CSB BANCORP INC /OH
Form 10-K
March 23, 2007

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

(Mark one)

þ **ANNUAL REPORT PURSUANT TO SECTIONS 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2006

OR

o **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission File No. 0-21714

CSB BANCORP, INC.

(Exact name of registrant as specified in its charter)

Ohio	34-1687530
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
91 North Clay Street, Millersburg, Ohio	44654
(Address of principal executive offices)	(Zip code)

Registrant s telephone number, including area code (330) 674-9015

Securities registered under Section 12(b) of the Act: None

Securities registered under Section 12(g) of the Act:

Common Shares, $6.25 par value

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

o Yes þ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

o Yes þ No

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

þ Yes o No

Indicate by check mark if disclosure of delinquent filers in response to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer o Accelerated filer o Non-accelerated filer þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

o Yes þ No

At June 30, 2006, the aggregate market value of the voting stock held by non-affiliates of the registrant, based on a share price of $20.40 per share (such price being the last trade price on such date) was $48.0 million.
At March 22, 2007, there were outstanding 2,462,891 of the registrant s Common Shares, $6.25 par value.

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DOCUMENTS INCORPORATED BY REFERENCE

Portions of Registrant s 2006 Annual Report to Shareholders.

Portions of Registrant s Proxy Statement dated March 23, 2007.

PART I

Available Information

Our website address is www.csb1.com. We make our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to those reports available free of charge on our website as soon as reasonably practicable after such material is electronically filed with the Securities and Exchange Commission (the SEC). We also make available through our website, other reports filed with the SEC under the Exchange Act, including our proxy statements and reports filed by officers and directors under Section 16(a) of that Act, as well as our Code of Ethics. We do not intend for information contained in our website to be part of this Annual Report on Form 10-K.

In addition, the public may read and copy any materials we filed with the SEC at the SEC s Public Reference Room at 450 Fifth Street, NW, Washington DC 20549. Information on the operation of the Public Reference Room is available by calling the SEC at 1-800-SEC-0330. Also, the SEC maintains an Internet site that contains reports, proxy and information statements and other information at www.sec.gov.

ITEM 1. BUSINESS.

General

CSB Bancorp, Inc. (the Company), is a registered financial holding company under the Bank Holding Company Act of 1956, as amended, and was incorporated under the laws of the State of Ohio in 1991. The Commercial and Savings Bank (the Bank), an Ohio banking corporation chartered in 1879, is a wholly owned subsidiary of the Company. The Bank is a member of the Federal Reserve system, and its deposits are insured up to the maximum provided by law by the Federal Deposit Insurance Corporation. The primary regulators of the Bank are the Federal Reserve Board and the Ohio Division of Financial Institutions.

The Bank provides retail and commercial banking services to its customers, including checking and savings accounts, time deposits, IRAs, safe deposit facilities, personal loans, commercial loans, real estate mortgage loans, installment loans, night depository facilities, brokerage and trust services.

The Bank grants residential real estate, commercial real estate, consumer and commercial loans to customers located primarily in Holmes County and portions of surrounding counties in Ohio. The general economic conditions in the Company s market area have been sound. Unemployment statistics have generally been among the lowest in the state of Ohio and real estate values have been stable to rising.

Certain risks are involved in granting loans, primarily related to the borrowers ability and willingness to repay the debt. Before the Bank extends or renews a new loan to a customer, these risks are assessed through a review of the borrower s past and current credit history, collateral being used to secure the transaction, borrower s character, and other factors. For all commercial loan relationships greater than $275,000, the Bank s internal credit department performs an annual risk rating review. In addition to this review, an independent outside loan review firm is engaged to review all watch list and adversely classified credits, commercial loan relationships greater than $500,000, a sample of commercial loan relationships less than $500,000, loans within an industry concentration and a sample of consumer/mortgage loans. In addition, any loan identified as a problem credit by management and/or the external loan review consultants is assigned to the Bank s loan watch list, and is subject to ongoing review by the Bank s credit department and the assigned loan officer to ensure appropriate action is taken when deterioration has occurred.

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Commercial loan rates are variable as well as fixed, and include operating lines of credit and term loans made to small businesses primarily based on their ability to repay the loan from the cash flow of the business. Business assets such as equipment, accounts receivable, and inventory typically secure such loans. When the borrower is not an individual, the Bank generally obtains the personal guarantee of the business owner. As compared to consumer lending, which includes single-family residences, personal installment loans and automobile loans, commercial lending entails significant additional risks. These loans typically involve larger loan balances, are generally dependent on the cash flow of the business, and thus may be subject to a greater extent to adverse conditions in the general economy or in a specific industry. Management reviews the borrower s cash flows when deciding whether to grant the credit, to evaluate whether estimated future cash flows will be adequate to service principal and interest of the new obligation in addition to existing obligations.

Commercial real estate loans are primarily secured by borrower-occupied business real estate and are dependent on the ability of the related business to generate adequate cash flow to service the debt. Commercial real estate loans are generally originated with a loan-to-value ratio of 80% or less. Commercial construction loans are secured by commercial real estate and in most cases the bank also provides the permanent financing. Advances are monitored by the Bank and the maximum loan to value is typically limited to the lesser of 90% of cost or 80% of appraisal. Management performs much the same analysis when deciding whether to grant a commercial real estate loan as when deciding whether to grant a commercial loan.

Residential real estate loans carry both fixed and variable rates and are secured by the borrower s residence. Such loans are made based on the borrower s ability to make repayment from employment and other income. Management assesses the borrower s ability and willingness to repay the debt through review of credit history and ratings, verification of employment and other income, review of debt-to-income ratios and other measures of repayment ability. The Bank generally makes these loans in amounts of 85% or less of the value of collateral or up to 100% with PMI. An appraisal from a qualified real estate appraiser or an evaluation based on tax value is obtained for substantially all loans secured by real estate. Residential construction loans are secured by residential real estate that generally will be occupied by the borrower on completion. The Bank usually makes the permanent loan at the end of the construction phase. Construction loans also are made in amounts of 85% or less of the value of the collateral.

Home equity lines of credit are made to individuals and are secured by second or first mortgages on the borrower s residence. Loans are based on similar credit and appraisal criteria used for residential real estate loans; however, loans up to 100% of the value of the property may be approved for borrowers with excellent credit histories. These loans typically bear interest at variable rates and require certain minimum monthly payments.

Installment loans to individuals include loans secured by automobiles and other consumer assets, including second mortgages on personal residences. Consumer loans for the purchase of new automobiles generally do not exceed 90% of the purchase price of the automobile. Loans for used automobiles generally do not exceed average wholesale or trade-in values as stipulated in a recent auto-industry used-car price guide. Credit card and overdraft protection loans are unsecured personal lines of credit to individuals of demonstrated good credit character with reasonably assured sources of income and satisfactory credit histories. Consumer loans generally involve more risk than residential mortgage loans because of the type and nature of collateral and, in certain types of consumer loans, absence of collateral. Since these loans are generally repaid from ordinary income of the individual or family unit, repayment may be adversely affected by job loss, divorce, ill health or by general decline in economic conditions. The Bank assesses the borrower s ability and willingness to make repayment through a review of credit history, credit ratings, debt-to-income ratios and other measures of repayment ability.

While the Company s chief decision-makers monitor the revenue streams of the various Company products and services, operations are managed and financial performance is evaluated on a Company-wide basis. Accordingly, all of the Company s banking operations are considered by management to be aggregated in one reportable operating segment.

Employees

At December 31, 2006, the Company had 135 employees, 112 of which were employed on a full-time basis. The Company has no separate employees not also employed by the Bank. No employees are covered by collective bargaining agreements. Management considers its employee relations to be good.

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Competition

The Bank operates in a highly competitive industry due, in part, to Ohio law permitting statewide branching by banks, savings and loan associations and credit unions. Ohio law also permits nationwide interstate banking on a reciprocal basis. In its primary market area of Holmes and surrounding counties, the Bank competes for new deposit dollars and loans with several other commercial banks, both large regional banks and smaller community banks, as well as savings and loan associations, credit unions, finance companies, insurance companies, brokerage firms and investment companies. The ability to generate earnings is impacted, in part, by competitive pricing on loans and deposits and by changes in the rates on various U.S. Treasury and State and political subdivision issues which comprise a significant portion of the Bank s investment portfolio, and which rates are used as indices on several loan products. The Bank believes its presence in the Holmes County area provides the Bank with a competitive advantage due to its large asset base and ability to make loans and provide services to the local community.

On November 12, 1999, President Clinton signed into law the Gramm-Leach-Bliley Act of 1999 (Gramm-Leach) that permits bank holding companies to become financial holding companies and thereby affiliate with securities firms and insurance companies and engage in other activities that are financial in nature. Gramm-Leach may significantly change the competitive environment in which the Company conducts business. See Financial Modernization for further discussion.

Supervision and Regulation

The Bank is subject to supervision, regulation and periodic examination by the Federal Reserve Board and the State of Ohio Division of Financial Institutions. Because the Federal Deposit Insurance Corporation insures its deposits, the Bank is also subject to certain regulations of that federal agency. As a financial holding company, the Company is subject to supervision, regulation and periodic examination by the Federal Reserve Board. The earnings of the Company and the Bank are affected by state and federal laws and regulations, and by policies of various regulatory authorities. These policies include, for example, statutory maximum lending rates, requirements on maintenance of reserves against deposits, domestic monetary policies of the Board of Governors of the Federal Reserve System, United States fiscal policy, international currency regulations and monetary policies, certain restrictions on banks relationships with many phases of the securities business and capital adequacy and liquidity restraints.

Financial Modernization

Pursuant to Gramm-Leach, a bank holding company may become a financial holding company if each of its subsidiary banks is well capitalized under regulatory prompt corrective action provisions, is well managed, and has at least a satisfactory rating under the Community Reinvestment Act (CRA) by filing a declaration that the bank holding company wishes to become a financial holding company. No prior regulatory approval will be required for a financial holding company to acquire a company, other than a bank or savings association, engaged in activities that are financial in nature or incidental to activities that are financial in nature, as determined by the Federal Reserve Board. Gramm-Leach defines financial in nature to include securities underwriting, dealing and market making; sponsoring mutual funds and investment companies; insurance underwriting and agency; merchant banking activities; and activities that the Board has determined to be closely related to banking. Subsidiary banks of a financial holding company must continue to be well capitalized and well managed in order to continue to engage in activities that are financial in nature without regulatory actions or restrictions, which could include divestiture of the financial in nature subsidiary or subsidiaries. In addition, a financial holding company or a bank may not acquire a company that is engaged in activities that are financial in nature unless each of the subsidiary banks of the financial holding company or the bank has CRA rating of satisfactory or better.

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On July 30, 2002, President Bush signed into law the Sarbanes-Oxley Act of 2002, which contains important requirements for public companies in the area of financial disclosure and corporate governance. In accordance with section 302(a) of the Sarbanes-Oxley Act, written certifications by the Company s Chief Executive Officer and Chief Financial Officer are required. These certifications attest that the Company s quarterly and annual reports filed with the SEC do not contain any untrue statement of a material fact or omit to state a material fact. The Company has also implemented a program designed to comply with Section 404 of the Sarbanes-Oxley Act, which includes the identification of significant processes and accounts, documentation of the design of control effectiveness over process and entity level controls, and testing of the operating effectiveness of key controls. The Securities and Exchange Commission extended the deadline for Section 404 compliance for non-accelerated filers, including the Company, until the fiscal year ended December 31, 2007, with attestation by the external accountants being extended to the year ending December 31, 2008. There has been ongoing discussions about future delays or changes in the implementation of the legislation. The Company has begun the documentation phase of required Section 404 certification; however, has paused efforts pending the outcome of the aforementioned discussions. If there are no further changes, the Company is poised to implement the legislation within the revised time frames stated above.

Item 1A. Risk Factors.

Investments in CSB Bancorp Inc. stock involve risk.

The market price of the Company s common stock may fluctuate significantly in response to a number of factors, including:

- Changes in interest rates
- New developments in the banking industry
- Regulatory actions
- Credit risk
- Economy
- Thinly traded stock

Changes in interest rates

CSB s earnings and financial condition are dependent to a large degree upon net interest income, which is the difference between interest earned from loans and investments and interest paid on deposits and borrowings. Market interest rates are largely beyond the Company s control, and they fluctuate in response to general economic conditions and the policies of various governmental and regulatory agencies, in particular, the Federal Reserve Board. Changes in interest rates, will influence the origination of loans, the purchase of investments and the level of prepayments on our loans and the receipt of payments on our mortgage-backed securities resulting in reduced income and cash flow.

New developments in the banking industry

CSB will need to adjust to competition in both originating loans and attracting deposits. Competition in the financial services industry is intense as we compete with securities dealers, finance and insurance companies, mortgage brokers and investment advisors. As a result of their size and ability to achieve economies of scale, certain of our competitors offer a broader range of products and services than we offer. Our ability to obtain our financial objectives will depend on our ability to deliver or expand product delivery systems and changes in technology required by our customers.

Regulatory actions

The Company and its wholly owned subsidiary The Commercial and Savings Bank are subject to extensive state and federal regulation, supervision and legislation that govern nearly every aspect of its operations. Changes to these laws could affect the Company s ability to deliver or expand its services and diminish the value of its business.

Credit Risk

Credit Risk is the risk of losing principal and interest income because borrowers fail to repay loans. Our earnings may be negatively impacted if we fail to manage credit risk, as the origination of loans is an integral part of our business.

Factors which may affect the ability of borrowers to repay loans would include a downturn in the local economy that we operate in, a downturn in one or more business sectors in which our customers operate or a rapid increase in interest rates.

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Economy

Downturns in the local economy in which we operate in may adversely affect our business. Our loan portfolio is concentrated primarily in Holmes, Wayne and Tuscarawas counties in Ohio. Our profits depend on providing products and services to customers in these areas. A decline in real estate values, a prolonged flatness of the interest rate curve or increases in unemployment could depress our earnings. Weakness in our market area could result from a decline in tourism resulting in the value of collateral securing our loans declining while borrowers may not be able to repay their loans.

Thinly traded stock

CSB common stock is very thinly traded, and it is therefore susceptible to price swings. However, CSB common stock is traded on the Over the Counter Bulletin Board under the symbol CSBB.ob . We list three brokers within the back cover of our annual report to shareholders who facilitate trades. The stock is not actively followed by the investment community and the price may be negatively impacted any time there are more sellers than buyers.

Item 1B. Unresolved Staff Comments.

None.

Statistical Disclosures

The following schedules present, for the periods indicated, certain financial and statistical information of the Company as required under the Securities and Exchange Commission s Industry Guide 3, or a specific reference as to the location of required disclosures in the Company s 2006 Annual Report to Shareholders (the Annual Report).

I. Distribution of Assets, Liabilities and Stockholders Equity; Interest Rates and Interest Differential

A&B. Average Balance Sheet and Related Analysis of Net Interest Earnings: The information set forth under the heading Average Balances, Rates and Yields which is incorporated by reference pursuant to Part II, Item 7 of this document, is incorporated herein by reference.

C. Dollar Amount of Change in Interest Income and Interest Expense: The information set forth under the heading Rate/Volume Analysis of Changes in Income and Expense which is incorporated by reference pursuant to Part II, Item 7 of this document, is incorporated herein by reference.

II. Investment Portfolio

A. The following is a schedule of the carrying value of securities at December 31, 2006, 2005 and 2004.

(In thousands of dollars)	2006	2005	2004
Securities available-for-sale, at fair value			
U.S. Treasury securities	$ 100	$ 99	$ 134
U.S. Government corporations and agencies	32,917	42,230	39,214
Mortgage-backed securities	28,048	27,006	16,228
Obligations of states and political subdivisions	5,769	8,633	17,862
Equity securities	301	305	
Total	$ 67,135	$ 78,273	$ 73,438

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B. The following is a schedule of maturities for each category of debt securities and the related weighted average yield of such securities as of December 31, 2006:

(In thousands of dollars)
Maturing

	One Year or Less		After One Year Through Five Years		After Five Years Through Ten Years		After Ten Years		Total	
	Amortized Cost	Yield	Amortized Cost	Yield	Amortized Cost	Yield	Amortized Cost	Yield	Amortized Cost	Yield
Available for sale:										
U.S. Treasury	$ 100	3.18%							$ 100	3.18%
U.S. Government corporations and agencies	2,000	3.42	$31,493	4.36%					33,493	4.30
Mortgage-backed securities	37	4.79	1,017	4.79	$3,846	4.41%	$23,553	5.07%	28,453	4.97
Obligations of states and political subdivisions	871	7.20	4,796	7.36					5,667	7.34
Total	$3,008	4.52%	$37,306	4.76%	$3,846	4.41%	$23,553	5.07%	$67,713	4.84%

The weighted average yields are calculated using amortized cost of investments and are based on coupon rates for securities purchased at par value, and on effective interest rates considering amortization or accretion if securities were purchased at a premium or discount. The weighted average yield on tax-exempt obligations is presented on a tax-equivalent basis based on the Company s marginal federal income tax rate of 34%.

C. Excluding holdings of U.S. Treasury securities and other agencies and corporations of the U.S. Government, there were no investments in securities of any one issuer that exceeded 10% of the Company s consolidated shareholders equity at December 31, 2006.

III. Loan Portfolio

A. Types of Loans Total loans on the balance sheet are comprised of the following classifications at December 31:

(In thousands of dollars)	2006	2005	2004	2003	2002
Commercial	$ 55,513	$ 69,922	$ 77,231	$ 73,559	$ 74,907
Commercial real estate	72,707	52,661	43,744	49,160	41,665
Residential real estate	85,933	78,722	78,862	72,944	65,653
Construction	7,735	2,120	8,034	5,503	5,453
Installment and credit card	10,510	11,539	10,273	12,251	12,382

Total loans	$ 232,398	$ 214,964	$ 218,144	$ 213,417	$ 200,060

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B. Maturities and Sensitivities of Loans to Changes in Interest Rates The following is a schedule of maturities of loans based on contract terms and assuming no amortization or prepayments, excluding real estate mortgage and installment loans, as of December 31, 2006:

(In thousands of dollars)	One Year or Less	Maturing One Through Five Years	After Five Years	Total
Commercial	$ 28,116	$ 17,611	$ 9,786	$ 55,513
Commercial real estate	6,967	8,932	56,808	72,707
Construction	1,446	1,058	5,231	7,735
Total	$ 36,529	$ 27,601	$ 71,825	$ 135,955

The following is a schedule of fixed rate and variable rate commercial, commercial real estate and real estate construction loans due after one year from December 31, 2006.

(In thousands of dollars)	Fixed Rate	Variable Rate
Total commercial, commercial real estate and construction loans due after one year	$ 10,572	$ 88,854

C. Risk Elements

1. Nonaccrual, Past Due and Restructured Loans The following schedule summarizes nonaccrual, past due and restructured loans.

(In thousands of dollars)	2006	2005	2004	2003	2002
(a) Loans accounted for on a nonaccrual basis	$ 1,509	$ 633	$ 1,552	$ 1,170	$ 1,721
(b) Accruing loans that are contractually past due 90 days or more as to interest or principal payments		168	119	175	
Totals	$ 1,509	$ 801	$ 1,671	$ 1,345	$ 1,721

The policy for placing loans on nonaccrual status is to cease accruing interest on loans when management believes that collection of interest is doubtful, when commercial loans are past due as to principal and interest 90 days or more or when mortgage loans are past due as to principal and interest 120 days or more, except that in certain circumstances interest accruals are continued on loans deemed by management to be well-secured and in process of collection. In such cases, loans are individually evaluated in order to determine whether to continue income recognition after 90 days beyond the due date. When loans are placed on nonaccrual, any accrued interest is charged against interest income. Consumer loans are not placed on non-accrual but are charged off after 90 days past due.

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Impaired Loans Information regarding impaired loans at December 31 is as follows:

(In thousands of dollars)	2006	2005	2004
Balance of impaired loans at December 31	$ 988	$ 565	$ 1,198
Less portion for which no allowance for loan loss is allocated		62	
Portion of impaired loan balance for which an allowance for loan losses is allocated	988	503	1,198
Portion of allowance for loan losses allocated to the impaired loan balance at December 31	327	174	388

For the year ended December 31, 2006 interest income recognized on impaired loans amounted to $25,717 while $58,905 would have been recognized had the loans been performing under their contractual terms. For the year ended December 31, 2005 interest income recognized on impaired loans amounted to $2,764 while $39,168 would have been recognized had the loans been performing under their contractual terms. For the year ended December 31, 2004 interest income recognized on impaired loans amounted to $24,000 while $45,000 would have been recognized had the loans been performing under their contractual terms.

Impaired loans are comprised of commercial and commercial real estate loans, and are carried at the present value of expected cash flows discounted at the loan s effective interest rate or at fair value of the collateral if the loan is collateral dependent. A portion of the allowance for loan losses is allocated to impaired loans.

Smaller-balance homogeneous loans are evaluated for impairment in total. Such loans include residential first-mortgage loans secured by one- to four-family residences, residential construction loans, and automobile, home equity and second-mortgage loans less than $100,000. Such loans are included in nonaccrual and past due disclosures in (a) and (b) above, but not in the impaired loan totals. Commercial loans and mortgage loans secured by other properties are evaluated individually for impairment. When analysis of borrower operating results and financial condition indicates that underlying cash flows of the borrower s business are not adequate to meet its debt service requirements, the loan is evaluated for impairment. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

2. Potential Problem Loans At December 31, 2006, no loans were identified that management has serious doubts about the borrowers ability to comply with present loan repayment terms that are not included in item III.C.1. On a monthly basis, the Company internally classifies certain loans based on various factors. At December 31, 2006, these amounts, including impaired and nonperforming loans, amounted to $9.5 million of substandard loans and $0 doubtful loans.

3. Foreign Outstandings There were no foreign outstandings during any period presented.

4. Loan Concentrations As of December 31, 2006, there are no concentrations of loans greater than 10% of total loans that are not otherwise disclosed as a category of loans in Item III.A above.

D. Other Interest-Bearing Assets As of December 31, 2006, there are no other interest-bearing assets required to be disclosed under Item III.C.1 or 2 if such assets were loans.

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IV. Summary Of Loan Loss Experience

A. The following schedule presents an analysis of the allowance for loan losses, average loan data and related ratios for the years ended December 31:

(In thousands of dollars)	2006	2005	2004	2003	2002
LOANS					
Average loans outstanding during period	$ 225,445	$ 220,655	$ 216,864	$ 209,231	$ 181,147
ALLOWANCE FOR LOAN LOSSES					
Balance at beginning of period	$ 2,445	$ 2,575	$ 2,459	$ 2,701	$ 4,019
Loans charged off:					
Commercial	(9)	(16)	(95)	(56)	(429)
Commercial real estate	(123)	(442)	0	(97)	(342)
Residential real estate	(74)	(16)	(275)	(70)	(154)
Installment and credit card	(104)	(102)	(64)	(115)	(240)
Total loans charged off	(310)	(576)	(434)	(338)	(1,165)
Recoveries of loans previously charged off:					
Commercial	20	63	61	7	244
Commercial real estate	80	2	0	0	0
Residential real estate	3	33	23	70	36
Installment	67	67	43	70	153
Total loan recoveries	170	163	127	147	433
Net loans charged off	(140)	(413)	(307)	(191)	(732)
Provision charged to operating expense	302	283	423	(51)	(586)
Balance at end of period	$ 2,607	$ 2,445	$ 2,575	$ 2,459	$ 2,701
Ratio of net charge-offs to average loans outstanding for period	.06%	.19%	.14%	.09%	.40%

The allowance for loan losses balance and provision charged to expense are determined by management based on periodic reviews of the loan portfolio, past loan loss experience, economic conditions and various other circumstances subject to change over time. In making this judgment, management reviews selected large loans, as well as impaired loans, other delinquent, nonaccrual and problem loans and loans to industries experiencing economic difficulties. The collectibility of these loans is evaluated after considering current operating results and financial position of the borrower, estimated market value of collateral, guarantees and the Company s collateral position versus other creditors. Judgments, which are necessarily subjective, as to the probability of loss and amount of such loss are formed on these loans, as well as other loans taken together.

B. The following schedule is a breakdown of the allowance for loan losses allocated by type of loan and related ratios. While management s periodic analysis of the adequacy of the allowance for loan losses may allocate portions of the allowance for specific problem-loan situations, the entire allowance is available for any loan charge-offs that occur.

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Allocation of the Allowance for Loan Losses
(In thousands of dollars)

	Allowance Amount	Percentage of Loans in Each Category to Total Loans	Allowance Amount	Percentage of Loans in Each Category to Total Loans	Allowance Amount	Percentage of Loans in Each Category to Total Loans	Allowance Amount	Percentage of Loans in Each Category to Total Loans	Allowance Amount	Percentage of Loans in Each Category to Total Loans
	December 31, 2006		December 31, 2005		December 31, 2004		December 31, 2003		December 31, 2002	
Commercial	$ 967	23.89%	$ 936	32.52%	$1,256	35.41%	$ 741	34.47%	$ 809	37.44%
Commercial real estate	1,041	31.28	763	24.50	765	20.05	759	23.03	908	20.82
Residential real estate	379	36.98	278	36.62	261	36.15	768	34.18	491	32.82
Construction	22	3.33	4	.99	18	3.68	30	2.58	35	2.73
Installment and credit card	32	4.52	36	5.37	22	4.71	70	5.74	231	6.19
Unallocated	166		428		253		91		227	
Total	$2,607	100.00%	$2,445	100.00%	$2,575	100.00%	$2,459	100.00%	$2,701	100.00%

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V. Deposits

A. & B. The following is a schedule of average deposit amounts and average rates paid on each category for the periods indicated:

	Average Amounts Outstanding Year ended December 31			Average Rate Paid Year ended December 31		
	2006	2005	2004	2006	2005	2004
(In thousands of dollars)						
Noninterest-bearing demand	$ 38,938	$ 37,855	$ 34,310	N/A	N/A	N/A
Interest-bearing demand deposits	46,096	49,021	48,042	.50%	.39%	.22%
Savings deposits	41,528	44,759	42,904	.99	.80	.44
Time deposits	120,981	117,372	116,418	3.95	3.05	2.53
Total deposits	$ 247,543	$ 249,007	$ 241,674			

C. There were no foreign deposits in any period presented.

D. The following is a schedule of maturities of time certificates of deposit in amounts of $100,000 or more as of December 31, 2006:

(In thousands of dollars)