of January 1, 2006 and 2005, respectively:

(Dollars in thousands)	Six Months Ended June 30, 2006	Year Ended December 31, 2005
Yield adjustment for fair market value adjustment of loans held in portfolio	$ 607	$ 957
Interest income decrease due to sales of securities	(97)	(195)
Yield adjustment for fair market value adjustment of securities available for sale	71	115
Interest income decrease due to decrease in federal funds sold	(34)	(68)

Cost adjustment for fair market value adjustment of fixed rate time deposits		(121)		(262)
Cost adjustment for fair market value adjustment of Federal Home Loan Bank advances		(59)		(118)
Interest expense increase due to decrease in federal funds sold		(77)		(155)
Amortization of fair market adjustment of bank premises and equipment		(68)		(135)
Amortization of core deposit intangible		(284)		(568)
		(62)		(429)
Tax effect of pro forma adjustments		(21)		(146)
	$	(41)	$	(283)

Taxes were adjusted for pro forma purposes at a 34% rate for all income statement adjustments.

Basic and diluted average shares outstanding were calculated by adding the shares assumed to be issued by ChoiceOne in the Merger (1,585,590 shares) to the historical average ChoiceOne shares outstanding for the six months ended June 30, 2006 and for the year ended December 31, 2005.

The following assumptions were used for purposes of determining the pro forma effect of the Merger on the statement of income. In accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," goodwill will not be amortized, but will be reviewed for impairment at least annually.

	Weighted Average Remaining Term/ Useful Life in Years	Method of Amortization or Accretion
Securities available for sale	5	Accelerated (1)
Loans held in portfolio	2	Accelerated (1)
Premises and equipment, net	30	Straight line
Other intangible assets	10	Straight line
Interest-bearing deposits	1	Accelerated (1)
Advances from the Federal Home Loan Bank	4	Accelerated (1)

(1) Amortization or accretion will be based on the estimated life of the asset or liability category.

NOTE H - PRO FORMA FINANCIAL PRESENTATION AND POTENTIAL FINANCIAL BENEFITS

ChoiceOne and Valley Ridge anticipate that the Merger will provide the Combined Organization with financial benefits that could include reduced operating expenses and enhanced opportunities to earn more revenue. Due to the uncertainty of the realization of the benefits, their effect has not been included in the pro forma financial statements.

THE BUSINESS OF BANKING

Competition

ChoiceOne and Valley Ridge are bank holding companies which, through their subsidiaries, are engaged in the business of commercial banking. The business of banking is highly competitive. In addition to competition from other commercial banks, banks face significant competition from saving and loan associations, credit unions, commercial and consumer finance companies, insurance companies and leasing companies. Money market mutual funds, investment and brokerage firms and nonfinancial institutions provide many of the financial services offered by banks. The principal methods of competition for financial services are price (interest rates paid on deposits, interest rates charged on borrowings and fees charged for services) and service (convenience and quality of services rendered to customers).

Supervision and Regulation

Banks and bank holding companies are extensively regulated. ChoiceOne and Valley Ridge are subject to supervision and regulation by the Board of Governors of the Federal Reserve System (the "**Federal Reserve Board**"). Their activities are generally limited to owning or controlling banks and engaging in such other activities as the Federal Reserve Board may determine to be closely related to banking. Prior approval of the Federal Reserve Board, and in some cases various other government agencies, is required for ChoiceOne or Valley Ridge to acquire control of any additional bank holding companies, banks or other operating subsidiaries.

ChoiceOne Bank and Valley Ridge Bank are chartered under state law and are subject to regulation by the Michigan Office of Financial and Insurance Services. State banking laws place restrictions on various aspects of banking, including permitted activities, loan interest rates, branching, payment of dividends and capital and surplus requirements. ChoiceOne Bank and Valley Ridge Bank are members of the Federal Reserve System and are also subject to regulation by the Federal Reserve Board. Each bank's deposits are insured by the Federal Deposit Insurance Corporation (the "**FDIC**") to the extent provided by law. Both ChoiceOne Bank and Valley Ridge Bank are members of the Federal Home Loan Bank system. This provides certain advantages to them, including favorable borrowing rates for certain funds.

ChoiceOne and Valley Ridge are legal entities separate and distinct from their respective banks. There are legal limitations on the extent to which each bank can lend or otherwise supply funds to its parent holding company. In addition, payment of dividends to the parent holding company by each bank is subject to various state and federal regulatory limitations.

Under Federal Reserve Board policy, each parent holding company is expected to act as a source of financial strength to its subsidiary bank and to commit resources to support it. Under federal law, the FDIC also has authority to impose special assessments on insured depository institutions to repay FDIC borrowings from the United States Treasury or other sources and to establish semiannual assessment rates on Deposit Insurance Fund ("**DIF**") member banks to maintain the DIF at the designated reserve ratio required by law.

The recapitalization of the Savings Association Insurance Fund ("**SAIF**") was accomplished through the enactment of The Deposit Insurance Funds Act of 1996. This legislation authorized the Financing Corporation ("**FICO**") to impose periodic assessments on depository institutions that are members of the BIF, in addition to institutions that are members of the SAIF. The purpose of these periodic assessments is to spread the cost of the interest payments on the outstanding FICO bonds over a larger number of institutions. Until the change in the law, only SAIF member institutions bore the cost of funding these interest payments. Banks are subject to a number of federal and state laws and regulations, which have a material impact on their business. These include, among others, minimum capital requirements, state usury laws, state laws relating to fiduciaries, the Truth in Lending Act, the Truth in Savings Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Expedited Funds Availability Act, the Community Reinvestment Act, the Real Estate Settlement Procedures Act, the USA PATRIOT Act, The Bank Secrecy Act, electronic funds transfer laws, redlining laws, predatory lending laws, antitrust laws, environmental laws, money laundering laws and privacy laws. The instruments of monetary policy of authorities, such as the Federal Reserve Board, may influence the growth and distribution of bank loans, investments and deposits, and may also affect interest rates on loans and deposits. These policies may have a significant effect on the operating results of banks.

Bank holding companies may acquire banks and other bank holding companies located in any state in the United States without regard to geographic restrictions or reciprocity requirements imposed by state banking law. Banks may also establish interstate branch networks through acquisitions of and mergers with other banks. The establishment of de novo interstate branches or the acquisition of individual branches of a bank in another state (rather than the acquisition of an out-of-state bank in its entirety) is allowed only if specifically authorized by state law.

Michigan banking laws do not significantly restrict interstate banking. The Michigan Banking Code permits, in appropriate circumstances and with the approval of the Office of Financial and Insurance Services, (1) acquisition of Michigan banks by FDIC-insured banks, savings banks or savings and loan associations located in other states, (2) sale by a Michigan bank of branches to an FDIC-insured bank, savings bank or savings and loan association located in a state in which a Michigan bank could purchase branches of the purchasing entity, (3) consolidation of Michigan banks and FDIC-insured banks, savings banks or savings and loan associations located in other states having laws permitting such consolidation, (4) establishment of branches in Michigan by FDIC-insured banks located in other states, the District of Columbia or U.S. territories or protectorates having laws permitting a Michigan bank to establish a branch in such jurisdiction, and (5) establishment by foreign banks of branches located in Michigan.

Environmental Regulations

The nature of the business of ChoiceOne Bank and Valley Ridge Bank is such that they hold title, on a temporary or permanent basis, to a number of parcels of real property. These include properties owned for branch offices and other business purposes as well as properties taken in or in lieu of foreclosure to satisfy loans in default. Under current federal laws, present and past owners of real property are exposed to liability for the cost of cleanup of contamination on or originating from those properties, even if they are wholly innocent of the actions that caused the contamination. These liabilities can be material and can exceed the value of the contaminated property.

INFORMATION ABOUT CHOICEONE FINANCIAL SERVICES, INC.

Business

General

ChoiceOne is a one-bank holding company registered under the Bank Holding Company Act of 1956, as amended. ChoiceOne was incorporated on February 24, 1986, as a Michigan corporation. ChoiceOne was formed to create a bank holding company for the purpose of acquiring all of the capital stock of ChoiceOne Bank (formerly Sparta State Bank), which became a wholly owned subsidiary of ChoiceOne on April 6, 1987. ChoiceOne's only subsidiary and significant asset as of December 31, 2005, was ChoiceOne Bank. Effective January 1, 1996, ChoiceOne Bank acquired all of the outstanding common stock of ChoiceOne Insurance Agencies, Inc. (the "**Insurance Agency**"). Effective January 1, 2002, ChoiceOne Bank formed ChoiceOne Mortgage Company of Michigan (the "**ChoiceOne Mortgage Company**"). ChoiceOne Bank also owns a 20% interest in a non-banking corporation, West Shore Computer Services, Inc., a data processing firm located in Scottville, Michigan.

ChoiceOne's business is primarily concentrated in a single industry segment - banking. ChoiceOne Bank is a full-service banking institution that offers a variety of deposit, payment, credit and other financial services to all types of customers. These services include time, savings, and demand deposits, safe deposit services, and automated transaction machine services. Loans, both commercial and consumer, are extended primarily on a secured basis to corporations, partnerships and individuals. Commercial lending covers such categories as business, industry, agricultural, construction, inventory and real estate. ChoiceOne Bank's consumer loan department makes direct and indirect loans to consumers and purchasers of residential and real property. The ChoiceOne Mortgage Company originates and sells a full line of conventional type mortgage loans for 1-4 family and multi-family residential real estate properties. No material part of the business of ChoiceOne or ChoiceOne Bank is dependent upon a single customer or very few customers, the loss of which would have a material adverse effect on ChoiceOne.

ChoiceOne Bank's primary market area consists of portions of Kent, Muskegon, Newaygo and Ottawa counties in Michigan in the communities where ChoiceOne Bank's offices are located and the areas immediately surrounding these communities. Currently ChoiceOne Bank serves these markets through five full-service offices. ChoiceOne and ChoiceOne Bank have no foreign assets or income.

The principal source of revenue for ChoiceOne and ChoiceOne Bank is interest and fees on loans. On a consolidated basis, interest and fees on loans accounted for 73%, 71%, and 72% of total revenues in 2005, 2004, and 2003, respectively. Interest on securities accounted for 11%, 11%, and 8% of total revenues in 2005, 2004, and 2003, respectively.

The ChoiceOne consolidated financial statements included in this Prospectus and Proxy Statement contain information concerning the financial position and results of operations of ChoiceOne.

Competition

ChoiceOne Bank's competition primarily comes from other financial institutions located within Sparta, Michigan, and the Kent County, Michigan area. There are a number of larger commercial banks in ChoiceOne Bank's primary market area that have substantially greater resources than ChoiceOne Bank.

Employees

As of June 30, 2006, ChoiceOne Bank employed 59 full-time equivalent employees ("**FTE's**"); the Insurance Agency employed 13 FTE's; and the ChoiceOne Mortgage Company employed 8 FTE's. ChoiceOne's only employees as of the same date were its four executive officers (who are also employed by ChoiceOne Bank). ChoiceOne, ChoiceOne Bank, the Insurance Agency, and the ChoiceOne Mortgage Company believe their relations with their employees are good.

Statistical Information

Additional statistical information describing the business of ChoiceOne appears in the following pages and in Management's Discussion and Analysis of Financial Condition and Results of Operations and in the ChoiceOne consolidated financial statements and notes thereto contained in the Prospectus and Proxy Statement.

Securities Portfolio

The book value of securities categorized by type at December 31 was as follows:

(Dollars in thousands)

	2005	2004	2003
U.S. Government and federal agency	$ 5,435	$ 6,875	$ 7,805
State and municipal	28,003	26,768	20,435
Mortgage-backed	7,811	6,700	4,589
Asset-backed	-	-	233
Corporate	2,382	4,031	4,880
Equity securities	581	539	208
Total	$ 44,212	$ 44,913	$ 38,149

ChoiceOne did not hold investment securities from any one issuer at December 31, 2005, that were greater than 10% of ChoiceOne's shareholders' equity, exclusive of U.S. Government and U.S. Government agency securities.

Presented below is the fair value of securities as of December 31, 2005 and 2004, a schedule of maturities of securities as of December 31, 2005, and the weighted average yields of securities as of December 31, 2005.

(Dollars in thousands)

	Securities maturing within:					
	Less than 1 Year	1 Year - 5 Years	5 Years - 10 Years	More than 10 Years	Fair Value at Dec. 31, 2005	Fair Value at Dec. 31, 2004
U.S. Government and federal agency	$ 1,950	$ 3,485	$ -	$ -	$ 5,435	$ 6,875
State and municipal	3,945	16,284	6,426	1,348	28,003	26,768
Mortgage-backed securities	-	3,392	2,851	1,568	7,811	6,700
Corporate	321	2,061	-	-	2,382	4,031
Total debt securities	$ 6,216	$ 25,222	$ 9,277	$ 2,916	$ 43,631	$ 44,374
Equity securities (1)	-	-	-	-	581	539
Total securities	$ 6,216	$ 25,222	$ 9,277	$ 2,916	$ 44,212	$ 44,913

	Weighted average yields				
U.S. Government and federal agency	2.61%	4.59%	-%	-%	3.88%
State and municipal (2)	4.87	4.68	5.85	5.73	5.02
Corporate	3.39	3.45	-	-	3.44
Mortgage-backed securities	-	3.99	5.04	3.51	4.29
Equity securities	-	-	-	-	6.35

(1) Equity securities are preferred and common stocks with no stated maturity.
(2) The yield is computed on a fully tax-equivalent basis at an incremental tax rate of 34%.

Loan Portfolio

ChoiceOne Bank's loan portfolio categorized by loan type (excluding loans held for sale) as of December 31 is presented below.

(Dollars in thousands)

	2005	2004	2003	2002	2001
Commercial and agricultural	$ 47,642	$ 41,620	$ 36,828	$ 39,348	$ 32,671
Real estate - commercial	51,453	47,901	43,197	46,310	36,719
Real estate - construction	7,466	6,661	10,200	7,869	7,345
Real estate - residential	67,187	63,846	58,375	61,755	66,603
Consumer	11,820	13,250	14,532	18,565	21,829
Total loans, gross	$ 185,568	$ 173,278	$ 163,132	$ 173,847	$ 165,167

Maturities and Sensitivities of Loans to Changes in Interest Rates

The following schedule presents the maturities of loans (excluding residential real estate and consumer loans) as of December 31, 2005. All loans over one year in maturity (excluding residential real estate and consumer loans) are also presented classified according to the sensitivity to changes in interest rates as of December 31, 2005.

(Dollars in thousands)

Loan Type	Less than 1 Year	1 Year - 5 Years	More than 5 Years	Total
Commercial, agricultural, and real estate - commercial	$ 48,870	$ 47,915	$ 2,310	$ 99,095
Real estate - construction	7,466	-	-	7,466
Totals	$ 56,336	$ 47,915	$ 2,310	$ 106,561

Loan Sensitivity to Changes in Interest Rates	Less than 1 Year	1 Year - 5 Years	More than 5 Years	Total
Loans with fixed interest rates	$ 24,064	$ 35,025	$ 1,111	$ 60,200
Loans with floating or adjustable interest rates	32,272	12,890	1,199	46,361
Totals	$ 56,336	$ 47,915	$ 2,310	$ 106,561

(1) Loan maturities are classified according to the contractual maturity date or the anticipated amortization period, whichever is appropriate. The anticipated amortization period is used in the case of loans where a balloon payment is due before the end of the loan's normal amortization period. At the time the balloon payment is due, the loan can either be rewritten or payment in full can be requested. The decision regarding whether the loan will be rewritten or a payment in full will be requested will be based upon the loan's payment history, the borrower's current financial condition, and other relevant factors.

Risk Elements

The following loans were classified as nonperforming as of December 31:

(Dollars in thousands)

	2005	2004	2003	2002	2001
Loans accounted for on a non-accrual basis	$ 934	$ 795	$ 1,914	$ 2,522	$ 855
Accruing loans which are contractually past due 90 days or more as to principal or interest payments	32	11	39	210	1,316
Loans defined as "troubled debt restructurings"	-	16	47	48	120
Totals	$ 966	$ 822	$ 2,000	$ 2,780	$ 2,291

A loan is placed on nonaccrual status at the point in time at which the collectibility of principal or interest is considered doubtful. The table below illustrates interest forgone and interest recorded on nonperforming loans for the years presented.

(Dollars in thousands)

	2005	2004	2003	2002	2001
Interest on non-performing loans which would have been earned had the loans been in an accrual or performing status	$ 33	$ 32	$ 77	$ 97	$ 80
Interest on non-performing loans that was actually recorded when received	$ 21	$ 18	$ 54	$ 48	$ 20

Potential Problem Loans

At December 31, 2005, there were $8.5 million of loans not disclosed above where some concern existed as to the borrowers' abilities to comply with original loan terms. A specific loss allocation of $465,000 from ChoiceOne Bank's allowance for loan losses had been allocated for nonperforming and potential problem loans as of December 31, 2005. However, the entire allowance for loan losses is also available for these potential problem loans.

Loan Concentrations

As of December 31, 2005, there was no concentration of loans exceeding 10% of total loans that is not otherwise disclosed as a category of loans in the loan portfolio listing in Note 3 to the consolidated financial statements.

Other Interest-Bearing Assets

Other than $1.3 million of other real estate owned, there were no other interest-bearing assets requiring disclosure if such assets were loans as of December 31, 2005.

Summary of Loan Loss Experience

The following schedule presents a summary of activity in the allowance for loan losses for the periods shown and the percentage of net charge-offs during each period to average gross loans outstanding during the period.

(Dollars in thousands)

	2005	2004	2003	2002	2001
Balance at January 1	$ 1,739	$ 1,974	$ 2,211	$ 2,013	$ 2,101
Charge-offs:					
Commercial and agricultural	72	689	360	360	451
Real estate - commercial	25	66	190	90	146
Real estate - construction	20	-	-	-	109
Real estate - residential	120	41	76	45	98
Consumer	162	144	354	762	476
Total charge-offs	399	940	980	1,257	1,280
Recoveries:					
Commercial and agricultural	47	58	96	9	43
Real estate - commercial	-	-	-	-	-
Real estate - construction	-	-	-	-	5
Real estate - residential	-	-	5	6	-
Consumer	81	182	242	170	141
Total recoveries	128	240	343	185	189
Net charge-offs	271	700	637	1,072	1,091
Additions charged to operations (1)	495	465	400	1,270	1,003
Balance at December 31	$ 1,963	$ 1,739	$ 1,974	$ 2,211	$ 2,013
Ratio of net charge-offs during the period to average loans outstanding during the period	0.15%	0.41%	0.39%	0.62%	0.63%

(1) Additions to the allowance for loan losses charged to operations during the periods shown were based on management's judgment after considering factors such as loan loss experience, evaluation of the loan portfolio, and prevailing and anticipated economic conditions. The evaluation of the loan portfolio is based upon various risk factors such as the financial condition of the borrower, the value of collateral and other considerations, which, in the opinion of management, deserve current recognition in estimating loan losses.

The following schedule presents an allocation of the allowance for loan losses to the various loan categories as of the years ended December 31.

(Dollars in thousands)

	2005	2004	2003	2002	2001
Commercial and agricultural	$ 1,223	$ 1,071	$ 1,017	$ 903	$ 460
Real estate - commercial	293	302	258	509	390
Real estate - construction	19	32	33	140	129
Real estate - residential	229	181	240	251	429
Consumer	195	123	325	408	561
Unallocated	4	30	101	-	44
Total allowance	$ 1,963	$ 1,739	$ 1,974	$ 2,211	$ 2,013

The increase from 2004 to 2005 in the allocation to commercial and agricultural was primarily based upon portfolio growth of 14%, offset by higher specific loss allocation to nonperforming loans ($465,000 in 2005 versus $105,000 in 2004). Specific loss allocations are based upon either a discounted collateral amount or the net present value of future expected cashflows from borrowers. The increase from 2004 to 2005 in the allocation to residential real estate and consumer loans related to higher historical loss ratios in 2005 compared to 2004.

During 2005, ChoiceOne Bank experienced significant improvements in the overall quality of its loan portfolio, as net loans charged off were the lowest dollar amount since 1996 ($271,000). Management periodically reviews the assumptions, loss ratios and delinquency trends in estimating the appropriate level of its allowance for loan losses and believes the unallocated portion of the total allowance is sufficient at December 31, 2005.

The following schedule presents the stratification of the loan portfolio by category, based on the amount of loans outstanding as a percentage of total loans for the respective years ended December 31.

	2005	2004	2003	2002	2001
Commercial and agricultural	26%	24%	23%	23%	20%
Real estate - commercial	28	28	26	27	22
Real estate - construction	4	4	6	4	5
Real estate - mortgage	36	37	36	35	40
Consumer	6	7	9	11	13
Total	100%	100%	100%	100%	100%

Deposits

The following schedule presents the average deposit balances by category and the average rates paid thereon for the respective years.

(Dollars in thousands)

	2005		2004		2003	
Noninterest-bearing demand	$ 20,095	-	$ 17,864	-	$ 17,027	-
Interest-bearing demand	56,745	2.11%	53,339	1.53%	42,239	1.40%
Savings	9,136	0.50%	9,575	0.50%	9,081	0.62%
Certificates of deposit	87,443	3.25%	76,059	2.85%	81,594	3.19%
Total	$ 173,419	2.36%	$ 156,837	1.93%	$ 149,941	2.17%

The following table illustrates the maturities of certificates of deposits issued in denominations of $100,000 or more as of December 31, 2005.

(Dollars in thousands)

Maturing in less than 3 months	$ 11,612
Maturing in 3 to 6 months	13,351
Maturing in 6 to 12 months	15,299
Maturing in more than 12 months	14,273

Total	$	54,535

Short-Term Borrowings

Federal funds purchased by ChoiceOne are unsecured overnight borrowings from correspondent banks. Federal funds purchased are due the next business day. The table below provides additional information regarding these short-term borrowings:

(Dollars in thousands)

	2005	2004	2003
Outstanding balance at December 31	$ 4,399	$ 1,281	$ 7,882
Average interest rate at December 31	4.41%	2.47%	1.24%
Average balance during the year	$ 2,727	$ 3,094	$ 1,760
Average interest rate during the year	3.44%	1.56%	1.21%
Maximum month end balance during the year	$ 4,545	$ 6,968	$ 7,882

Repurchase agreements are advances by ChoiceOne Bank customers that are not covered by federal deposit insurance. These agreements are direct obligations of ChoiceOne and are secured by securities held in safekeeping at a correspondent bank. The table below provides additional information regarding these short-term borrowings:

(Dollars in thousands)

	2005	2004	2003
Outstanding balance at December 31	$ 7,139	$ 6,338	$ 5,305
Average interest rate at December 31	2.11%	1.62%	1.55%
Average balance during the year	$ 6,215	$ 5,051	$ 5,710
Average interest rate during the year	2.05%	1.45%	1.42%
Maximum month end balance during the year	$ 7,139	$ 6,767	$ 7,324

Advances from the Federal Home Loan Bank ("**FHLB**") with original repayment terms less than one year are considered short-term borrowings for ChoiceOne. These advances are secured by residential real estate mortgage loans and U.S. government agency securities. The advances have maturities ranging from 3 months to 11 months from date of issue. The table below provides additional information regarding these short-term borrowings:

(Dollars in thousands)

	2005	2004	2003
Outstanding balance at December 31	$ 11,000	$ 9,000	$ 9,000
Average interest rate at December 31	4.19%	1.95%	1.16%
Average balance during the year	$ 12,542	$ 7,500	$ 2,125
Average interest rate during the year	3.50%	1.65%	1.78%
Maximum month end balance during the year	$ 15,000	$ 11,000	$ 9,000

There were no other categories of short-term borrowings whose average balance outstanding exceeded 30% of shareholders' equity in 2005, 2004, or 2003.

Return on Equity and Assets

The following schedule presents ChoiceOne's ratios for the years ended December 31:

	2005	2004	2003
Return on assets (net income divided by average total assets)	0.91%	0.83%	1.01%
Return on equity (net income divided by average equity)	10.15%	8.93%	10.48%
Dividend payout ratio (dividends declared per share divided by net income per share)	51.02%	57.44%	50.40%
Equity to assets ratio (average equity divided by average total assets)	8.97%	9.28%	9.65%

Available Information

ChoiceOne is subject to the informational requirements of the Exchange Act. Accordingly, ChoiceOne files annual, quarterly and current reports, proxy statements, and other information with the Securities and Exchange Commission. You may read and copy any reports, statements, or other information that ChoiceOne files at the Commission's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may call the Commission at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. ChoiceOne's Commission filings are also available to the public at the website maintained by the Commission at "http://www.sec.gov." That website contains reports, proxy and information statements, and other information regarding companies that file electronically with the Commission. ChoiceOne's Commission filings, as well as other information about ChoiceOne, are also available at ChoiceOne's website at "http://www.choiceone.com."

Properties

The offices of ChoiceOne Bank, the Insurance Agency, and the ChoiceOne Mortgage Company are as follows:

ChoiceOne's, ChoiceOne Bank's, the Insurance Agency's, and the ChoiceOne Mortgage Company's main office:
109 East Division, Sparta, Michigan
Office is owned by ChoiceOne Bank and comprises 24,000 square feet.

ChoiceOne Bank's branch office:
416 West Division, Sparta, Michigan
Office is leased by ChoiceOne Bank and comprises 3,000 square feet.

ChoiceOne Bank's branch office:
4170 - 17 Mile Road, Cedar Springs, Michigan
Office is owned by ChoiceOne Bank and comprises 3,000 square feet.

ChoiceOne Bank's branch office:
5050 Alpine Avenue NW, Comstock Park, Michigan
Office is owned by ChoiceOne Bank and comprises 2,400 square feet.

ChoiceOne Bank's branch office:
6795 Courtland Drive, Rockford, Michigan
Office is owned by ChoiceOne Bank and comprises 2,400 square feet.

ChoiceOne Bank's other real property:
3530 Fruit Ridge Avenue NW, Walker, Michigan
This property is held for future branch expansion.

ChoiceOne operates its business at the main office of ChoiceOne Bank. ChoiceOne does not own any properties. ChoiceOne, ChoiceOne Bank, the Insurance Agency, and the ChoiceOne Mortgage Company believe that their offices are suitable and adequate for their future needs and are in good condition. ChoiceOne's management believes all offices are adequately covered by property insurance.

Legal Proceedings

As of June 30, 2006, there are no significant pending legal proceedings to which ChoiceOne or ChoiceOne Bank is a party or to which any of their properties are subject, except for legal proceedings arising in the ordinary course of business. In the opinion of management, pending legal proceedings will not have a material effect on the consolidated financial condition of ChoiceOne.

Market for and Dividends on ChoiceOne Common Stock

Several brokers trade ChoiceOne Common Stock in the over-the-counter bulletin board market. There is no well-established public trading market for the shares and trading activity is infrequent. ChoiceOne's trading volume and recent share price information can be viewed under the symbol '**COFS.OB**' on certain financial websites.

The range of high and low bid prices for shares of ChoiceOne Common Stock for the last trade immediately prior to April 25, 2006 (the date before public announcement of the Merger) and each quarterly period during the past two years is as follows:

Date	High	Low
2006		
1st Quarter	$ 19.15	$ 17.25
2nd Quarter (April 25, 2006)	18.45	18.25
2005		
1st Quarter	21.90	20.95
2nd Quarter	20.95	19.00
3rd Quarter	20.50	19.10
4th Quarter	20.10	18.50
2004		
1st Quarter	18.10	16.24
2nd Quarter	20.24	17.71
3rd Quarter	21.90	19.33
4th Quarter	23.81	19.81

The prices listed above are over-the-counter market quotations reported to ChoiceOne by its market makers. The over-the-counter market quotations reflect inter-dealer prices without retail markup, markdown or commission and may not necessarily represent actual transactions.

As of August 25, 2006, there were 1,660,974 shares of ChoiceOne Common Stock issued and outstanding. As of August 25, 2006, there were 606 holders of record of shares of ChoiceOne Common Stock. ChoiceOne's directors and officers collectively owned 200,071 shares of ChoiceOne Common Stock as of August 25, 2006.

The following table summarizes cash dividends declared per share of ChoiceOne Common Stock during 2006, 2005 and 2004:

Quarter	2006	2005	2004
1st Quarter	$ 0.17	$ 0.16	$ 0.16
2nd Quarter	0.17	0.17	0.16
3rd Quarter	0.17	0.17	0.16
4th Quarter		0.17	0.16

ChoiceOne's principal source of funds to pay cash dividends is the earnings and dividends paid by ChoiceOne Bank. ChoiceOne Bank is restricted in its ability to pay cash dividends under current regulations (see Note 20 to the ChoiceOne consolidated financial statements). Based on information presently available, management expects

ChoiceOne to declare and pay regular quarterly cash dividends in 2006.

The following table presents information regarding the equity compensation plans both approved and not approved by shareholders at December 31, 2005:

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	23,714	$ 16.82	134,466
Equity compensation plans not approved by security holders	-	-	48,480
Total	23,714	$ 16.82	182,946

Equity compensation plans approved by ChoiceOne's security holders include the Amended and Restated Executive Stock Incentive Plan and the Employee Stock Purchase Plan.

The Amended and Restated Executive Stock Incentive Plan was approved by shareholders at the annual meeting of ChoiceOne in April 2002. Key employees of ChoiceOne and its subsidiaries, as the Personnel and Benefits Committee of the board of directors may select from time to time, are eligible to receive awards under this plan. Incentive awards may be stock options, stock appreciation rights or stock awards. The plan provides for a maximum of 113,375 shares of ChoiceOne Common Stock, subject to adjustments for certain changes in the capital structure of ChoiceOne. New awards for up to 89,441 shares may be made under this plan.

The number of shares available for issuance under the plan is equal to the number determined by the following formula: (a) for the initial plan year, 5% of the total number of shares of common stock outstanding at the time the plan became effective; plus (b) in each subsequent plan year, an additional number of shares of common stock not to exceed 2% of the number of shares of common stock outstanding as reported in ChoiceOne's Annual Report on Form 10-K for the fiscal year ending immediately before such plan year such that at the beginning of each plan year after the initial plan year there shall be available, in addition to any amount of shares remaining from the 5% authorization for the initial plan year, a minimum number of shares equal to 2% of the number of shares of ChoiceOne Common Stock outstanding; plus (c) there shall be carried forward and available for additional awards certain shares that are either unused, canceled or surrendered in connection with incentive awards.

The Employee Stock Purchase Plan was approved by shareholders at the annual meeting of shareholders in April 2002. This plan allows employees to purchase ChoiceOne Common Stock at up to a 15% discount from the average bid price for ChoiceOne Common Stock. Employees who elect to participate in the plan can purchase shares of ChoiceOne Common Stock on a quarterly basis. The plan provides for a maximum of 55,125 shares of ChoiceOne Common Stock, subject to adjustments for certain changes in the capital structure of ChoiceOne. New issuances for up to 45,025 may be made under this plan.

Equity compensation plans not approved by security holders consist of the Directors' Stock Purchase Plan. The plan is designed to provide directors of ChoiceOne the option of receiving their fees in ChoiceOne Common Stock. Directors who elect to participate in the plan may elect to contribute to the plan twenty-five, fifty, seventy-five or one hundred percent of their board of director fees and one hundred percent of their director committee fees earned as directors of ChoiceOne. Contributions to the plan are made by ChoiceOne on behalf of each electing participant. Plan participants may terminate their participation in the plan at any time by written notice of withdrawal to ChoiceOne. Participants will cease to be eligible to participate in the plan when they cease to serve as directors of ChoiceOne. Shares are distributed to participants on a quarterly basis. The plan provides for a maximum of 72,978 shares of ChoiceOne Common Stock, subject to adjustments for certain changes in the capital structure of ChoiceOne. New issuances for up to 48,480 may be made under this plan.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion is designed to provide a review of the consolidated financial condition and results of operations of ChoiceOne and its wholly-owned subsidiaries, ChoiceOne Bank, the Insurance Agency, and the ChoiceOne Mortgage Company. This discussion should be read in conjunction with the consolidated financial statements and related footnotes.

Forward-Looking Statements

This discussion and other sections of this Prospectus and Proxy Statement contain forward-looking statements that are based on management's beliefs, assumptions, current expectations, estimates and projections about the financial services industry, the economy, and ChoiceOne itself. Words such as "anticipates," "believes," "estimates," "expects," "forecasts," "intends," "is likely," "plans," "predicts," "projects," "may," "could," variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions ("risk factors") that are difficult to predict with regard to timing, extent, likelihood, and degree of occurrence. Therefore, actual results and outcomes may materially differ from what may be expressed, implied or forecasted in such forward-looking statements.

Risk factors include, but are not limited to, the risk factors identified under the heading "Risk Factors" at the beginning of this Prospectus and Proxy Statement, changes in interest rates and interest rate relationships; demand for products and services; the degree of competition by traditional and non-traditional competitors; changes in banking laws and regulations; changes in tax laws; changes in prices, levies, and assessments; the impact of technological advances; governmental and regulatory policy changes; the outcomes of pending and future litigation and contingencies; trends in customer behavior as well as their abilities to repay loans; changes in the local and national economies; and various other local and global uncertainties such as acts of terrorism and military actions. These are representative of the risk factors that could cause a difference between an ultimate actual outcome and a preceding forward-looking statement.

RESULTS OF OPERATIONS-SIX MONTHS ENDED JUNE 30, 2006

Summary

Net income decreased $1,000 or less than 1% in the second quarter of 2006 compared to the second quarter of 2005. The slight decrease in net income for the quarter was due to lower net interest income and higher noninterest expense offset by a lower provision for loan losses and higher noninterest income. However, net income for the six-month period ended June 30, 2006, increased $19,000 or 2%, compared to the same period in 2005. The slight increase in net income for the first half of 2006 was due to a lower provision for loan losses and higher noninterest income offset by lower net interest income and higher noninterest expense.

Net interest income was down $122,000 for the second quarter and down $118,000 for the six months ended June 30, 2006 compared to the same periods in 2005. Earning assets increased 5% for the comparative three- and six-month periods. Net interest spread dropped 54 basis points for the second quarter of 2006 versus the second quarter of 2005, and was down 41 basis points for the first half of 2006 versus the first half of 2005. The lower provision to the allowance for loan losses for the quarter and first six months was based on lower net charge-offs in the first half of 2006, compared to the same period in 2005 and a decrease in total loans since December 31, 2005. Noninterest income was up in 2006 due to increased customer service charges, higher profit sharing income, and gains from the sale of securities, compared to similar periods in 2005. Noninterest expense rose during the quarter and first six months of 2006 due to increased compensation expense, higher data processing charges, and higher single business taxes to the State of Michigan versus the second quarter and first six months of 2005.

The return on average assets was 0.88% for the first six months of 2006, compared to 0.91% for the same period a year ago. The return on average shareholders' equity was 9.83% for the first six months of 2006, compared to 10.03% for the first six months of 2005.

Dividends

Cash dividends of $281,000, or $0.17 per share were declared in the second quarter of 2006, compared to $278,000 or $0.17 per share in the second quarter of 2005. The cash dividends declared in the first six months of 2006 were $562,000 or $0.34 per share, compared to $545,000 or $0.33 per share declared in 2005. The cash dividend payout percentage was 52% for the first six months of 2005, compared to 51% in the same period a year ago.

On April 20, 2005, ChoiceOne's board of directors declared a 5% stock dividend payable on ChoiceOne Common Stock. The dividend was paid May 31, 2005 to shareholders of record as of May 9, 2005. Earnings per share data and outstanding shares of common stock for all periods presented have been adjusted for this stock dividend.

Interest Income and Expense

Tables 1 and 2 on the following pages provide information regarding interest income and expense for the six-month periods ended June 30, 2006 and 2005, respectively. Table 1 documents ChoiceOne's average balances and interest income and expense, as well as the average rates earned or paid on assets and liabilities. Table 2 documents the effect on interest income and expense of changes in volume (average balance) and interest rates. These tables are referred to in the discussion of interest income, interest expense and net interest income.

Table 1 - Average Balances and Tax-Equivalent Interest Rates

(Dollars in thousands)	Six Months Ended June 30, 2006			2005		
	Average Balance	Interest	Rate	Average Balance	Interest	Rate
Assets:						
Loans (1)	$ 183,166	$ 6,376	6.96%	$ 176,508	$ 5,504	6.24%
Taxable securities (2) (3)	30,564	644	4.21	27,338	499	3.65
Nontaxable securities (1) (2)	19,780	594	6.01	18,072	520	5.75
Other	119	4	6.72	183	2	2.19
Interest-earning assets	233,629	7,618	6.52	222,101	6,525	5.87
Noninterest-earning assets	12,837			12,232		
Total assets	$ 246,466			$ 234,333		
Liabilities and Shareholders' Equity:						
Interest-bearing demand deposits	$ 51,023	$ 661	2.59%	$ 57,640	$ 549	1.90%
Savings deposits	8,388	21	0.50	9,425	23	0.49
Certificates of deposit	107,049	2,179	4.07	82,852	1,250	3.02
Advances from Federal Home Loan Bank	26,845	558	4.16	34,241	448	2.62
Other	8,246	122	2.96	8,480	94	2.22
Interest-bearing liabilities	201,551	3,541	3.51	192,638	2,364	2.45
Noninterest-bearing demand deposits	21,481			19,263		
Other noninterest-bearing liabilities	1,468			1,284		

Shareholders' equity	21,966			21,148		
Total liabilities and shareholders' equity	$ 246,466			$ 234,333		
Net interest income (tax-equivalent basis) - interest spread		4,077	3.01%		4,161	3.42%
Tax-equivalent adjustment (1)		(216)			(182)	
Net interest income		$ 3,861			$ 3,979	
Net interest income as a percentage of earning assets (tax-equivalent basis)			3.49%			3.75%

(1) Adjusted to a fully tax-equivalent basis to facilitate comparison to the taxable interest-earning assets. The adjustment uses an incremental tax rate of 34% for the periods presented.

(2) Includes the effect of unrealized gains or losses on securities.

(3) Taxable securities include dividend income from Federal Home Loan Bank and Federal Reserve Bank stock.

Table 2 - Changes in Tax-Equivalent Net Interest Income

(Dollars in thousands)	Six Months Ended June 30, 2006 Over 2005		
	Total	Volume	Rate
Increase (decrease) in interest income (1)			
Loans (2)	$ 872	$ 213	$ 659
Taxable securities	145	63	82
Nontaxable securities (2)	74	51	23
Other	2	(2)	4
Net change in tax-equivalent income	1,093	325	768
Increase (decrease) in interest expense (1)			
Interest-bearing demand deposits	112	(164)	276
Savings deposits	(2)	(4)	2
Certificates of deposit	929	423	506
Advances from Federal Home Loan Bank	110	(254)	364
Other	28	(7)	35
Net change in interest expense	1,177	(6)	1,183
Net change in tax-equivalent net interest income	$ (84)	$ 331	$ (415)

(1) The volume variance is computed as the change in volume (average balance) multiplied by the previous year's interest rate. The rate variance is computed as the change in interest rate multiplied by the previous year's volume (average balance). The change in interest due to both volume and rate has been allocated to the volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each.

(2) Interest on nontaxable investment securities and loans has been adjusted to a fully tax-equivalent basis using an incremental tax rate of 34% for the periods presented.

Net Interest Income

As shown in Tables 1 and 2, tax-equivalent net interest income decreased $84,000 in the first six months of 2006 compared to the same period in 2005. While ChoiceOne's earning assets have grown 5%, deposits and borrowings have repriced to a greater extent than its loans and securities. ChoiceOne also experienced migration from lower cost interest-bearing demand deposits to higher cost certificates of deposit. This change in the mix of interest-bearing deposits has negatively impacted net interest income in the second quarter and first six months of 2006 compared to 2005.

The average balance of loans increased $6.7 million in the six months ended June 30, 2006 compared to the first six months of 2005. Increased loan demand since June 30, 2005 and a 200 basis point increase in the prime rate since June 30, 2005 increased interest income from loans (on a tax equivalent basis) by $872,000 for the first six months of 2006, compared to the same period in 2005. The average balance of total securities increased $4.9 million for the first six months of 2006 versus the first six months of 2005. New securities purchased since June 30, 2005 at higher yields has increased interest income from securities by $219,000 for the first half of 2006 compared to the first half of 2005.

Higher rates paid on money market accounts and municipal accounts drove a 69 basis point rise in the rate paid on total interest-bearing demand deposit accounts in the first six months of 2006 versus the same period in 2005. The average balance of interest-bearing demand deposits dropped $6.6 million during the first six months of 2006 compared to the first six months of 2005 as customers shifted from low cost checking and money market accounts into higher cost certificates of deposit. Higher rates paid on interest-bearing demand deposit accounts was partially offset by lower average balances, which caused interest expense to rise by $112,000 for the six months ended June 30, 2006 compared to the six months ended June 30, 2005. The average balance of noninterest-bearing deposits grew by $2.2 million in the first six months of 2006 reflecting management's successful growth of its free checking accounts. Of this $2.2 million growth in noninterest-bearing deposits, approximately 27% were personal accounts and 73% were business accounts. The average rate paid on certificates of deposit was 105 basis points higher in the first six months of 2006 compared to the same period in 2005. The higher rates paid on local certificates of deposit were driven by ChoiceOne Bank's local competitors. The higher rates paid on brokered certificates of deposit were caused by the Federal Reserve Bank raising short-term interest rates 200 basis points since June 30, 2005. The average balance of certificates of deposits surged $24.2 million in the first six months of 2006 compared to the same period in 2005. Approximately $17.1 million of the increase was local certificates and $7.1 million of the increase was brokered certificates. Higher rates and significantly higher average balances caused interest expense on certificates of deposit to increase by $929,000 in the first six months of 2006 compared to the first six months of 2005. The average balance of advances from the Federal Home Loan Bank fell $7.4 million; however, new advances obtained at much higher rates caused interest expense to increase by $110,000 in the first half of 2006 versus the first half of 2005. Interest expense on other funding sources increased by $28,000 reflecting the higher rates paid on securities sold under agreements to repurchase and on federal funds purchased during 2006.

Net interest spread was 3.01% (shown in Table 1) for the first six months of 2006, compared to 3.42% for the first six months of 2005. The average yield received on interest-earning assets was up 65 basis points to 6.52%, and the average rate paid on interest-bearing liabilities was up 106 basis points to 3.51% for the six months ended June 30, 2006 when compared to the same period in the prior year. For the first six months of 2006, funding costs on interest-bearing liabilities have increased significantly faster than the income earned on loans and securities. The upward repricing of certificates of deposit and advances from the FHLB has occurred faster on these instruments as the terms were shorter than those for securities and fixed rate loans. While the recent increases to the prime rate have benefited yields on variable rate commercial and consumer loans, it has negatively impacted rates paid on certificates of deposit and advances from the FHLB. Continued growth in core deposits at ChoiceOne Bank's offices will enable management to reduce the dependency on brokered certificates of deposit and borrowings from the FHLB.

Tax-equivalent net interest income for the three months ended June 30, 2006 was $139,000 lower than net interest income for the quarter ended June 30, 2005 due to a reduced net interest income spread offset by a higher average balance of earning assets. The net interest spread was 2.85% for the three months ended June 30, 2006 versus 3.39% for the quarter ended June 30, 2005. Earning assets for the second quarter of 2006 were 5% higher than the second quarter of 2005.

Management believes that net interest margin will continue to compress for the remainder of 2006 as customers are shifting from lower rate demand and savings deposits to higher rate certificates of deposit. A lower net interest spread may be offset by growth in ChoiceOne's interest-earning assets in the third and fourth quarters of 2006. Growth of earning assets will be a challenge for the remainder of 2006 given the recent rise in interest rates and sluggish loan demand in ChoiceOne's market area.

Provision and Allowance for Loan Losses

The allowance for loan losses has decreased $102,000 from December 31, 2005 to June 30, 2006. The provision for loan losses was $215,000 lower in the first six months of 2006 compared to 2005, due to a decrease in the total loan portfolio and lower net charge-offs. The allowance was 1.02% of total loans at June 30, 2006 compared to 1.06% at December 31, 2005. Charge-offs and recoveries for respective loan categories for the six months ended June 30 were as follows:

(Dollars in thousands)	2006		2005	
	Charge-offs	Recoveries	Charge-offs	Recoveries
Commercial	$ 112	$ 19	$ 64	$ 16
Consumer	74	72	70	42

Real estate, commercial	-	-	25	-
Real estate, residential	42	-	75	-
	$ 228	$ 91	$ 234	$ 58

Net charge-offs for the first half of 2006 are down $39,000 or 22% compared to 2005. Total charge-offs in the first six months of 2006 were fairly consistent with the first six months of 2005. Charge-offs of commercial loans are up $48,000 in 2006 due to losses from one large commercial borrower that filed for bankruptcy protection in 2006. Consumer loan recoveries increased in 2006 versus 2005 reflecting improved collection efforts by ChoiceOne Bank. As charge-offs, changes in the level of nonperforming loans, and changes within the composition of the loan portfolio occur throughout 2006, the provision and allowance for loan losses will be reviewed by ChoiceOne Bank's management and adjusted as necessary.

Noninterest Income

Total noninterest income increased $111,000 or 18% in the second quarter of 2006 compared to the same period in 2005. For the six months ended June 30, 2006, total noninterest income increased $146,000 or 12% compared to the same period in 2005. Customer service charges were up due to higher returned check fees and robust debit card income. Gains on sales of securities resulted primarily from the sale of equity securities. Profit-sharing income was 80% higher for the second quarter and 154% higher for the first six months of 2006 as compared to similar periods in 2005. Profit-sharing income is contingency-based income from insurance carriers that underwrite the Insurance Agency's customers and is based on the loss ratio of the Insurance Agency's book of customers and profitability of the individual insurance carriers. Management believes that additional profit-sharing income for the remainder of 2006 will depend on the loss ratio for fiscal 2006 and the financial performance of its individual insurance carriers. Insurance and investment commissions were lower for the first six months of 2006 due to reduced sales of annuity products and a softening of premiums in the insurance market.

Management believes that the gain on sales of securities is a non-recurring benefit to operations and the level of profit-sharing income may be difficult to maintain in the third and fourth quarters of 2006.

Noninterest Expense

Total noninterest expense increased $120,000 or 7% in the second quarter of 2006 compared to the second quarter of 2005. For the six months ended June 30, 2006, total noninterest expense increased $230,000 or 6% compared the same period in 2005. Compensation expense was higher in the first half of 2006 due to the addition of three employees in the Insurance Agency. Data processing charges were higher in the first six months of 2006 due to growing network and software support costs as compared to the first six months of 2005. Professional fees were lower in the second quarter and first six months of 2006 due to lower legal, audit, and consulting fees charged compared to 2005. Other noninterest expenses were $131,000 higher for the quarter and $182,000 for the first six months of 2006 primarily due to an $86,000 credit adjustment in 2005 for ChoiceOne Bank's single business tax expense. Other items such as director fees, foreclosed asset costs, and employee training costs were higher in the first six months of 2006 versus the same period in 2005.

Management projects that other noninterest expense may increase for the remainder of 2006 due to increased investments in new software applications and possible increased marketing and advertising costs. Professional fees incurred in connection with the proposed merger with Valley Ridge will be capitalized as part of the costs for the transaction.

Income Tax Expense

Income tax expense decreased $5,000, and $6,000, respectively in the second quarter and first six months of 2006 compared to the same periods in 2005. Taxable income was slightly lower in 2006 due to higher tax exempt income from securities, loans, and bank-owned life insurance as compared to 2005.

FINANCIAL CONDITION

Securities

The securities portfolio increased $5.5 million from December 31, 2005 to June 30, 2006. The majority of the increase relates to the purchase of federal agency, municipal, and corporate bonds during the first six months of 2006 to maintain total assets of ChoiceOne Bank and replace the $3.2 million of securities that matured or were called or sold. Equity securities were sold in the second quarter of 2006 for a non-recurring gain of $56,000.

ChoiceOne Bank's Investment Committee continues to monitor the portfolio and purchases securities when deemed prudent. Certain securities are also sold under agreements to repurchase and management plans to continue this practice as a low-cost source of funding. Securities also serve as a source of liquidity for funding loan demand.

Loans

The loan portfolio (excluding loans held for sale) declined $2.9 million from December 31, 2005 to June 30, 2006. Commercial real estate loans are up $2.6 million since year-end 2005. However, commercial non-real estate loans are down $2.0 million from year-end 2005. Loan demand has been sluggish in 2006 from local businesses. Residential real estate mortgage loan balances have been fairly flat, as growth in home equity loans has replaced the run-off of construction mortgages held in portfolio. Consumer loans fell $0.6 million primarily due to payoffs of indirect loans. Management discontinued the origination of indirect automobile and other recreational vehicle loans in the first quarter of 2005. Indirect consumer loans totaled approximately $3.5 million at June 30, 2006 versus $4.2 million at December 31, 2005.

Due to the nature of the economy within the State of Michigan, the recent increases in short-term interest rates, and the aggressive pricing launched by certain local competitors, ChoiceOne believes loan growth will be a challenge for the remainder of 2006.

Information regarding impaired loans can be found in Note 2 to the consolidated financial statements included in this Prospectus and Proxy Statement. In addition to its review of the loan portfolio for impaired loans, management also monitors the various nonperforming loans. Nonperforming loans are comprised of: (1) loans accounted for on a nonaccrual basis; (2) loans, not included in nonaccrual loans, which are contractually past due 90 days or more as to interest or principal payments; and (3) loans, not included in nonaccrual or loans past due 90 days or more, which are considered troubled debt restructurings.

The balances of these nonperforming loans were as follows:

(Dollars in thousands)

	June 30, 2006	December 31, 2005
Loans accounted for on a nonaccrual basis	$ 1,082	$ 934
Accruing loans contractually past due 90 days or more as to principal or interest payments	-	32
Loans considered troubled debt restructurings	-	-
Total	$ 1,082	$ 966

The allowance for loan losses as a percentage of nonperforming loans was 172% at June 30, 2006, compared to 203% at December 31, 2005. The $148,000 or 16% increase in nonaccrual loans from December 31, 2005 to June 30, 2006 relates primarily to a significant increase in residential real estate loans, offset by a decrease in commercial loans. Nonaccrual loans as of June 30, 2006 include $534,000 of commercial loans, $527,000 of residential real estate loans, and $21,000 in consumer loans. Impaired loans are evaluated on an individual basis and specific allocations are made for loans where collateral is insufficient to support the outstanding principal balances of these loans. Management further believes that the general allocation within the allowance for loan losses is sufficient based on ChoiceOne Bank's loan grading system, past due trends and historical charge-off percentages.

Management also maintains a list of loans that are not classified as nonperforming loans but where some concern exists as to the borrowers' abilities to comply with the original loan terms. The total balance of these loans was $9.4 million as of June 30, 2006, compared to $8.5 million as of December 31, 2005.

Deposits and Other Funding Sources

Total deposits have increased approximately $5.8 million since December 31, 2005. Demand and savings deposits dropped $8.2 million due to ChoiceOne Bank customers migrating into higher yielding certificates of deposit. Local certificates of deposit increased $10.2 million since year-end 2005. Brokered certificates of deposit rose $3.8 million to replace the $2.8 million decrease in advances from the FHLB. Rates obtained on brokered certificates of deposit were more advantageous than those available from advances from the FHLB. The amount of federal funds purchased at June 30, 2006 was consistent with the amount at year-end 2005; however, securities sold under agreements to repurchase declined $0.8 million since December 31, 2005.

Management anticipates that this trend of customers shifting from checking and savings accounts to certificates of deposit may continue as long as short-term interest rates remain at current levels. Wholesale funding alternatives will continue to be used when local deposits are insufficient to fund ChoiceOne's asset growth.

Shareholders' Equity

Total shareholders' equity increased $367,000 from the year ended December 31, 2005. The increase in equity is attributable to net income for 2006, offset by dividends declared to shareholders and an increase in the accumulated other comprehensive loss. Total shareholders' equity as a percentage of assets was 8.81% as of June 30, 2006, compared to 8.75% as of December 31, 2005. The increase in this ratio resulted from growth in shareholders' equity being faster than growth in total assets. Based on risk-based capital guidelines established by ChoiceOne Bank's regulators, ChoiceOne's risk-based capital was categorized as "well capitalized" at June 30, 2006.

ChoiceOne intends to issue common stock in connection with the merger with Valley Ridge Financial Corp. during the fourth quarter of 2006. Management believes that the issuance of this stock will not affect the adequacy of its risk-based capital.

Liquidity and Sensitivity to Interest Rates

Net cash provided from operating activities was $1.0 million for the six months ended June 30, 2006 compared to $1.2 million provided in the period a year ago. A significant net change in other liabilities offset the lower provision for loan losses and net change in other assets. Net cash used in investing activities was $3.7 million for the first half of 2006 compared to $6.5 million used in the first half of 2005. The $2 million purchase of bank-owned life insurance in 2005 is primarily why net cash used decreased $2.8 million. ChoiceOne had $1.7 million in net cash provided from financing activities for the period ended June 30, 2006 compared to $5.2 million in the period a year ago. In the first half of 2006, ChoiceOne had $2.8 million in net payments towards advances from the FHLB versus $3.0 million in net proceeds from FHLB advances in the first half of 2005. Higher growth in deposits during the first six months of 2006 has offset some of the net payments to the FHLB during the same period. ChoiceOne has not repurchased any of its common stock during the six-month period ended June 30, 2006.

Management believes that the current level of liquidity is sufficient to meet ChoiceOne Bank's normal operating needs. This belief is based upon the availability of deposits from both the local and national markets, maturities of securities, normal loan repayments, income retention, federal funds purchased from correspondent banks, and advances available from the Federal Home Loan Bank. ChoiceOne Bank also has a secured line of credit available from the Federal Reserve Bank. ChoiceOne Bank does not anticipate that the secured line of credit will be used for normal operating needs, but could be used for liquidity purposes in special circumstances.

ChoiceOne Bank's sensitivity to changes in interest rates is monitored by ChoiceOne Bank's Asset/Liability Management Committee ("**ALCO**"). ALCO uses a simulation model to subject rate-sensitive assets and liabilities to interest rate shocks. Assets and liabilities are subjected to an immediate 300 basis point shock up and down and the effect on net income and shareholders' equity is measured. The rate shock computation as of June 30, 2006 decreased net income 18% if rates immediately rose 300 basis points and increased net income 2% if rates immediately fell 300 basis points. The economic value of shareholders' equity declined 13% when rates were shocked 300 basis points upward and dropped 1% if rates were shocked 300 basis points downward. The impact of the interest rate shock upward on net income is above the allowable policy limits established by ALCO. Management believes that the likelihood of an immediate increase in rates is highly remote; however, ALCO will continue to monitor the effect each month of changes in interest rates upon ChoiceOne's net interest margin and financial condition.

YEAR ENDED DECEMBER 31, 2005

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The purpose of this section is to provide a narrative discussion about ChoiceOne's financial condition and results of operations during 2005. Management's discussion and analysis of financial condition and results of operations as well as disclosures found elsewhere in this Prospectus and Proxy Statement are based upon ChoiceOne's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires ChoiceOne to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and loan servicing rights. Actual results could differ from those estimates.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level believed adequate by management to absorb probable incurred losses inherent in the consolidated loan portfolio. Management's evaluation of the adequacy of the allowance is an estimate based on reviews of individual loans, assessments of the impact of current and anticipated economic conditions on the portfolio and historical loss experience of seasoned loan portfolios. See Notes 1 and 5 to the annual consolidated financial statements for additional information.

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

Loan Servicing Rights

Loan servicing rights represent the estimated value of servicing loans that are sold with servicing retained by ChoiceOne. Servicing rights are expensed in proportion to, and over the period of, estimated net servicing revenues. Management's accounting treatment of loan servicing rights is estimated based on current prepayment speeds that are typically market driven. See Note 4 to the annual consolidated financial statements for additional information regarding activity within loan servicing rights.

Management believes the accounting estimate related to loan servicing rights is a "critical accounting estimate" because (1) the estimate is highly susceptible to change from period to period because of significant changes within long term interest rates affecting the prepayment speeds for current loans being serviced and (2) the impact of recognizing an impairment loss could have a material effect on ChoiceOne's net income. Management has obtained a third-party valuation of its loan servicing rights to corroborate its current carrying value at the end of each reporting period.

RESULTS OF OPERATIONS-YEAR ENDED DECEMBER 31, 2005

Summary

(Dollars in thousands)

	Year ended December 31,		
	2005	2004	2003
Net interest income	**$ 8,045**	$ 7,672	$ 7,775
Provision for loan losses	**(495)**	(465)	(400)
Noninterest income	**2,580**	2,570	3,109
Noninterest expense	**(7,184)**	(7,228)	(7,668)
Income tax expense	**(780)**	(695)	(715)
Net income	**$ 2,166**	$ 1,854	$ 2,101

Net income for 2005 was $2,166,000, which represented a $312,000 or 17% increase from 2004. The increase in net income over 2005 was primarily due to increased net interest income. Net interest income increased in 2005 compared to 2004 due to growth in ChoiceOne Bank's earning assets. A slightly higher provision to the allowance for loan losses was necessary due to growth in the loan portfolio. Noninterest expense was slightly lower in 2005 compared to 2004 largely because of an adjustment in the computation of ChoiceOne Bank's single business tax.

Net income for 2004 was $1,854,000, which represented a $247,000 or 12% decrease from 2003. The decrease in net income was due to reduced net interest income, a higher provision for loan losses, and reduced noninterest income, offset by decreased noninterest expense. Lower noninterest income was the primary reason for the decrease in net income in 2004. Gains on sales of loans in 2004 decreased $502,000 or 62% from 2003. The earning assets growth during 2004 could not offset the impact of lower rates on new and existing loans and securities. A slightly higher loan loss provision was based upon a small increase in net charge-offs for 2004 compared to 2003. Noninterest expense declined in 2004 from 2003 due to lower payroll costs and lower occupancy expenses. Also, contributing to the lower level of expense in 2004 was $156,000 of prepayment penalties incurred in 2003 that were related to the early payoff of advances from the Federal Home Loan Bank.

Return on average assets was 0.91% for 2005, compared to 0.83% for 2004, and 1.01% for 2003. Return on average shareholders' equity was 10.15% for 2005, compared to 8.93% for 2004, and 10.48% for 2003.

Dividends

Cash dividends of $1,105,000 or $0.67 per common share were declared in 2005, compared to $1,065,000 or $0.65 per common share in 2004, and $1,059,000 or $0.65 per common share in 2003. The dividend yield on ChoiceOne Common Stock was 3.41% in 2005, compared to 3.44% in 2004, and 4.49% in 2003. The cash dividend payout percentage was 51% in 2005, compared to 57% in 2004, and 50% in 2003.

ChoiceOne's Board of Directors declared a 5% stock dividend payable on common stock in April 2005. The dividend was paid in May 2005 and per share data for all periods presented has been adjusted for this stock dividend.

ChoiceOne's principal source of funds to pay cash dividends is the earnings of ChoiceOne Bank. The availability of these earnings is dependent upon the capital needs, regulatory constraints and other factors involving ChoiceOne Bank. Regulatory constraints include the maintenance of minimum capital ratios and limits based on net income and retained earnings of ChoiceOne Bank for the past three years. ChoiceOne expects to pay quarterly cash dividends in 2006 to shareholders based on the actual earnings of ChoiceOne Bank.

Table 1 - Average Balances and Tax-Equivalent Interest Rates

(Dollars in thousands)

	Year ended December 31,								
	2005			2004			2003		
	Average Balance	**Interest**	**Rate**	Average Balance	Interest	Rate	Average Balance	Interest	Rate
Assets									
Loans (1) (2)	**$ 180,100**	**$ 11,659**	**6.47%**	$ 170,045	$ 10,190	5.99%	$ 165,224	$ 11,100	6.72%
Taxable securities (3)	**26,937**	**993**	**3.69**	27,600	971	3.52	20,472	776	3.85
Tax exempt securities (1)	**17,804**	**1,038**	**5.83**	14,761	888	6.02	10,693	689	6.79
Other	**151**	**5**	**3.31**	67	1	1.49	700	8	1.14
Interest-earning assets	**224,992**	**13,695**	**6.09**	212,473	12,050	5.67	197,089	12,573	6.41
Noninterest-earning assets (4)	**12,872**			11,269			10,567		
Total assets	**$ 237,864**			$ 223,742			$ 207,656		
Liabilities and Shareholders' Equity Interest-bearing									
Demand deposits	**$ 56,745**	**1,195**	**2.11%**	$ 53,339	814	1.53%	$ 42,239	591	1.40%
Savings deposits	**9,136**	**46**	**0.50**	9,575	48	0.50	9,081	56	0.62
Certificates of deposit	**87,443**	**2,841**	**3.25**	76,059	2,169	2.85	81,594	2,600	3.19
Advances from FHLB	**32,765**	**974**	**2.97**	36,652	914	2.49	28,416	1,206	4.24
Other	**8,943**	**223**	**2.49**	8,145	122	1.50	7,470	102	1.37
Interest-bearing liabilities	**195,032**	**5,279**	**2.71**	183,770	4,067	2.21	168,800	4,555	2.70
Demand deposits	**20,095**			17,864			17,027		
Other noninterest-bearing liabilities	**1,399**			1,355			1,784		
Shareholders' equity	**21,338**			20,753			20,045		
Total liabilities and shareholders' equity	**$ 237,864**			$ 223,742			$ 207,656		
Net interest income (tax-equivalent basis) - interest spread		**8,416**	**3.38%**		7,983	3.46%		8,018	3.71%
Tax-equivalent adjustment (1)		**(371)**			(311)			(243)	
Net interest income		**$ 8,045**			$ 7,672			$ 7,775	

Net interest income as a percentage of earning assets (tax-equivalent basis)	**3.74%**	3.76%	4.07%

(1) Interest on nontaxable securities and loans has been adjusted to a fully tax-equivalent basis to facilitate comparison to the taxable interest-earning assets. The adjustment uses an incremental tax rate of 34% for the years presented.

(2) Interest on loans included net origination fees charged on loans of approximately $401,000, $309,000, and $369,000 in 2005, 2004, and 2003, respectively.

(3) Taxable securities include dividend income from Federal Home Loan Bank and Federal Reserve Bank stock.

(4) Noninterest-earning assets include loans on a nonaccrual status, which averaged approximately $1,079,000, $1,687,000, and $2,647,000 in 2005, 2004, and 2003, respectively.

Net Interest Income

As shown in Tables 1 and 2, tax-equivalent net interest income increased $433,000 in 2005 compared to the same period in 2004. This is primarily because earning assets have grown 6% compared to 2004. The increase in interest rates has had a slightly negative impact on the net change in tax-equivalent net interest income. Increased interest expense has more than offset the increase in tax-equivalent interest income.

The average balance of loans increased over $10 million in 2005 compared to 2004. In addition, upward repricing of existing loans has helped interest income on loans to increase $1,469,000 for 2005 compared to 2004. The average balance of tax exempt securities grew $3.0 million in 2005, offset by decreased yields, which increased interest income $150,000 over 2004.

Growth of $3.4 million in the average balance of interest-bearing demand deposits coupled with higher rates paid increased interest expense by $381,000 in 2005. Growth of $11.4 million in the average balance of certificates of deposit, in addition to higher rates paid on these accounts, increased interest expense $672,000 in 2005 versus 2004. Significant repricing upward of advances from the Federal Home Loan Bank was partially offset by a drop of $3.9 million in the average balance of advances outstanding, thereby causing interest expense to increase $60,000. Higher rates for other interest-bearing liabilities (federal funds purchased and repurchase agreements) coupled with a $0.8 million increase in the average balance outstanding caused interest expense to increase $101,000 in 2005 compared to 2004.

Net interest income spread was 3.38% (shown in Table 1) for 2005, compared to 3.46% in 2004. This was a slight decrease from the net interest income spread of 3.44% for the nine months ended September 30, 2005. The average yield received on interest-earning assets in 2005 rose 42 basis points to 6.09% while the average rate paid on interest-bearing liabilities in 2005 rose 50 basis points to 2.71%.

Table 2 - Changes in Tax-Equivalent Net Interest Income

(Dollars in thousands)

	Year ended December 31,					
	2005 Over 2004			2004 Over 2003		
	Total	**Volume**	**Rate**	Total	Volume	Rate
Increase (decrease) in interest income (1)						
Loans (2)	**$ 1,469**	**$ 623**	**$ 846**	$ (910)	$ 317	$ (1,227)
Taxable securities	**22**	**(24)**	**46**	195	267	(72)
Nontaxable securities (2)	**150**	**178**	**(28)**	199	285	(86)
Other	**4**	**2**	**2**	(7)	(9)	2
Net change in tax-equivalent income	**1,645**	**779**	**866**	(523)	860	(1,383)
Increase (decrease) in interest expense (1)						
Interest-bearing transaction accounts	**381**	**55**	**326**	223	166	57
Savings deposits	**(2)**	**(2)**	**-**	(8)	3	(11)
Certificates of deposit	**672**	**348**	**324**	(431)	(169)	(262)
Advances from Federal Home Loan Bank	**60**	**(104)**	**164**	(292)	290	(582)
Other	**101**	**13**	**88**	20	10	10
Net change in interest expense	**1,212**	**310**	**902**	(488)	300	(788)
Net change in tax-equivalent net interest income	**$ 433**	**$ 469**	**$ (36)**	$ (35)	$ 560	$ (595)

(1) The volume variance is computed as the change in volume (average balance) multiplied by the previous year's interest rate. The rate variance is computed as the change in interest rate multiplied by the previous year's volume (average balance). The change in interest due to both volume and rate has been allocated to the volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each.

(2) Interest on nontaxable securities and loans has been adjusted to a fully tax-equivalent basis using an incremental tax rate of 34% for the years presented.

Tax equivalent net interest income decreased $35,000 in 2004 compared to 2003. This was primarily because ChoiceOne Bank's interest-earning assets repriced downward faster than ChoiceOne Bank's interest-bearing liabilities. The impact of lower rates more than offset the earning asset growth of $15.4 million. A change in the funding mix to more interest-bearing demand deposits helped reduce interest expense in 2004, but not enough to offset the lower interest income compared to 2003.

Net interest income spread was 3.46% (shown in Table 1) for 2004, compared to 3.71% in 2003. The average yield received on interest-earning assets in 2004 fell 74 basis points to 5.67% while the average rate paid on interest-bearing liabilities in 2004 dropped 49 basis points to 2.21%.

Management anticipates that net interest income in 2006 will depend upon ChoiceOne Bank's ability to grow loans with a favorable mix of deposits and borrowings. Deposit rates will be dictated by local market conditions and management intends to aggressively pursue growth of core deposits in 2006 to maintain a low cost of funds. Management believes the Alpine, Cedar Springs, and Rockford offices are positioned well to attract these types of deposits. Brokered certificates of deposit and advances from the Federal Home Loan Bank will continue to be used if core deposit growth is insufficient to fund earning asset growth.

Allowance and Provision For Loan Losses

Information regarding the allowance and provision for loan losses can be found in Table 3 and in Note 5 to the annual consolidated financial statements. As indicated in Table 3, the provision for loan losses was $30,000 higher in 2005 than in 2004. Management increased the provision due to more loan growth in 2005 than in 2004 and higher net charge-offs of residential real estate and consumer loans in 2005 compared to 2004.

As shown in Table 3, commercial loan net charge-offs dropped $647,000 in 2005 versus 2004; however, real estate mortgage net charge-offs increased $128,000, and consumer loan net charge-offs increased $90,000 from 2004. Commercial loan net charge-offs in 2004 included five significant substandard loan charge-offs totaling $362,000 that were charged off due to insolvency of the borrowers. These loans were 53% reserved at the end of 2003. Real estate mortgage net charge-offs rose in 2005 due to increased losses from several manufactured home construction loans. Consumer loan charge-offs were higher in 2005 due to slowing recoveries as compared to 2004. The ratio of net charge-offs as a percentage of average loans decreased significantly from 0.41% in 2004 to 0.15% in 2005. The allowance as a percentage of total loans is higher (1.06%) at the end of 2005, compared to the end of 2004 (1.00%) primarily due to specific loss allocations. At end of 2005, ChoiceOne Bank had $465,000 specifically reserved for problem loans, while only $105,000 was specifically reserved for at the end of 2004. Management believes the reserves allocated to problem loans at the end of 2005 are reasonable based on circumstances surrounding each particular borrower.

Table 3 - Provision and Allowance For Loan Losses

(Dollars in thousands)

	2005	2004	2003	2002	2001
Provision for loan losses	**$ 495**	$ 465	$ 400	$ 1,270	$ 1,003
Net charge-offs:					
Commercial loans	**$ 50**	$ 697	$ 454	$ 441	$ 554
Real estate mortgages	**128**	-	51	-	188
Consumer loans	**93**	3	132	631	349
Total	**$ 271**	$ 700	$ 637	$ 1,072	$ 1,091
Allowance for loan losses at year end	**$ 1,963**	$ 1,739	$ 1,974	$ 2,211	$ 2,013

Allowance for loan losses as a percentage of:					
Total loans as of year end	**1.06%**	1.00%	1.21%	1.26%	1.21%
Nonaccrual loans, accrual loans past due 90 days or more and troubled debt restructurings	**203%**	212%	99%	80%	88%
Ratio of net charge-offs to average total loans outstanding during the year	**0.15%**	0.41%	0.39%	0.62%	0.63%
Loan recoveries as a percentage of prior year's charge-offs	**14%**	24%	27%	14%	19%

Based on the current state of the economy and a recent review of the loan portfolio, management believes that the allowance for loan losses as of December 31, 2005, is adequate to absorb probable incurred losses. As charge-offs, changes in the level of nonperforming loans, and changes within the composition of the loan portfolio occur, the provision and allowance for loan losses will be reviewed by ChoiceOne Bank's management and adjusted as necessary.

Noninterest Income

Total noninterest income increased $10,000 or less than 1% in 2005 compared to 2004. Service charges on deposit accounts were up due to higher returned check charges and debit card fee income. Insurance and investment commissions were lower due to reduced annuity sales and lower property and casualty commissions. Gains on the sale of loans were down due to reduced pricing obtained on loans sold to secondary market investors. Gains on the sale of securities were down due to more losses realized in 2005. ChoiceOne Bank swapped some low yielding securities for higher yielding securities. Other noninterest income includes $88,000 in earnings on bank-owned life insurance, which resulted from the purchase of $2 million of policies in February 2005.

Noninterest income decreased $539,000 or 17% in 2004, compared to 2003. Gains received from the sale of loans decreased $502,000 or 62% in 2004 due to a slowdown in mortgage refinancing activity throughout the year. In 2004, the ChoiceOne Mortgage Company sold $17 million of loans to the secondary market versus $37 million during 2003. Insurance and investment commissions dipped slightly in 2004 compared to 2003, as 2003 included a few months of commissions from the Grand Rapids division of the Insurance Agency. The Insurance Agency's book of commissions for its Grand Rapids division was sold in the first quarter of 2003. Servicing fee income is reported net of servicing right amortization expense and resulted in a negative $4,000 in 2003 due to borrowers paying off their serviced mortgages faster than management's estimate of the loan servicing term.

Management estimates that noninterest income in 2006 will depend upon the growth of deposit accounts and cross sales of insurance and investment products.

Noninterest Expense

Total noninterest expense decreased $44,000 or nearly 1% in 2005 compared to 2004. Salaries and benefits were up slightly in 2005 due to the addition of personnel for the Rockford and Alpine Offices and higher employee bonuses. Occupancy expense was higher in 2005 due to a full year of operations for ChoiceOne Bank's Rockford Office (opened in September 2004). Professional fees were lower in 2005 due to fewer legal fees and reduced services from a third party marketing agency. Data processing expense was higher due to growth in software maintenance, ATM network processing and core bank charges. Other noninterest expense decreased $257,000 in 2005 primarily due to an adjustment in the computation of state single business taxes for 2002, 2003, and 2004 recorded in 2005. The adjustment to ChoiceOne Bank's single business taxes is a non-recurring benefit to other expense. Fewer bad checks charged off in 2005 also helped reduce other noninterest expense. In 2004, an altered foreign check for $75,000 was written off as uncollectible. The check was disbursed before ChoiceOne Bank was notified it was a fraudulent item.

Noninterest expense decreased $440,000 or 6% in 2004, compared to 2003. Salaries and benefits decreased $189,000 in 2004 due to significantly less commissions paid to mortgage producers. ChoiceOne reduced its payroll by more than 3 full-time equivalent employees even though ChoiceOne Bank opened its Rockford Office with more than 4 full-time equivalent employees. Higher employee health insurance costs offset the reduced salaries expense in 2004. Occupancy expense was lower in 2004, as ChoiceOne Bank sold its Sparta Appletree Office in September 2004 and closed its Sparta Great Day Office in September 2003. ChoiceOne Bank's Rockford Office was opened in September 2004. ChoiceOne Bank sold its Sparta Appletree Office and subsequently leased back 50% of the building from the new owner. ChoiceOne Bank's Operations Department was moved in 2004 from the Sparta Appletree Office to the

Sparta Main Office to utilize available office space and reduce overall occupancy costs. Professional fees decreased in 2004 from 2003 due to much lower legal fees offset by higher audit and consulting fees. In 2003, ChoiceOne absorbed $156,000 in prepayment penalties as a result of paying off $3 million of high-rate advances from the Federal Home Loan Bank. This was done to reduce ChoiceOne Bank's cost of funds in 2004 and 2005. Other noninterest expense was slightly higher in 2004 due to increased bad check charge-offs offset by lower expenses related to foreclosed real estate.

Management anticipates that noninterest expenses will rise in 2006 due to higher single business taxes, growing employee benefit costs, and rising data processing charges.

FINANCIAL CONDITION-YEAR ENDED DECEMBER 31, 2005

Securities

The securities portfolio decreased approximately $0.7 million or 2% from December 31, 2004 to December 31, 2005. A mix of government agency, municipal, and mortgage-backed securities totaling $10 million were purchased to maintain the asset size of ChoiceOne Bank and provide liquidity for future loan growth. Approximately $4.3 million in various securities were called in 2005. Payments from mortgage-backed securities totaled $1.6 million in 2005. Various securities totaling $3.7 million were sold during 2005 for net losses totaling $28,000. ChoiceOne Bank's Investment Committee continues to monitor the portfolio and purchase securities when deemed prudent. Certain securities are sold under agreements to repurchase and management plans to continue this practice as a low-cost source of funding. Securities also are pledged as collateral for borrowings from the Federal Home Loan Bank. In addition, they serve as a source of liquidity for deposit needs.

Loans

The loan portfolio (excluding loans held for sale) increased approximately $12.3 million or 7% from December 31, 2004 to December 31, 2005. Commercial loans increased $4.9 million due to increased demand from borrowers. Real estate loans increased $7.3 million through growth in commercial and residential real estate financing. In 2005, the ChoiceOne Mortgage Company originated approximately $34 million of residential mortgage loans and sold $19 million (56%) to secondary market investors. In 2004, the ChoiceOne Mortgage Company originated approximately $39 million of residential mortgage loans and sold $12 million (31%) to secondary market investors. An additional $5 million of seasoned hybrid mortgage loans were sold in 2004 to reduce long-term interest rate risk. Consumer loans dropped $1.4 million during 2005 due to fewer originations of automobile, recreational vehicle, and personal loans. Management decided in the first quarter of 2005 to discontinue the origination of indirect consumer loans, except for one local automobile dealership. Indirect consumer loans totaled approximately $4.2 million at December 31, 2005, compared to $5.9 million at December 31, 2004.

Management anticipates demand for commercial loans will remain steady in 2006 due to increased calling efforts and relationships cultivated with ChoiceOne's business customers. Rising interest rates may stall demand for consumer and residential real estate loans in 2006.

Information regarding impaired loans can be found in Note 5 to the annual consolidated financial statements included in this report. In addition to its review of the loan portfolio for impaired loans, management also monitors various nonperforming loans. Nonperforming loans are comprised of (1) loans accounted for on a nonaccrual basis; (2) loans, not included in nonaccrual loans, which are contractually past due 90 days or more as to interest or principal payments; and (3) loans, not included in nonaccrual or past due 90 days or more, which are considered troubled debt restructurings.

The balances of these nonperforming loans as of December 31 were as follows:

(Dollars in thousands)

	2005	2004
Loans accounted for on a nonaccrual basis	**$ 934**	$ 795

Loans contractually past due 90 days or more as to principal or interest payments	**32**	11
Loans considered troubled debt restructurings	**-**	16
Total	**$ 966**	$ 822

At December 31, 2005, nonaccrual loans included $677,000 in commercial loans, $206,000 in residential mortgages, and $51,000 in consumer loans. At December 31, 2004, nonaccrual loans included $389,000 in commercial loans, $363,000 in residential mortgages, and $43,000 in consumer loans. Management also maintains a list of loans that are not classified as nonperforming loans but where some concern exists as to the borrowers' abilities to comply with the original loan terms. These loans totaled $8.5 million as of December 31, 2005, compared to $6.3 million as of December 31, 2004. Four large commercial borrowers with loans totaling $2.1 million were placed on the list in 2005 due to recent operating losses and other special circumstances causing concern to ChoiceOne Bank's management.

Deposits and Other Funding Sources

Total deposits increased $15.0 million or 9% from December 31, 2004 to December 31, 2005. Certificates of deposit were up $16.9 million, while checking, savings and money market accounts fell $1.9 million during the year. With the rise in interest rates, Bank customers flocked to certificates of deposit over lower yielding transaction accounts. Local certificates of deposit accounted for 84% of the growth over 2004, while brokered certificates of deposit rose 16%.

Securities sold under agreements to repurchase increased $0.8 million during 2005. Federal funds purchased at the end of 2005 increased $3.1 million from year-end 2004. Advances from the FHLB decreased $3.5 million in 2005. Of these advances, 67% have fixed rates with maturities ranging from January 2006 to December 2008, and 33% carry a floating rate indexed to the federal funds rate. Specific residential real estate mortgages and securities were pledged as collateral against these advances at the end of 2005.

In 2006, management plans to emphasize growth of its noninterest-bearing and interest-bearing checking accounts for commercial, municipal, and retail customers. Management also believes the Alpine, Cedar Springs and Rockford Offices are in growing markets and are poised to grow deposits in 2006. If local deposit growth is insufficient to support asset growth during 2006, management believes advances from the FHLB and brokered certificates of deposit can address corresponding funding needs.

Shareholders' Equity

Total shareholders' equity increased $0.6 million or 3% from December 31, 2004 to December 31, 2005. Equity growth resulted from current year earnings and proceeds from the sale of ChoiceOne's stock, offset by cash dividends paid to shareholders, shares repurchased, and a drop in accumulated other comprehensive income. The net dollar difference between the issuance and repurchase of common stock was a negative $15,000 in 2005 compared to a positive $142,000 in 2004. ChoiceOne repurchased 15,412 shares of its common stock in 2005 compared to 6,053 shares in 2004. Management anticipates it will continue to repurchase shares of its common stock in 2006 and retire them.

Note 20 to the annual consolidated financial statements presents regulatory capital information at the end of 2005 and 2004. ChoiceOne's capital ratios decreased slightly from December 31, 2004 to December 31, 2005 due to assets growing at a faster rate than shareholders' equity. If opportunities for prudent asset growth present themselves in 2006, management may grow assets to a greater extent than shareholders' equity. This may cause capital to decrease as a percentage of assets. However, management and its Board of Directors do not desire to decrease capital below those levels necessary to be considered "well capitalized."

Table 4 - Contractual Obligations

The following table discloses information regarding the maturity of ChoiceOne's contractual obligations at December 31, 2005:

(Dollars in thousands)

	Payment Due By Period				
	Total	**Less than 1 year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Federal funds purchased	**$ 4,399**	**$ 4,399**	**$ -**	**$ -**	**$ -**
Repurchase agreements	**7,139**	**7,139**	**-**	**-**	**-**
Time deposits	**97,923**	**65,583**	**24,008**	**8,332**	**-**
Advances from Federal Home Loan Bank	**30,750**	**21,750**	**9,000**	**-**	**-**
Operating leases	**117**	**44**	**73**	**-**	**-**
Total	**$ 140,328**	**$ 98,915**	**$ 33,081**	**$ 8,332**	**$ -**

Liquidity and Interest Rate Risk

ChoiceOne's primary market risk exposure occurs in the form of interest rate risk. Liquidity risk also can have an impact but to a lesser extent. ChoiceOne's business is transacted in U.S. dollars with no foreign exchange risk exposure. Agricultural loans comprise a small portion of ChoiceOne's total assets. Management believes that ChoiceOne's exposure to changes in commodity prices is insignificant.

Liquidity risk deals with ChoiceOne's ability to meet its cash flow requirements. These requirements include depositors desiring to withdraw funds and borrowers seeking credit. Relatively short-term liquid funds exist in the form of lines of credit to purchase federal funds at five of ChoiceOne Bank's correspondent banks. As of December 31, 2005, the amount of federal funds available for purchase from ChoiceOne Bank's correspondent banks totaled $18.9 million. ChoiceOne purchased $4.4 million of federal funds at the end of 2005. ChoiceOne Bank also has a line of credit secured by ChoiceOne's commercial loans with the Federal Reserve Bank of Chicago for $66 million, which is designated for nonrecurring short-term liquidity needs. Longer-term liquidity needs may be met through local deposit growth, maturities of securities, normal loan repayments, advances from the Federal Home Loan Bank, brokered time deposits, and income retention. Approximately $13.2 million of borrowing capacity was available from the Federal Home Loan Bank based on the ChoiceOne Mortgage Company's residential mortgage loans and ChoiceOne Bank's investment securities pledged as collateral at year-end 2005. The acquisition of brokered time deposits is not limited as long as ChoiceOne Bank's capital to assets percentage is considered to be "well capitalized."

Interest rate risk is related to liquidity because each is affected by maturing assets and sources of funds. ChoiceOne's Asset/Liability Management Committee (the "**ALCO**") attempts to stabilize the interest rate spread and avoid possible adverse effects when unusual or rapid changes in interest rates occur. The ALCO uses a simulation model to measure its interest rate risk. The model incorporates changes in interest rates on rate-sensitive assets and liabilities. The degree of rate sensitivity is affected by prepayment assumptions that exist in the assets and liabilities. One method the ALCO uses of measuring interest rate sensitivity is the ratio of rate-sensitive assets to rate-sensitive liabilities. An asset or liability is considered to be rate-sensitive if it matures or otherwise reprices within a given time frame.

Table 5 documents the maturity or repricing schedule for ChoiceOne's rate-sensitive assets and liabilities for selected time periods.

Table 5 - Maturities and Repricing Schedule

(Dollars in thousands)

	December 31, 2005				
	0-3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
Assets					
Loans and loans held for sale	$ 73,936	$ 32,077	$ 73,959	$ 5,860	$ 185,832
Taxable securities	430	4,622	17,987	1,688	24,727
Tax exempt securities	420	1,800	11,890	5,375	19,485
Federal Home Loan Bank and Federal Reserve Bank stock	-	-	-	2,999	2,999
Cash surrender value of bank-owned life insurance	2,237	-	-	-	2,237
Rate-sensitive assets	77,023	38,499	103,836	15,922	235,280
Liabilities					
Interest-bearing demand deposits	53,427	-	-	-	53,427
Savings deposits	8,582	-	-	-	8,582
Time deposits	17,393	48,610	31,920	-	97,923
Federal Home Loan Bank advances	14,750	7,000	9,000	-	30,750
Federal funds purchased	4,399	-	-	-	4,399
Repurchase agreements	6,701	438	-	-	7,139
Rate-sensitive liabilities	105,252	56,048	40,920	-	202,220
Rate-sensitive assets less rate-sensitive liabilities: Asset (liability) gap for the period	$ (28,229)	$ (17,549)	$ 62,916	$ 15,922	$ 33,060
Cumulative asset (liability) gap	$ (28,229)	$ (45,778)	$ 17,138	$ 33,060	

One method the ALCO uses to measure interest rate sensitivity is the one-year repricing gap. ChoiceOne's ratio of rate-sensitive assets to rate-sensitive liabilities that matured or repriced within a one-year time frame was 72% at December 31, 2005, compared to 63% at December 31, 2004. The above table places the entire balance of interest-bearing demand deposits, savings deposits, and overnight repurchase agreements in the shortest repricing term. Although these three categories have the ability to reprice immediately, management has some control over the actual timing or extent of the changes in interest rates on these deposits. Growth in ChoiceOne Bank's earning assets has made ChoiceOne less liability sensitive at year-end 2005 compared to year-end 2004. The ALCO plans to continue to monitor the ratio of rate-sensitive assets to rate-sensitive liabilities on a quarterly basis in 2006. As interest rates change during 2006, the ALCO will attempt to match its maturing assets with corresponding liabilities to maximize ChoiceOne's net interest income.

Another method the ALCO uses to monitor its interest rate sensitivity is to subject rate-sensitive assets and liabilities to interest rate shocks. At December 31, 2005, management used a simulation model to subject its assets and liabilities to an immediate 300 basis point increase and an immediate 300 basis point decrease in interest rates. The maturities of loans and mortgage-backed securities were affected by certain prepayment assumptions. Maturities for interest-bearing core deposits were based on an estimate of the period over which they would be outstanding. The maturities of advances from the Federal Home Loan Bank were based on their contractual maturity dates. In the case of variable rate assets and liabilities, repricing dates were used to determine their values. The simulation model measures the effect of immediate interest rate changes on both net income and shareholders' equity. ChoiceOne's Interest Rate Risk Policy states that the changes in interest rates cannot cause net income to decrease more than 15% and the value of shareholders' equity to decrease more than 15%.

Table 6 provides an illustration of hypothetical interest rate changes as of December 31, 2005 and 2004, respectively:

Table 6 - Sensitivity to Changes in Interest Rates

(Dollars in thousands)	2005 Net Income	Percent Change	Market Value of Equity	Percent Change
Change in Interest Rates				
300 basis point rise	**$ 2,204**	**- 5%**	**$ 31,472**	**- 9%**
200 basis point rise	**2,265**	**- 3%**	**33,039**	**- 5%**
100 basis point rise	**2,311**	**- 1%**	**34,198**	**- 2%**
Base rate scenario	**2,330**	**-%**	**34,770**	**-%**
100 basis point decline	**2,294**	**- 2%**	**34,611**	**- 1%**
200 basis point decline	**2,205**	**- 5%**	**33,841**	**- 3%**
300 basis point decline	**2,038**	**- 13%**	**32,452**	**- 7%**

(Dollars in thousands)	2004 Net Income	Percent Change	Market Value of Equity	Percent Change
Change in Interest Rates				
200 basis point rise	$ 2,274	11%	$ 22,788	- 13%
100 basis point rise	2,153	5%	25,046	- 5%
Base rate scenario	2,052	-%	26,296	-%
100 basis point decline	1,800	- 12%	27,637	5%
200 basis point decline	1,409	- 31%	28,947	10%

During 2005, the ALCO expanded its rate shock scenarios from an immediate 200 basis point rise and decline shock to an immediate 300 basis point rise and decline in interest rates. As of December 31, 2005, ChoiceOne Bank is within its guidelines for immediate shocks up and down for both net income and the market value of shareholder's equity. Also, during 2005 the ALCO changed certain assumptions within its asset/liability model to more accurately reflect historical trends and actual experience. The effect of these changes combined with management's desire to limit the immediate repricing of its interest-bearing demand and savings deposits illustrates that ChoiceOne's net income and market value of equity may be negatively impacted in both a rising rate and falling rate environment.

The impact of the rate shock at December 31, 2004 on net income for rates falling 200 basis points exceeded the ALCO's policy limit; however, management believed the likelihood of such an occurrence was highly remote given that the ALCO predicted rates would most likely rise during 2005.

The ALCO plans to continue to monitor the effect of changes in interest rates on both net income and shareholders' equity and will make changes in the duration of its rate-sensitive assets and rate-sensitive liabilities where necessary.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

On November 23, 2005, ChoiceOne engaged Plante & Moran, PLLC ("**Plante Moran**") as its independent registered public accounting firm, to replace its prior accounting firm, Crowe Chizek and Company LLC ("**Crowe**"), effective as of the fiscal year beginning January 1, 2006. The change in ChoiceOne's certifying independent registered public accounting firm was based on the results of a competitive bidding process. The engagement of Plante Moran and the dismissal of Crowe was recommended and approved by the Audit Committee of ChoiceOne's board of directors.

Crowe's reports on ChoiceOne's financial statements for the fiscal years ended December 31, 2004 and 2003 did not contain any adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles.

During the two fiscal years ended December 31, 2004 and 2003 and through November 23, 2005, there were no "disagreements" (as that term is defined in Item 304(a)(1)(iv) of Regulation S-K issued under the Exchange Act, and its related instructions) between ChoiceOne and Crowe on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure which, if not resolved to the satisfaction of Crowe, would have caused Crowe to make reference to the subject matter of the disagreement in connection with its reports.

During the two fiscal years ended December 31, 2004 and 2003 and through November 23, 2005, there were no "reportable events" (as that term is defined in Item 304(a)(1)(v) of Regulation S-K issued under the Exchange Act of 1934, and its related instructions) between ChoiceOne and Crowe.

During the two fiscal years ended December 31, 2004 and 2003 and through November 23, 2005, ChoiceOne had not consulted with Plante Moran regarding the application of accounting principles to a specified transaction (either completed or proposed), the type of audit opinion that might be rendered on ChoiceOne's financial statements, or any matter that was the subject of a disagreement or reportable event.

CHOICEONE CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

CHOICEONE FINANCIAL SERVICES, INC.
FINANCIAL STATEMENTS
FOR THE QUARTER ENDED JUNE 30, 2006 AND 2005

ChoiceOne Financial Services, Inc.
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)	June 30, 2006	December 31, 2005
	(Unaudited)	
Assets		
Cash and due from banks	$ 3,930	$ 4,990
Securities available for sale	49,663	44,212
Federal Home Loan Bank stock	2,623	2,623
Federal Reserve Bank stock	376	376
Loans held for sale	610	264
Loans	182,716	185,568
Allowance for loan losses	(1,861)	(1,963)
Loans, net	180,855	183,605
Premises and equipment, net	5,546	5,596
Other real estate owned, net	1,209	1,255
Loan servicing rights, net	424	445
Cash value of life insurance policies	2,278	2,237
Other assets	3,114	2,507
Total assets	$ 250,628	$ 248,110
Liabilities		
Deposits - noninterest-bearing	$ 21,142	$ 22,180
Deposits - interest-bearing	166,750	159,932
Total deposits	187,892	182,112
Securities sold under agreement to repurchase	6,317	7,139
Federal funds purchased	4,267	4,399
Advances from Federal Home Loan Bank	28,000	30,750
Other liabilities	2,068	1,993
Total liabilities	228,544	226,393
Shareholders' Equity		

Preferred stock; shares authorized: 100,000; shares outstanding: none	-	-
Common stock and paid in capital, no par value; shares authorized: 4,000,000; shares outstanding: 1,659,761 at June 30, 2006 and 1,649,940 at December 31, 2005	17,603	17,422
Retained earnings	5,112	4,594
Accumulated other comprehensive income (loss), net	(631)	(299)
Total shareholders' equity	22,084	21,717
Total liabilities and shareholders' equity	$ 250,628	$ 248,110

See accompanying notes to consolidated financial statements.

ChoiceOne Financial Services, Inc.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (Unaudited)

(Dollars in thousands, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Interest income				
Loans, including fees	$ 3,195	$ 2,841	$ 6,362	$ 5,499
Securities:				
Taxable	345	245	644	499
Tax exempt	202	171	392	343
Other	2	1	4	2
Total interest income	3,744	3,258	7,402	6,343
Interest expense				
Deposits	1,534	965	2,861	1,822
Advances from Federal Home Loan Bank	269	241	558	448
Other	62	51	122	94
Total interest expense	1,865	1,257	3,541	2,364
Net interest income	1,879	2,001	3,861	3,979
Provision for loan losses	25	150	35	250
Net interest income after provision for loan losses	1,854	1,851	3,826	3,729
Noninterest income				
Customer service charges	311	268	609	501
Insurance and investment commissions	234	221	438	493
Gains on sales of loans	56	47	104	108
Gains (losses) on sales of securities	56	-	55	(1)
Loan servicing fees, net	21	18	42	40
Profit-sharing income	36	20	99	39
Other	19	48	50	71
Total noninterest income	733	622	1,397	1,251
Noninterest expense				
Compensation and benefits	996	980	2,008	1,954
Occupancy and equipment	277	274	555	559
Data processing	166	140	322	281
Professional fees	80	125	208	243
Supplies and postage	61	59	113	114
Advertising and promotional	34	47	67	74

Other	244	113	506	324
Total noninterest expense	1,858	1,738	3,779	3,549
Income before income tax	729	735	1,444	1,431
Income tax expense	184	189	364	370
Net income	$ 545	$ 546	$ 1,080	$ 1,061
Comprehensive income	$ 276	$ 808	$ 748	$ 971
Basic earnings per share	$ 0.33	$ 0.33	$ 0.65	$ 0.64
Diluted earnings per share	$ 0.33	$ 0.33	$ 0.65	$ 0.64
Dividends declared per share	$ 0.17	$ 0.17	$ 0.34	$ 0.33

See accompanying notes to consolidated financial statements.

ChoiceOne Financial Services, Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)

(Dollars in thousands)	Number of Shares	Common Stock and Paid in Capital	Unallocated Shares Held by ESOP	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net	Total
Balance, January 1, 2005	1,570,937	$ 15,913	$ (9)	$ 5,053	$ 112	$ 21,069
Comprehensive income						
Net income				1,061		1,061
Net change in unrealized gain (loss)					(90)	(90)
Total comprehensive income						971
Shares issued	7,165	143				143
Shares repurchased	(8,647)	(186)				(186)
Shares committed to be released under Employee Stock Ownership Plan		(9)	9			-
Change in ESOP repurchase obligation		13				13
Cash dividends declared ($0.33 per share)				(545)		(545)
Stock dividend	78,439	1,516		(1,520)		(4)
Balance, June 30, 2005	1,647,894	$ 17,390	$ -	$ 4,049	$ 22	$ 21,461
Balance, January 1, 2006	1,649,940	$ 17,422	$ -	$ 4,594	$ (299)	$ 21,717
Comprehensive income						
Net income				1,080		1,080
Net change in unrealized gain (loss)					(332)	(332)
Total comprehensive income						748
Shares issued	9,821	168				168
Change in ESOP repurchase obligation		1				1
Effect of stock options granted		12				12
Cash dividends declared ($0.34 per share)				(562)		(562)
Balance, June 30, 2006	1,659,761	$ 17,603	$ -	$ 5,112	$ (631)	$ 22,084

See accompanying notes to consolidated financial statements.

ChoiceOne Financial Services, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(Dollars in thousands)	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Cash flows from operating activities:		
Net income	$ 1,080	$ 1,061
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	35	250
Depreciation	256	283
Amortization	225	292
Expense related to employee stock options granted	12	-
Stock dividends on Federal Home Loan Bank stock	-	(55)
(Gains) losses on sales of securities	(55)	1
Gains on sales of loans	(104)	(108)
Loans originated for sale	(7,284)	(5,239)
Proceeds from loan sales	7,013	5,097
Earning on bank-owned life insurance	(41)	(35)
Net changes in:		
Other assets	(396)	(56)
Other liabilities	247	(333)
Net cash from operating activities	988	1,158
Cash flows from investing activities:		
Securities available for sale:		
Sales	1,230	1,376
Maturities, prepayments and calls	2,143	2,283
Purchases	(9,416)	(798)
Loan originations and payments, net	2,519	(6,605)
Additions to premises and equipment, net of disposals	(206)	(797)
Purchase of bank-owned life insurance	-	(2,000)
Net cash used in investing activities	(3,730)	(6,541)
Cash flows from financing activities:		
Net change in deposits	5,780	2,589
Net change in securities sold under agreements to repurchase	(822)	(362)
Net change in federal funds purchased	(132)	564
Proceeds from Federal Home Loan Bank advances	30,000	23,000
Payments on Federal Home Loan Bank advances	(32,750)	(20,000)
Issuance of common stock	168	143
Repurchase of common stock	-	(186)
Cash dividends	(562)	(549)
Net cash from financing activities	1,682	5,199

Net change in cash and cash equivalents	(1,060)	(184)
Beginning cash and cash equivalents	4,990	3,619
Ending cash and cash equivalents	$ 3,930	$ 3,435
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 3,249	$ 2,268
Cash paid for income taxes	$ 535	$ 240
Loans transferred to other real estate	$ 196	$ 467

See accompanying notes to consolidated financial statements.

ChoiceOne Financial Services, Inc.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation
The consolidated financial statements include ChoiceOne Financial Services, Inc. (the "**Registrant**") and its wholly-owned subsidiary, ChoiceOne Bank (the "**Bank**"), and the Bank's wholly-owned subsidiaries ChoiceOne Insurance Agencies, Inc. (the "**Insurance Agency**"), and ChoiceOne Mortgage Company of Michigan (the "**Mortgage Company**"). Intercompany transactions and balances have been eliminated in consolidation.

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information, prevailing practices within the banking industry and the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

The accompanying consolidated financial statements reflect all adjustments ordinary in nature which are, in the opinion of management, necessary for a fair presentation of the Consolidated Balance Sheets as of June 30, 2006 and December 31, 2005, the Consolidated Statements of Income for the three- and six-month periods ended June 30, 2006 and June 30, 2005, the Consolidated Statements of Changes in Shareholders' Equity for the six-month periods ended June 30, 2006 and June 30, 2005, and the Consolidated Statements of Cash Flows for the six-month periods ended June 30, 2006 and June 30, 2005. Operating results for the six months ended June 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

The accompanying consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in ChoiceOne's Annual Report on Form 10-K for the year ended December 31, 2005.

Allowance for Loan Losses
The allowance for loan losses is maintained at a level believed adequate by management to absorb probable incurred losses inherent in the consolidated loan portfolio. Management's evaluation of the adequacy of the allowance is an estimate based on reviews of individual loans, assessments of the impact of current and anticipated economic conditions on the portfolio and historical loss experience of seasoned loan portfolios. See Note 2 to the interim consolidated financial statements for additional information.

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

Stock Transactions
A total of 2,935 shares of common stock were issued to ChoiceOne's board of directors for a cash price of $54,000 under the terms of the Directors' Stock Purchase Plan in the first half of 2006. A total of 5,000 shares of common stock were issued to shareholders for a cash price of $86,000 under the Dividend Reinvestment Plan in the six months ended June 30, 2006. A total of 1,886 shares were issued to employees for a cash price of $28,000 under the Employee Stock Purchase Plan for the six months ended June 30, 2006. ChoiceOne did not repurchase any shares

from shareholders in the first half of 2006.

Reclassifications

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

ChoiceOne Financial Services, Inc.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2 - ALLOWANCE FOR LOAN LOSSES

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

(Dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Balance at beginning of period	$ 1,931	$ 1,783	$ 1,963	$ 1,739
Provision charged to expense	25	150	35	250
Recoveries credited to the allowance	40	25	91	58
Loans charged off	(135)	(145)	(228)	(234)
Balance at end of period	$ 1,861	$ 1,813	$ 1,861	$ 1,813

Information regarding impaired loans follows:

(Dollars in thousands)	June 30, 2006	December 31, 2005
Loans with no allowance allocated	$ 434	$ 306
Loans with allowance allocated	925	1,157
Amount of allowance for loan losses allocated	316	465

(Dollars in thousands)

	Three Months Ended June 30,	
	2006	2005
Average balance during the period		

	$
	1,347
	$
	906
Interest income recognized thereon	
	29
	8
Cash basis interest income recognized	
	37
	9

(Dollars in thousands)	Six Months Ended June 30,	
	2006	2005
Average balance during the period	$ 1,386	$ 826
Interest income recognized thereon	58	22
Cash basis interest income recognized	75	22

ChoiceOne Financial Services, Inc.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3 - EARNINGS PER SHARE

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

(Dollars in thousands, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Basic Earnings Per Share				
Net income available to common shareholders	$ 545	$ 546	$ 1,080	$ 1,061
Weighted average common shares outstanding	1,656,773	1,646,133	1,653,882	1,646,778
Basic earnings per share	$ 0.33	$ 0.33	$ 0.65	$ 0.64
Diluted Earnings Per Share				
Net income available to common shareholders	$ 545	$ 546	$ 1,080	$ 1,061
Weighted average common shares outstanding	1,656,773	1,646,133	1,653,882	1,646,778
Plus dilutive stock options	3,243	4,108	3,201	4,781
Weighted average common shares outstanding and potentially dilutive shares	1,660,016	1,650,241	1,657,083	1,651,559
Diluted earnings per share	$ 0.33	$ 0.33	$ 0.65	$ 0.64

There were 14,365 stock options as of June 30, 2006 that are considered to be anti-dilutive to earnings per share and thus have been excluded from the calculation above. All shares have been adjusted for the 5% stock dividend paid in May 2005.

NOTE 4 - MERGER WITH VALLEY RIDGE FINANCIAL CORP.

On April 26, 2006, ChoiceOne Financial Services, Inc. and Valley Ridge Financial Corp. ("**Valley Ridge**") announced that they signed a definitive agreement to join forces in a merger of equals transaction. Valley Ridge is a bank holding company headquartered in nearby Kent City, Michigan, with total assets of $216 million, total deposits of $165 million and total loans of $151 million at December 31, 2005. Valley Ridge's bank subsidiary, Valley Ridge Bank, was formed in 1907 and provides banking and financial services through 9 offices located in Kent, Muskegon, Newaygo and Ottawa Counties in Michigan. Upon completion of this transaction, the combined organization will have 14 banking offices, with total assets projected to be approximately $480 million and total deposits projected to be approximately $380 million. The merger is subject to approval by Valley Ridge's shareholders, approval by banking regulators, and other customary conditions. The merger is expected to be completed during the fourth quarter of 2006.

Crowe Chizek and Company LLC
Member Horwath International

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors
of ChoiceOne Financial Services, Inc., Sparta, Michigan

We have audited the accompanying consolidated balance sheets of ChoiceOne Financial Services, Inc. as of December 31, 2005 and 2004, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ChoiceOne Financial Services, Inc. as of December 31, 2005 and 2004, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

Crowe Chizek and Company LLC

Grand Rapids, Michigan
March 7, 2006

ChoiceOne Financial Services, Inc.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

	December 31, 2005	December 31, 2004
Assets		
Cash and due from banks	**$ 4,990**	$ 3,619
Securities available for sale	**44,212**	44,913
Federal Home Loan Bank stock	**2,623**	2,569
Federal Reserve Bank stock	**376**	376
Loans held for sale	**264**	281
Loans, net (of allowance of $1,963 and $1,739)	**183,605**	171,539
Premises and equipment, net	**5,596**	4,906
Other real estate owned, net	**1,255**	981
Loan servicing rights, net	**445**	472
Cash value of life insurance policies	**2,237**	159
Other assets	**2,507**	2,470
Total assets	**$ 248,110**	$ 232,285
Liabilities		
Deposits - noninterest-bearing	**$ 22,180**	$ 17,086
Deposits - interest-bearing	**159,932**	149,980
Total deposits	**182,112**	167,066
Repurchase agreements	**7,139**	6,338
Federal funds purchased	**4,399**	1,281
Advances from Federal Home Loan Bank	**30,750**	34,250
Other liabilities	**1,993**	2,281
Total liabilities	**226,393**	211,216
Shareholders' Equity		
Preferred stock; shares authorized: 100,000; shares outstanding: none	-	-
Common stock and paid-in capital, no par value; shares authorized: 4,000,000; shares outstanding: 1,649,940 in 2005 and 1,570,937 in 2004	**17,422**	15,913
Unallocated shares held by Employee Stock Ownership Plan	-	(9)
Retained earnings	**4,594**	5,053
Accumulated other comprehensive income (loss), net	**(299)**	112
Total shareholders' equity	**21,717**	21,069
Total liabilities and shareholders' equity	**$ 248,110**	$ 232,285

See accompanying notes to consolidated financial statements.

ChoiceOne Financial Services, Inc.
CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except per share data)

	Years ended December 31, 2005	2004	2003
Interest income			
Loans, including fees	**$ 11,641**	$ 10,181	$ 11,091
Securities			
Taxable	**993**	971	776
Tax exempt	**685**	586	455
Other	**5**	1	8
Total interest income	**13,324**	11,739	12,330
Interest expense			
Deposits	**4,082**	3,031	3,247
Advances from Federal Home Loan Bank	**974**	914	1,206
Federal funds purchased and repurchase agreements	**223**	122	102
Total interest expense	**5,279**	4,067	4,555
Net interest income	**8,045**	7,672	7,775
Provision for loan losses	**495**	465	400
Net interest income after provision for loan losses	**7,550**	7,207	7,375
Noninterest income			
Customer service charges	**1,133**	985	1,001
Insurance and investment commissions	**866**	1,002	1,042
Loan servicing fees, net	**56**	49	(4)
Gains on sales of loans	**264**	305	807
Gains (losses) on sales of securities	**(28)**	38	61
Other income	**289**	191	202
Total noninterest income	**2,580**	2,570	3,109
Noninterest expense			
Salaries and benefits	**3,877**	3,830	4,019
Occupancy and equipment	**1,116**	1,024	1,092
Professional fees	**464**	498	514
Supplies and postage	**227**	225	252
Data processing	**570**	498	495
Advertising and promotional	**154**	120	149
Prepayment penalties on advances from Federal Home Loan Bank	-	-	156
Other expense	**776**	1,033	991

Total noninterest expense	**7,184**	7,228	7,668
Income before income tax	**2,946**	2,549	2,816
Income tax expense	**780**	695	715
Net income	**$ 2,166**	$ 1,854	$ 2,101
Comprehensive income	**$ 1,755**	$ 1,450	$ 2,080
Basic earnings per common share	**$ 1.31**	$ 1.13	$ 1.29
Diluted earnings per common share	**$ 1.31**	$ 1.13	$ 1.29
Dividends declared per common share	**$ 0.67**	$ 0.65	$ 0.65

See accompanying notes to consolidated financial statements.

ChoiceOne Financial Services, Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Dollars in thousands, except per share data)

	Number of Shares	Common Stock and Paid in Capital	Unallocated Shares Held by ESOP	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net	Total
Balance, January 1, 2003	1,551,228	$ 15,645	$ (45)	$ 3,222	$ 537	$ 19,359
Comprehensive income:						
Net income				2,101		2,101
Net change in unrealized gain (loss)					(21)	(21)
Total comprehensive income						2,080
Shares issued	13,633	218				218
Shares repurchased	(1,446)	(22)				(22)
Shares committed to be released under Employee Stock Ownership Plan (ESOP)		(18)	18			-
Change in ESOP repurchase obligation		(8)				(8)
Cash dividends declared ($0.65 per share)				(1,059)		(1,059)
Balance, December 31, 2003	1,563,415	15,815	(27)	4,264	516	20,568
Comprehensive income:						
Net income				1,854		1,854
Net change in unrealized gain (loss)					(404)	(404)
Total comprehensive income						1,450
Shares issued	13,267	255				255
Shares repurchased	(6,053)	(118)				(118)
Shares committed to be released under Employee Stock Ownership Plan		(18)	18			-
Change in ESOP repurchase obligation		(26)				(26)
Shares issued under stock option plans	308	5				5
Cash dividends declared ($0.65 per share)				(1,065)		(1,065)
Balance, December 31, 2004	1,570,937	15,913	(9)	5,053	112	21,069
Comprehensive income:						
Net income				**2,166**		**2,166**
Net change in unrealized gain (loss)					**(411)**	**(411)**

Total comprehensive income						**1,755**
Shares issued	**15,976**	**307**				**307**
Shares repurchased	**(15,412)**	**(322)**				**(322)**
Shares committed to be released under Employee Stock Ownership Plan		**(9)**	**9**			**-**
Change in ESOP repurchase obligation		**17**				**17**
Cash dividends declared ($0.67 per share)				**(1,105)**		**(1,105)**
Stock dividends declared (5%)	**78,439**	**1,516**		**(1,520)**		**(4)**
Balance, December 31, 2005	**1,649,940**	**$ 17,422**	**$ -**	**$ 4,594**	**$ (299)**	**$ 21,717**

See accompanying notes to consolidated financial statements.

ChoiceOne Financial Services, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	Years ended December 31,		
	2005	2004	2003
Cash flows from operating activities:			
Net income	**$ 2,166**	$ 1,854	$ 2,101
Adjustments to reconcile net income to net cash from operating activities:			
Provision for loan losses	**495**	465	400
Depreciation	**535**	495	538
Amortization	**582**	631	623
Stock dividends on Federal Home Loan Bank stock	**(54)**	(113)	(92)
Losses (gains) on sales of securities	**28**	(38)	(61)
Gains on sales of loans	**(264)**	(305)	(807)
Loans originated for sale	**(18,757)**	(12,580)	(35,589)
Proceeds from loan sales	**18,929**	12,471	37,302
Earnings on bank-owned life insurance	**(78)**	(3)	(4)
Net change in:			
Other assets	**309**	1,804	890
Other liabilities	**(59)**	763	184
Net cash from operating activities	**3,832**	5,444	5,485
Cash flows from investing activities:			
Securities available for sale:			
Sales	**3,748**	5,615	2,085
Maturities, prepayments and calls	**5,928**	4,369	3,905
Purchases	**(10,004)**	(18,022)	(22,996)
Loan originations and payments, net	**(13,249)**	(16,877)	8,920
Proceeds from sale of adjustable rate mortgage loans	-	5,037	-
Additions to premises and equipment, net of disposals	**(1,225)**	(1,481)	(225)
Proceeds from sale of insurance agency	-	-	186
Purchase of bank-owned life insurance	**(2,000)**	-	-
Net cash used in investing activities	**(16,802)**	(21,359)	(8,125)
Cash flows from financing activities:			
Net change in deposits	**15,046**	20,803	(6,516)
Net change in repurchase agreements	**801**	1,033	(571)
Net change in federal funds purchased	**3,118**	(6,601)	7,882
Proceeds from Federal Home Loan Bank advances	**52,000**	27,750	25,750
Payments on Federal Home Loan Bank advances	**(55,500)**	(27,250)	(24,791)
Issuance of common stock	**307**	260	218
Repurchase of common stock	**(322)**	(118)	(22)

Cash dividends and fractional shares from stock dividends	**(1,109)**	(1,065)	(1,059)
Net cash from financing activities	**14,341**	14,812	891
Net change in cash and cash equivalents	**1,371**	(1,103)	(1,749)
Beginning cash and cash equivalents	**3,619**	4,722	6,471
Ending cash and cash equivalents	**$ 4,990**	$ 3,619	$ 4,722
Cash paid for interest	**$ 5,082**	$ 4,018	$ 4,667
Cash paid for income taxes	**570**	375	820
Loans transferred to other real estate owned	**688**	967	1,233
Loans transferred to loans held for sale	-	5,064	-
Equity securities transferred to other assets	-	208	-

See accompanying notes to consolidated financial statements.

ChoiceOne Financial Services, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

Principles of Consolidation
The consolidated financial statements include ChoiceOne Financial Services, Inc., its wholly-owned subsidiary, ChoiceOne Bank, and ChoiceOne Bank's wholly-owned subsidiaries, ChoiceOne Mortgage Company of Michigan, and ChoiceOne Insurance Agencies, Inc., (together referred to as "**ChoiceOne**"). Intercompany transactions and balances have been eliminated in consolidation.

Nature of Operations
ChoiceOne Bank (the "**Bank**") is a full-service community bank that offers commercial, consumer, and real estate loans as well as traditional demand, savings and time deposits to both commercial and consumer clients in portions of Kent, Muskegon, Newaygo, and Ottawa counties in Michigan. Substantially all loans are secured by specific items of collateral including business assets, consumer assets, and real estate. Commercial loans are expected to be repaid from the cash flows from operations of businesses. Real estate loans are secured by both residential and commercial real estate.

ChoiceOne Mortgage Company of Michigan (the "**Mortgage Company**") originates and sells a full line of conventional type mortgage loans for 1-4 family and multi-family residential real estate properties.

ChoiceOne Insurance Agencies, Inc. (the "**Insurance Agency**") is a wholly-owned subsidiary of the Bank. The Insurance Agency sells a full line of insurance policies such as life, health, property and casualty for both commercial and consumer clients. The Insurance Agency also offers alternative investment products such as annuities and mutual funds through a registered broker.

Together, the Bank, the Mortgage Company, and the Insurance Agency, account for substantially all of ChoiceOne's assets, revenues and operating income.

Use of Estimates
To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, ChoiceOne's 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. Actual results may differ from these estimates. Estimates associated with the allowance for loan losses, loan servicing rights, and fair values of certain financial instruments are particularly susceptible to change.

Cash and Cash Equivalents
Cash and cash equivalents are defined to include cash on hand, demand deposits with other banks, and federal funds sold. Cash flows are reported on a net basis for customer loan and deposit transactions, deposits with other financial institutions, and short-term borrowings with terms of 90 days or less.

Securities
Securities are classified as available for sale when they might be sold before maturity. Securities classified as available for sale are carried at fair value, with unrealized holding gains and losses reported separately in other comprehensive income or loss and shareholders' equity, net of tax effect. Other securities, such as Federal Reserve Bank stock or Federal Home Loan Bank stock, are carried at cost.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized using the level-yield method without anticipating prepayments. Gains or losses on sales are recorded on the trade date based on the amortized cost of the security sold.

Declines in the fair value of securities below their cost that are other than temporary are reflected as realized losses. In estimating other-than-temporary losses, management considers: the length of time and extent that fair value has been less than cost, the financial condition and near term prospects of the issuer, and ChoiceOne's ability and intent to hold the security for a period sufficient to allow for any anticipated recovery in fair value.

ChoiceOne Financial Services, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Loans
Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of unearned interest, deferred loan fees and costs, and an allowance for loan losses. Loans held for sale are reported at the lower of cost or market, on an aggregate basis.

Interest income on loans is reported on the interest method and includes amortization of net deferred loan fees and costs over the estimated loan term. Interest on loans is accrued based upon the principal balance outstanding. The accrual of interest is discontinued at the time at which commercial loans are 90 days past due unless the loan is secured by sufficient collateral and in the process of collection. Interest on consumer or real estate secured loans is discontinued at the time at which the loan is 120 days past due unless the credit is secured by sufficient collateral and in the process of collection. Past due status is based on the contractual terms of the loan. In all cases, loans are placed into nonaccrual status or charged off at an earlier date if collection of principal or interest is considered doubtful. Interest accrued but not received is reversed against interest income when the loans are placed into nonaccrual status. Interest received on such loans is accounted for on the cash-basis method until qualifying for return to accrual. Loans are returned to accrual basis when all the principal and interest amounts contractually due are brought current and future payment is reasonably assured.

Allowance for Loan Losses
The allowance for loan losses is a valuation allowance for probable incurred credit losses. The allowance is increased by the provision for loan losses and decreased by loans charged off less any recoveries of charged off loans. Management estimates the allowance balance required based on past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off. Loan losses are charged against the allowance when management believes the collectibility of a loan balance is not possible.

The allowance consists of general and specific components. The general component covers non-classified loans and is based on historical loss experience adjusted for current factors. The specific component relates to loans that are individually classified as impaired or loans otherwise classified as substandard or doubtful.

A loan is impaired when full payment under the loan terms is not expected. Commercial loans are evaluated for impairment on an individual loan basis. If a loan is considered impaired, a portion of the allowance for loan losses is allocated to the loan so that it is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans such as consumer and real estate mortgage loans are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures.

Premises and Equipment
Premises and equipment are stated at cost less accumulated depreciation. Land is carried at cost. Land improvements are depreciated using the straight-line method with useful lives ranging from 7 to 15 years. Building and related components are depreciated using the straight-line method with useful lives ranging from 5 to 39 years. Leasehold improvements are depreciated over the shorter of the estimated life or the lease term. Furniture and equipment are depreciated using the straight-line method with useful lives ranging from 3 to 7 years. Fixed assets are periodically reviewed for impairment when events indicate their carrying amounts may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Other Real Estate Owned

Real estate properties acquired in the collection of a loan are initially recorded at fair value at acquisition establishing a new cost basis. Any reduction to fair value from the carrying value of the related loan is accounted for as a loan loss. After acquisition, a valuation allowance reduces the reported amount to the lower of the initial amount or fair value less costs to sell. Expenses to repair or maintain properties are included within other noninterest expenses. Gains and losses upon disposition and changes in the valuation allowance are reported net within other noninterest income.

ChoiceOne Financial Services, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Loan Servicing Rights
Servicing rights represent the allocated value of servicing rights on loans sold with servicing retained. Servicing rights are expensed in proportion to, and over the period of, estimated net servicing revenues. Impairment is evaluated based on the fair value of the rights, using groupings of the underlying loans as to interest rates and then, secondarily, as to geographic and prepayment characteristics. Fair value is determined using prices for similar assets with similar characteristics when available or based upon discounted cashflows using market-based assumptions. Any impairment of a grouping is reported as a valuation allowance.

Long Term Assets
Premises and equipment, other intangible assets and other long term assets are reviewed for impairment when events indicate their carrying amounts may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Loan Commitments and Related Financial Instruments
Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Repurchase Agreements
Substantially all repurchase agreement liabilities represent amounts advanced by deposit clients that are not covered by federal deposit insurance and are secured by securities owned by ChoiceOne.

Employee Benefit Plans
ChoiceOne's 401(k) plan allows participant contributions of up to 15% of compensation. Company contributions to the 401(k) plan are discretionary. ChoiceOne allows retired employees to participate in its health insurance plan. These postretirement benefits are accrued during the years in which the employee provides services.

Employee Stock Ownership Plan
The cost of shares issued to the Employee Stock Ownership Plan (the "**ESOP**") but not yet allocated to participants is presented as a reduction of shareholders' equity. Compensation expense is recorded based on the market price of the shares as they are committed to be released for allocation to participant accounts. The difference between the market price and the cost of shares committed to be released is recorded as an adjustment to additional paid-in capital. Dividends on allocated ESOP shares are recorded as a reduction of retained earnings while dividends on unallocated ESOP shares are reflected as a reduction of debt and accrued interest. Upon distribution of shares to a participant, the participant has the right to require the Company to purchase his or her shares at fair value in accordance with the terms and conditions of the ESOP. As such, these shares are not classified in shareholders' equity as permanent equity.

Stock Based Compensation
Employee compensation expense under ChoiceOne's stock option plan is reported if options are granted below market price at the grant date. Pro forma disclosures of net income and earnings per share are shown using the fair value method to measure expense for options granted using an option pricing model to estimate the fair value.

The following pro forma information presents net income and earnings per share for the years ended December 31, 2005, 2004 and 2003, respectively, had the fair value method been used to measure compensation cost for stock option plans. No compensation cost was recognized for stock options in 2005, 2004 and 2003.

ChoiceOne Financial Services, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands)

	2005	2004	2003
Net income as reported	$ 2,166	$ 1,854	$ 2,101
Deduct: Stock-based compensation expense determined under fair value based method	17	10	5
Pro forma net income	$ 2,149	$ 1,844	$ 2,096
Basic and diluted earnings per common share as reported	$ 1.31	$ 1.13	$ 1.29
Pro forma basic and diluted earnings per common share	$ 1.30	$ 1.12	$ 1.28

The pro forma effects are computed using an option pricing model and the following weighted average assumptions as of grant date:

	2005	2004	2003
Risk-free interest rate	4.50%	3.78%	3.65%
Expected option life (in years)	7	7	7
Expected stock price volatility	24.59%	20.54%	18.95%
Dividend yield	3.03%	4.42%	4.49%

Income Taxes
Income tax expense is the sum of the current year income tax due and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

Earnings Per Share
Basic earnings per common share ("**EPS**") is based on weighted-average common shares outstanding. The weighted-average number of shares used in the computation of basic and diluted earnings per common share includes shares allocated to the ESOP. Diluted EPS further assumes issue of any dilutive potential common shares issuable under stock options. Earnings and dividends per share are restated for stock dividends and splits through the issue date of the financial statements.

Comprehensive Income
Comprehensive income consists of net income and other comprehensive income or loss. Other comprehensive income or loss includes the net change in unrealized appreciation (depreciation) on securities available for sale, net of tax, which is also recognized as a separate component of shareholders' equity.

Loss Contingencies
Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe that there are any such matters that may have a material effect on the financial statements.

Cash Restrictions
Cash on hand or on deposit with the Federal Reserve Bank of $1,101,000 and $998,000 was required to meet regulatory reserve and clearing requirements at December 31, 2005 and 2004, respectively. These balances do not earn interest.

Stock Dividends
Dividends issued in stock are reported by transferring the market value of the stock issued from retained earnings to common stock and additional paid-in capital. Fractional shares resulting from stock dividends are paid in cash.

Dividend Restrictions
Banking regulations require the maintenance of certain capital levels and may limit the amount of dividends which may be paid by the Bank to ChoiceOne or by ChoiceOne to its shareholders (see Note 20).

ChoiceOne Financial Services, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fair Value of Financial Instruments
Fair values of financial instruments are estimated using relevant market information and other assumptions, which are more fully documented in Note 18 to the consolidated financial statements. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Operating Segments
While ChoiceOne's management monitors the revenue streams of various products and services for the Bank, Insurance Agency and Mortgage Company, operations and financial performance are evaluated on a company-wide basis. Accordingly, all of the financial service operations are considered by management to be aggregated into one reportable operating segment.

Adoption of New Accounting Standards
Statement of Financial Accounting Standards ("**SFAS**") No. 123R, "Share-Based Payment," requires all public companies to record compensation cost for stock options provided to employees in return for employee service. The cost is measured at the fair value of the options when granted, and this cost is expensed over the employee service period, which is normally the vesting period of the options. This will apply to awards granted or modified after the first quarter or year beginning after December 15, 2005. Compensation cost will also be recorded for prior option grants that vest after the date of adoption. The effect on ChoiceOne's results of operations will depend on the level of future grants and the calculation of the fair value of the options granted at such future dates, as well as the vesting periods provided, and therefore cannot currently be predicted. Existing options outstanding as of December 31, 2005 that will vest after the adoption date are expected to result in additional compensation expense of approximately $17,000 during 2006, $15,000 in 2007, and $10,000 in 2008. There will be no significant effect on ChoiceOne's financial position, as total shareholders' equity will not change.

Reclassifications
Certain amounts presented in prior year consolidated financial statements have been reclassified to conform to the current year's presentation.

ChoiceOne Financial Services, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 - Securities

The fair value of securities available for sale and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) at December 31 were as follows:

(Dollars in thousands)	**2005** Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
U.S. Government and federal agency	$ **5,435**	**$ -**	**$ (100)**
State and municipal	**28,003**	**174**	**(343)**
Mortgage-backed	**7,811**	**2**	**(178)**
Corporate	**2,382**	**-**	**(55)**
Equity securities	**581**	**46**	**-**
Total	$ **44,212**	**$ 222**	**$ (676)**

(Dollars in thousands)	2004 Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
U.S. Government and federal agency	$ 6,875	$ 5	$ (79)
State and municipal	26,768	435	(139)
Mortgage-backed	6,700	17	(49)
Corporate	4,031	5	(29)
Equity securities	539	4	-
Total	$ 44,913	$ 466	$ (296)

Information regarding sales of securities available for sale follows:

(Dollars in thousands)

	2005	2004	2003
Proceeds from sales of securities	**$ 3,748**	$ 5,615	$ 2,085
Gross realized gains	**9**	41	61
Gross realized losses	**37**	3	-

Contractual maturities of securities available for sale at December 31, 2005 were as follows:

(Dollars in thousands)

		Fair Value
Due within one year	$	**6,216**
Due after one year through five years		**21,830**
Due after five years through ten years		**6,426**
Due after ten years		**1,348**
Total debt securities		**35,820**
Mortgage-backed securities not due at a specific date		**7,811**
Equity securities		**581**
Total	$	**44,212**

ChoiceOne Financial Services, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Various securities were pledged as collateral for securities sold under agreements to repurchase and as collateral for advances from the Federal Home Loan Bank. The carrying amount of securities pledged as collateral at December 31 was as follows:

(Dollars in thousands)

	2005	2004
Securities pledged for securities sold under agreements to repurchase	**$ 7,139**	$ 6,739
Securities pledged for advances from Federal Home Loan Bank	**13,246**	8,555
Total securities pledged as collateral	**$ 20,385**	$ 15,294

Securities with unrealized losses at year-end 2005 and 2004, aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position, are as follows:

(Dollars in thousands) **2005**

	Less than 12 months		**More than 12 months**		**Total**	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. Government and federal agency	**$ 510**	**$ (8)**	**$ 2,928**	**$ (92)**	**$ 3,438**	**$ (100)**
State and municipal	**8,990**	**(124)**	**8,902**	**(219)**	**17,892**	**(343)**
Mortgage-backed	**5,153**	**(91)**	**1,998**	**(87)**	**7,151**	**(178)**
Corporate	**-**	**-**	**2,382**	**(55)**	**2,382**	**(55)**
Total temporarily impaired	**$ 14,653**	**$ (223)**	**$ 16,210**	**$ (453)**	**$ 30,863**	**$ (676)**

(Dollars in thousands) 2004

	Less than 12 months		More than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government and federal agency	$ 5,320	$ (60)	$ 1,023	$ (19)	$ 6,343	$ (79)
State and municipal	10,700	(110)	476	(29)	11,176	(139)
Mortgage-backed	2,689	(33)	1,081	(16)	3,770	(49)
Corporate	3,005	(29)	-	-	3,005	(29)
Total temporarily impaired	$ 21,714	$ (232)	$ 2,580	$ (64)	$ 24,294	$ (296)

The Company evaluates securities for other-than-temporary impairment at least on a semi-annual basis, and more frequently when economic or market concerns warrant such evaluation. As of December 31, 2005 and 2004, management has determined that no other-than-temporary declines in market value have occurred. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Company to retain its investment in the issue for a period of time sufficient to allow for any anticipated recovery in fair value.

ChoiceOne Financial Services, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3 - Loans

The Bank's loan portfolio as of December 31 was as follows:

(Dollars in thousands)

	2005	2004
Commercial and agricultural	**$ 47,642**	$ 41,620
Real estate - commercial	**51,453**	47,901
Real estate - construction	**7,466**	6,661
Real estate - residential	**67,187**	63,846
Consumer	**11,820**	13,250
Loans, gross	**185,568**	173,278
Allowance for loan losses	**(1,963)**	(1,739)
Loans, net	**$ 183,605**	$ 171,539

Note 4 - Mortgage Banking

Activity during the year was as follows:

(Dollars in thousands)

	2005	2004	2003
Loans originated for resale, net of principal payments	**$ 18,757**	$ 12,580	$ 35,589
Proceeds from loan sales	**18,929**	12,471	37,302
Net gains on sales of loans held for sale	**264**	305	807
Loan servicing fees, net of amortization	**56**	49	(4)

Residential mortgage loans serviced for others are not reported as assets in the accompanying consolidated balance sheets. The principal balances (dollars in thousands) of these loans at December 31 were as follows:

Residential mortgage loans serviced for:	**2005**	2004
Federal Home Loan Mortgage Corporation	**$ 68,519**	$ 70,016

The Bank maintains custodial escrow balances in connection with these serviced loans; however, such escrows were immaterial at December 31, 2005 and 2004.

Activity for loan servicing rights was as follows:

(Dollars in thousands)

	2005	2004	2003

Balance, beginning of year	**$ 472**	$ 442	$ 363
Capitalized	**109**	160	308
Amortization	**(136)**	(130)	(247)
Changes to valuation allowance	-	-	(18)
Balance, end of year	**$ 445**	$ 472	$ 442

The fair value of loan servicing rights was $608,000 and $530,000 as of December 31, 2005 and 2004, respectively. Consequently, a valuation allowance was not necessary at year-end 2005 or 2004.

ChoiceOne Financial Services, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 5 - Allowance for Loan Losses

Activity in the allowance for loan losses was as follows:

(Dollars in thousands)

	2005	2004	2003
Balance, beginning of year	**$ 1,739**	$ 1,974	$ 2,211
Provision charged to expense	**495**	465	400
Recoveries credited to the allowance	**128**	240	343
Loans charged off	**(399)**	(940)	(980)
Balance, end of year	**$ 1,963**	$ 1,739	$ 1,974

Information regarding nonperforming loans for the years ended December 31 follows:

(Dollars in thousands)

	2005	2004
Nonaccrual loans	**$ 934**	$ 795
Loans past due over 90 days still on accrual	**32**	11
Restructured loans	**-**	16
Total	**$ 966**	**$** 822

Nonperforming loans includes both smaller balance homogenous loans that are collectively evaluated for impairment and loans individually classified as impaired loans. Information regarding impaired loans as of and for the year ended December 31 follows:

(Dollars in thousands)

	2005	2004	2003
Loans with no allowance allocated at year end	**$ 306**	$ 419	$ 753
Loans with allowance allocated at year end	**1,157**	247	1,051
Amount of allowance for loan losses allocated at year end	**465**	105	576
Average balance during the year	**968**	1,072	2,188
Interest income recognized thereon	**48**	39	83
Cash-basis interest income recognized	**60**	25	80

Note 6 - Premises and Equipment

As of December 31, premises and equipment consisted of the following:

(Dollars in thousands)

	2005	2004
Land and land improvements	**$ 1,672**	$ 1,388
Leasehold improvements	**42**	320
Buildings	**5,177**	4,348
Furniture and equipment	**2,179**	2,240
Total cost	**9,070**	8,296
Accumulated depreciation	**(3,474)**	(3,390)
Premises and equipment, net	**$ 5,596**	$ 4,906

Depreciation expense was $535,000, $495,000, and $538,000 for 2005, 2004 and 2003, respectively. In September 2004, the Bank sold its Sparta Appletree Office in Sparta, Michigan for a gain of $162,000, of which $105,000 was deferred over a three-year term since part of the office was simultaneously leased back from the purchaser. Also, in September 2004, the Bank opened a new office in Rockford, Michigan. In July 2005, the Bank opened a new office in Comstock Park, Michigan. The Bank's lease on the former Alpine Office location in Comstock Park expired in July 2005.

ChoiceOne Financial Services, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Bank leases certain branch properties and automated-teller machine locations in its normal course of business. Rent expense totaled $57,000, $40,000, and $40,000 for 2005, 2004 and 2003, respectively. Rent commitments under non-cancelable operating leases were as follows, before considering renewal options that generally are present:

(Dollars in thousands)

2005	$	**44**
2006		**43**
2007		**30**
Total	$	**117**

Note 7 - Other Real Estate Owned

Other real estate owned represents residential and commercial properties owned and is reported net of a valuation allowance. Activity within other real estate owned was as follows:

(Dollars in thousands)

		2005		2004
Balance, beginning of year	$	**981**	$	1,433
Transfers from loans		**688**		967
Capitalized improvements or purchased assets		**20**		401
Sales		**(404)**		(1,682)
Write-downs		**(30)**		(138)
Balance, end of year	$	**1,255**	$	981

The valuation allowance on other real estate owned totaled $84,000 and $54,000 at year-end 2005 and 2004, respectively.

Note 8 - Deposits

Scheduled maturities of certificates of deposit at December 31 were as follows:

(Dollars in thousands)

2006	$	**65,583**
2007		**21,270**
2008		**2,738**
2009		**3,861**
2010		**4,471**
Total	$	**97,923**

The Bank had certificates of deposit issued in denominations of $100,000 or greater totaling $54.5 million and $42.3 million at December 31, 2005 and 2004, respectively. The Bank had brokered certificates of deposit totaling $36.5 million at December 31, 2005 compared to $33.7 million at December 31, 2004. As of December 31, 2005, the weighted average interest rate on these brokered certificates of deposit was 3.52% with maturities ranging from January 2006 to November 2008.

ChoiceOne Financial Services, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 9 - Repurchase Agreements

Repurchase agreements are advances by customers that are not covered by federal deposit insurance. These agreements are direct obligations of the Bank and are secured by securities held in safekeeping at a correspondent bank. Information regarding repurchase agreements follows:

(Dollars in thousands)

	2005	2004
Outstanding balance at December 31	**$ 7,139**	$ 6,338
Average interest rate at December 31	**2.11%**	1.62%
Average balance during the year	**$ 6,215**	$ 5,051
Average interest rate during the year	**2.05%**	1.45%
Maximum month end balance during the year	**$ 7,139**	$ 6,767

Note 10 - Federal Home Loan Bank Advances

At December 31, advances from the Federal Home Loan Bank were as follows:

(Dollars in thousands)

	2005	2004
Maturities ranging from January 2006 to December 2008, fixed interest rates ranging from 2.15% to 4.90%, with an average rate of 3.37%	**$ 20,750**	$ 25,250
Maturity of February 2006, floating interest rate, with an average rate of 4.20%	**6,000**	-
Maturities of June 2006, floating interest rates, with an average rate of 4.18%	**4,000**	-
Maturities ranging from March 2005 to May 2005, floating interest rates, with an average rate of 1.95%	-	9,000
Total advances outstanding at year-end	**$ 30,750**	$ 34,250

Penalties are charged on fixed rate advances that are paid prior to maturity. The Bank prepaid $3 million of fixed rate advances incurring a prepayment penalty of $156,000 in 2003. No fixed rate advances were paid prior to maturity in 2005 or 2004.

Advances are secured by both residential real estate loans and U.S. Government agency securities with a carrying value of approximately $55.6 million and $52.5 million at December 31, 2005 and 2004, respectively. Based on this collateral, the Bank was eligible to borrow an additional $13.2 million at year-end 2005.

The scheduled maturities of advances from the Federal Home Loan Bank at December 31, 2005 are as follows:

(Dollars in thousands)

2006	$	**21,750**
2007		**5,000**
2008		**4,000**
Total	$	**30,750**

ChoiceOne Financial Services, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 11 - Income Taxes

Information as of December 31 and for the year follows:

(Dollars in thousands)

	2005	2004	2003
Provision for Income Taxes			
Current federal income tax expense	**$ 783**	$ 456	$ 693
Deferred federal income tax expense (benefit)	**(3)**	239	22
Income tax expense	**$ 780**	$ 695	$ 715
Reconciliation of Income Tax Provision to Statutory Rate			
Income tax computed at statutory federal rate of 34%	**$ 1,002**	$ 867	$ 957
Tax exempt interest income	**(245)**	(203)	(160)
Tax exempt earnings on bank-owned life insurance	**(30)**	-	-
Adjustment of federal tax contingent liability	-	-	(113)
Nondeductible interest expense	**32**	17	14
Other items	**21**	14	17
Income tax expense	**$ 780**	$ 695	$ 715
Effective income tax rate	**26%**	27%	25%

	2005	2004
Components of Deferred Tax Assets and Liabilities		
Deferred tax assets:		
Allowance for loan losses	**$ 421**	$ 356
Unrealized losses on securities available for sale	**154**	-
Postretirement benefits obligation	**80**	71
Deferred loan costs	**20**	36
Write downs on other real estate owned	**51**	41
Other	**34**	59
Total deferred tax assets	**760**	563
Deferred tax liabilities:		
Depreciation	**264**	137
Loan servicing rights	**149**	160
Unrealized gains on securities available for sale	**-**	58
Stock dividends from Federal Home Loan Bank stock	**88**	70

Investment in West Shore Computer Services	**46**	48
Prepaid expenses	**50**	34
Other	**20**	18
Total deferred tax liabilities	**617**	525
Net deferred tax assets	**$ 143**	$ 38

A valuation allowance related to deferred taxes is recognized when it is considered more likely than not that part or all of the deferred tax benefits will not be realized. Management has determined that no such allowance was required at December 31, 2005 and 2004.

ChoiceOne Financial Services, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 12 - Related Party Transactions

Loans to executive officers, directors and their affiliates were as follows at December 31:

(Dollars in thousands)

	2005	2004
Balance, beginning of year	**$ 2,625**	$ 3,018
New loans	**992**	719
Repayments	**(360)**	(816)
Effect of changes in related parties	**-**	(296)
Balance, end of year	**$ 3,257**	$ 2,625

Deposits from executive officers, directors, and their affiliates were $4.5 million and $5.0 million at December 31, 2005 and 2004, respectively.

In 2004, the Bank sold its Sparta Appletree Office to an affiliate of a member of ChoiceOne's Board of Directors. The building and other related fixed assets were sold for a net gain of $162,000. Half of the building is being leased back from the same affiliate of the Board member for a three-year term. An independent appraiser determined the market value of the building.

Note 13 - Employee Benefit Plans

401(k) Plan:
The 401(k) plan allows employee contributions of up to 15% of their compensation. Matching company contributions to the plan are discretionary. Expense of this plan was $95,000, $65,000 and $45,000 in 2005, 2004 and 2003, respectively.

Employee Stock Ownership Plan:
Employees participate in an Employee Stock Ownership Plan (the "**ESOP**"). In 2000, the ESOP borrowed $91,000 from the Bank and used the funds to acquire 5,355 shares of ChoiceOne common stock at $16.93 per share. These amounts have been adjusted for stock splits and dividends. ChoiceOne makes discretionary contributions to the ESOP, as well as paying dividends on unallocated shares to the ESOP, and the ESOP uses funds it receives to repay the loan. As loan payments are made, ESOP shares are allocated to participants based on relative compensation and expense is recorded. Dividends on allocated shares increase the participant accounts.

Participants become fully vested upon completion of six years of qualifying service. Participants receive the shares at the end of employment. A participant may require stock received to be repurchased unless the stock is traded on an established market. ChoiceOne contributed $12,000, $23,000 and $23,000 to the ESOP during 2005, 2004 and 2003, respectively. Expense for 2005, 2004, and 2003, was $6,000, $18,000, and $14,000, respectively.

Shares held by the ESOP were as follows:

(Dollars in thousands)

	2005	2004	2003
Shares allocated to participants	**5,355**	4,820	3,749
Shares unallocated	**-**	535	1,606
Total shares of ChoiceOne stock held by ESOP	**5,355**	5,355	5,355
Fair value of unallocated shares as of December 31	**$ -**	$ 12	$ 26
Fair value of allocated shares subject to repurchase obligation	**$ 99**	$ 106	$ 59

ChoiceOne Financial Services, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Postretirement Benefits Plan:
ChoiceOne maintains an unfunded, noncontributory postretirement health care plan that covers active and retired employees and their dependents upon retirement from ChoiceOne. Information about the postretirement benefits plan follows:

(Dollars in thousands)

	2005	2004
Change in accumulated benefit obligation:		
Accumulated benefit obligation, beginning of year	**$ 155**	$ 146
Service cost	**24**	26
Interest cost	**9**	9
Actuarial gain	**(11)**	(22)
Benefits paid	**(4)**	(4)
Accumulated benefit obligation, end of year	**173**	155
Funded status (plan assets less benefit obligation)	**(173)**	(155)
Unrecognized net actuarial gain	**(62)**	(55)
Unrecognized prior service cost	**-**	-
Accrued benefit cost at December 31	**$ (235)**	$ (210)

Assumptions used to determine net periodic cost and benefit obligations:		
Discount rate	**5.5%**	6.0%
Health care cost trend rate assumed for subsequent year	**8%**	8%
Rate that the cost trend rate gradually declines to	**6%**	6%
Year that the rate reaches the rate it is assumed to remain at	**2008**	2007

The following benefit payments, which reflect future service, are expected in the years indicated below:

(Dollars in thousands)

2006	**$ 2**
2007	**4**
2008	**7**
2009	**9**
2010	**14**
2011 through 2015	**124**

Deferred Compensation Plan:
A deferred compensation plan covers one former executive officer. Under the plan, ChoiceOne pays this individual the amount of compensation deferred plus interest over 10 years beginning with the individual's termination of service. A liability has been accrued for the obligation under this plan. ChoiceOne incurred deferred compensation plan expense of $1,000, $1,000, and $2,000 in 2005, 2004, and 2003, respectively, which resulted in a deferred

compensation liability of $12,000 and $37,000 as of December 31, 2005 and 2004, respectively. ChoiceOne has purchased life insurance on the participant. The cash surrender value of such insurance was $162,000 and $159,000 at December 31, 2005 and 2004, respectively.

Note 14 - Stock Options

Options to buy stock are granted to key employees under an incentive stock option plan to provide them with an additional equity interest in ChoiceOne. The plan provides for issuance of up to 113,155 options. The exercise price is the market price at the date of grant, so there is no compensation expense recognized in the income statement. The maximum option term is 10 years and options vest over 3 years. At December 31, 2005, there were 89,441 options available for future grants.

ChoiceOne Financial Services, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A summary of the activity in the plan is as follows:

	2005		2004		2003	
	Shares	**Weighted average exercise price**	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Options outstanding, beginning of year	**16,259**	**$ 14.65**	25,713	$ 12.87	21,329	$ 12.68
Options granted	**7,875**	**21.43**	7,140	16.31	5,145	13.70
Options exercised	**-**	**-**	(323)	13.79	-	-
Options forfeited or expired	**(420)**	**18.87**	(16,271)	12.61	(761)	13.22
Options outstanding, end of year	**23,714**	**$ 16.82**	16,259	$ 14.65	25,713	$ 12.87
Options exercisable at December 31	**13,424**	**$ 15.26**	7,548	$ 14.66	19,599	$ 13.31
Weighted average fair value of options granted during year	**$ 5.10**		$ 2.90		$ 1.75	

The range of prices for options outstanding and exercisable at the end of 2005 ranged from $13.04 to $21.43 per share. The weighted average remaining contractual life of options outstanding and exercisable at the end of 2005 was approximately 7.8 years. The numbers of options, weighted average exercise prices, and fair value of options granted have been adjusted for all stock dividends and splits.

Note 15 - Earnings Per Share

(Dollars in thousands, except per share)

	2005	2004	2003
Basic			
Net income	**$ 2,166**	$ 1,854	$ 2,101
Weighted average common shares outstanding	**1,647,264**	1,643,692	1,632,329
Basic earnings per common share	**$ 1.31**	**$** 1.13	**$** 1.29

	2005	2004	2003
Diluted			

Net income	**$ 2,166**	$ 1,854	$ 2,101
Weighted average common shares outstanding	**1,647,264**	1,643,692	1,632,329
Plus: dilutive effect of assumed exercises of stock options	**4,194**	3,995	2,768
Average shares and dilutive potential common shares	**1,651,458**	1,647,687	1,635,097
Diluted earnings per common share	$ **1.31**	$ 1.13	$ 1.29

Weighted average common shares have been adjusted for the stock dividend in 2005. As of December 31, 2005, there were 7,875 stock options considered to be anti-dilutive to earnings per share and thus have been excluded from the calculation above. There were no stock options considered to be anti-dilutive to earnings per share as of December 31, 2004 or 2003, respectively.

ChoiceOne Financial Services, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 16 - Other Comprehensive Income (Loss)

Other comprehensive income (loss) components and related taxes follows:

(Dollars in thousands)

	2005	2004	2003
Unrealized holding gains (losses) on available for sale securities	**$ (652)**	$ (574)	$ 29
Less: reclassification adjustments for gains (losses) included in net income	**(28)**	38	61
Net unrealized gains (losses)	**(624)**	(612)	(32)
Tax effect	**213**	208	11
Total other comprehensive income (loss)	**$ (411)**	$ (404)	$ (21)

Note 17 - Condensed Financial Statements of Parent Company

Condensed Balance Sheets

(Dollars in thousands)	December 31,	
	2005	2004
Assets		
Cash	**$ 128**	$ 145
Securities available for sale	**512**	526
Other assets	**54**	60
Investment in ChoiceOne Bank	**21,125**	20,451
Total assets	**$ 21,819**	$ 21,182
Liabilities		
Mandatory redeemable shares under ESOP, at fair value	**$ 99**	$ 106
Other liabilities	**3**	7
Total liabilities	**102**	113
Shareholders' equity	**21,717**	21,069
Total liabilities and shareholders' equity	**$ 21,819**	$ 21,182

Condensed Statements of Income

(Dollars in thousands)	Years Ended December 31,		
	2005	2004	2003

Dividends from ChoiceOne Bank	**$ 1,160**	$ 1,599	$ 973
Gains on sales of securities	**-**	-	23
Interest and dividends from other securities	**20**	9	-
Total income	**1,180**	1,608	996
Other expenses	**113**	124	96
Income before income tax and equity in undistributed net income of subsidiary	**1,067**	1,484	900
Income tax benefit	**32**	32	26
Income before equity in undistributed net income of subsidiary	**1,099**	1,516	926
Equity in undistributed net income of subsidiary	**1,067**	338	1,175
Net income	**$ 2,166**	$ 1,854	$ 2,101

ChoiceOne Financial Services, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Condensed Statements of Cash Flows

(Dollars in thousands)	Years Ended December 31,		
	2005	2004	2003
Cash flows from operating activities:			
Net income	**$ 2,166**	$ 1,854	$ 2,101
Adjustments to reconcile net income to net cash from operating activities:			
Equity in undistributed net income of subsidiary	**(1,067)**	(338)	(1,175)
Gains on sales of securities	**-**	-	(23)
Changes in other assets	**6**	21	7
Changes in other liabilities	**2**	3	(85)
Net cash from operating activities	**1,107**	1,540	825
Cash flows from investing activities:			
Purchases of securities	**-**	(513)	-
Proceeds from sales of securities	**-**	-	31
Net cash from (used in) investing activities	**-**	(513)	31
Cash flows from financing activities:			
Issuance of common stock	**307**	260	218
Repurchase of common stock	**(322)**	(118)	(22)
Cash dividends paid	**(1,109)**	(1,065)	(1,059)
Net cash used in financing activities	**(1,124)**	(923)	(863)
Net change in cash and cash equivalents	**(17)**	104	(7)
Beginning cash and cash equivalents	**145**	41	48
Ending cash and cash equivalents	**$ 128**	$ 145	$ 41

Note 18 - Financial Instruments

Financial instruments as of December 31 were as follows:

(Dollars in thousands)	**2005**		2004	
	Carrying Amount	**Estimated Fair Value**	Carrying Amount	Estimated Fair Value

Assets:				
Cash and due from banks	**$ 4,990**	**$ 4,990**	$ 3,619	$ 3,619
Securities available for sale	**44,212**	**44,212**	44,913	44,913
Federal Home Loan Bank and Federal Reserve Bank stock	**2,999**	**2,999**	2,945	2,945
Loans held for sale	**264**	**264**	281	281
Loans, net	**183,605**	**184,872**	171,539	172,539
Liabilities:				
Demand, savings and money market deposits	**(84,189)**	**(84,189)**	(86,083)	(86,083)
Time deposits	**(97,923)**	**(97,044)**	(80,983)	(81,159)
Repurchase agreements	**(7,139)**	**(7,139)**	(6,338)	(6,338)
Federal funds purchased	**(4,399)**	**(4,399)**	(1,281)	(1,281)
Advances from Federal Home Loan Bank	**(30,750)**	**(30,573)**	(34,250)	(34,147)

ChoiceOne Financial Services, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The estimated fair values approximate the carrying amounts for all assets and liabilities except those described later in this paragraph. The estimated fair value for securities available for sale is based on quoted market values for the individual securities or for equivalent securities. The estimated fair value for loans is based on the rates charged at December 31 for new loans with similar maturities, applied until the loan is assumed to reprice or be paid. The allowance for loan losses is considered to be a reasonable estimate of discount for credit quality concerns. The estimated fair values for time deposits and FHLB advances are based on the rates paid at December 31 for new deposits or FHLB advances, applied until maturity. The estimated fair values for other financial instruments and off-balance sheet loan commitments are considered nominal.

Note 19 - Off-Balance Sheet Activities

Some financial instruments, such as loan commitments, credit lines, letters of credit, and overdraft protection, are issued to meet customers' financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

The contractual amount of financial instruments with off-balance sheet risk was as follows at December 31:

(Dollars in thousands)	**2005**		2004	
	Fixed Rate	**Variable Rate**	Fixed Rate	Variable Rate
Unused lines of credit and letters of credit	**$ 5,532**	**$ 22,264**	$ 3,711	$ 25,978
Commitments to fund loans (at market rates)	**3,417**	**1,651**	3,185	4,379

Commitments to fund loans are generally made for periods of 180 days or less. The fixed rate loan commitments have interest rates ranging from 5.75% to 8.25% and maturities ranging from 6 years to 30 years.

Note 20 - Regulatory Capital

ChoiceOne Financial Services, Inc. and ChoiceOne Bank are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices.

The prompt corrective action regulations provide five classifications, including well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If only adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as are asset growth and expansion, and plans for capital restoration are required. At year-end 2005 and 2004, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institutions' categories.

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ChoiceOne Financial Services, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Actual capital levels and minimum required levels were as follows:

(Dollars in thousands)	Actual		Minimum Required for Capital Adequacy Purposes		Minimum Required to be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2005						
Total capital (to risk weighted assets)						
Consolidated	**$ 23,999**	**13.1%**	**$ 14,684**	**8.0%**	**$ N/A**	**N/A%**
Bank	**23,408**	**12.8**	**14,671**	**8.0**	**18,339**	**10.0**
Tier 1 capital (to risk weighted assets)						
Consolidated	**22,016**	**12.0**	**7,342**	**4.0**	**N/A**	**N/A**
Bank	**21,424**	**11.7**	**7,336**	**4.0**	**11,004**	**6.0**
Tier 1 capital (to average assets)						
Consolidated	**22,016**	**9.0**	**9,748**	**4.0**	**N/A**	**N/A**
Bank	**21,424**	**8.8**	**9,748**	**4.0**	**12,184**	**5.0**

(Dollars in thousands)	Actual		Minimum Required for Capital Adequacy Purposes		Minimum Required to be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2004						
Total capital (to risk weighted assets)						
Consolidated	$ 22,644	13.4%	$ 13,564	8.0%	$ N/A	N/A%
Bank	22,026	13.0	13,551	8.0	16,939	10.0
Tier 1 capital (to risk weighted assets)						
Consolidated	20,905	12.3	6,782	4.0	N/A	N/A
Bank	20,287	12.0	6,776	4.0	10,163	6.0
Tier 1 capital (to average assets)						
Consolidated	20,905	9.1	9,231	4.0	N/A	N/A
Bank	20,287	8.8	9,231	4.0	11,539	5.0

Banking regulations limit capital distributions by state-chartered banks. Generally, capital distributions are limited to undistributed net income for the current and prior two years. At December 31, 2005, approximately $2.6 million was available for ChoiceOne Bank to pay dividends to ChoiceOne Financial Services, Inc. ChoiceOne's ability to pay dividends to shareholders is dependent on the Bank, which is restricted by state law and regulations. These regulations pose no practical restrictions to paying dividends at historical levels.

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ChoiceOne Financial Services, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 21 - Quarterly Financial Data (Unaudited)

(Dollars in thousands)				Earnings Per Share *	
	Interest Income	Net Interest Income	Net Income	Basic	Fully Diluted
2005					
First Quarter	**$ 3,085**	**$ 1,978**	**$ 515**	**$ 0.31**	**$ 0.31**
Second Quarter	**3,258**	**2,001**	**546**	**0.33**	**0.33**
Third Quarter	**3,448**	**2,071**	**570**	**0.35**	**0.35**
Fourth Quarter	**3,533**	**1,995**	**535**	**0.32**	**0.32**
2004					
First Quarter	$ 2,874	$ 1,910	$ 512	$ 0.31	$ 0.31
Second Quarter	2,845	1,862	404	0.25	0.25
Third Quarter	2,920	1,879	417	0.25	0.25
Fourth Quarter	3,100	2,021	521	0.32	0.32

* Per share amounts are retroactively adjusted for the effect of the stock dividend in May 2005.

INFORMATION ABOUT VALLEY RIDGE FINANCIAL CORP.

Business

General

Valley Ridge is a Michigan bank holding corporation with its headquarters in Kent City, Michigan. Valley Ridge was formed on May 20, 1988. Valley Ridge is the parent company of Valley Ridge Bank, a Michigan banking corporation. Valley Ridge Bank is Valley Ridge's only subsidiary. Valley Ridge Bank also owns a 20% interest in a non-banking corporation, West Shore Computer Services, Inc., a data processing firm, and owns 100% of the outstanding shares of Valley Ridge Mortgage Company, a mortgage company that also holds a 10.26% interest in a title company, Valley Ridge Realty, Inc., a shell corporation formerly operated as a real estate brokerage company, Valley Ridge Financial Services, Inc., an insurance agency and 1423 West Main LLC, a limited liability company that owns a parcel of real estate.

Valley Ridge and Valley Ridge Bank are engaged in the business of commercial banking and other related activities. Valley Ridge Bank is a full service bank offering customary commercial banking services, which include commercial, agricultural, residential mortgage, real estate mortgage, small business and a variety of installment consumer loans, business and personal checking accounts, savings and individual retirement accounts, time deposit instruments, automated transaction machine services, money transfer services, and safe deposit facilities. No material part of the business of Valley Ridge and Valley Ridge Bank is dependent upon a single customer or very few customers, the loss of which would have a materially adverse effect on Valley Ridge.

Valley Ridge Bank's loan portfolio balances at June 30, 2006, consisted of commercial loans at 58.5%, real estate mortgage loans at 34.3%, and consumer loans at 7.2%. The risks associated with the loan portfolio are typical for the industry and these risks include nonpayment of loan principal and interest, interest rate fluctuations and loss of and decline in value of collateral. In addition, agricultural loans are subject to the additional risk of the effects of adverse weather and economic conditions.

The principal markets for Valley Ridge's financial services are presently the Michigan communities in which Valley Ridge Bank's offices are located and the areas immediately surrounding those communities. Valley Ridge and Valley Ridge Bank serve these markets through nine offices located in Kent City, Coopersville, Fremont, Grant, Muskegon, Newaygo, Ravenna, Sparta and White Cloud, Michigan. This diversification allows Valley Ridge Bank to spread some of its market risk over a wider area and not be subject to downturns in any specific community. Within this market area, Valley Ridge Bank competes with various banks, savings and loan associations and credit unions. Valley Ridge Bank is the only bank with offices in Kent City and Grant, Michigan. Other banks and financial institutions have offices in some of the towns where Valley Ridge Bank's branches are located. Valley Ridge and Valley Ridge Bank have no material foreign assets or income.

For a general description of competition among banks and bank holding companies in Michigan and the supervision and regulation to which banks and bank holding companies are subject, see "**The Business of Banking**."

Valley Ridge and Valley Ridge Bank employed approximately 95 persons (81 persons on a full-time equivalent basis) at June 30, 2006.

In addition to the statistical information set forth below, additional statistical information describing the business of Valley Ridge appears in "**Management's Discussion and Analysis or Plan of Operation**" in this Prospectus and Proxy Statement an din the Valley Ridge consolidated financial statements.

Securities Portfolio

The book value of securities categorized by type at December 31 was as follows:

(Dollars in thousands)

	2005	2004	2003
U.S. Government and federal agency	$ 8,103	$ 5,724	$ 7,031
State and municipal	9,850	8,874	9,542
Mortgage-backed	20,459	24,691	29,868
Total	$ 38,412	$ 39,289	$ 46,441

Valley Ridge did not hold investment securities from any one issuer at December 31, 2005, that were greater than 10% of Valley Ridge's shareholders' equity, exclusive of U.S. Government and U.S. Government agency securities.

Presented below is the fair value of securities as of December 31, 2005 and 2004, a schedule of maturities of securities as of December 31, 2005, and the weighted average yields of securities as of December 31, 2005.

(Dollars in thousands)

	Securities maturing within:					
	Less than 1 Year	1 Year - 5 Years	5 Years - 10 Years	More than 10 Years	Fair Value at Dec. 31, 2005	Fair Value at Dec. 31, 2004
U.S. Government and federal agency	$ -	$ 4,184	$ 3,919	$ -	$ 8,103	$ 5,724
State and municipal	1,832	4,762	2,284	972	9,850	8,874
Mortgage-backed securities	192	17,208	619	2,440	20,459	24,691
Total securities	$ 2,024	$ 26,154	$ 6,822	$ 3,412	$ 38,412	$ 39,289

	Weighted average yields				
U.S. Government and federal agency	-%	4.20%	4.50%	-%	4.34%
State and municipal (1)	6.77	7.00	7.15	7.39	7.04
Mortgage-backed securities	6.33	3.80	3.21	4.32	3.90

(1) The yield is computed on a fully tax-equivalent basis at an incremental tax rate of 34%.

Loan Portfolio

Valley Ridge Bank's loan portfolio categorized by loan type (excluding loans held for sale) as of December 31 is presented below.

(Dollars in thousands)

	2005	2004	2003	2002	2001
Commercial and agricultural	$ 27,367	$ 24,202	$ 20,651	$ 25,589	$ 26,260
Real estate - commercial	61,490	56,135	55,393	45,021	36,933
Real estate - construction	5,214	2,662	2,981	2,810	2,826
Real estate - residential	46,514	41,908	33,317	36,531	41,221
Consumer	10,087	9,610	9,696	12,754	15,341
Total loans, gross	$ 150,673	$ 134,517	$ 122,038	$ 122,705	$ 122,581

Maturities and Sensitivities of Loans to Changes in Interest Rates

The following schedule presents the maturities of loans (excluding residential real estate and consumer loans) as of December 31, 2005. All loans over one year in maturity (excluding residential real estate and consumer loans) are also presented classified according to the sensitivity to changes in interest rates as of December 31, 2005.

(Dollars in thousands)

Loan Type	Less than 1 Year	1 Year - 5 Years	More than 5 Years	Total
Commercial, agricultural, and real estate - commercial	$ 32,694	$ 50,830	$ 5,333	$ 88,857
Real estate - construction	5,214	-	-	5,214
Totals	$ 37,908	$ 50,830	$ 5,333	$ 94,071

Loan Sensitivity to Changes in Interest Rates	Less than 1 Year	1 Year - 5 Years	More than 5 Years	Total
Loans with fixed interest rates	$ 20,310	$ 50,830	$ 5,333	$ 76,473
Loans with floating or adjustable interest rates	17,598	-	-	17,598
Totals	$ 37,908	$ 50,830	$ 5,333	$ 94,071

(1) Loan maturities are classified according to the contractual maturity date or the anticipated amortization period, whichever is appropriate. The anticipated amortization period is used in the case of loans where a balloon payment is due before the end of the loan's normal amortization period. At the time the balloon payment is due, the loan can either be rewritten or payment in full can be requested. The decision regarding whether the loan will be rewritten or a payment in full will be requested will be based upon the loan's payment history, the borrower's current financial condition, and other relevant factors.

Risk Elements

The following loans were classified as nonperforming as of December 31:

(Dollars in thousands)

	2005	2004	2003	2002	2001
Loans accounted for on a non-accrual basis	$ 475	$ 174	$ 166	$ 425	$ 440
Accruing loans which are contractually past due 90 days or more as to principal or interest payments	-	55	298	27	113
Totals	$ 475	$ 229	$ 464	$ 452	$ 553

A loan is placed on nonaccrual status at the point in time at which the collectibility of principal or interest is considered doubtful. There were no loans outstanding during this 5 year period that were considered to be restructured loans. The gross interest income that would have been recorded if the loans had been current and the amount of interest income from these loans included in net income was immaterial for all of the five year periods ended December 31, 2005, 2004, 2003, 2002 and 2001.

Potential Problem Loans

At December 31, 2005, there were $4.6 million of loans not disclosed above where some concern existed as to the borrowers' abilities to comply with original loan terms. A specific loss allocation of $1.17 million from Valley Ridge Bank's allowance for loan losses had been allocated for nonperforming and potential problem loans as of December 31, 2005. However, the entire allowance for loan losses is also available for these potential problem loans.

Loan Concentrations

As of December 31, 2005, there was no concentration of loans exceeding 10% of total loans that is not otherwise disclosed as a category of loans in the loan portfolio listing in Note 3 to the Valley Ridge annual consolidated financial statements included in this Prospectus and Proxy Statement.

Other Interest-Bearing Assets

Other than $5.6 million cash surrender value life insurance policies outstanding, there were no other interest-bearing assets requiring disclosure if such assets were loans as of December 31, 2005. Due to the nature of the asset, it is considered to have a maturity of less than one year.

Summary of Loan Loss Experience

The following schedule presents a summary of activity in the allowance for loan losses for the periods shown and the percentage of net charge-offs during each period to average gross loans outstanding during the period.

(Dollars in thousands)

	2005	2004	2003	2002	2001
Balance at January 1	$ 1,657	$ 1,749	$ 1,632	$ 1,239	$ 1,625
Charge-offs:					
Commercial and agricultural	49	-	63	31	963
Real estate - residential	35	89	33	39	27
Consumer	64	79	161	138	135
Total charge-offs	148	168	257	208	1,125
Recoveries:					
Commercial and agricultural	6	-	144	260	49
Real estate - residential	4	9	17	-	-
Consumer	35	67	33	6	10
Total recoveries	45	76	194	266	59
Net (charge-offs) recoveries	(103)	(92)	(63)	58	(1,066)
Additions charged to operations (1)	120	-	180	335	680
Balance at December 31	$ 1,674	$ 1,657	$ 1,749	$ 1,632	$ 1,239

Ratio of net charge-offs (recoveries) during the period to average loans outstanding during the period	0.07%	0.07%	0.05%	(0.05%)	0.88%

(1) Additions to the allowance for loan losses charged to operations during the periods shown were based on management's judgment after considering factors such as loan loss experience, evaluation of the loan portfolio, and prevailing and anticipated economic conditions. The evaluation of the loan portfolio is based upon various risk factors such as the financial condition of the borrower, the value of collateral and other considerations, which, in the opinion of management, deserve current recognition in estimating loan losses.

The following schedule presents an allocation of the allowance for loan losses to the various loan categories as of the years ended December 31.

(Dollars in thousands)

	2005	2004	2003	2002	2001
Commercial and agricultural	$ 1,375	$ 1,235	$ 1,295	$ 1,009	$ 766
Real estate - residential	107	115	77	133	101
Consumer	80	103	182	348	264
Unallocated	112	204	195	142	108
Total allowance	$ 1,674	$ 1,657	$ 1,749	$ 1,632	$ 1,239

The increase from 2004 to 2005 in the allocation to commercial and agricultural was primarily based upon portfolio growth of 11%. Specific loss allocations are based upon either a discounted collateral amount or the net present value of future expected cashflows from borrowers.

During 2005, Valley Ridge Bank continued to experience overall minimal net loans charged off ($103,000) in comparison to the loan portfolio. Management periodically reviews the assumptions, loss ratios and delinquency trends in estimating the appropriate level of its allowance for loan losses and believes the unallocated portion of the total allowance is sufficient at December 31, 2005.

The following schedule presents the stratification of the loan portfolio by category, based on the amount of loans outstanding as a percentage of total loans for the respective years ended December 31.

	2005	2004	2003	2002	2001
Commercial and agricultural	18%	18%	17%	21%	21%
Real estate - commercial	41	42	45	37	30
Real estate - construction	3	2	2	2	2
Real estate - residential	31	31	28	30	34
Consumer	7	7	8	10	13
Total	100%	100%	100%	100%	100%

Deposits

The following schedule presents the average deposit balances by category and the average rates paid thereon for the respective years.

(Dollars in thousands)

	2005		2004		2003	
Noninterest-bearing demand	$ 30,774	-	$ 28,762	-	$ 27,105	-
Interest-bearing demand	16,040	0.32%	17,902	0.32%	15,515	0.49%
Savings	44,561	1.00%	43,138	0.56%	38,230	0.76%
Certificates of deposit	64,237	3.71%	64,584	3.50%	66,251	3.65%

Total	$	155,612	1.85%	$	154,386	1.66%	$	147,101	1.89%

The following table illustrates the maturities of certificates of deposits issued in denominations of $100,000 or more as of December 31, 2005.

(Dollars in thousands)

Maturing in less than 3 months	$	781
Maturing in 3 to 6 months		1,807
Maturing in 6 to 12 months		3,925
Maturing in more than 12 months		9,431
Total	$	15,944

Short-Term Borrowings

Federal funds purchased by Valley Ridge are unsecured overnight borrowings from correspondent banks. Federal funds purchased are due the next business day. The table below provides additional information regarding these short-term borrowings:

(Dollars in thousands)

	2005	2004	2003
Outstanding balance at December 31	$ -	$ -	$ -
Average interest rate at December 31	-%	- %	-%
Average balance during the year	$ 878	$ 381	$ -
Average interest rate during the year	3.19%	1.31 %	-%
Maximum month end balance during the year	$ 5,800	$ 4,300	$ -

Repurchase agreements are advances by Valley Ridge Bank customers that are not covered by federal deposit insurance. These agreements are direct obligations of Valley Ridge and are secured by securities held in safekeeping at a correspondent bank. The table below provides additional information regarding these short-term borrowings:

(Dollars in thousands)

	2005	2004	2003
Outstanding balance at December 31	$ 10,379	$ 6,709	$ 2,320
Average interest rate at December 31	2.78%	1.64%	0.70%
Average balance during the year	$ 4,094	$ 3,206	$ 4,233
Average interest rate during the year	2.15%	0.96%	0.80%
Maximum month end balance during the year	$ 10,379	$ 6,709	$ 7,353

Advances from the FHLB with original repayment terms less than one year are considered short-term borrowings for Valley Ridge. These advances are secured by residential real estate mortgage loans and U.S. government agency mortgage backed securities. The advances have maturities ranging from 1 month to 11 months from date of issue. The table below provides additional information regarding these short-term borrowings:

(Dollars in thousands)

	2005	2004	2003
Outstanding balance at December 31	$ 5,000	$ -	$ -

Average interest rate at December 31	4.67%	-%	-%
Average balance during the year	$ 164	$ -	$ -
Average interest rate during the year	4.67%	-%	-%
Maximum month end balance during the year	$ 5,000	$ -	$ -

There were no other categories of short-term borrowings whose average balance outstanding exceeded 30% of shareholders' equity in 2005, 2004, or 2003.

Return on Equity and Assets

The following schedule presents Valley Ridge's ratios for the years ended December 31:

	2005	2004	2003
Return on assets (net income divided by average total assets)	1.07%	1.03%	1.08%
Return on equity (net income divided by average equity)	10.58%	10.40%	10.61%
Dividend payout ratio (dividends declared per share divided by net income per share)	44.58%	42.47%	36.43%
Equity to assets ratio (average equity divided by average total assets)	10.11%	9.92%	10.22%

Properties

Valley Ridge maintains its offices and conducts its business operations from the principal banking office of Valley Ridge Bank in Kent City, Michigan. Valley Ridge Bank's principal office is located at 450 West Muskegon, Kent City, Michigan. These premises encompass approximately 24,000 square feet, most of which is occupied by Valley Ridge Bank and Valley Ridge. Valley Ridge also owns a vacant lot located in an industrial park in Coopersville, Michigan.

Valley Ridge Bank or its wholly-owned subsidiaries own the premises occupied by branch offices at the following addresses, all of which are in Michigan: 10 West Main Street, Grant (4,051 square feet), the corner of M-37 and M-82, Newaygo (1,450 square feet), 661 West Randall Road, Coopersville (1,950 square feet); 3069 Slocum Road, Ravenna (3,300 square feet); 5475 Apple Avenue, Muskegon (3,300 square feet); 11 South State Street, Sparta (1,040 square feet); and 1423 West Main LLC, owns a bank office at 1423 West Main Street, Fremont (1,600 square feet). The Bank leases its office at 47 South Charles Street, White Cloud, Michigan (approximately 500 square feet). Valley Ridge believes all of its and Valley Ridge Bank's properties are in good condition and repair and are adequately covered by insurance.

As part of its business, the Valley Ridge Bank and its subsidiaries generate all types of mortgages. Valley Ridge Bank occasionally purchases mortgages as part of its business, but typically relies on its ability to generate mortgages for most purposes.

Legal Proceedings

From time to time, Valley Ridge Bank is party, as plaintiff or as defendant, to legal proceedings in the normal course of operations. No pending litigation is considered material at this time.

Market for Common Stock and Dividends

Market Information and Holders. There is no established public trading market for Valley Ridge Common Stock. Transactions in Valley Ridge Common Stock are occasionally effected by individuals on an informal basis. Some transactions are effected through the involvement of local brokerage firms. The prices at which such transactions are effected are only occasionally reported to Valley Ridge. At the date of this Prospectus and Proxy Statement, there were no outstanding options or warrants to purchase, or securities convertible into, shares of Valley Ridge Common Stock, except for outstanding stock options to purchase 1,669 shares. At the date of this Prospectus and Proxy Statement, Valley Ridge has not agreed to register under the Securities Act any securities for sale by security holders and Rule 144 issued pursuant to such act is not available for sales of Valley Ridge Common Stock by Valley Ridge shareholders. As of August 25, 2006, there were 282 record holders of shares of Valley Ridge Common Stock.

Dividends. Valley Ridge has paid regular cash dividends every quarter since July 31, 1987. The following table summarizes cash dividends declared per share of Valley Ridge Common Stock during 2006, 2005 and 2004 (adjusted for stock splits):

Quarter	2006	2005	2004
1st Quarter	$ 1.35	$ 1.30	$ 1.10
2nd Quarter	1.35	1.30	1.15
3rd Quarter		1.30	1.20
4th Quarter		1.30	1.20

Holders of Valley Ridge Common Stock are entitled to receive dividends when, as and if declared by Valley Ridge's board of directors out of funds legally available for that purpose. The earnings of Valley Ridge are the principal source of funds to pay cash dividends. Consequently, cash dividends are dependent upon the earnings, capital needs, regulatory constraints and other factors affecting Valley Ridge. Federal and state banking laws and regulations place certain restrictions on the amount of dividends and loans that a bank can pay to its parent company. These restrictions are not expected to prohibit Valley Ridge from continuing its normal dividend policy. Pursuant to the Plan of Merger, Valley Ridge has agreed that it will not declare or pay dividends prior to consummation of the Merger except in accordance with historical practices.

Management's Discussion and Analysis or Plan of Operation

The following discussion is designed to provide a review of the consolidated financial condition and results of operations of Valley Ridge Financial Corp. and its wholly-owned subsidiary, Valley Ridge Bank. Valley Ridge Bank owns all of the outstanding common stock of its three subsidiaries, Valley Ridge Realty, Valley Ridge Mortgage Company and Valley Ridge Financial Services, Inc. This discussion should be read in conjunction with the consolidated financial statements and related footnotes.

FORWARD-LOOKING STATEMENTS

This discussion and other sections of this document contain forward-looking statements that are based on management's beliefs, assumptions, current expectations, estimates and projections about the financial services industry, the economy, and Valley Ridge Financial Corp. itself. Words such as "anticipates," "believes," "estimates," "expects," "forecasts," "intends," "is likely," "plans," "predicts," "projects," "may," "could," variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions ("risk factors") that are difficult to predict with regard to timing, extent, likelihood, and degree of occurrence. Therefore, actual results and outcomes may materially differ from what may be expressed, implied or forecasted in such forward-looking statements.

Risk factors include, but are not limited to, changes in interest rates and interest rate relationships; demand for products and services; the degree of competition by traditional and non-traditional competitors; changes in banking laws and regulations; changes in tax laws; changes in prices, levies, and assessments; the impact of technological advances; governmental and regulatory policy changes; the outcomes of pending and future litigation and contingencies; trends in customer behavior as well as their ability to repay loans; changes in the local and national economies; and various other local and global uncertainties such as acts of terrorism and military actions. These are representative of the risk factors that could cause a difference between an ultimate actual outcome and a preceding forward-looking statement.

RESULTS OF OPERATIONS-SIX MONTHS ENDED JUNE 30, 2006

Summary

Net income increased $34,000 or 3.88% as of June 30, 2006 compared to the same period in 2005. The increase in net income was primarily due to the increase in net interest income relative to the growth in interest-earning assets.

Net interest income increased for the six months ended June 30, 2006 compared to the same period in 2005 due to a growth in Valley Ridge Bank's earning assets, primarily within the loan portfolio. Average earning assets have increased to $197.5 million as of June 30, 2006 as compared to $183.6 million as of June 30, 2005, for an overall increase of 7.52% during that time period. Noninterest income increased in the first six months of 2006 due primarily to increased service charges related to customer deposits. Noninterest expense rose due to higher payroll costs, professional fees, data processing fees, and advertising and promotional expenses in the first six months of 2006 compared to the same period one year prior.

The return on average assets was 0.85% for the six months of 2006, compared to 0.88% for the same period one year ago. The return on average shareholders' equity was 8.66% for the first half of 2006, compared to 8.73% for the first half of 2005.

Dividends

Cash dividends of $498,000 or $2.70 per common share were declared in the first six months of 2006, compared to $470,000 or $2.60 per common share in the first six months of 2005. The cash dividend payout percentage was 55% in 2006, compared to 54% in 2005.

Interest Income and Expense

Tables 1 and 2 on the following pages provide information regarding interest income and expense for the six-month periods ended June 30, 2006 and 2005, respectively. Table 1 documents Valley Ridge's average balances and interest income and expense, as well as the average rates earned or paid on assets and liabilities. Table 2 documents the effect on interest income and expense of changes in volume (average balance) and interest rates. These tables are referred to in the discussion of interest income, interest expense and net interest income.

Table 1 - Average Balances and Tax-Equivalent Interest Rates

(Dollars in thousands)	Six Months Ended June 30, 2006			2005		
	Average Balance	Interest	Rate	Average Balance	Interest	Rate
Assets:						
Loans (1) (4)	$ 151,122	$ 5,492	7.27%	$ 137,560	$ 4,679	6.80%
Taxable securities (2) (3)	29,342	625	4.26	33,811	619	3.66
Nontaxable securities (1)	9,654	345	7.15	9,433	336	7.12
Other	7,346	171	4.66	2,844	34	2.39
Interest-earning assets	197,464	6,633	6.72	183,648	5,668	6.17
Noninterest-earning assets	16,593			15,151		
Total assets	$ 214,057			$ 198,799		
Liabilities and Shareholders' Equity:						
Interest-bearing demand deposits	$ 15,075	30	0.40%	$ 16,736	26	0.31%
Savings deposits	44,225	275	1.24	44,057	151	0.69
Time deposits	76,193	1,575	4.13	62,932	1,124	3.57
Advances from Federal Home Loan Bank	16,500	435	5.27	17,478	425	4.86
Other	5,157	81	3.14	5,534	56	2.02
Interest-bearing liabilities	157,150	2,396	3.05	146,737	1,782	2.43
Noninterest-bearing demand deposits	32,990			29,801		
Other noninterest-bearing liabilities	2,910			2,198		
Shareholders' equity	21,007			20,063		
Total liabilities and shareholders' equity	$ 214,057			$ 198,799		
Net interest income (tax-equivalent basis) - interest spread		4,237	3.67%		3,886	3.74%
Tax-equivalent adjustment (1)		(133)			(125)	
Net interest income		$ 4,104			$ 3,761	
Net interest income as a percentage of earning assets (tax-equivalent basis)			4.29%			4.23%

(1) Interest on nontaxable loans and securities has been adjusted to a fully tax-equivalent basis to facilitate comparison to the taxable interest-earning assets. The adjustment uses an incremental tax rate of 34% for the years presented.
(2) Includes the effect of unrealized gains or losses on securities.

(3) Taxable securities include dividend income from Federal Home Loan Bank and Federal Reserve Bank stock.

(4) Interest on loans included net origination fees charged on loans of approximately $73,000, and $86,000, in 2006 and 2005, respectively.

Table 2 - Changes in Tax-Equivalent Net Interest Income

(Dollars in thousands)	Six Months Ended June 30, 2006 Over 2005		
	Total	Volume	Rate
Increase (decrease) in interest income (1)			
Loans (2)	$ 813	$ 480	$ 333
Taxable securities	6	(178)	184
Nontaxable securities (2)	9	8	1
Other	137	86	51
Net change in tax-equivalent income	965	396	569
Increase (decrease) in interest expense (1)			
Interest-bearing demand deposits	4	(7)	11
Savings deposits	124	1	123
Time deposits	451	258	193
Advances from Federal Home Loan Bank	10	(53)	63
Other	25	(11)	36
Net change in interest expense	614	188	426
Net change in tax-equivalent net interest income	$ 351	$ 208	$ 143

(1) The volume variance is computed as the change in volume (average balance) multiplied by the previous year's interest rate. The rate variance is computed as the change in interest rate multiplied by the previous year's volume (average balance). The change in interest due to both volume and rate has been allocated to the volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each.

(2) Interest on nontaxable investment securities and loans has been adjusted to a fully tax-equivalent basis using an incremental tax rate of 34% for the periods presented.

Net Interest Income

As shown in Tables 1 and 2, tax-equivalent interest income increased $351,000 in the first six months of 2006 compared to the same period in 2005. This is directly related to the growth of Valley Ridge Bank's average interest earning assets, which have increased 7.52%. This growth is primarily attributed to the growth in the loan portfolio. Management anticipates that average earning assets will increase in 2006 as compared to 2005, however, the loan portfolio is expected to remain constant for the remainder of 2006.

The average balance of loans increased $13.56 million during the six-month period ended June 30, 2006 compared to the first six months of 2005, an increase of 9.86%. The increase in loan demand as well as a 200 basis point increase in the prime rate during the period between June 30, 2005 and 2006, has increased the interest income on loans (on a tax equivalent basis) $813,000 for the first half of 2006, as compared to the same period in 2005. The increases in the interest rates of investment securities and the increase in the outstanding balances and rates of other assets, which includes federal funds sold, has increased interest income by $152,000 during the first six months of 2006.

The increase in overall deposit rates increased the demand for long-term deposit accounts, such as time deposits. Time deposits increased $13.26 million, or 21.07%, when comparing the average balance at June 30, 2006 to the same period in 2005. This increase in time deposits coupled with the increase in interest rates resulted in an increase in interest expense of $451,000 when comparing 2006 to the first six months of 2005. The average balance of savings deposit accounts increased slightly by $168,000, or 0.38% and with the increase in overall rates, interest expense on these deposits increased $124,000. In addition, interest bearing demand deposits decreased $1.66 million, but, with the overall increase in rates, interest expense on these deposits increased $4,000. Average noninterest-bearing deposit accounts increased $3.19 million or 10.70% when comparing the period ended June 30, 2006 to the same period ended 2005. The balance of advances from the Federal Home Loan Bank decreased $978,000 when comparing June 30, 2006 to the first six months of 2005; however, new advances were obtained to replace maturing advances and such advances were issued at rates higher than previous outstanding rates, which caused interest expense to increase by $10,000 in the first six months of 2006 versus the first six months of 2005. Interest expense on other funding sources increased by $25,000, reflecting the higher rates paid on securities sold under agreements to repurchase during 2006.

The net interest income spread (tax-equivalent basis) was 3.67% (shown in Table 1) for the first six months of 2006, compared to 3.74% for the first six months of 2005. The average yield received on interest-earning assets has increased 55 basis points to 6.72%, while the average rate paid on interest-bearing liabilities increased 0.62% to 3.05% for the six months ended June 30, 2006 when compared to the same period in 2005. For the first six months of 2006, funding costs on interest-bearing liabilities have increased at a faster rate than the yields earned on loans and securities. While the recent increases to the prime rate have benefited yields on variable rate commercial and consumer loans, it has negatively impacted rates paid on certificates of deposit and advances from the FHLB. Management has continued to focus on the growth of the overall loan portfolio and anticipates a positive effect on income from this growth based on the higher rates issued for newly originated loans. In addition, management is focused on growing its noninterest-bearing and interest-bearing demand deposit accounts to slow the increase in its overall cost of funds in 2006. However, a change in the mix of interest-bearing deposits could negatively impact net interest income in future reporting periods as compared to 2005.

Provision and Allowance for Loan Losses

The allowance for loan losses increased $75,000 from December 31, 2005 to June 30, 2006. The provision for loan losses was increased $30,000 during the six-months ended June 30, 2006 when compared to the same period in 2005. The increase was in correlation to the increase in the overall loan portfolio. The allowance was 1.18% of total loans at June 30, 2006 compared to 1.11% at December 31, 2005. Charge-offs and recoveries for respective loan categories for the six months ended June 30 were as follows:

(Dollars in thousands)	June 30, 2006		June 30, 2005	
	Charge-offs	Recoveries	Charge-offs	Recoveries
Commercial	$ -	$ -	$ -	$ -
Real estate, residential	2	-	9	2
Consumer	25	12	62	22
	$ 27	$ 12	$ 71	$ 24

Overall, charge-offs and recoveries were not significant during either period. As charge-offs changes in the level of nonperforming loans, and changes within the composition of the loan portfolio occur throughout 2006, the provision and allowance for loan losses will be reviewed by Valley Ridge Bank's management and adjusted as necessary.

Noninterest Income

Total noninterest income increased $45,000 or 3.30% in the first half of 2006 as compared to the same period in 2005. This increase is primarily attributed to the increase in service charges of $30,000 or 3.12%. This increase is related to solid growth in the number of demand deposit accounts and the increases in non-sufficient fund fees ("NSF") in 2006 as compared to 2005. The gain on sales of loans increased $10,000 due to an increase in the volume of mortgage loan originations.

Noninterest Expense

Total noninterest expense increased $241,000 or 6.21% in the first half of 2006 as compared to the first half of 2005. Compensation and benefits increased $110,000 or 5.49% in the first six months of 2006 as compared to 2005 primarily related to normal pay increases and increases in employee benefits. Occupancy expenses were down

$57,000 due to a reduction in depreciation expense on equipment as assets become fully depreciated. Data processing charges increased $14,000 in the first six-months of 2006 due to increases in third party vendor costs as compared to the first six months of 2005. Professional fees were higher during the first six months of 2006 due to increased legal and consulting fees. Legal fees included services performed related to the potential merger with ChoiceOne. Advertising and promotional expenses increased $62,000 or 151% due to the marketing efforts in relation to customer activity for loan growth and demand deposits. Other noninterest expenses decreased $24,000 or 2.73% as a result of decrease in other consulting services of $47,000 offset by increases in a variety of expenses, including ATM and related services expenses and training and seminars.

FINANCIAL CONDITION-JUNE 30, 2006

Securities

The securities portfolio decreased $2.36 million or 6.13% from December 31, 2005 to June 30, 2006. The majority of the decrease relates to the principal pay downs and maturities of mortgage-backed securities. Additional purchases of securities to replace those securities paid down or matured was not necessary as total asset levels were maintained by the continued funding of the loan portfolio.

(Dollars in thousands)

	June 30, 2006 Fair Value	December 31, 2005 Fair Value
U.S. Government and federal agencies	$ 9,521	$ 8,103
States and political subdivisions	9,246	9,850
Mortgage-backed securities	17,290	20,459
	$ 36,057	$ 38,412

Valley Ridge Bank continues to monitor the portfolio and purchases securities when deemed prudent. Certain securities are also sold under agreements to repurchase and management plans to continue this practice as a low-cost source of funding. Securities also serve as a source of liquidity for funding loan demand. Along with short-term assets obtained through federal funds sold, the balance of the securities portfolio will fluctuate dependent upon the growth in the loan portfolio in the remainder of 2006.

Loans

The loan portfolio (excluding loans held for sale) decreased $2.68 million or 1.78% during the first six months of 2006. The most significant growth area was in residential real estate loans, which increased $1.2 million. This increase was offset by a decreases in commercial real estate loans of $1.0 million, a decrease in commercial loans of $1.3 million and a decrease in real estate construction loans of $2.1 million.

(Dollars in thousands)

	June 30, 2006	December 31, 2005
Commercial	$ 26,057	$ 27,367
Real estate - commercial	60,460	61,490
Real estate - construction	3,119	5,214
Real estate - residential	47,728	46,515
Consumer	10,628	10,087
Loans, gross	147,992	150,673
Allowance for loan losses	(1,749)	(1,674)
Loans, net	$ 146,243	$ 148,999

Due to the nature of the economy within the State of Michigan, the recent increases in short-term interest rates, and the aggressive pricing launched by certain local competitors, Valley Ridge believes loan demand may be slowing and growth is considered to be minimal for the remainder of 2006.

Information regarding management's determination of impaired loans can be found in Note 3 to the Valley Ridge consolidated financial statements included in this Prospectus and Proxy Statement. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. In addition to its review of the loan portfolio for impaired loans, management also monitors the various nonperforming loans. Nonperforming loans are comprised completely of loans accounted for on a nonaccrual basis. The balances of nonperforming loans amounted to $1,099,000 and $475,000 as of June 30, 2006 and December 31, 2005, respectively.

The allowance for loan losses as a percentage of nonperforming loans was 159% at June 30, 2006, compared to 352% at December 31, 2005. The $624,000 or 131.37% increase in nonperforming loans from December 31, 2005 to June 30, 2006 relates to the addition of seven different borrowers with combined balances of $645,000 as of June 30, 2006. Nonaccrual loans as of June 30, 2006 are comprised of $925,000 in commercial loans, $143,000 in real estate residential loans, and $31,000 in consumer loans. Impaired loans are evaluated on an individual basis and specific allocations are made for loans where collateral is insufficient to support the outstanding principal balances of these loans. Management further believes that the general allocation within the allowance for loan losses is sufficient based on Valley Ridge Bank's loan grading system, past due trends and historical charge-off percentages.

Deposits and Other Funding Sources

Total deposits have increased $4.92 million or 2.97% as of June 30, 2006 as compared to December 31, 2005. The most significant growth was in time deposit accounts, which increased $9.67 million while noninterest-bearing deposits also increased $603,000 from year end 2005 to June 30, 2006. Savings deposits declined $2.78 million and interest-bearing demand deposits decreased $2.57 million, as Valley Ridge Bank customers have migrated to higher yielding time deposits. The FHLB advances have remained consistent at $16.5 million. An additional $5 million was borrowed from the Federal Home Loan Bank during the six-month period ended June 30, 2006 to replace the $5 million in funds that matured during the period. Securities sold under agreements to repurchase decreased $7.21 million since year-end 2005.

Shareholders' Equity

Total shareholders' equity increased $212,000 or 10.15% from the year ended December 31, 2005. The increase is attributable to the current year's net income, offset by dividends declared to shareholders. Total shareholders' equity as a percentage of assets was 9.85% as of June 30, 2006, compared to 9.66% as of December 31, 2005. The increase in this ratio resulted from growth in shareholders' equity and a decline in total assets. Based on risk-based capital guidelines established by Valley Ridge Bank's regulators, Valley Ridge's risk-based capital was categorized as "well capitalized" at June 30, 2006.

Management believes that the current level of capital is adequate to take advantage of potential opportunities that may arise for Valley Ridge or Valley Ridge Bank.

Liquidity and Sensitivity to Interest Rates

Net cash provided from operating activities was $1.64 million for the six months ended June 30, 2006 compared to $1.41 million provided in the period a year ago. A significant net change in accrued interest receivable and other assets and loans held for sale accounted for the majority of the variance. Net cash provided by investing activities was $4.38 million for the first six months of 2006 compared to $8.86 million used in the period ended June 30, 2005. The $7 million purchase of investments and $6 million in loan originations in the first six months of 2005 offset by $4 million of securities repayments and maturities were the primary components of cash used in 2005. In 2006, activities in available for sale securities provided $1.92 million of cash while net loan collections provided $2.67 million of cash. Valley Ridge had $2.75 million in net cash used in financing activities for the period ended June 30, 2006 compared to $1.27 million in net cash provided by financing activities in the same period a year ago. The net increase in deposits was offset by a $7.21 million decrease in securities sold under agreements to repurchase in the first six months of 2006.

Management believes that the current level of liquidity is sufficient to meet Valley Ridge Bank's normal operating needs. This belief is based upon the availability of deposits from both the surrounding markets, maturities of securities, normal loan repayments, income retention, federal funds purchased from correspondent banks, and advances available from the Federal Home Loan Bank. In addition to borrowings from the Federal Home Loan Bank, Valley Ridge Bank has availability to purchase $10 million in federal funds, in total, from two correspondent banks.

Valley Ridge Bank's sensitivity to changes in interest rates is monitored by Valley Ridge Bank's Asset/Liability Management Committee ("**ALCO**"). ALCO uses a simulation model to subject rate-sensitive assets and liabilities to interest rate shocks. Assets and liabilities are subjected to an immediate 300 basis point shock up and down and the effect on net-interest income and shareholders' equity is measured. The rate shock computation as of June 30, 2006 increased net interest income 8.49% if rates rose 300 basis points and decreased net interest income 7.84% if rates fell 300 basis points. The economic value of shareholders' equity declined 10.81% when rates were shocked 300 basis points upward and increased 11.90% if rates were shocked 300 basis points downward. ALCO will continue to monitor the effect each quarter of changes in interest rates upon Valley Ridge's interest margin and financial condition.

RESULTS OF OPERATIONS-YEAR ENDED DECEMBER 31, 2005

Summary

(Dollars in thousands)

	Year ended December 31,	
	2005	2004
Net interest income	$ 7,691	$ 7,130
Provision for loan losses	(120)	-
Noninterest income	2,780	2,755
Noninterest expense	(7,496)	(7,236)
Income tax expense	(704)	(630)
Net income	$ 2,151	$ 2,019

Net income for 2005 was $2,151,000, which is an increase of $132,000 or 6.54% from 2004. This increase is primarily due to the increase in the loan portfolio and the related interest income earned on loans. During the year, the prime interest rate increased 175 basis points, resulting in increases in interest income earned on loans and other earning assets. The increase in the provision for loan losses was considered necessary by management based on the growth in the loan portfolio.

Return on average assets was 1.07% for 2005, compared to 1.03% for 2004. Return on average shareholders' equity was 10.58% for 2005, compared to 10.40% for 2004.

Dividends

Cash dividends of $959,000 or $5.20 per common share were declared in 2005, compared to $857,000 or $4.65 per common share in 2004. The cash dividend payout percentage was 45% in 2005, compared to 42% in 2004.

Valley Ridge's principal source of funds to pay cash dividends is the earnings of Valley Ridge Bank. The availability of these earnings is dependent upon the capital needs, regulatory constraints and other factors involving Valley Ridge Bank. Regulatory constraints include the maintenance of minimum capital ratios and limits based on net income and retained earnings of Valley Ridge Bank for the past three years. Valley Ridge expects to pay quarterly cash dividends in 2006 to shareholders based on the actual earnings of Valley Ridge Bank.

Table 1 - Average Balances and Tax-Equivalent Interest Rates

(Dollars in thousands)	Year Ended December 31,								
	2005			2004			2003		
	Average Balance	Interest	Rate	Average Balance	Interest	Rate	Average Balance	Interest	Rate
Assets:									
Loans (1) (4)	$ 140,819	$ 9,885	7.02%	$ 130,753	$ 8,954	6.85%	$ 122,419	$ 9,201	7.52%
Taxable securities (2) (3)	32,339	1,201	3.71	35,832	1,216	3.39	32,870	1,007	3.06
Nontaxable securities (1) (2)	9,746	689	7.07	9,389	702	7.48	10,023	802	8.00
Other	2,292	67	2.92	3,235	40	1.24	10,269	111	1.08
Interest-earning assets	185,196	11,842	6.39	179,209	10,912	6.09	175,581	11,121	6.33
Noninterest-earning assets	15,900			16,423			16,423		
Total assets	$ 201,096			$ 195,632			$ 192,004		
Liabilities and Shareholders' Equity:									
Interest-bearing transaction accounts	$ 16,040	51	0.32%	$ 17,902	57	0.32%	$ 15,515	76	0.49%
Savings deposits	44,561	445	1.00	43,138	242	0.56	38,230	291	0.76
Time deposits	64,237	2,386	3.71	64,584	2,258	3.50	66,251	2,420	3.65
Advances from Federal Home Loan Bank	18,284	892	4.88	16,762	831	4.96	19,012	951	5.00
Other	4,972	116	2.33	3,587	128	3.57	4,233	114	2.69
Interest-bearing liabilities	148,094	3,890	2.63	145,973	3,516	2.41	143,241	3,852	2.69
Noninterest-bearing demand deposits	30,774			28,762			27,105		
Other noninterest-bearing liabilities	1,903			1,490			2,032		
Shareholders' equity	20,325			19,407			19,626		
Total liabilities and shareholders' equity	$ 201,096			$ 195,632			$ 192,004		
Net interest income (tax-equivalent basis) - interest spread		7,952	3.76%		7,396	3.68%		7,269	3.64%
Tax-equivalent adjustment (1)		(262)			(266)			(297)	
Net interest income		$ 7,690			$ 7,130			$ 6,972	
Net interest income as a percentage of earning assets (tax-equivalent basis)			4.29%			4.13%			4.14%

(1) Interest on nontaxable loans and securities has been adjusted to a fully tax-equivalent basis to facilitate comparison to the taxable interest-earning assets. The adjustment uses an incremental tax rate of 34% for the years presented.
(2) Includes the effect of unrealized gains or losses on securities
(3) Taxable securities include dividend income from Federal Home Loan Bank and Federal Reserve Bank stock.
(4) Interest on loans included net origination fees charged on loans of approximately $165,000, $182,000, and $407,000 in 2005, 2004 and 2003, respectively.

Net Interest Income

As shown in Tables 1 and 2, tax-equivalent net interest income increased $556,000 in 2005 when compared to the same period in 2004. This increase is primarily attributed to earning assets which have grown 3.3% compared to the year ended December 31, 2004. The majority of this growth was in the loan portfolio. The increase in interest rates, including the prime rate, and the significant growth in the loan portfolio, have had a positive effect on the net change in tax-equivalent net interest income. The increase in tax equivalent interest income had an overall more significant impact on net interest income than the increase in interest expense on deposits and borrowings.

The average balance of loans increased over $10 million in 2005 as compared to 2004. In addition, the upward repricing of existing loans has helped tax equivalent interest income on loans to increase $931,000 or 10.40% in 2005 as compared to 2004. The average balance of securities (both taxable and non-taxable) decreased $3.1 million or 6.9% in 2005 resulting in a decline in tax equivalent interest income of $76,000. This impact was offset by an overall increase in yields, resulting in a net decrease of $28,000.

The overall average balance in all interest-bearing deposit types decreased slightly as of December 31, 2005 to $124.8 million compared to $125.6 million as of December 31, 2004. Increases in deposit rates was the primary cause for the increase in interest expense of $325,000 in 2005 as compared to 2004.

Net interest income spread was 3.76% (shown in Table 1) for 2005, compared to 3.68% in 2004, for an overall increase of 8 basis points. The average yield received on interest-earning assets in 2005 rose 30 basis points to 6.39% while the average rate paid on interest-bearing liabilities in 2005 rose 22 basis points to 2.63%.

Tax equivalent net interest income increased $127,000 in 2004 compared to 2003. This was primarily a result of the growth in interest bearing assets of 2.07% when comparing the year ended December 31, 2004 to the same period in 2003.

Net interest income spread was 3.68% (shown in Table 1) for 2004, compared to 3.64% in 2003. The average yield received on interest-earning assets in 2004 fell 24 basis points to 6.09% while the average rate paid on interest-bearing liabilities in 2004 dropped 28 basis points to 2.41%.

Table 2 - Changes in Tax-Equivalent Net Interest Income

(Dollars in thousands)

	Year ended December 31,					
	2005 Over 2004			2004 Over 2003		
	Total	Volume	Rate	Total	Volume	Rate
Increase (decrease) in interest income (1)						
Loans (2)	$ 931	$ 702	$ 229	$ (247)	$ 602	$ (849)
Taxable securities	(15)	(141)	126	209	112	97
Nontaxable securities (2)	(13)	65	(78)	(100)	(91)	(9)
Other	27	(14)	41	(71)	(85)	14
Net change in tax-equivalent income	930	612	318	(209)	538	(747)
Increase (decrease) in interest expense (1)						
Interest-bearing transaction accounts	(6)	0	(6)	(19)	10	(29)
Savings deposits	203	8	195	(49)	34	(83)
Time deposits	128	(12)	140	(162)	(60)	(102)
Advances from Federal Home Loan Bank	61	74	(13)	(120)	(112)	(8)
Other	(12)	40	(52)	14	(19)	33
Net change in interest expense	374	110	264	(336)	(147)	(189)

Net change in tax-equivalent net interest income	$ 556	$ 502	$ 54	$ 127	$ 685	$ (558)

(1) The volume variance is computed as the change in volume (average balance) multiplied by the previous year's interest rate. The rate variance is computed as the change in interest rate multiplied by the previous year's volume (average balance). The change in interest due to both volume and rate has been allocated to the volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each.

(2) Interest on nontaxable securities has been adjusted to a fully tax-equivalent basis using an incremental tax rate of 34% for the years presented.

Management anticipates that net interest income in 2006 will remain stable depending on growth in the loan portfolio. Deposit rates will be influenced by local market conditions and management intends to focus marketing efforts on growth of core deposits in 2006 to maintain a low cost of funds.

Allowance and Provision For Loan Losses

Information regarding the allowance and provision for loan losses can be found in Table 3 below and in Note 4 of the Valley Ridge consolidated financial statements. As indicated in Table 3, the provision for loan losses was $120,000 in 2005. Based on management's analysis, the allowance for loan losses was considered adequately funded in 2004 and, therefore, no provision for loan loss expense was considered necessary. Due to the significant loan growth in 2005, management deemed it necessary to add to the allowance balance.

As shown in Table 3, all three loan types had net charge-offs realized in 2005. In 2004, net charge-offs were realized in the real estate mortgage and consumer loan portfolios. Overall, net charge-offs increased $11,000.

Consumer loan charge-offs continue to be significant, which is a direct result of past due consumer loans being 1.26% and 1.19% of the outstanding loan balance by type as of December 31, 2005 and 2004, respectively. Real estate charge-offs continue to be minimal with one charge-off occurring in 2005. Commercial loan charge-offs continue to be overall low as a percentage of the portfolio type balance. The ratio of net charge-offs as a percentage of average loans remained consistent at 0.07%. The allowance for loan losses as a percentage of total loans, has decreased to 1.11% as of December 31, 2005, compared to the 1.23% at the end of 2004 primarily due to the fact that historical net charge-offs remain low despite the growth in the loan portfolio.

Table 3 - Provision and Allowance For Loan Losses

(Dollars in thousands)

	2005	2004	2003	2002	2001
Provision for loan losses	**$** 120	$ -	$ 180	$ 335	$ 680
Net charge-offs (recoveries):					
Commercial loans	**$** 43	$ -	$ (81)	$ (229)	$ 914
Real estate mortgages	31	80	16	39	27
Consumer loans	29	12	128	132	125
Total net charge-offs (recoveries)	**$** 103	$ 92	$ 63	$ (58)	$ 1,066
Allowance for loan losses at year end	**$** 1,674	$ 1,657	$ 1,749	$ 1,632	$ 1,239
Allowance for loan losses as a percentage of:					
Total loans as of year end	1.11%	1.23%	1.43%	1.33%	1.01%
Nonaccrual loans, accrual loans past due 90 days or more and troubled debt restructurings	352%	724%	377%	361%	224%
Ratio of net charge-offs (recoveries) to average total loans outstanding during the year	0.07%	0.07%	0.05%	(0.05%)	0.88%

Loan recoveries as a percentage of prior year's charge-offs	27%	30%	93%	24%	5%

Based on the current state of the economy and a recent review of the loan portfolio, management believes that the allowance for loan losses as of December 31, 2005, is adequate to absorb probable incurred losses. As charge-offs, changes in the level of nonperforming loans, and changes within the composition of the loan portfolio occur, the provision and allowance for loan losses will be reviewed by Valley Ridge Bank's management and adjusted as necessary.

Noninterest Income

Total noninterest income increased slightly by $25,000 or 0.01% as compared to the same period in 2004. This increase is primarily attributed to the increase in service charges of $263,000 or 14.35%. This increase is related to solid growth in the number of demand deposit accounts and the increases in non-sufficient fund ("**NSF"**) fees in 2005 as compared to 2004. In addition, income earned on life insurance policies increased $31,000 related to the value of the policies. These increases were offset by a decrease in gain on sale of loans of $88,000 and a loss on sale of securities that accounted for an $83,000 decline in noninterest income. The decrease in the volume of mortgage loan originations was the reason behind the decrease in the gain on sale of loans. In addition, other noninterest income decreased $98,000 at year end 2005 as compared to year end 2004, primarily attributed to earnings from a minority owned (20%) computer service company which reported no significant equity change in 2005 and income of $48,000 in 2004. Other decreases were noted in a variety of line items including recoveries from deposits and other fees and charges.

Management anticipates continued increase in noninterest income related to NSF fees and check bounce protection use on deposit accounts.

Noninterest Expense

Total noninterest expenses increased $260,000 or 3.59% in 2005 as compared to 2004. Compensation and benefits stayed consistent with an increase of only $22,000 or 0.56% attributed to the normal pay increases and increases in employee benefits offset by a reduction in staff hours. Occupancy and equipment stayed relatively consistent at approximately $1.1 million. Data processing expenses increased $26,000 in 2005 compared to 2004 due to growth and activity levels within Valley Ridge Bank. Other noninterest expense grew $227,000 in 2005 compared to the prior year. Contributing factors were a $56,000 increase in advertising and promotional expenses for loan and deposit campaigns and a $26,000 increase in supplies and postage expense, offset by a $38,000 decrease in professional fees as a result of the internal audit function now being performed in-house. The remaining growth components of other noninterest expense were a number of expense categories that increased as a result of higher growth and activity levels experienced by Valley Ridge Bank in 2005 than in 2004.

FINANCIAL CONDITION-YEAR ENDED DECEMBER 31, 2005

Securities

The securities available for sale portfolio decreased approximately $877,000 or 2.23% from December 31, 2004 to December 31, 2005. Reductions in security types due to maturities, sales and principal pay downs provided liquidity for the loan growth that occurred during the year. Valley Ridge continues to monitor the portfolio and purchases securities when deemed prudent. Certain securities are sold under agreements to repurchase and management plans to continue this practice as a low-cost source of funding. Securities also are pledged as collateral for borrowings from the Federal Home Loan Bank. In addition, they are all held as available for sale securities and can serve as a source of liquidity for deposit needs.

(Dollars in thousands)

	December 31, 2005 Fair Value	December 31, 2004 Fair Value

U.S. Government and federal agencies	$ 8,103	$ 5,724
States and political subdivisions	9,850	8,874
Mortgage-backed securities	20,459	24,691
	$ 38,412	$ 39,289

Loans

The loan portfolio (excluding loans held for sale) increased approximately $16.2 million or 12.01% from December 31, 2004 to December 31, 2005. This increase was due to an increase in commercial loans of $3.2 million and commercial real estate loans of $5.4 million as a result of an increase in demand from borrowers. Residential real estate loans increased $4.6 million while construction real estate increased $2.6 million. In 2005, Valley Ridge Mortgage Company originated approximately $13 million of residential mortgage loans and sold $6.5 million (50%) to secondary market investors. In 2004, Valley Ridge Mortgage Company originated $18 million of residential mortgage loans and sold $10 million (56%) to secondary market investors. Consumer loans increased slightly by $477,000 during 2005.

(Dollars in thousands)

	December 31, 2005	December 31, 2004
Commercial	$ 27,367	$ 24,202
Real estate - commercial	61,490	56,135
Real estate - construction	5,214	2,662
Real estate - residential	46,515	41,908
Consumer	10,087	9,610
Loans, gross	150,673	134,517
Allowance for loan losses	(1,674)	(1,657)
Loans, net	$ 148,999	$ 132,860

Management anticipates demand for commercial loans will remain steady in 2006 due to increased advertising and promotional campaigns and the continued relationships with current Valley Ridge commercial customers. As a result of rising interest rates, management does not anticipate significant growth in the demand for consumer and residential real estate loans in 2006.

Information regarding impaired loans can be found in Note 3 to the Valley Ridge consolidated financial statements included in this report. In addition to its review of the loan portfolio for impaired loans, management also monitors various nonperforming loans. Nonperforming loans are comprised of (1) loans accounted for on a nonaccrual basis; and (2) loans, not included in nonaccrual loans, which are contractually past due 90 days or more as to interest or principal payments. There were no loans, not included in nonaccrual or past due 90 days or more, which are considered troubled debt restructurings at December 31, 2005 or 2004.

The balances of these nonperforming loans as of December 31 were as follows:

(Dollars in thousands)

	2005	2004
Loans accounted for on a nonaccrual basis	$ 475	$ 174
Loans contractually past due 90 days or more as to principal or interest payments	-	55
Loans considered troubled debt restructurings	-	-

Total	**$ 475**	$ 229

At December 31, 2005, nonaccrual loans included $433,000 in commercial loans, $26,000 in residential mortgages, and $16,000 in consumer loans. At December 31, 2004, nonaccrual loans included $11,000 in commercial loans, $131,000 in residential mortgages, and $32,000 in consumer loans. Management also maintains a list of loans that are not classified as nonperforming loans but where some concern exists as to the borrowers' abilities to comply with the original loan terms. These loans totaled $4.6 million as of December 31, 2005, as compared to $4.5 million as of December 31, 2004.

Deposits and Other Funding Sources

Total deposits increased $12.5 million or 8.18% from December 31, 2004 to December 31, 2005. The most significant increase was in time deposits, with an increase of $8.3 million, while noninterest-bearing demand deposits increased $3.4 million. The increase in money market and NOW accounts of $6.7 million was primarily offset by the decrease in savings accounts of $5.9 million. With the rise in interest rates, Bank customers chose certificates of deposit over lower yielding transaction accounts.

Securities sold under agreements to repurchase increased $3.7 million as of December 31, 2005 as compared to December 31, 2004, while advances from the FHLB remained consistent at $16.5 million in both years. Of the advances from the FHLB, $14 million were held with fixed rates and $2.5 million were at a variable rate, with maturities ranging from June 2006 to December 2010. A blanket lien on all first mortgage loans and specific securities were pledged as collateral against the FHLB advances at the end of 2005.

In 2006, management plans to emphasize growth of its noninterest-bearing and interest-bearing checking accounts for all customer types. If deposit growth is insufficient to support asset growth during 2006, management believes advances from the FHLB can address corresponding funding needs.

Shareholders' Equity

Total shareholders' equity increased $938,000 or 4.70% from December 31, 2004 to December 31, 2005. Equity growth resulted from current year earnings and proceeds from the exercise of stock options, offset by cash dividends paid to shareholders, shares repurchased, and a drop in accumulated other comprehensive income. Stock options exercised and forfeitures accounted for 575 shares for a total of $78,000. Valley Ridge repurchased 80 shares of its common stock in 2005 compared to 380 shares in 2004. In 2004, fractional shares were paid out for a total of 558 shares amounting to $97,000.

Note 17 to the Valley Ridge consolidated financial statements presents regulatory capital information at the end of 2005 and 2004. Capital ratios for Valley Ridge continue to exceed required levels with Valley Ridge Bank's ability to maintain appropriate capital levels with asset growth. The current position of Valley Ridge Bank and the holding company is that they are considered "well capitalized."

Table 4 - Contractual Obligations

The following table discloses information regarding the maturity of Valley Ridge's contractual obligations at December 31, 2005:

(Dollars in thousands)

	Payment Due By Period				
	Total	Less than 1 year	1-3 Years	3-5 Years	More than 5 Years
Repurchase agreements	$ 10,379	$ 10,379	-	-	-
Time deposits	71,486	32,615	35,705	3,138	28
Advances from Federal Home Loan Bank	16,500	7,500	-	9,000	-
Total	$ 98,365	$ 50,494	$ 35,705	$ 12,138	$ 28

Liquidity and Interest Rate Risk

Valley Ridge's primary market risk exposure occurs in the form of interest rate risk. Liquidity risk also can have an impact but to a lesser extent. Valley Ridge's business is transacted in U.S. dollars with no foreign exchange risk exposure. Agricultural loans comprise a small portion of Valley Ridge's total assets. Management believes that Valley Ridge's exposure to changes in commodity prices is insignificant.

Liquidity risk deals with Valley Ridge's ability to meet its cash flow requirements. These requirements include depositors desiring to withdraw funds and borrowers seeking credit. Relatively short-term liquid funds exist in the form of lines of credit to purchase federal funds at two of Valley Ridge Bank's correspondent banks. As of December 31, 2005, the amount of federal funds available for purchase from correspondent banks totaled $10 million. There were no purchases of federal funds outstanding at the end of 2005. Longer-term liquidity needs may be met through local deposit growth, maturities of securities, normal loan repayments, advances from the Federal Home Loan Bank, brokered time deposits, and income retention. Approximately $55 million of borrowing capacity was available from the Federal Home Loan Bank based on Valley Ridge Mortgage Company's residential mortgage loans and investment securities pledged as collateral at year end 2005.

Interest rate risk is related to liquidity because each is affected by maturing assets and sources of funds. Valley Ridge's Asset/Liability Management Committee (the "**ALCO**") attempts to stabilize the interest rate spread and avoid possible adverse effects when unusual or rapid changes in interest rates occur. The ALCO uses a simulation model to measure its interest rate risk. The model incorporates changes in interest rates on rate-sensitive assets and liabilities. The degree of rate sensitivity is affected by prepayment assumptions that exist in the assets and liabilities. One method the ALCO uses of measuring interest rate sensitivity is the ratio of rate-sensitive assets to rate-sensitive liabilities. An asset or liability is considered to be rate-sensitive if it matures or otherwise reprices within a given time frame.

Table 5 documents the maturity or repricing schedule for Valley Ridge's rate-sensitive assets and liabilities for selected time periods.

Table 5 - Maturities and Repricing Schedule

(Dollars in thousands)

	December 31, 2005				
	0-3 Months	**3-12 Months**	**1-5 Years**	**Over 5 Years**	**Total**
Assets					
Loans and loans held for sale	$ 42,343	$ 23,693	$ 80,376	$ 4,679	$ 151,091
Taxable securities	-	192	21,241	7,129	28,562
Tax exempt securities	-	1,832	4,762	3,256	9,850
Other	7,700	-	-	-	7,700
Federal Home Loan Bank and Federal Reserve Bank stock	-	-	-	1,687	1,687
Cash surrender value of life insurance policies	5,553	-	-	-	5,553
Rate-sensitive assets	55,596	25,717	106,379	16,751	204,443
Liabilities					
Interest-bearing demand deposits	2,915	-	-	-	2,915
Savings deposits	58,601	-	-	-	58,601
Time deposits	5,645	26,970	38,843	28	71,486
Federal Home Loan Bank advances	-	7,500	9,000	-	16,500
Repurchase agreements	10,379	-	-	-	10,379
Rate-sensitive liabilities	77,540	34,470			